Wealth Rx
wealth and wellness tips to help you live better
August 2016
Wm WEALTH MANAGEMENT

Estimating retirement income needs

Life is full of unanswerable questions, like knowing exactly how much you will need to live comfortably during retirement. Although this number can be difficult to determine, the following article highlights some useful strategies and tools to get you a step closer to finding a dollar amount that will help you feel confident in your retirement plan.

Retirement Age

The first step to estimating a viable retirement income is determining your desired retirement age. Medicare is available to you when you reach age 65, but you are eligible for early Social Security benefits at age 62. Those who retire at age 62 will receive Social Security benefits with a reduction from the full amount that they would have received had they waited until their "full retirement age," which ranges from ages 65-67. You can find your full retirement age and early retirement benefit reduction, which are both dependent on your birthdate, at **ssa.gov.**

In general, the longer you wait to retire, the larger your Social Security benefits will be, up until age 70. If you have the desire and the ability to work until age 70, your Social Security benefits will be significantly larger than if you choose to retire at age 62. Similarly, your company's retirement plan may have specific early, normal and deferred retirement ages to be aware of.

You might have a specific age in mind and plans for what you'd like to do when you retire. That's great—as long as you'll have sufficient funds to live the life you've been picturing. Those with a desire to travel, start their own business or spend more time on their favorite hobbies may want to retire earlier. Others may want to delay their retirement as long as possible because they enjoy their work. Similarly, some choose semi-retirement and take a step back from their careers to work part-time. Keep in mind that your goals and health may change as you get closer to retirement, so it's important to adjust your planning accordingly.

Expenses that tend to increase or remain the same in retirement:

- Utilities and telephone
- Health care costs
- Housing costs (upkeep, repairs, maintenance, property insurance, etc.)
- Recreation

Expenses that tend to decrease in retirement:

- Mortgage payments
- Food
- Clothing
- Income taxes
- Transportation costs (maintenance, gas, insurance, etc.)
- Debt repayments
- Work-related expenses
- Child care costs
- Retirement savings

Continued: Estimating retirement income needs

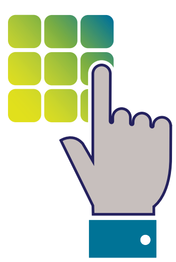
Lifestyle Goals and Familial Responsibilities

Whether you plan to shave strokes off your golf game, rack up the mileage on your personal odometer by traveling or simply maintain your current lifestyle, your retirement plans will alter the amount of money you will need. Similarly, it may be beneficial to take your family's financial situation into account. By the time you retire, chances are your dependents will be off on their own, supporting themselves financially. However, it is not uncommon for retirees to want to help their children with mortgages on their homes or grandchildren with their college tuition. In other situations, retirees may be in a position where they need to continue to financially support disabled dependents. Each individual's goals and obligations may vary, but taking them into account when planning for retirement is crucial.

Life Expectancy

Like planning for retirement, life expectancy is never certain. Life expectancy rates are only an estimate, but they can be useful when planning for retirement. While it is positive news that life expectancy rates continue to rise, this may have a negative effect on your retirement funds—living up to or even past life expectancy may mean outliving your retirement funds. In addition, since life expectancy rates are rising, the average life expectancy may be even higher by the time you retire than it is today. Take increasing life expectancy rates and personal and family health history into account when planning for retirement.

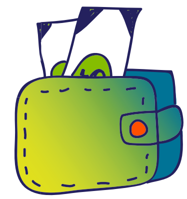
The Replacement Ratio Method



For those who wish to maintain their current standard of living, the replacement ratio method can be a useful strategy when drawing up your retirement blueprint. In general, this method suggests taking between 60 and 80 percent of the average of your assumed salary of the three years prior to retirement.

The replacement ratio method is typically supported by the assumption of common changes in your financial routine and situation. For example, the fact that you will no longer be working also means that many employment-related expenses—such as the costs of commuting, parking, proper clothing and even food for work—will decrease when you retire. In addition, retirement brings important changes to your taxes, such as the halt in Social Security taxes, plus typical increases in medical expenses and typical decreases in debt, vehicle and homeownership expenses.

The Expense Method



The expense method focuses primarily on the typical increases and decreases of common expenses. For example, expenses that tend to increase or remain the same in retirement are utility bills, medical expenses, recreational activities and house and vehicle maintenance. On the other hand, expenses that tend to decrease in retirement are mortgage payments, income and property taxes, transportation costs, debt repayments and household furnishings. The use of the expense method varies by an individual's financial situation, goals and obligations. The expense method will require you to spend some time considering the many potential changes to your expense patterns upon retirement—but when it comes to feeling confident about your future financial security, every second is worth it.

the July market

at a glance

U.S. Large Cap	U.S. Mid/Small	Foreign Large	Bond Market
(S&P 500)	(Russell 2000 Index)	(NYSE International 100)	(Barclays US Aggregate)
2,173.60	1,219.94	4,809.65	2,040.51
3.56%	5.90%	3.37%	0.42%

July 2016 market data

in action

- The U.S. 30-Year Treasury hits a record low yield early in July, providing just a 2.11 percent annual return for buyers. The unprecedented depression in yields (felt by most long-term government bonds) was credited to the political and economic uncertainty following the “Brexit” vote in the United Kingdom.
- Mortgage refinances in the United States jump 21 percent as mortgage interest rates approach record lows.
- Japanese telecom conglomerate SoftBank Group announces its purchase of the British chipmaker ARM Holdings PLC for $32B. ARM is the U.K.’s largest technology company and will be SoftBank’s largest acquisition to date.
- The Department of Commerce reports that the U.S. economy grew at an annualized rate of 1.2 percent in Q2 2016—less than half of the expected growth rate. Combined with weak reports from Q4 2015 and Q1 2016, the statement sparked concern among economists that the United States is moving into a prolonged period of low growth.
- Following months of investigation, the Federal Trade Commission determines nutritional supplier Herbalife Ltd. is not a pyramid scheme; however, the Commission still issues a $200M fine against Herbalife for misrepresentation of its business practices.
- Verizon Communications announces the acquisition of Yahoo Inc.’s struggling internet businesses for $4.8B. Verizon will only purchase the Yahoo brand and U.S. websites, leaving the remaining company— and its $40B stake in Chinese online retailer Alibaba Group—to be rebranded and converted into a holding company.
- The U.S. Census Bureau reports homeownership in the United States has tied its record low (set in 1965), falling to 62.9 percent in Q2 2016. Although homeownership is broadly down across all age groups, adults classified as Millennials (age 18-34) held the lowest ownership rate: 34.1 percent.
- Oracle Corporation makes plans to acquire cloud-service pioneer NetSuite Inc. for $9.3B.

The future of Social Security

In 1950, America boasted roughly 16 working adults for each retiree. The large pool of workers contributing to Social Security and the relatively low number of retirees receiving payments combined for an effective way to fund a stable source of supplemental income for retirees.

Shrinking Labor Force

However, since then, the ratio of workers to retirees has plummeted to just 3-to-1 in 2010. Projections indicate that, given the number of Baby Boomers who are nearing retirement, this ratio will shrink to just 2-to-1 in the next 10 years. With birth rates at their lowest level in the past century, the number of workers entering the workforce is simply not keeping up with those that are retiring.

Due to the declining ratio of workers to retirees and the subsequent decrease in the amount generated by taxes, the Social Security Administration will soon start paying out more than it generates. If the rate at which workers pay into Social Security stays the same, the fund will be depleted in approximately 20 years.

Contrary to what some may fear, if the fund runs out there will not be a complete cessation of payments to retirees. Though there would be no surplus to draw from once the fund starts to pay out more than it generates, regular revenue for Social Security from taxes would still supply retirees with a retirement benefit. However, the lack of surplus would result in these benefits being reduced by 20-25 percent per year.

Vital to Retirement

According to a 2014 survey from the U.S. Census Bureau, roughly 40 percent of retirees would fall below the poverty line if not for Social Security. Additionally, the Social Security Administration reported in 2014 that 20 percent of retirees aged 65 or older rely on Social Security payments for all of their retirement income. Given that Social Security is absolutely vital to many Americans, there is urgency about what steps will be taken to accommodate for the current, and projected, seismic shift in active workers.

Different groups have called for an immediate reduction in benefits to postpone depleting the fund, higher taxation on workers or some combination of the two.

A Widespread Problem

Given the uncertainty of how significant Social Security payouts will be in the next few decades, self-directed retirement funds will play a more crucial role in retirement. Currently, Americans are generally under-prepared for the projected reduction of Social Security benefits. Recent studies show that savings to retirement accounts by adults are dismal. According to a 2016 survey from GOBankingRates.com, 1-in-3 adults have no retirement savings whatsoever, while nearly 3-in-5 have less than $10,000 saved.

Some might assume that the reason for low savings is that many young working adults simply have not had the time to contribute to their qualified accounts and let the balances grow. However, the truth is that the majority of adults over 40 years old are behind on their retirement savings, too. The cycle of deferring current savings and hoping to catch up later has left many unable to retire. Over the past few years, approximately 25 percent of Americans have had to delay their retirement by at least one year.

News of the Social Security fund being depleted has led to panic about how Americans will fund retirement. The silver lining is that as long as Social Security taxes are in place, there will be government assistance in retirement—it's just a matter of how much the payments will be.

Given the projected reduction in benefits, Americans must be careful not to overestimate how much they will be getting from Social Security. Now, more than ever, Americans need to remember that Social Security is not meant to fund their entire retirement; it is meant to offer a layer of support. By preparing their personal savings for lower Social Security payments, Americans can ensure that they are ready for retirement on their own terms.

Your Social Security benefit

How to contact the Social Security Administration:

The Social Security Administration's website offers an easy way to find calculators, publications, forms and other information on your Social Security benefits. If you create an account, you can access information specific to you. You can still contact the Social Security Administration by phone or make an appointment at one of their offices if that is your preference.

Online	By phone	In person
www.ssa.gov	(800) 772-1213	– at any Social Security office, call first to make an appointment; U.S. embassy or consulate if you're outside the U.S.

Some of the things you can do online include:

- Replace your Social Security card
- Apply for Social Security benefits
- Change your address
- Get your Social Security Statement
- Find out if you qualify for benefits
- Estimate your future benefits

August

is a great month to . . .

As we head into August we know that summer heat and humidity will be giving way to more comfortable temperatures. That makes this an excellent time to review your activity level. Walking is an easy way to get more movement into your day. It is low impact and can be done at your own pace. Simple things like parking further away or finding a buddy to walk with can help you get moving.

Learn more about getting your steps in at **cdc.gov.**

planadviser's 2016 TOP100 RETIREMENT PLAN ADVISERS

About Hooker & Holcombe Wealth Management

Contact:

Jonathan Gruber, RICP®, AAMS®
Director, Wealth Management
860.856.2128
JGruber@hhconsultants.com

Katerina Nikolaou, CFP®
Financial Advisor
860.856.2067
KNikolaou@hhconsultants.com

h&h hooker & holcombe