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5 Common Mistakes

PEOPLE MAKE WHEN CHOOSING A RETIREMENT ADVISOR



Essential Considerations as you move into Retirement Planning

If you are like most people, retirement represents a time in your life where you truly have the **freedom** to do what you **want** to do, **when** you want to do it. The challenge, of course, is how you will structure your finances to support this period of life.

It's often not easy.

Retirement is a **fundamental shift** in life. You are no longer working for a paycheck. It is now time for your hard-earned savings to deliver that paycheck to you month after month, for what is hopefully many years to come.

We all are living longer, and your money **has to last**. Making your money last in retirement requires **very different strategies** than when you were working.

When you are working, all you care about is **growth**. You are likely adding money every pay period, and you just want it to grow so you can comfortably retire someday.

But once you retire, odds are high that you suddenly have a number of competing objectives.



You may want to **protect** your savings. After all, what you have is probably about all you will have, and it has to **last**.



You may want to generate **income**. How will you generate **inflation adjusted income** that is stable, predictable, and **lasts** for your lifetime?



You may have concerns about potential **healthcare** expenses during your retirement. How will you pay for those expenses if they come your way?



You may need to consider **tax planning**. If you are like many retirees, a big chunk of your savings is in pre-tax accounts like 401(k)s and IRAs. How will you manage your tax obligations over the years so you can keep **more** money in your pockets, and **pay less** to the IRS?

Retirement is different,

and the reality is that the advisor who got you **to** retirement may not be the advisor who can get you **through** retirement. Retirement planning often requires a different set of skills.

Unfortunately, many families do not recognize why this matters so much. Over the next several pages, you will learn about some of the **top mistakes** people make when choosing a Retirement Advisor.



Common Mistake 1:

Working with an Advisor who does NOT FOCUS on Retirement Planning

This one seems like it should be obvious. But here is the typical problem...

While you are working, you might take the Do-It-Yourself route with your investing, or you might work with a financial/investment advisor. Whichever direction you take, your goals are typically pretty straightforward.

"Just grow that money over time, and keep adding to the pot."

It's really not that difficult to do if you have a little patience and a little understanding of how markets work. All you need to do is put money in the stock market, accept that you will have some good years and some bad years, and over **time** you almost always come out with positive results.

Is it always perfect? Of course not. Nothing is. But when you have **time** on your side, it tends to work really well.

But now you are nearing retirement. And you start to realize that **making your money last** during retirement is **not the same** as simply growing your money during your working years.

This is where you start to realize that the strategies that got you to where you are today are probably

not the strategies that will get you to where you want to go next.

It's like sailing. Every paycheck you add money to your accounts. All you have to do is grow it over time. This is like sailing with the wind at your back. Easy.

Retirement, on the other hand, is a bit different. You are now likely taking money **out** of your accounts each month. You have multiple objectives on top of growing your money. This is like sailing with the wind in your face. Harder!

In retirement, you will likely need to make a number of new and different financial decisions. And the advice you followed to get you to this point is now just a small piece of the puzzle, instead of the whole thing.

For example, in addition to still wanting to grow your savings, you may need to think through questions like these:

- When is the best time for you to take your Social Security income? If married, should you both take it at the same time? Should you take it early? Take it later? How do you know what is best?
- How will you generate **income** from your savings if needed? How do you **protect** that income from market volatility?
- How will you manage **tax planning** during retirement? If you have money in 401k's or IRA's

(or similar), that is typically money that has never been taxed. How will you keep your taxes to a minimum as you withdraw funds from those accounts?

- Speaking of taxes, if married, how will you protect your surviving spouse against the **surviving spouse tax bomb**? Do you even know what that means?
- What will you do about potential future **healthcare expenses**? We all know someone who lost everything towards paying for their healthcare. What will you do?

This is just a partial listing of what you may need to consider during your retirement. It's pretty clear that retirement is a whole new ball game, isn't it?

Here's the problem. An advisor who helps you just grow your money is great while you are working. But as you near retirement, it's time to graduate, and find someone who can help you make thoughtful and intelligent decisions in all of the areas that retirement brings.

Retirement is like climbing Mt Everest. You want to have a Sherpa guiding you who has done it hundreds of times. It's new to you, but it's just another Tuesday to the Sherpa.



Yaroslav Shuraev

Common Mistake 2:

Working with an Advisor who does NOT dedicate a portion of your portfolio for INCOME

When it comes to retirement, **income is king**. No income... No retirement!

We have already mentioned how you need to make decisions on when to take Social Security, and you may need to make decisions on when, and how, to take a pension.

But the \$64,000 question is: how do you effectively create inflation-adjusted income from your retirement savings that is stable, predictable, and lasts for your lifetime?

The financial industry has a “solution” for this. They call it “The 4% Rule”. What is “The 4% Rule”? It’s pretty simple.

Back in 1994, as baby boomers were starting to retire, a financial advisor named William Bengen did a ton of research on safe withdrawal rates from a portfolio, and he came up with this rule. It works like this:

1. Invest your retirement savings in a diversified portfolio of stocks and bonds, roughly half in stocks and half in bonds. It’s okay to vary a bit from this. One common variation is a 60% / 40% stock / bond structure, often known as a “balanced” portfolio.
2. In the first year, withdraw 4% of your starting account balance for income. For example, if you retire with \$1,000,000, you could withdraw 4% of that for income, or \$40,000 for the year.
3. Increase your annual withdrawal with inflation while rebalancing your portfolio at the end of each year.



LIMITATIONS The 4% rule warns against assuming future success based solely on past performance. Unpredictable events like pandemics and conflicts can disrupt market returns. It overlooks factors like taxes, fees, and reduced retirement spending, assuming fixed inflation-based increases.² Ultimately, 10 percent of portfolios will run out of money around the 25 to 30 year mark.

Mr. Bengen's research indicated that this approach would work for 30 years of distributions about 90% of the time. In other words, 90% of the time, your money would last for 30 years. The other 10% of the time, you would run out of money.¹

This idea caught on quickly, and to this day, it has been widely adopted by the financial industry as a whole.

If your financial advisor is recommending this approach, then you know you do **not** have an advisor that truly understands retirement planning.

This may be a screaming red flag!

Here's why...

Research shows that if you have just **one** bad year in the markets, defined by a 20% down year or greater, during the first 10 years of your retirement, then the odds of running out of money become significant. Is that a chance you want to take?

I have personally seen in my career this 4% rule create all kinds of havoc for retirees during the down markets of the early 2000s, 2008, and 2022. That's 3 times over the last 25 years that down markets negatively impacted the financial security of retirees.

For many, they have had to reduce their retirement income significantly or be faced with running out of money. For an advisor who focuses on retirement planning, that doesn't cut it!

You are supposed to **hope** for the best. But you **plan** for the worst. The 4% Rule does **not plan** for the **worst**. It is a rule of "hope".

What to do instead.

So what is the answer? Here is one approach that we (and many Retirement Focused Advisors) have used for years successfully:

1. Take a portion of your portfolio and earmark it for **income**. Invest that money in something often more safe, that is insured against losing money. This would include Money Markets, CDs, Treasury Bonds, and Fixed Annuities.
2. Put enough money into this section of your portfolio so you can take income out for several years. 15 years plus is ideal.
3. Withdraw all of your income from this section of your portfolio. Naturally, it will go down in value over time, but that's okay. You are buying **time** for the growth section of your retirement savings to do its job.
4. As you have good years in the growth portion of your portfolio, go ahead and move some of those gains over the income portion to shore it up and buy additional years for your income to last.

Managed properly, this approach may provide a framework for **STABLE, PREDICTABLE, INFLATION-ADJUSTED INCOME THAT LASTS FOR LIFE**. This is what financial security in retirement is all about!

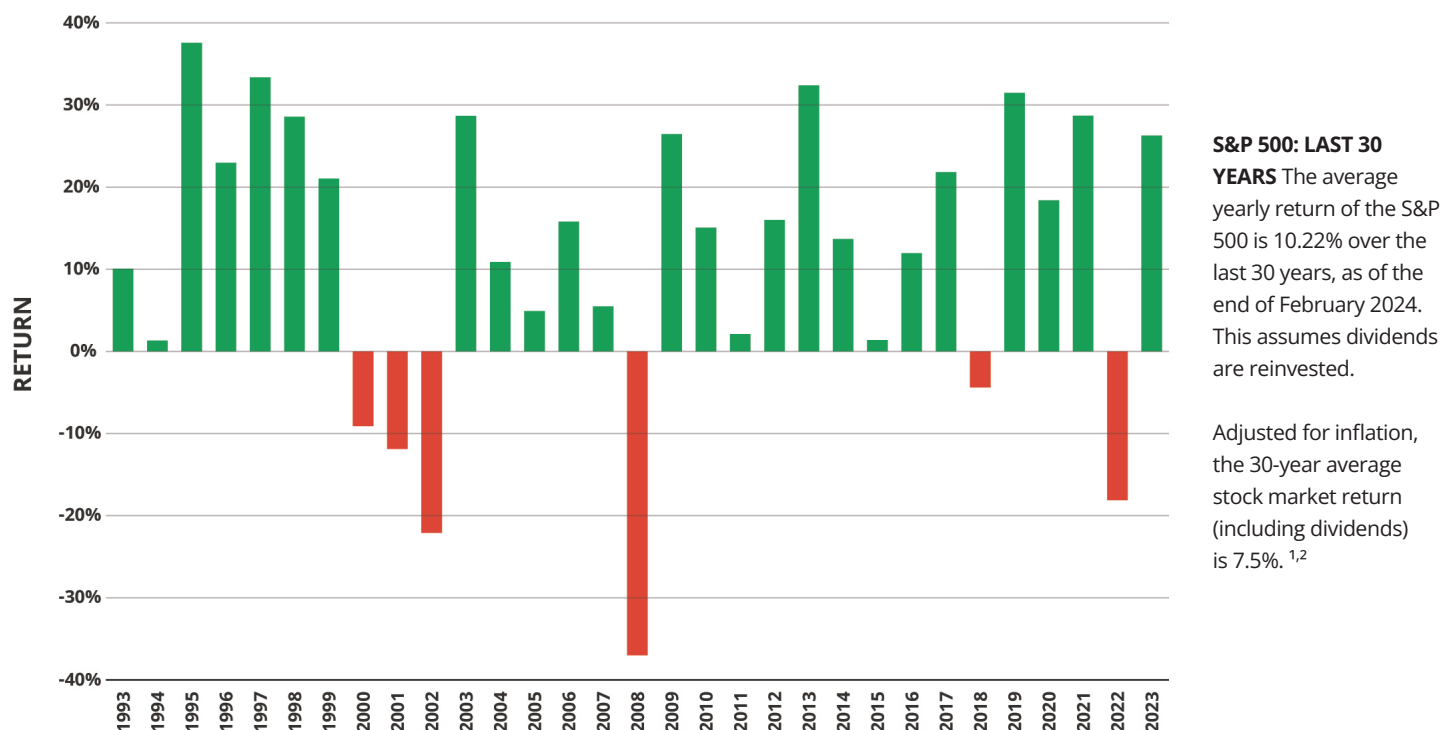
If your advisor does not recommend an approach similar to this and instead just follows the 4% rule, then look into getting another advisor STAT!

¹ <https://web.archive.org/web/20120417135441/http://www.retailinvestor.org/pdf/Bengen1.pdf>

² <https://smartasset.com/retirement/how-long-will-money-last-using-4-rule>

Common Mistake 3:

Working with an Advisor who does NOT FOCUS on RISK CONTROL



If I had to identify the **biggest mistake** I've seen over the years, it is **taking too much risk** during your retirement years. It usually comes from a lack of understanding of your "Hurdle Rate," along with the financial industry's obsession with growth, even if you don't need as much as you think.

When you're building your savings, it's common to seek a benchmark to gauge your progress. For many, that benchmark is the S&P 500, representing the 500 largest companies in the stock market. It offers a reliable snapshot of market performance year by year.

When prioritizing **growth**, it's logical to compare your portfolio's annual performance to an index like the S&P 500, which mirrors the stock market's growth trajectory. However, as you approach retirement, your goals shift away from solely focusing on growth. While growth remains a part of your objectives, you also have other priorities to consider.

Overwhelmingly, for most people, the #1 goal during retirement is simply making sure that your money lasts. This is where comparing your portfolio to the S&P 500 (a pure Growth-based index) will get you into trouble.

Why? Because growth portfolios come with a lot of **risk**. When the markets have a bad year, that type of tracking can get you into a world of trouble.

What is a “Hurdle Rate”?

A much better focus during retirement would be to focus on something called a “Hurdle Rate.” A “Hurdle Rate” is simply a calculation that identifies the rate of return that you need to make sure your money lasts.

A Retirement Focused Advisor will always calculate your Hurdle Rate as one of the first things they do. This number tells you how much return you need to make your retirement dreams work out. And it tells you a **lot** about the amount of risk you need to take in your portfolio to accomplish that goal.

Let’s look at an example. Imagine that you learn that your hurdle rate is 4% per year. In this example, if you can just make 4% per year, then your money will last, and you can do what you want to do during retirement.

How would that affect your decisions about how you manage your money in retirement? Wouldn’t it make sense to take less risk and increase the security of your retirement?

On the other hand, what if your Hurdle Rate was 8% per year? Now you know that you either need to take on a lot of risk or maybe reduce your income expectations. Maybe you should look for a part-time job in that scenario.

The concept of a Hurdle Rate is much more helpful in retirement than comparing to a growth index like the S&P 500. You no longer have a sole focus on growth as you did when working, so using a comparison like the S&P 500 during retirement is no longer applicable.

If your advisor isn’t helping you calculate your Hurdle Rate and comparing your annual returns to that Hurdle Rate, then you may need a new advisor, one that focuses on retirement, before your current one gets you into trouble.

Just because an investment did well in the past doesn’t mean it’ll do the same in the future. Historical performance and statistical projections like on this page may not reflect actual future performance. Investing always involves risk, and can result in losses.

1 <https://curvo.eu/backtest/en/market-index/sp-500?currency=usd>

2 <https://tradethatswing.com/average-historical-stock-market-returns-for-sp-500-5-year-up-to-150-year-averages/>



Austrian Public Library

Common Mistake 4:

Working with an Advisor who does NOT help you PLAN for HEALTHCARE

In retirement, healthcare needs to be reviewed in two general categories. Regular healthcare (Medicare) and what you will do, if anything, about potential Long-Term Care expenses.

Once you hit the magic age of 65, you become eligible for Medicare, assuming you are not covered by a qualified employer plan. Medicare is all about covering general insurance needs.

Medicare comes with Part A (hospital coverage), Part B (doctor care). From there, you need to decide if you will use an Advantage Plan (Part C) or a traditional supplemental plan (MediGap) plus Part D (Drug Plan).¹

If your financial advisor is a **retirement focused** Advisor, then they will help you determine which approach makes the most sense for you. If they are not, then you will be on your own.

The other **major** healthcare decision you need to make is what you will do, if anything, about potential Long-Term Care expenses.

The Federal Government's research tells us that almost 70% of those who reach age 65 will need some type of Long-Term Care during their lifetime. While you might have visions of a nursing home in these situations, most often, care is provided at home.²

The problem is that Long-Term Care can be very expensive, and the costs continue to grow. How will you protect yourself and your family against these potential costs?

The default option (if you do nothing) is self-pay. This means that if it happens, you will pay for the expenses out of your assets. Perhaps you have enough money saved that this makes perfect sense for you.

Alternatively, you can transfer some of that risk to an insurance company. Insurance companies provide three general options:

- Traditional use it or lose LTC Insurance.
- Life Insurance with LTC Riders.
- Annuities with LTC Riders.

Which approach is best for you?

A **retirement focused** Advisor brings this to your attention and helps you work through the planning so you can make thoughtful and intelligent decisions. If your advisor isn't bringing up the topic, then you may need a new advisor.

¹ <https://www.medicare.gov/basics/get-started-with-medicare/medicare-basics/parts-of-medicare>

² <https://acl.gov/ltc/basic-needs/how-much-care-will-you-need>

THE ABC'S OF MEDICARE

There are **four main parts of Medicare**. Many people confuse Medicare “parts” and “plans” but it is important to know they are different.

Part A

Hospital Coverage

Original Medicare (CMS*)

PARTIAL COVERAGE FOR:

- Inpatient Hospital Stay
- Skilled Nursing Care
- Hospice
- Home Care



Part B

Medical Coverage

Original Medicare (CMS*)

PARTIAL COVERAGE FOR:

- Doctor Visits
- Surgery
- Lab Tests
- Medical Equipment
- Preventative Exams



Part C

Medicare Advantage

Private Insurers and Health Plans

Similar to Parts A & B with predictable out-of-pocket costs and more coverage.

OFTEN FULLY COVERS:

- Wellness Services
- Vision Exams
- Hearing Exams

OFTEN PARTIALLY COVERS:

- Eye Glasses
- Hearing Aids



Part D

Prescription Coverage

Private Insurers and Health Plans

Helps with the cost of prescription drugs not covered by Original Medicare

COVERS SOME:

- Prescription Drugs



*Centers for Medicare and Medicaid Services

Common Mistake 5:

Working with an Advisor who does NOT help you with TAX Planning

One of the biggest challenges that many retirees face is how to manage taxation during their retirement years. For the first time in your life, you may have options of **where** you distribute income, which leads to **how** that income is taxed.

Unfortunately, the IRS will NOT tell you how to reduce your taxes.

You have to figure it out on your own. Ideally, your advisor is giving you regular advice on what you need to do each year.

You need to understand that in retirement, there are three general categories of how your income is taxed:

1. Fully taxable income
2. Partially taxable income (or reduced tax like long-term capital gains)
3. Tax-Free income

Here's a fun question. If you could wave a magic wand and put **all** of your income in one of the three categories, which one would you pick?

Obviously, we all want #3... Tax-Free income. But how do you do that?

A **retirement focused** Advisor spends a **lot of time** helping you plan to get your annual tax bill as low

as possible. A surprising number of families can get to a **zero** tax bracket over time using different planning strategies.

But not everyone can get to zero. The question is, what strategies is your advisor helping you with **every year** to help you get as close to zero as you legally can? Or are you even having those conversations?

And what about the **surviving spouse tax bomb**? If you are married and unfamiliar with this concept, you need to be. Surviving spouses often get slammed with increased taxes that can often be avoided or alleviated. It just takes ongoing tax planning.

Remember this. A Financial Advisor cannot control what the markets do. But they **can** help you control your **tax planning**.

Every dollar of tax savings = a dollar earned and put into **your** pocket, which leads to **more financial security** during retirement.

Is your advisor measuring up when it comes to your tax planning?



Some Notes from Mike,

"The purpose of this paper is to help you identify if you are making some of the common mistakes so many families make when it comes to choosing your Retirement Advisor. Hopefully, this paper will help you make **good choices** so you are working with someone who truly focuses on this stage of life.

You have worked your whole life to get to this point. Retirement should be the **best time of your life**.

Your financial planning needs to be thoroughly considered so it can support everything you so richly deserve.

I believe you **deserve** to **enjoy** the retirement of your dreams. A well-designed **plan** supports those dreams. Make sure you work with the **right** advisor so you have the **best chance** for your future."

What to do NOW!

If you would like to speak with a genuine Retirement Focused Financial Advisor, why not give us a call?

You can reach our office at **512-265-5000** to schedule a brief 15-minute introductory phone visit. Alternatively, you can visit our website at **www.iWantToRetireWell.com** to schedule a visit online, or scan the QR code below to get started.

A 15-minute call is all it takes to potentially make a significant difference in your future retirement security. What do you have to lose?









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With over 25 years of experience, Mr. Reese has been assisting families with their retirement planning since 1995, serving hundreds of families over the years.

He is a sought-after speaker at industry events and a best-selling author on Amazon with his book, "Retiring Well". Additionally, Michael has made appearances on ABC and NBC. Michael resides in Austin, TX, with his wife of 32 years. Together, they have 5 children and share their home with various furry friends.



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