



BOB CARLSON'S

Retirement Watch
SPOTLIGHT SERIES

How to Build a Moat Around Your Retirement

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Why You Need A Moat

- **Financial security and independence are main goals**
- **Greatest fear: Running out of money**
- **Can't control many factors**
- **Can build a moat to protect you**



5 Steps to Building Your Moat

- **Portfolio protection**
- **Guaranteed lifetime income**
- **Avoid the Medicare mistakes**
- **Manage the changes in long-term care**
- **Turn your nest egg into lifetime cash flow**
- **Be flexible and update**



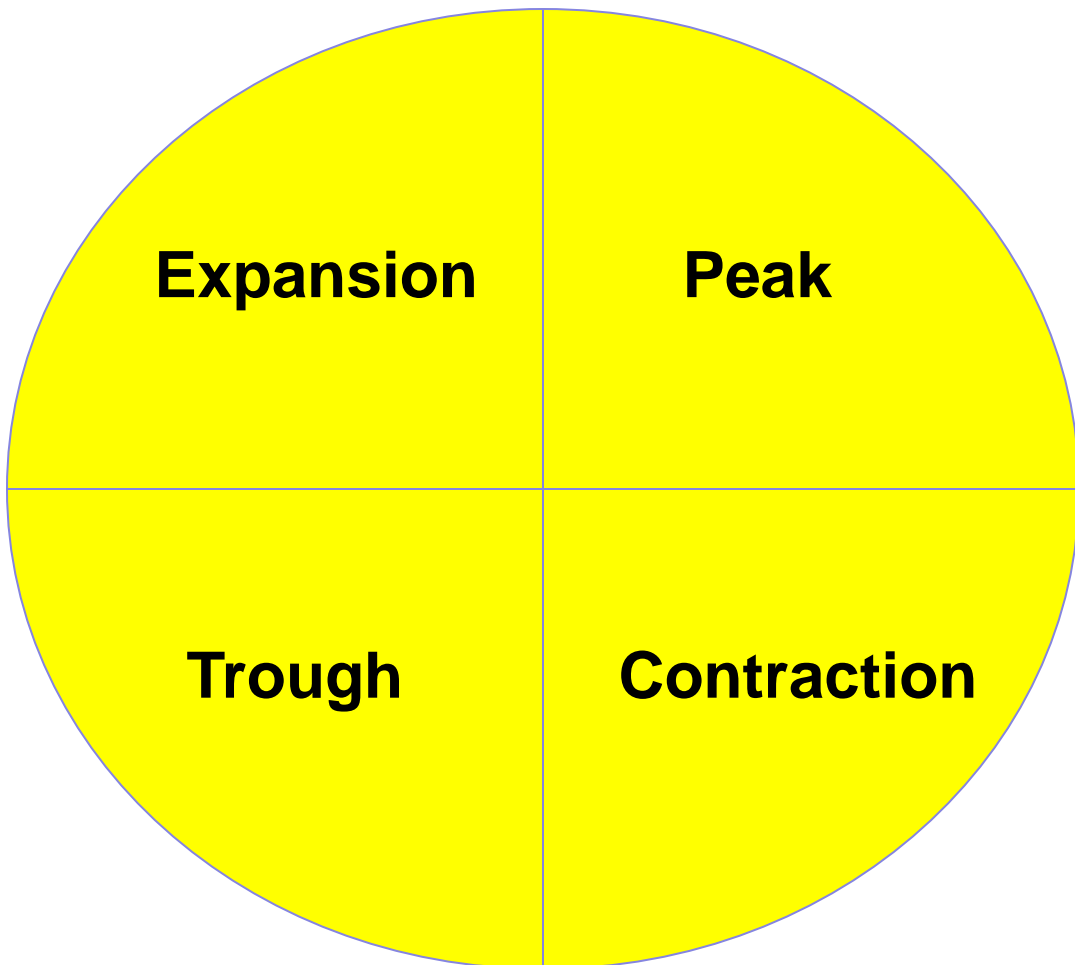
1. Protect Your Portfolio

- **Main factors are growth and inflation**
- **Either can rise or fall, above or below average**
- **Make four economic phases or regimes**
- **Most portfolios depend on one phase**
- **>90% gains and volatility depend on stocks**



Market, Economic Cycle

**Rising
Growth,
Falling
Inflation**



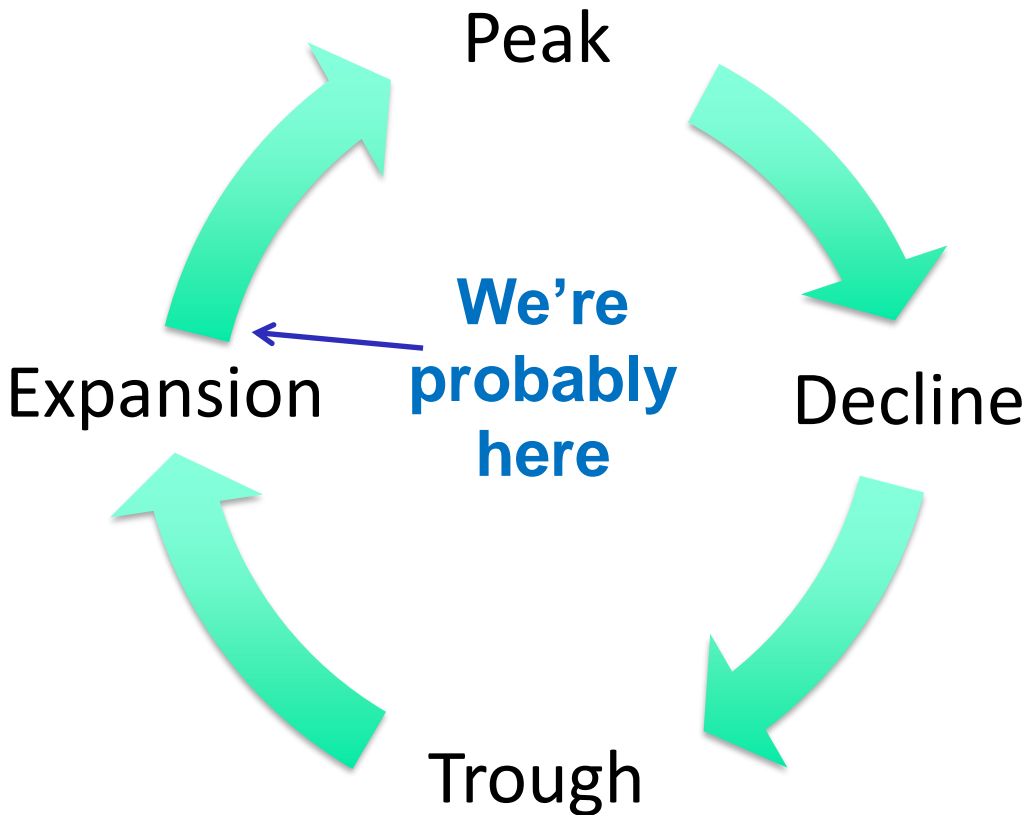
**Rising
Growth,
Rising
Inflation**

**Falling
Growth,
Falling
Inflation**

**Falling
Growth,
Rising
Inflation**



Business/Economic Cycle





2. Guaranteed Lifetime Income

- **Never run out of money**
- **Longevity insurance**
- **Annuities and Social Security**
- **The right kind of annuity**
 - **Fixed immediate**
 - **Longevity**
- **Shop around for lifetime income**



3. Avoid Medicare Mistakes

- **A top retirement fear**
- **About 90% pay too much out-of-pocket**
- **Medicare doesn't cover it all**
- **Avoid the big surprises, gaps**



Two Big Medicare Choices

- **Need to cover the gaps**
- **Original Medicare vs. Advantage**
- **Original Medicare + Medigap + Part D**
- **Advantage plan limits some choices**
- **Determine maximum out-of-pocket**
- **Both can change annually**
- **Plans can disappear**



Shop Around

- **Wide premium differences**
- **Can overpay by 100% for Medigap, Part D**
- **Advantage plans aren't identical**
- **Shop the market annually**
- **Dental, vision, hearing aids are separate**
- **Be careful of splashy Advantage extras**



4. Manage the Changes in LTC

Battle of Statistics:

- **70% of those 65 and over will need some kind of LTC**
- **Only 19% of men and 31% of women should buy long-term care insurance**

Which should you believe?



LTCL Claims Data

% of Claims > 5 Years	15%
% of claims > 1 Year	50%
Avg. length if > 1 Year	3.9 yrs.



Where LTC is Received

- **Types of new LTC Claims:**
 - **Home Care** **51%**
 - **Assisted Living** **18.5%**
 - **Nursing Home** **30.5%**

Source: AALTCI

- **Technology making home care more practical**
- **Might need to modify home**



Low Probability, High Cost

Costs \$50,000+ annually

- **Increases faster than CPI**
- **Even home care is expensive**
- **Varies by location, type of care**



Tools Available

- **Self-insurance**
- **Permanent life insurance**
- **Medicare**
- **Medicaid**
- **LTCL: Personal, employer & group policies**
- **Hybrid/linked/combo policies**



5. Turn Your Nest Egg into Lifetime Cash Flow

- **Biggest gap in most plans**
- **4% rule has shortcomings:**
 - **Nobody spends that way**
 - **Only 30-year retirement**
 - **No adjustments for markets**
 - **Large shortfall possible**



Sequence of Returns Risk

S&P 500

- ~ 1400 in early 2000
- 815 September 2002
- 1,550 October 2007
- Decline again in financial crisis
- Recovers by March 2013
- Worse for Nasdaq 100



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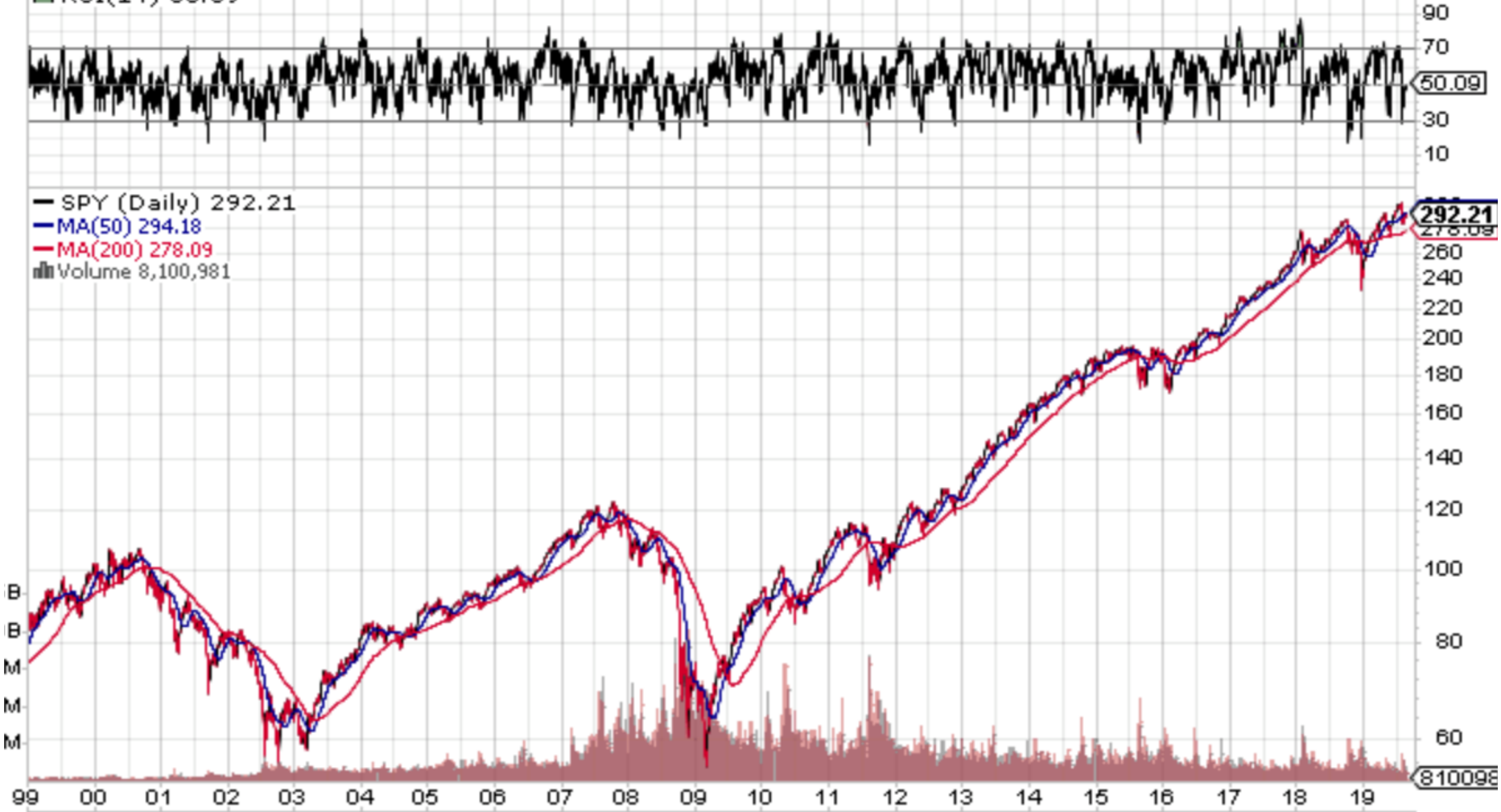
SPY SPDR S&P 500 ETF NYSE + BATS

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22-Aug-2019 10:27 am

Open 293.23 High 293.93 Low 292.21 Last 292.21 Volume 8.1M Chg -0.24 (-0.08%) ▼

▲ RSI(14) 50.09



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How Retirees Really Spend

- The “smile spending cycle”
- No real decline in first retirement years
- 33% real reduction by age 75
- Further reductions as age
- Spending mix changes
- Possible exceptions for uninsured medical or long-term care expenses



Lessons for Spending Plan

- **Could be oversaving/underspending**
- **Spend higher percentage in early years?**
- **Adjust for market fluctuations**
- **Annuity reduces uncertainty**
- **Need personal, custom spending model**



Retirement Has Changed

- **Retirement is always changing**
- **Limited fixed, inflexible strategies**
- **Need to monitor changes**
- **Determine changes to make**
- **Recognize, review, react**