INVESTMENT ANSWERS®

4205 Springhurst Blvd.
Suite 102
Louisville, KY 40241
502-690-3434 • Fax: 502-690-3437
855-741-8747 (Toll Free)
www.InvestmentAnswers.net

R. Travis Terlau, CFP®
Investment Advisor
Representative

financial $UCCESS

SPRING 2016

Retirement Pitfalls for Baby Boomers

Since the first baby boomer retiree started collecting Social Security payments in 2007, millions more members of this influential generation have retired. Now, as many as 10,000 baby boomers are retiring every day, according to statistics from the Pew Research Center.[1]

Unfortunately, not all of those eager retirees are totally prepared for their golden years. These unprepared boomers face some big retirement challenges. Fortunately, many of them are surmountable, provided you know what to watch out for. Here are five big retirement pitfalls baby boomers need to guard against.

Retiring Too Soon

Boomers have seen a lot of changes in the retirement landscape over the course of their lives. Many plan to rely on a mix of pensions, personal savings, and Social Security to support themselves in retirement. Unfortunately, for some, that three-legged stool may be wobbly, failing to provide them with the income they need for decades to come.

A lot of boomers are aware of the gap between their retirement needs and what they have saved. In fact, Pew's study found that 60% plan to delay retirement because they can't afford to stop working. The remaining 40% may be in a better place financially than their peers. Or they may not have given retirement much thought yet. Not carefully projecting your retirement income can lead some people to retire too early, only to find out a few years later that their money doesn't go as far as they hoped. Smart planning with a CFP® professional can help avoid this pitfall.

Spending Too Much

After decades of working, many boomers are eager to spend their retirements indulging in the hobbies and adventures they've put off over

Continued on page 2

Upcoming Spring Events

Shred Event
Investment Answers Office: April 22, 4–6 PM

6 What-Ifs of Retirement
Two Rivers Restaurant, General Butler, April 18, 7–8 PM, Desserts & Beverages
Clifty Falls Restaurant:
April 21, 6–8 PM, Dinner Provided
April 23, 10:30–11:30 AM, Light Snacks & Beverages

Wine Tasting
Investment Answers Office: May 19, 6–8 PM, Light Snacks & Wines

Maximizing Social Security
Two Rivers Restaurant, General Butler, May 12, 6–8 PM, Dinner Provided
Clifty Falls Restaurant, May 16, 6–8 PM, Dinner Provided
Drury Inn & Suites, Louisville:
June 9, 6:30–7:30 PM, Desserts & Beverages
June 11, 10:30–11:30 AM, Light Snacks & Beverages

For more event information or to RSVP, call our office at 502-690-3434.
You can also go to **www.InvestmentAnswers.net** and click on "EVENT RSVP."

Retirement Pitfalls

Continued from page 1

the years. Given that today's older adults are healthier than ever before, it's not unusual to find retirees living very active — and very expensive — lifestyles. That's great in many ways, but boomers who want to get out and see the world run the risk of draining their bank accounts too soon. That doesn't mean you have to curtail your dreams, but it does mean you should plan for them. If an around-the-world cruise is on the agenda, make sure you've budgeted for it.

Not Maximizing Social Security

Sixty-five percent of Social Security recipients get at least half of their income from the program.[1] Even those who are less dependent on Social Security checks still count on that money to get them through retirement. It's an especially valuable source of income since your Social Security payments are consistent and adjusted for inflation.

For those reasons, it's especially important to make smart decisions about when to take your benefits. If you start your claim early, you could lose out on thousands of dollars over your lifetime. Generally, it's better to delay benefits for as long as possible, though there may be times when an early claim makes sense. Given how complicated Social Security can be and the many ways it can be maximized for income, please call us so we can help ensure you're receiving the most from your benefit.

Not Planning for Healthcare Costs

A 2014 *Financial Advisor* magazine survey found that 62% of baby boomers are terrified of healthcare costs in retirement, while 72% said it was their number-one retirement concern.[2] They have good reasons to be scared. One study found that healthcare costs will eat up 67% of older boomers' lifetime Social Security benefits.[3] Younger boomers may end up spending 90% of their Social Security on health costs.[3] While it can be hard to predict exactly how much you'll need to spend in this area, you can manage the costs by setting aside funds for healthcare (perhaps in a health savings account), purchasing long-term-care insurance, and taking steps to stay healthy.

Not Emotionally Preparing for Retirement

One of the biggest retirement pitfalls for boomers has nothing to do with money. Rather, it has to do with planning for the emotional changes that come with retirement. Particularly if your life revolves around work, the transition to retirement years can be difficult. While thinking about whether you have enough money to retire is important, you should also think about how you plan to fill your days once you stop working. If you and your spouse are suddenly in the house all day together, that can also be an adjustment.

Before you hand in your notice, look into volunteer work, part-time jobs, and social activities that can fill your days. You may even consider a retirement dry run — taking a few weeks or months off from your job and living as if you were retired to see how you like it.

We are your financial advocate. Let us know of any major life events so that we can help you financially prepare. ❍❍❍

Do You Really Need 70%?

A general retirement planning rule of thumb indicates that you'll need 70% to 80% of your preretirement income. Many estimates now indicate that may be too little for those who want to live an active retirement lifestyle. But when you realize how much you need to save, it's tempting to question whether you really need even 70% of your preretirement income.

First, you should prepare a detailed analysis of your expected expenses after retirement. How much you will need depends in large part on how you plan to spend your retirement years. How can you help ensure that your expenses will be lower? Consider these tips:

- **Pay off your mortgage.** Mortgage payments often consume 30% or more of an individual's gross income. Eliminating this expense can drastically reduce income needed for retirement. If you can't pay off your mortgage, consider selling your home and purchasing a smaller one for cash.
- **Get rid of other debts.** It's not unusual for consumer debt payments to equal 10% to 20% of an individual's take-home pay. Try to enter retirement debt free.
- **Keep your automobile.** Instead of purchasing a new car every couple of years, keep your current car for as long as it's in good working order.
- **Look for ways to reduce travel and leisure expenses.** Look for and use senior discounts. Plan activities for nonpeak times.
- **Consider relocating.** The cost of living varies significantly from city to city and state to state. You may be able to reduce your living expenses substantially by moving to another locale. You also need to decide whether you want to move away from family, friends, and familiar surroundings.
- **Work at least part-time.** Many people rejoin the workforce to stay busy, to stay connected, to receive health benefits, or to supplement their income.

❍❍❍

1 Passel, J. and Cohn, D. "U.S. Population Projections: 2005–2050." Pew Center Research. February 11, 2008.

2 Demasters, K. "Affluent Baby Boomers Terrified Of Health-Care Cost." *Financial Advisor.* December 3, 2014.

3 Tergesen, A. "Grim News on Health Costs in Retirement." *The Wall Street Journal.* March 26, 2015.

What's Your Risk Tolerance?

Risk tolerance is a term that comes up a lot when discussing investing, but what does it mean?

In simplest terms, your risk tolerance is the amount of volatility — or upward and downward swings in value — you can handle in your portfolio. It's a fairly straightforward concept.

The real challenge lies in determining your own personal risk tolerance. Invest more aggressively than you're comfortable with, and you may panic when your investments drop in value, causing you to sell at the wrong time. Invest too conservatively, and you'll likely end up frustrated when you don't see the gains you want.

Risk Tolerance Categories

Most people fall into one of three risk tolerance categories:

1 **Conservative:** You have a low tolerance for risk and want to help protect your existing investment, or principal.

2 **Moderate:** You have a higher tolerance for risk than a conservative investor and are seeking to invest aggressively enough to generate a moderate return on your investments.

3 **Aggressive:** Aggressive investors have the highest tolerance for risk. They are willing to accept the possibility of significant losses for the chance of earning a higher return.

Sometimes, these categories are further subdivided. For example, you might be moderately aggressive or moderately conservative.

Your Risk Tolerance

You probably have a general sense of what your personal risk tolerance is simply from reviewing the list above. But it's important to not just go with your gut when determining how much risk to take with your money. You could like to gamble big in Vegas, but your risk tolerance may be far lower when it comes to your retirement funds. Or, you may always drive five miles under the speed limit, but feel comfortable being more aggressive in your portfolio. In other words, your risk tolerance may be higher or lower than you think it is — and it doesn't necessarily correlate with your comfort for taking risks in other areas of your life.

To get a better sense of your own risk tolerance, ask yourself these questions:

✔ **What's my time frame?** Your risk tolerance is closely related to how long you plan to stay invested. Those with long time frames (a 25-year-old just starting to save for retirement or new parents investing for their child's college education) often can afford to be more aggressive than someone who is already retired and needs their portfolio to generate a certain amount of income each year.

✔ **What can I afford to lose?** This is the amount you have available to invest that won't negatively affect other areas of your life if you take a loss. If your budget is stretched thin and you have a lot of debt (or liabilities) and few other assets, you may not be able to lose much. If you have a high net worth

and a lot of other assets, you can afford to lose more. Think of it this way: Don't invest the money you'd normally use for your mortgage payment or groceries.

✔ **How well will I cope with market swings?** If your stomach does flip-flops whenever you hear that the Dow is down — and then up again — you may not cope well with volatility, or the natural movement of the market. If you can accept the idea that the market may go up and down in the short term but that it trends up over time, you may take a more sanguine view of day-to-day market fluctuations and feel more comfortable with taking risk.

✔ **How experienced am I with investing?** The last question you should ask yourself has to do with your general knowledge of investing. Just as novice mountain climbers don't start out scaling Mount Everest, it's inappropriate for most new investors to get their feet wet by investing in complex investments. Most people are able to achieve their goals simply by investing in traditional asset classes like stocks, bonds, mutual funds, and cash. Start small. Get comfortable by investing a manageable amount over a long period of time — allow that experience to educate yourself. Use your more informed position as an investor to help you and your financial planner decide your plan moving forward.

Still unsure of what your risk tolerance might be? Has it changed over time and needs to be readdressed? That's what we're here for. ❍❍❍

Sneaky Breakfast Ice Creams

From *The Sneaky Chef* (1½ cups = 2 small servings)

These are a really fun food twist in the mornings. There are multiple variations, so I'll give you the basics and then you can adapt them for yourself. Kids and adults will both enjoy! These can also be frozen in popsicle molds.

Strawberry Breakfast Ice Cream

¼ cup Avocado, ripened

½ cup Frozen Strawberries, unsweetened

2 tablespoons Yogurt –or– ½ cup Milk

1 tablespoon Honey –or– Sugar

Chocolate Breakfast Ice Cream

¼ cup Avocado, ripened

1 cup Banana, frozen and sliced (approx. 1–2 bananas)

2 tablespoons Yogurt –or– ½ Milk

½ teaspoon Unsweetened Cocoa Powder –or–
Dark Chocolate Cocoa Powder

***If you're not a fan of bananas, substitute Frozen Bing Cherries for the Banana (Yum!) Especially good with the Dark Chocolate Cocoa Powder.**

In a Food Processor, process all ingredients on high. The ice cream puree will be very thick at first, but will start to break down, so keep going. Blend until the texture is smooth. If you want to make it more of a milkshake, add an extra cup of milk.

*Any food processor will work, but a three-cup mini food processor works best for small servings.

Investment Answers News

Wondering what two things you can do alone, but probably shouldn't do until you call us first?

❶ Filing for Social Security

❷ Retiring

We are here as a powerful asset for you. Leverage Investment Answers and the financial acumen of your advisor, Travis Terlau, CFP® to help ensure that your financial situation reflects your goals. It would be a shame to make a permanent decision, like filing for Social Security income benefits, and then not optimize those monies in a strategic way that gives your financial situation cohesive strategies.

Speaking of Social Security- there are some major changes to the income benefits that Social Security provides- and they expire in April 2016! If you have questions, we're here for you.

Also, Travis will be presenting on these Social Security income changes in our "6 What Ifs of Retirement" workshops in April. RSVP by calling the office at 502-690-3434 or by going to www.InvestmentAnswers.net and clicking on "EVENT RSVP."

It is Tax Season. We have our annual Shred Event at the office, 4:00-6:00pm on Friday, 4/22. If you'd like to talk about consolidating some of your accounts or life insurance policies, this is a great time to get things simplified while you clean out your filing cabinets!

Should You Consolidate?

With workers of all ages staying at jobs for an average of just 4.4 years, many people are building a collection of retirement accounts. That can create some challenges. For one, job hoppers may end up with less in savings as they lose out on employer-matching contributions by leaving before they're fully vested, cashing out savings when they leave an employer, or having to wait to be eligible to participate in an employer's plan. Another big challenge is what to do with all those different accounts.

If you have multiple 401(k) plans, there are a few good reasons to consolidate. One is that it simplifies recordkeeping. When you can restrict yourself to just one or two retirement accounts, you'll receive fewer account statements and have less paperwork to file. You'll easily be able to tell how much you have saved, since you'll only need to look at the balances for one or two accounts. Finally, when it comes time to take required minimum distributions in retirement, you can easily determine how much you need to take, rather than having to total up the balances in a half-dozen accounts or more. ❍❍❍