The Financial Aspects of Aging

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As one ages, risks change and grow, requiring new skills

- Changing characteristics of risks
  - Shorter time horizon
  - Critical to near future, not the distant future
- New skills required – how do we successfully transition:
  - from a position of robust future earning capacity
  - to a position of limited earning capacity and consumption mode?

What financial-related risks do we face as we near retirement?

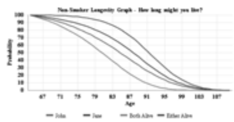
- Longevity Risk
- Inflation Risk
- Unexpected Expenses
- Variability of Investment Returns
- Spending Risk – Too Much or Too Little
- Bad Timing

Life Expectancies are rising

What If Comparison - Longevity Graph

How long might you live?

Chance you will live to age shown	John lives to age Non-Smoker	John lives to age Smoker	Jane lives to age Non-Smoker	Jane lives to age Smoker	Either lives to age Non-Smoker	Either lives to age Smoker
50%	85	78	88	81	92	84
40%	88	80	90	83	94	86
30%	90	82	93	85	96	87
20%	93	84	95	87	98	89
10%	97	87	99	90	101	91



All calculations based on Annuity 2000 Mortality Table.

Source: MoneyGuidePro

The Challenge for future retirees will be great

- Like it or not, most retirees will be responsible for providing for more of their retirement cash flow themselves than previous generations
  - Projected future Social Security and Medicare liabilities suggest less future benefits
  - Corporations are shifting from defined benefit pension plans to defined contribution plans
  - Corporations are cutting back or eliminating retiree health care programs

Certain issues are more critical than ever

Social Security

- When should each of us start receiving social security? Factors to consider include:
  - Health
  - Family History
  - Age gap with spouse
  - Earned income amount vs. spousal amount
  - Other sources of income
- Often, man should delay as long as possible

Health Insurance

- If one spouse is younger and not yet 65, source of coverage until eligible for Medicare?
- Unexpected changes to retiree plans
- Long-term care
- Medical breakthroughs

Minimizing IRA Taxation

- Often, taking IRA withdrawals prior to the start of RMDs at age 70 ½ can lower your long-term taxes and increase your cash flow

Retirees now need a different skill-set to meet these challenges

- Negative impact of reverse dollar-cost-averaging
- How to structure investment portfolio to limit downside variability of investment returns, while balancing against inflation risk
- How to develop appropriate spending budgets, and knowing when to adjust them

May 5, 2007 7

A helpful approach is to maintain maximum flexibility

- Try to postpone decisions as long as possible if they are irrevocable or expensive to undo
  - Delaying start of Social Security to increase monthly benefit amount
  - Avoiding high cost variable annuities that have significant surrender penalties
- A mixture of tax-deferred, tax-free, and taxable investments can maximize your after-tax cash flow, especially in your 60's
- Keep expenses as low as possible in order to maximize cash flow

May 5, 2007 8

Use Investment "Pools"

Three Pools

1. Cash pool covering 12 months of expenses
2. Short-term bond pool covering 12 months of expenses
3. Investment pool of remaining investment assets appropriately diversified across various asset classes

The Benefit

- Helps limit Downside Risk
  - At least a two year period for an investment to recover in value before needing to sell for income
- Helps with Inflation and Longevity Risks
  - Pool 3 can be invested more aggressively
  - Less need to sell investments at inopportune times

May 5, 2007 9

Consider annuitizing a portion of your investments

- I'm referring to immediate, fixed annuities
- Create your own defined benefit pension plan
- Consider laddering your annuities
  - For example, if you want to annuitize $500,000, consider buying a $100,000 annuity each year for 5 years
- Create your own "Longevity Risk Annuity"
  - At age 65, create a fourth investment pool invested 70% in an S&P500 index fund and 30% in a bond index fund
  - Don't touch this account, other than to rebalance to the 70/30 split, for 20 years
  - At age 85, if you are still in good health, you can annuitize this pool and provide a wonderful income stream for the rest of your life

Get your financial affairs in order, with the right legal documents in place

- In the event of incapacitation or death, make sure that someone you trust has access to and the ability to manage your financial affairs
  - A wonderful book, called the **Beneficiary Directory**, by Mark H. Kaizerman, provides step-by-step direction for this
- Make sure you have the legal documents in place not only for death, but for incapacitation