

Practical Planning for Cash Flows & Withdrawal Strategies in Retirement

Presented by:

James Shambo, Moderator

Michael Goodman

Lori Luck

David Stolz



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- Click this blue button. Slide the control to the left or right to fit your needs.



Ask your questions

- Feel free to submit content related questions to the speaker by clicking this red button.
- Someone is available to assist with your technology and CPE related questions as well.



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- Access today's slides and learning materials by clicking this green 'Resources' button at any time during this presentation
- If you need help accessing these materials send a message through the Q&A application

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- ▶ The **AICPA Personal Financial Planning (PFP) Section** is the premier provider of information, tools, advocacy and guidance for CPAs who specialize in providing estate, tax, retirement, risk management and/or investment planning advice to individuals, families and business owners. (Learn more at aicpa.org/PFP.)
- ▶ The **Personal Financial Specialist (PFS) program** allows CPAs to gain and demonstrate competence and confidence in providing estate, tax, retirement, risk management and/or investment planning advice to individuals, families and business owners through experience, education, examination, and a resulting credential. (Learn more at aicpa.org/PFS.)



James Shambo, CPA/PFS (Moderator)
Lifetime Planning Concepts, Inc.



Michael Goodman, CPA/PFS
Wealthstream Advisors, Inc.



Lori Luck, CPA/PFS
CLS Financial Advisors, Inc.



David Stolz, CPA/PFS
Stolz & Associates, P.S.

Today's Agenda

- ▶ **AICPA Survey on Retirement Planning Trends**
- ▶ **Envisioning retirement**
- ▶ **Alternatives to retirement**
- ▶ **Changing life expectancies and preferences**
- ▶ **Simulating retirement**
- ▶ **Cash flow products**
- ▶ **Withdrawal considerations**
- ▶ **Special considerations**
- ▶ **Policy Statements**

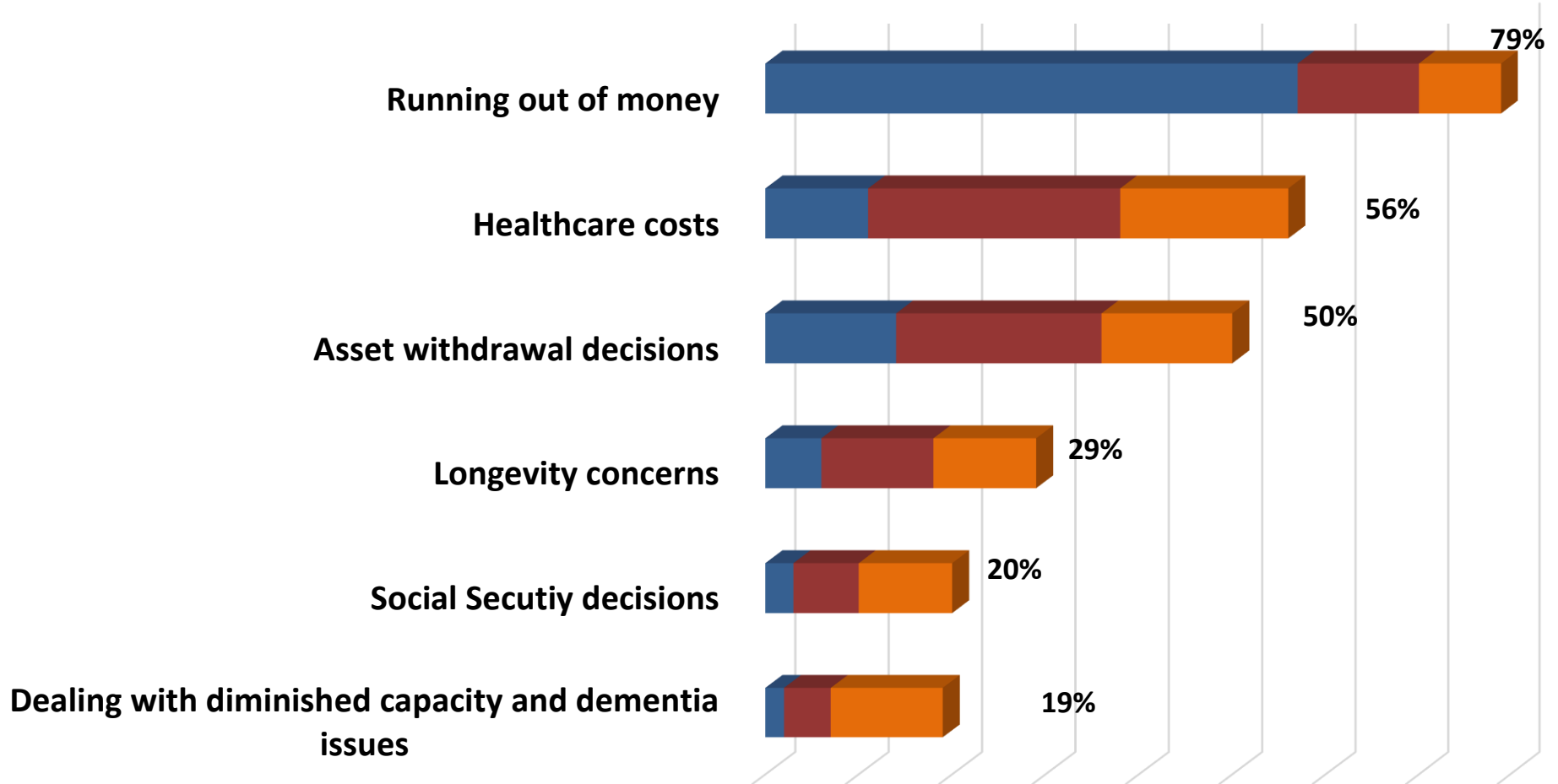
AICPA PFP Survey on Retirement Planning Trends

Quarterly PFP Trends Survey

- ▶ **Quarterly survey of CPA financial planners on specific topics**
- ▶ **Quantifies trends and issues to talk about proactively with clients, media and other professionals**
- ▶ **The inaugural Q1 survey addressed general retirement planning trends**
 - Use these statistics and trends to open conversations on these issues with your clients, to broaden relationships with your local media, and to communicate the value that you can provide to your clients
 - The complete executive summary and the media release can be found at: www.aicpa.org/pfp/trendsurvey

Overall Retirement Planning Concerns for Clients

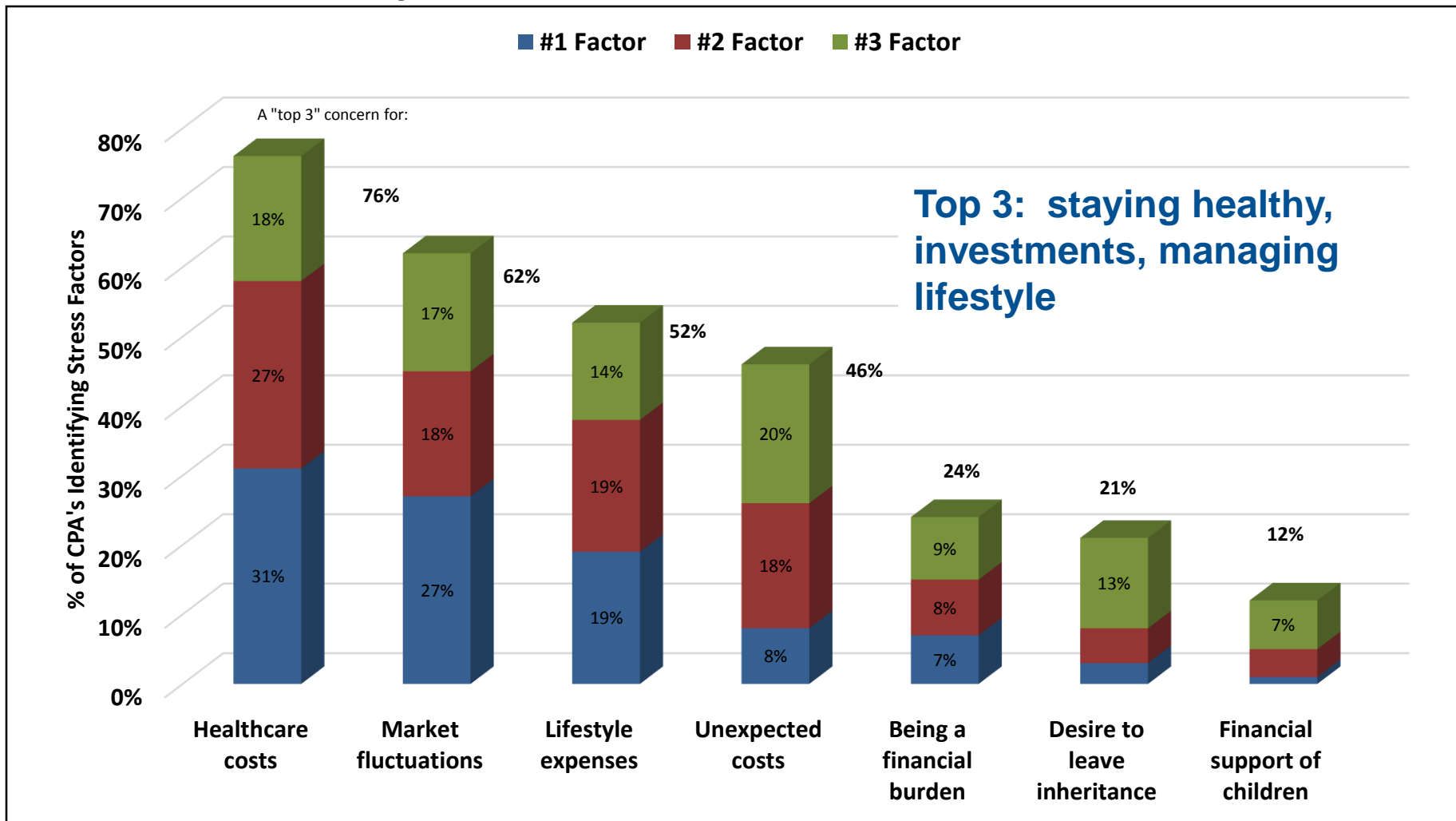
57% said running out of money was their client's top concern, followed by health care costs and asset withdrawal decisions



% of CPA's that identified this as a concern of their clients

Source: 2015 Q1 AICPA PFP Trends Survey

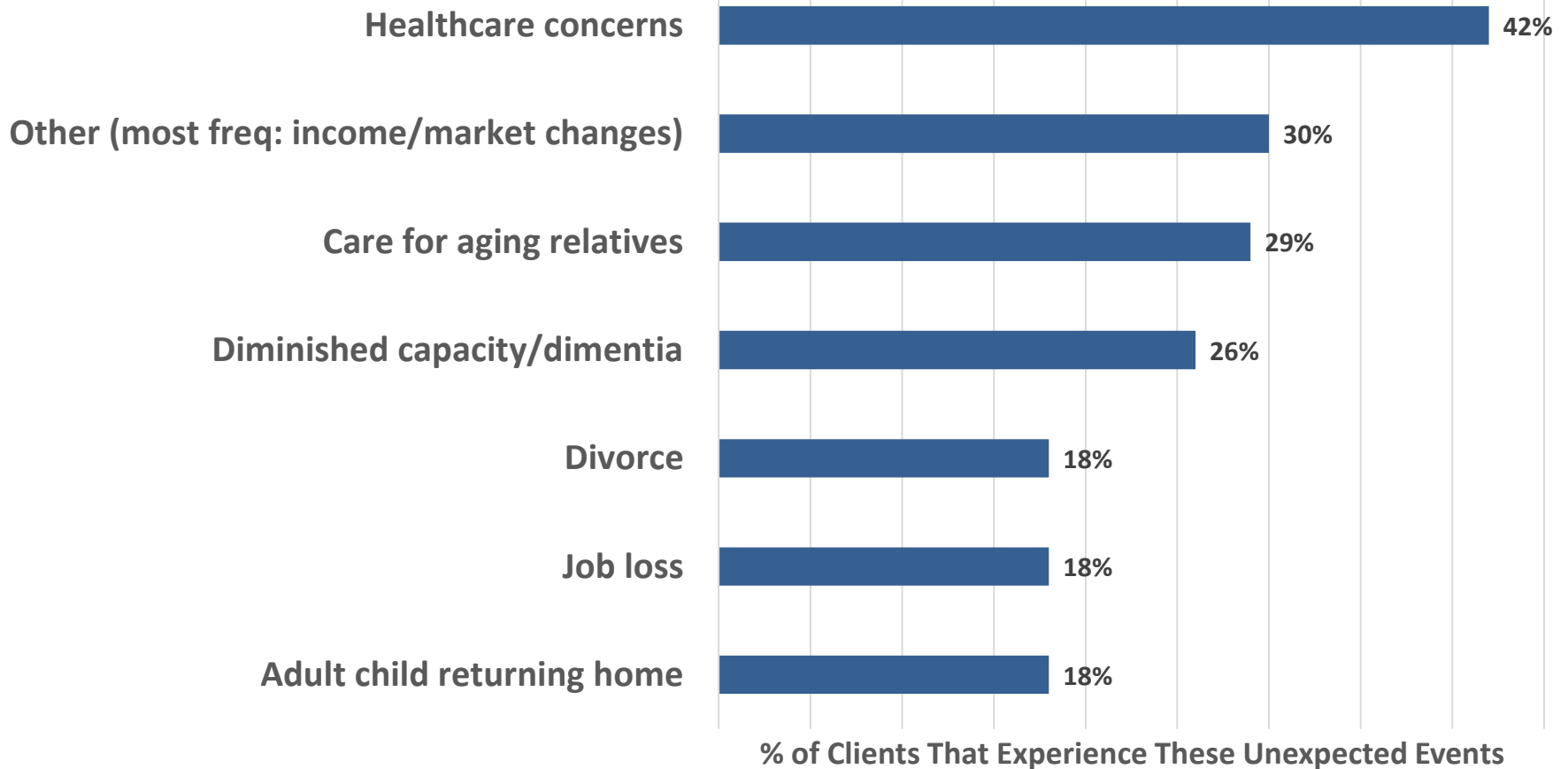
Factors Causing Client Stress About Running Out of Money



Source: 2015 Q1 AICPA PFP Trends Survey

Unexpected Events Impact Retirement Planning

46% of CPAs reported unexpected events as one of the top client stress factors
59% reported an increase in these impacts over the last 5 years.



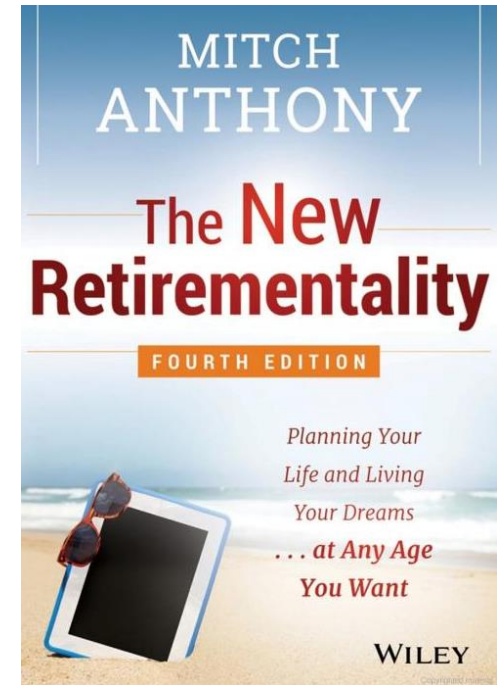
Source: 2015 Q1 AICPA PFP Trends Survey

Practical Planning Considerations

Envisioning retirement

▶ Creating a purposeful retirement

- Retire on purpose – making this the most meaningful stage of life
- It's not really about money
- Remove artificial finish lines
- Move from return on investment to return on life
- Dreams



Alternatives to retirement

▶ Yet money does have a role in the process

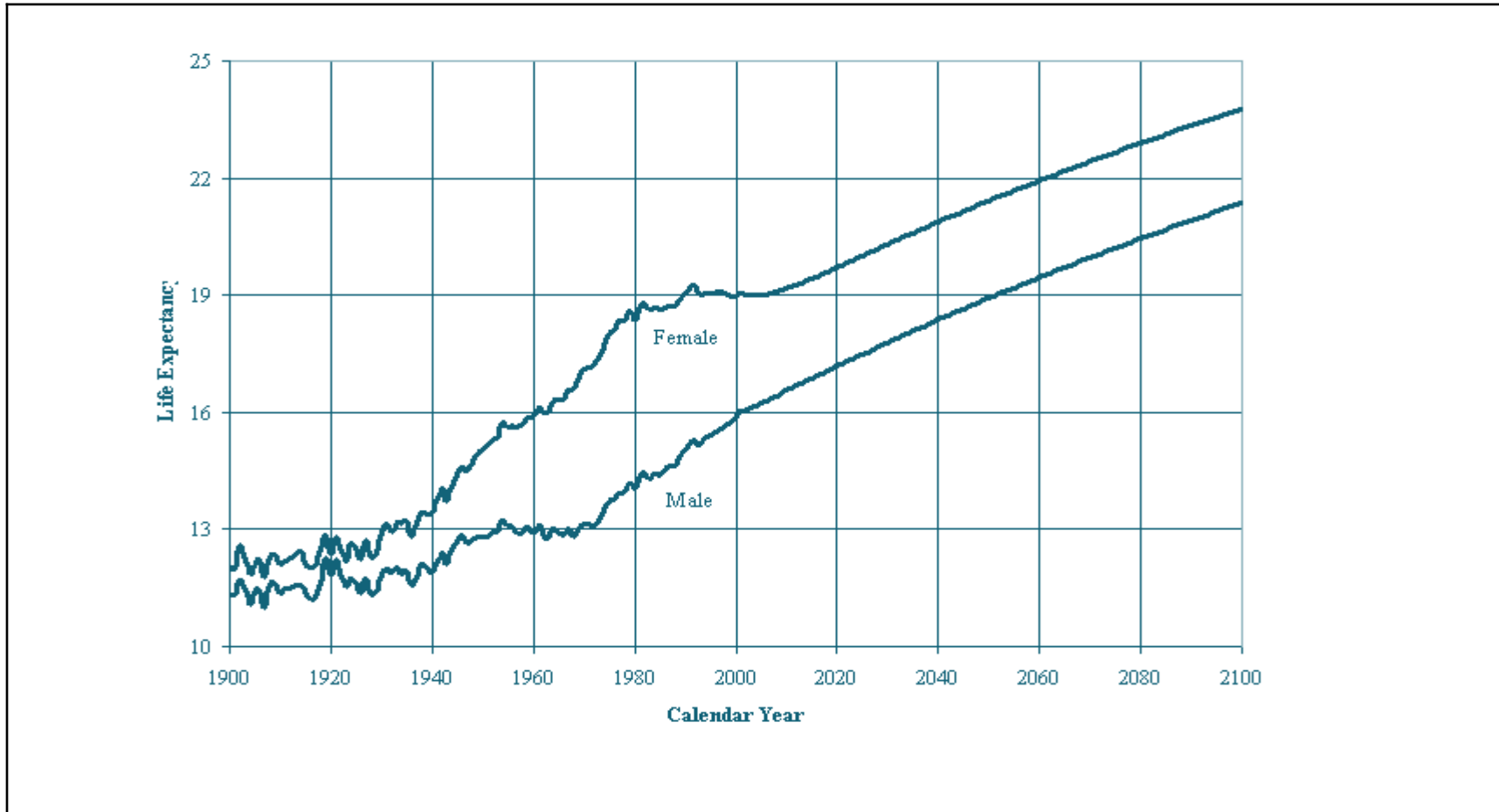
- Second careers
- Working in a business or hobby-related job
- Volunteering - giving time, talents & resources to favorite causes

Retirement is not what it used to be

- ▶ **Advisors need to ask their clients – “What does retirement mean to me?”**
- ▶ **Advisors need to help clients align their values & expectations with available assets**
- ▶ **Advisors should be prepared to address the difference between those who want to leave their job vs. those who have no choice**

Changing Life Expectancies and Impact on LT Care Needs

Social Security Life Expectancy at age 65 by Sex from 1900 to 2100 Projected



1900 Males 11.3 years - 2001 15.7 years – 1900 Females 12.0 years - 2001 18.9 years

Changing life expectancies and preferences

▶ Longer life expectancies

- Life-Extension Science Calculator <http://www.fis.org/LE-Calc/index.html>
- Living to 100 Calculator <https://www.livingto100.com/>

▶ Impact of longevity and increased spending on retirement needs

Presenting longevity in projections

- ▶ **Using fixed ages with alternative ages higher or lower for what if analysis**
- ▶ **Probability based age projections using life expectancy tables**
- ▶ **Personalized life expectancy calculators to calculate expected longevity**

Annual health care costs study in 2013 \$

Percentile	Ages 65 to 79	Ages 80 to 89	Over age 90
25 th percentile	\$1,285	\$1,452	\$858
Median	\$3,210	\$3,417	\$3,255
75 th percentile	\$6,219	\$6,429	\$6,706
90 th percentile	\$10,456	\$11,229	\$15,976
95 th percentile	\$13,918	\$15,492	\$28,339

Includes out of pocket **uninsured costs** including Medigap supplemental insurance premiums, out of pocket costs for medical supplies, drugs, hospital care, doctor services, lab tests, eye, dental and nursing home care.

Source: Employee Benefits Research Institute – September 2014

Impact on Long Term Care

- ▶ **How should we address a long term care event at specific times in life?**
- ▶ **Buying LT Care Insurance or self insuring**
- ▶ **Buying hybrid LT Care insurance**
- ▶ **Can the portfolio withstand a health care event?**

Simulating Retirement

Key issues when preparing presentations

- ▶ **Income streams and their timing**
- ▶ **Granular details for expenses including timing and length of expenses**
- ▶ **Ranking spending by importance – goals based helps identify discretionary spending levels**
- ▶ **Implementing cash flows for the client**
 - Establishing a paycheck (from Envisioning retirement)
 - Separate accounts for key expenditures
 - Dedicated spending accounts

Focusing on a total return portfolio

▶ Client's normal reaction is to stretch for income

- High yield assets = high risk
- Fail to consider inflation, default and interest rate risks

▶ Advisor should prepare them for a total return portfolio

- Expect to spend principal
- Use asset class gains in rebalancing

Cash flow products

▶ Cash flow products and their pros and cons

- SPIA (Single Premium Immediate Annuity)
 - Inexpensive and easy to understand
 - Reduce early years' portfolio drawdown
 - Lifetime Payout Guarantees
 - Benefits die with annuitant
- SALB (Stand Alone Living Benefit)
 - Similar to SPIA but portfolio survives death of client
 - Advisor manages funds from select list of options
 - More expensive and complex
- Managed payout funds
 - Portfolio survives death
 - Greater diversification
 - Uneven cash flows

Withdrawal Considerations

Rules of thumb and the real world

- ▶ **Using the 4% rule as a starting point for discussions**
- ▶ **RMD or other rules for more dynamic withdrawal pattern**
- ▶ **Impact of current asset class valuations**
- ▶ **Floor and Ceiling approach**
- ▶ **Guyton rules and guardrails**

- ▶ **Alternative: avoid all rules of thumb in favor of a detailed cash flow analysis**
- ▶ **Annual reviews to provide feedback loop**

Special Considerations

The Impact of taxes in the retirement plan

- ▶ **Asset allocation planning for income taxes**

- ▶ **Tax deferred vs. taxable accounts impact of withdrawal rates**

- ▶ **Tax bracket management**
 - 10 year plan
 - Incorporate impact on means tested Medicare premiums

Documenting the Process

▶ Investment Policy Statements

- Establishes client goals and limitations
- Identifies asset classes and their allocations
- Provides median expected returns and range of expected returns

▶ Withdrawal Policy Statements

- Engages the client
- Requires client to accept responsibility
- Establishes clients' planned reactions to future events

Questions?

AICPA PFP Section Member Resources

PFP Section members, inclusive of CPA/PFS credential holders, have access to resources on the latest planning strategies and trends in personal financial planning services so that they can practice competently and profitably. Visit aicpa.org/pfp/resources.



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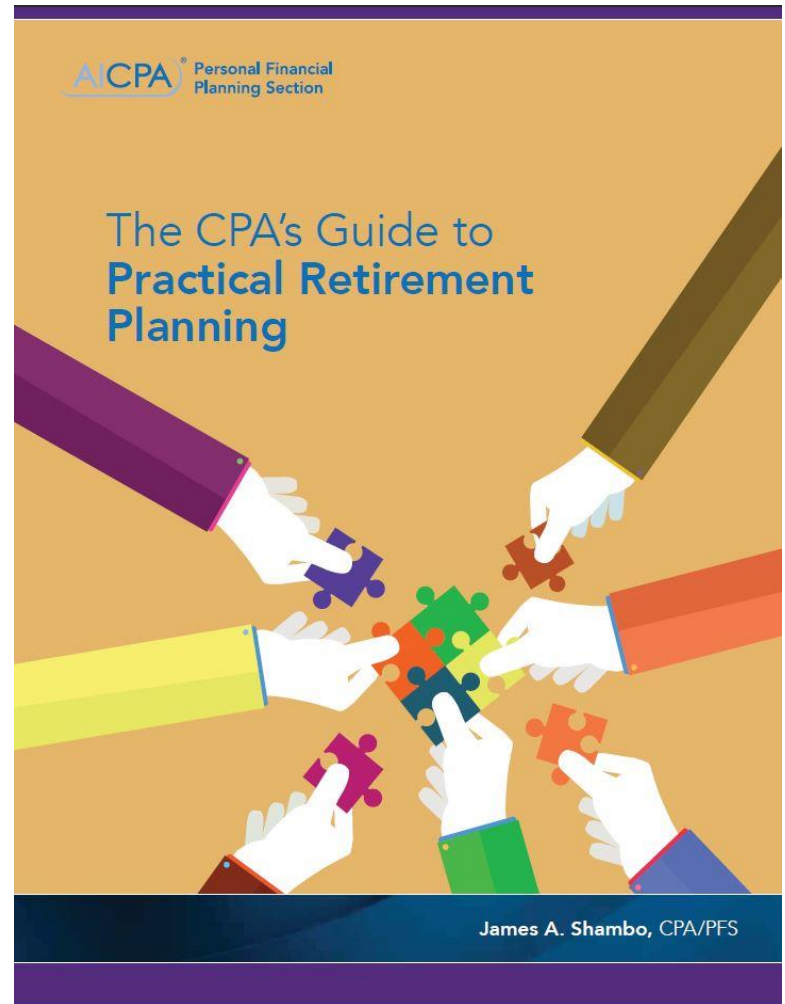
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The CPA's Guide to Practical Retirement Planning

- ▶ **Discusses the “science” of retirement planning**
 - *As an advisor, what do I need to “know” to be competent?*
- ▶ **Recognizes the “art” of retirement planning**
 - *As an advisor, how do I “communicate” in an effective manner?*
- ▶ **Available free to PFP/PFS members and for sale to non-members**
aicpa.org/pfp/retirement



Upcoming PFP Section Events

▶ Webcasts

- Practical Planning, Thought Leadership and Best Practices for Retirement Planning Series (events are free to everyone; no CPE offered)

August 27, 1-2pm ET	Planning for Spending in Retirement (consumer event)
November 4, 1-2:30pm ET	Practical Planning for Social Security and Healthcare in Retirement

▶ Conferences

January 18-20, 2016	AICPA Advanced Personal Financial Planning Conference (cpa2biz.com/pfp)
November 16-17, 2015	AICPA Sophisticated Tax Planning for Your Wealthy Clients

- ▶ **PFP/PFS members are eligible to attend 4 free events with CPE. For a listing of all PFP webcasts, including free events, visit aicpa.org/pfp/upcomingevents.**
- ▶ **For the full calendar of upcoming PFP Section events, visit aicpa.org/pfp/events and click on CPE & Events.**
- ▶ **PFP/PFS members can access the archives (no CPE) for free at aicpa.org/pfp/library, including related webcasts on retirement issues, such as “Practical Planning for Aging and Elder Issues” & “Expanding the Framework of Safe Withdrawal Rates.”**

CPA/PFS News and Events

▶ PFS Referral Program

- Receive 100% credit to apply toward future CPA/PFS dues by referring a CPA to become a PFS or sit for the PFS exam

▶ PFS Exam

- Register now for upcoming exam windows
- Discounts, sponsorships and volume pricing available

▶ Education Opportunities

- In-depth courses in estate, retirement, tax, investments, insurance, and PFP process
- In-person and online PFP Boot Camp
- Self-study PFS exam review course

▶ Learn more at aicpa.org/pfp/pfs

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- ▶ Operates at the highest professional level when delivering PFP services to clients, acting in the clients' best interest.
- ▶ Adheres to high standards as required by the Code of Professional Conduct and the Statement on Standards in PFP Services through the application of objectivity, integrity, due care and competence required by CPAs.
- ▶ Is regulated by state boards of accountancy.
- ▶ Integrates advanced planning concepts, including tax and business considerations, with the entire financial plan.