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Independent Objective Advice

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PLEASE

SEE

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FOR

IMPORTANT

INFORMATION!

ABOUT OUR

WEBSITE

Safe Withdrawal Rates from Retirement Accounts

By Christopher W. Beale, CFP®

A basic financial planning question we get asked from our retired and pre-retiree clients is about the amount of income they can withdraw safely from their retirement assets without running out of money during their lifetime. The answer to this question affects the total amount of money needed to be saved before retirement. I will attempt to show the complexities, refinements, and the art and science that go into answering this "simple question."

Luckily we have the help of a pool of research going back almost 20 years. Bill Bengen, an advisor from California, wrote a research article called "Determining Withdrawal Rates Using Historical Data" in the *Journal of Financial Planning* in October of 1994. He has updated his research in several articles in 1997, 2001, and 2006. Several other advisors have added significantly to this body of knowledge, including: Blanchett, Cooley, Guyton, Kitces and Pfau. Bengen showed that a withdrawal rate of 4% from the initial account value could be withdrawn and adjusted for inflation in future years. This 4% withdrawal was capable of lasting for any 30 year sequence dating back to before the Great Depression.

This research is extremely important for many reasons:

- First: 8,000 baby boomers each day are turning 65. This means boomers are now (or will shortly be) leaving the retirement asset accumulation world and entering the less familiar world of retirement asset distribution.
- Second: defined benefit pension plans are being replaced by defined contribution/401(k) type plans. For example, in 1975, 88% of private employers had defined benefit pension plans versus 33% in 2005. The percentage of public sector pension plans dropped from 98% to 92% in the same 30 year period. Recently the public sector plans have decreased a bit more as some states and municipalities have reached the same conclusion that most private sector companies have reached; namely that some of the pension promises they have made will not be able to be kept.

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The Importance of Financial Literacy and our Youth

By Christopher M. Lee, CFP®

As many of you know, one of my passions is teaching and promoting financial literacy to the youth. April has been designated National Financial Literacy Month, so now is a good time to reflect on the importance of financial literacy and its impact on our nation's future financial health. From the positive feedback I received from our last articles on this subject I thought I would share some more facts with you. Hopefully, you can use this information to help you teach your children (and/or grandchildren) the importance of financial literacy.

Why is it that I am so passionate about this, and why should you want to know about financial literacy? Let me show you some reasons why.
In the most recent survey done (2008 National Jump$tart Coalition Survey of High School and College Students http://www.jumpstart.org/assets/files/2008SurveyBook.pdf), came the following statistics:

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Our website has been recently updated and renovated! Please take a tour of our new and improved website at

www.newenglandcapital.com

"Be thankful for what you have, you'll end up having more. If you concentrate on what you don't have, you will never have enough."

– Oprah Winfrey, American media proprietor, talk show host, actress, producer and philanthropist

Some of the new features of the website are:

Home – On our home page, you can sign up for our newsletter via email (if you are not receiving it via email already) by using the link (it is a big envelope on the home page). If you have friends or family that would like to receive our newsletter, please have them sign up on our home page as well.

Who We Are – This section lists all of the planners and staff of New England Capital Financial Advisors, LLC (NECFA) along with their bio's and email addresses.

Events – This section will list future events that we will be holding including seminars and client events. Right now we have posted recent pictures of *Christmas in The Village* as we have sponsored this event for the past six years and it is always held the first Saturday in December in South Meriden.

Resources – This pull down menu is where our NECFA newsletters will be housed. You will find the page lists the current and archived newsletters as well. Under the *Resource* pull down menu, you will also find a **Calculator** section that lists many financial planning calculators and tools for you to use. We also have a **Links** section that will take you to the present custodians that you have with NECFA.

Disclosure - This section contains our disclosure document that is required by the SEC. All future updates to our *Firm Brochure* will be posted on the website as well.

Contact us – This section now shows a map of our office as well as an email address to contact us.

Client Access – This is our most exciting new addition to the website! This link gives you access to your own personal on-line storage folders. You can store your key documents online including your employer retirement plans, insurance policies, wills, tax returns, and trust documents. This new *Client Access* (or client vault) offers extraordinary security. Files are encrypted while they are uploaded or downloaded and they are stored using high encryption (encryption is the process of transforming information using an algorithm to make it unreadable to anyone except those possessing special knowledge, usually referred to as a key).

We will also be able to upload documents from our office right to your personal folder (so you can easily retrieve them), including meeting notes, applications, summaries of your accounts, and important tax documents.

You will also have the availability to share certain limited documents with your other professionals (i.e. Attorneys and Accountants) as well.

If you are interested in this service you will need to get set up with your own specific User ID and password. We will need to send you a "Welcome Email" with instructions. If you wish to get set up on this, please call Elma or Ann at our office at (203) 935-0265, or email them at elmadautovic@newenglandcapital.com or anncarabetta@newenglandcapital.com and let them know that you want "Client Access".

Annual Disclosure Brochure

Enclosed please find a summary of the material changes made to our disclosure brochure. If you would like a copy of the entire brochure, you may download it from our website (www.newenglandcapital.com) or request a copy by calling our office at 203-935-0265.

Safe Withdrawal Rates from Retirement Accounts

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- Third: many baby boomers who are not of full retirement age would like to retire early –which would cause them to take retirement income over a longer period of time. Two generations ago the typical American started working as young as age 15 and worked 50 years until age 65. The average 65-year-old of that generation spent four years in retirement before passing away.

- Fourth: this research is important in general because it helps us deal with the general lack of understanding of what money must do to accomplish this goal.

Many factors can affect the base rate of 4% safe withdrawals over 30 years:

- Health of the individual.
- Age difference between spouses at retirement time.
- Desire or lack of desire to leave an estate to the children, grandchildren or charities.
- Lifestyle desired in retirement… including area of the country (area of the world) in which to retire.
- Existing debt with which you enter your retirement years.
- Risk tolerance.
- Other financial goals which could conflict with retirement goals, specifically college planning with younger children or an elderly parent in need of assistance.
- Taxes and the lack of certainty at the federal, state and local levels, which hinders retirement planning.
- Account registration and types of retirement accounts, i.e. traditional IRAs and 401(k)'s versus Roth IRAs.
- Market valuations at the time of retirement.
- Life expectancies.
- Inflation and inflation expectations.
- Asset Allocation

Withdrawals from retirement accounts will also vary based on individual need and you should consult an investment advisor or tax consultant prior to starting a distribution plan. It is important to recognize factors that we can control versus factors that we cannot control. We need to understand current wants and needs versus future wants and needs. Too much money withdrawn early in retirement could obviously cause the retirement accounts to be depleted later in retirement. Conversely being too conservative with withdrawals in early years may cause unnecessary frugality and unrealized/unfulfilled goals and dreams. This balancing act is part science and part art. Our goal is to allow the most income for your enjoyment while living without running out of money before you pass away. In most cases there should be a balance in your account at your death. By definition, a safe withdrawal rate during your retirement will cause you to have a balance in your account upon your death 96% of the time.

In our next newsletter we will go into more detail of how these factors can affect the 4% rule, both positively and negatively.

The Importance of Financial Literacy and our Youth

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- The financial literacy of high school students has fallen to its lowest level ever, with a score of just 48% (yes, that is out of 100%!)

- Only 17% of high school seniors feel that stocks are likely to have higher average returns than savings bonds, savings accounts and checking accounts *over an 18 year period*.

- 40% of high school seniors realize that their own health insurance could stop if their parents become unemployed.

- Just 27% percent of high school seniors realize that interest on a savings account is taxable if one's income is high enough.

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"To succeed is to know even one life has breathed easier because you have lived."

-Ralph Waldo Emerson, American lecturer, poet, and essayist

"My favorite things in life don't cost any money. It's really clear that the most precious resource we all have is time."

-Steve Jobs American businessman, designer, inventor

The Importance of Financial Literacy and our Youth

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This test was given across the country to all races, social, and economic classes. I listed below an actual example of a question that was on this survey:

Which of the following credit card users is likely to pay the GREATEST dollar amount in finance charges per year if they all charge the same amount per year on their cards?

A. Jessica, who pays at least the minimum amount each month and more, when she has the money.

B. Vera, who generally pays off her credit card in full but, occasionally, will pay the minimum when she is short of cash.

C. Megan, who always pays off her credit card bill in full shortly after she receives it.

D. Erin, who only pays the minimum amount each month.

The correct answer is *D) Erin, who only pays the minimum amount each month*. Less than half of the students (48%) were able to answer this question correctly. This was the lowest proportion of students to answer this question correctly in all the years of this survey. This is the stuff that scares me! We are sending these kids out into the real world and they are not armed with the knowledge on how to protect themselves financially. I hope you and your children (and/or grandchildren) will take time to answer this one question. I'll bet you'd be surprised at the answer. Hopefully, this will be the jumpstart you need to start your children on the right financial literacy path.

Talking about money around the dinner table is still considered taboo in many homes, so where are these kids learning about it? Is it at school? Right now, 26 states have no financial literacy requirements at all in their K-12 education systems. Only four states mandate that students take a personal finance class in high school. Why does all of this matter? Because people with low levels of financial literacy suffer from that lack of knowledge at every stage of their lives.

Another study from the TIAA-CREF Institute shows that people with a high degree of financial literacy are more likely to plan for retirement, and that people who plan for retirement have more than double the wealth of people who don't. Conversely, people who have a lower degree of financial literacy tend to borrow more, accumulate less wealth, and pay more in fees related to financial products. They are less likely to invest, more likely to experience difficulty with debt, and less likely to know the terms of their mortgages and other loans.

The cost of this financial ignorance is high, leading many people to incur avoidable charges and fees from things like making late credit card payments or paying only the minimum amount due, overspending their credit limit, and using cash advances. Unfunded mandates in today's economy are tough to sell – but won't it cost us taxpayers more down the road by not educating the youth today? There is some good news though, as they are now talking about it at the state Capitol. A bill was recently introduced and is in committee as we speak. Bill # 359 - *An Act Concerning Financial Literacy*, which was introduced by the Banks Committee, was to ensure that students of public high schools and public institutions of higher education in this state receive instruction in financial literacy. It is making its way in and out of committee as we speak.

Well, I am off to Washington DC next week to fight this battle nationally and meet with other state coalition leaders along with US Senators and Congressmen to help tackle this important issue! I will keep you posted on my continued endeavor!!

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www.newenglandcapital.com