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Financial Briefs

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Retirement Planning Decade by Decade

Retirement planning is a lifelong process. Below are some of the key retirement-planning actions you need to be taking from your 20s through your 60s.

Your 20s

Start saving. The sooner you can start saving for retirement, the less you'll have to save overall. If you start saving $5,000 per year at age 25, you'll have just under $775,000 by age 65, assuming annual returns of 6%. Wait until age 35 to start saving and you'll have about $395,000 — more than $300,000 less. Also, since you're still decades away from your retirement date, don't be afraid to take some risk with your investments. You'll have to stomach some ups and downs, but earning higher returns from equity (or stock) investments now means more money (and less to save) as you get older.

Other steps to take when you're young: start budgeting, avoid debt, and save for other goals, like buying a house. Even if you're not earning a lot right now, adopting healthy money habits today will pay big dividends later in life.

Your 30s

As you enter your 30s, your income is probably heading upward and your life is beginning to stabilize. You may find that you can contribute more to your retirement savings accounts than you could in your 20s. As your income increases, consider increasing your retirement contributions by the amount of your annual raise so you don't fall behind on saving. Reassess your savings rate and consider meeting with a financial advisor to make sure you're saving as much as you can — and investing it well.

Your 40s

You're at the halfway point to retirement. If you've been saving for the past 10 or 20 years, you should have a nice nest egg by now. If you haven't gotten serious about saving, now is the time to do so. You'll have to be fairly aggressive, but you still have some time to build a respectable financial cushion. Whether you're an accomplished saver or just getting started, you may also want to consider meeting with a financial advisor to help you make sure you're saving enough to meet your goals and investing in the best way possible.

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Retirement Withdrawal Rates

When planning for retirement, most people are focused on how much they need to save today. They tend to spend less time thinking about how they'll make their nest egg last once they stop working. After all, with total savings in the hundreds of thousands or even millions of dollars, it may seem that your money will last forever. Unfortunately, it's just not that simple.

Few people are wealthy enough to not worry about how much money they withdraw from their savings every year. Below, we cover some of the most important things you need to know about retirement withdrawal rates and how to make your savings last a lifetime.

The 4% Rule

To avoid the danger of draining your savings, you need a plan. That means knowing how much you can withdraw from your portfolio every year. This is called your retirement withdrawal rate. There's a pretty simple rule of thumb to estimate how much you can safely take from your savings: the 4% rule.

The 4% rule says that you can withdraw roughly 4% of your portfolio every year and have enough money to last for a 30-year retirement (assuming you are invested in a 60-40 mix of large-cap stocks and intermediate-term government bonds). So, if you had a total retirement portfolio of $1 million, you

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Decade by Decade

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A special note: people in their late 40s and early 50s are often looking at steep college tuition bills for their children. Don't make the mistake of sacrificing your retirement goals to pay for your children's college educations. Stay focused and on track so your children don't have to jeopardize their financial future to support you as you get older.

Your 50s

Once you turn 50, you have the option to make catch-up contributions to retirement savings accounts like 401(k)s and IRAs. You can save an additional $6,500 a year in your 401(k) plan and $1,000 a year in your IRA in 2021. That's great news if you're already maxing out your savings in those accounts.

Your fifth decade is also the time to start thinking seriously about what's going to happen when you retire — when exactly you're going to stop working, where you want to live, whether you plan to work in retirement, and other lifestyle issues. It's also the time to take stock of your overall financial situation. You'll still want to keep saving as much as you can, but you may also want to make an extra effort to be debt-free at retirement by paying special attention to paying off your mortgage, car loans, credit card debt, and any remaining student loans.

Your 60s

Retirement is just a few years away. If you haven't already, you'll want to dial down the risk in your portfolio so you don't take a large loss on the eve of your retirement. You'll also want to start thinking about a firm retirement date and estimating your expected expenses and income in retirement. If your calculations show that you're falling short, it's better to know before you stop working. You can make up a shortfall in a number of ways — reducing living expenses, working a bit longer, and even delaying Social Security payments so you get a larger check.

Whatever your age, the key to retirement is having a plan and consistently executing that plan. Not sure how to get started? Please call so we can discuss this in more detail.

Avoid These Withdrawal Mistakes

During your working years, your emphasis was to accumulate as much as possible for retirement. As you near retirement age, you need to start thinking about how to withdraw those funds to maximize your income. To help accomplish that, avoid these mistakes:

- **Not understanding all available options.** Each retirement option, such as 401(k) plans, profit-sharing plans, and individual retirement accounts (IRAs), has different tax and plan rules regarding withdrawals. Review all your options to select the best choice for your circumstances. In many cases, your selection will be irrevocable.
- **Not using reasonable estimates to calculate your withdrawal amounts.** The amount you should withdraw annually can be calculated based on how much principal you want remaining at the end of your life, your life expectancy, your expected long-term rate of return, and your expected long-term inflation rate. If you don't use conservative estimates, you run the risk of depleting your assets before you die. Even with conservative estimates, review these factors annually so you can adjust the withdrawal amount if necessary.
- **Not withdrawing funds in a tax-efficient manner.** Before beginning withdrawals, review all your retirement assets, including pension plans, IRAs, and taxable investments, to determine the most tax-efficient strategy for withdrawals. This can add years to the life of your retirement funds.
- **Retiring early without considering the financial implications.** Retiring even a few years earlier than planned can significantly impact the amount needed for retirement. Make sure you'll have sufficient funds for your entire retirement before opting to retire early.
- **Taking a lump-sum distribution in your name.** When rolling over a lump-sum distribution from a 401(k) plan or other qualified plan, transfer the funds directly to your new account's trustee. Otherwise, your former employer will withhold 20% for taxes when the funds go directly to you. You will then have to replace the 20% from your own funds within 60 days or the 20% withholding will be considered a distribution, subject to income taxes and possibly the 10% federal penalty.
- **Not taking required minimum distributions.** Once you reach age 72, you must take required minimum distributions from traditional IRAs and other qualified plans or pay a 50% excise tax on the amount you should have withdrawn. If you are still working, you can delay withdrawals from qualified plans, but not from traditional IRAs, until you retire.
- **Not selecting proper beneficiaries.** The proper selection of beneficiaries can make a significant difference in the amount of taxes owed when you die.
- **Not seeking advice.** Determining how much to withdraw from your retirement investments and the best way to make those withdrawals can be complicated. Since the decisions are often irrevocable and can have a major impact on your retirement lifestyle, seek guidance first. Please call if you need help with these decisions.

Withdrawal Rates

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could withdraw about $40,000 every year and probably have enough money to last until you turned 95.

Combined with Social Security and pension income, your 4% withdrawal rate could provide you with a respectable, though not necessarily lavish, income. If you wanted to enjoy an annual income in the six figures in retirement, you'd have to save quite a bit more.

Does the 4% Rule Matter?

There's a lot to be said for the 4% rule, but it's not the be-all and end-all of retirement planning. In fact, some retirement experts have said today's retirees should forget about the 4% rule, or at least apply it with caution. Low interest rates are one reason, because they mean retirees aren't earning as much on their relatively safe investments (like government bonds) as they would if they'd retired a couple of decades ago (when the 4% rule was first proposed).

Another problem is what is called sequence of returns risk. Basically, the 4% rule assumes you earn relatively stable average returns throughout your retirement. Unfortunately, that's not how the real world works. Returns fluctuate, sometimes wildly, from year to year. If you are unlucky enough to hit a bad patch in the early years of retirement, the value of your portfolio may fall, and you may never be able to make up the loss.

Finally, there is something called the sequence of consumption risk. The 4% guideline assumes your spending is relatively steady throughout retirement. But recent studies indicate that's not the case for most retirees. You're likely to spend more money in the early years of retirement (when you're still relatively young and active and eager to do all the things you couldn't do while working), less in the middle years of retirement, and more in the final years of your life (when healthcare costs often pile up). Spend too much in the early years and you could find yourself running out of money in the later years.

A Guideline, Not a Rule

Rather than treating a 4% retirement withdrawal rate as a hard-and-fast rule, it's better to think of it as a starting point. Thinking about living on 4% of your portfolio every year is a good way to get a rough idea of how far your retirement dollars will go. But by itself, it won't be enough. To really determine how much you can withdraw from your savings every year, please call to discuss this in more detail.

What Kind of Retirement Do You Want?

We all know the process. Estimate how much is needed in retirement (which can range anywhere from 70% to over 100% of preretirement income), determine available income sources, and then calculate how much to save annually to reach those goals. As you go through this largely mathematical exercise, however, don't forget the most important part. You need to give serious thought to the type of retirement you want — visualize what retirement will be like.

Retirement is no longer viewed as a time to slow down, but considered a new beginning in life. That means your current living expenses may have very little to do with your retirement expenses. To help you visualize your retirement so you can estimate retirement expenses, consider these questions:

- When do you want to retire? Will you realistically have the resources to retire at that age?
- Do you plan to stay in your current home, trade down to a smaller one, or move to a different city? If you plan to move, is the cost of living there more or less expensive than your present city?
- Will your mortgage be paid off by retirement? What about other debts?
- Will you continue to work after retirement? If so, will you work part- or full-time? Where will you work and how much can you expect to earn? Do you have any hobbies or interests that can be turned into paying jobs? Are you planning to start a business after retirement?
- How will you spend your free time? What hobbies will you pursue? How much and where will you travel? How much will all these activities cost?
- How will you pay for medical costs? Will your employer provide health insurance or will you need to purchase insurance to supplement Medicare coverage?
- Do you have any medical conditions that are likely to impact your quality of life in retirement? What would you do if you became physically disabled? Would your spouse take care of you, would you move in with your children, or would you go to a nursing home? How will you provide for long-term-care costs?
- How much of your income will be provided by personal investments, including 401(k) funds? Are you confident those investments will last your entire retirement?
- What would happen financially if your spouse dies? If you die, would your spouse be able to support himself/herself financially?

Answering these questions should give you a clearer picture of what your retirement will be like. If you'd like to review these questions in more detail, please call.

News and Announcements

From the Thurman Household

My son, Levi, contended at a high level in the state Jiu Jitsu tournament. He competed well, learned a lot, but didn't place this year. The new belt level, blue, is quite a bit tougher but he held his own.

I was surprised and excited that the Journal Record named me as one of the Powerr 30- the most influential people in banking and finance. It's really a team award and we have a great team here. If you would, next time you talk to them, share that you heard about the team award and thank them for their caring and hard work.

I'm really into pickleball. What an incredibly fun sport! It is kind of a mash up of badminton, tennis, racquetball and ping-pong. I've been playing about a year so I decided I would go to a three-day training camp, which showed me how much I'm doing wrong and what to do. It seemed so easy when I started. But like most things, the more I learn, the more I find out I don't know.

My wife, Pati, just completed a half-marathon trail run. I guess running a regular half marathon wasn't enough, she wanted to run a tough trail course. She finished third in her division. She has two more planned this spring.

Make it a great month,

Randy Thurman, CFP®, CPA/PFS

From the Alexander Household

Music has always been a part of my father, Dr. Robert Ringrose's, life. He played All State solo French horn, was a member of OU's marching band and loves to dance with his wife and daughters. As his 82nd birthday approached, we wanted to make it special for him.

His brother-in-law, Byron, has recorded albums with musicians including The Rolling Stones, Bob Dylan, Elton John and Willie Nelson. His solo album Fiddle and a Song features Earl Scruggs, Bill Monroe, Vince Gill and Mason Williams. In 1995, Bette and Byron relocated from California to open the Double Stop Fiddle Shop in Guthrie, began playing Saturday night concerts and later established the Oklahoma International Bluegrass Festival.

Together we planned a concert for Dad with family only in light of the pandemic. Bette made cookies and brownies and Byron and his band performed. A highlight for me was the opportunity to dance with Dad again. When we finished, Dad smiled and told me, "We've still got it!" We are incredibly grateful to Bette, Byron and The Byron Berline Band members: Richard Sharp on bass, Greg Burgess and, his son, Henry Byron Burgess, on fiddle and mandolin, Bill Perry on banjo and Thomas Trapp on guitar. Thank you for making my father's birthday special - we cherish these memories!

Isn't clearing away and bringing forth a great way to approach any habit you want to establish or reprogram and your goals as we welcome a new year?

Carol Ringrose Alexander,
CFP®, AIF®, CEPS, RLP®, CDFA™

From the Bolander Household

Over spring break, we headed just up the road to Jenks with our daughter and grandkids to visit the Oklahoma Aquarium. Our last visit was a few years ago, before they acquired the "Giant Pacific Octopus". I've been hoping to get back there to see it, especially after viewing the Netflix documentary "My Octopus Teacher" about one man's yearlong experience with an octopus about the size of his two hands together. The giant octopus was amazing, and it put on a show for us by swirling around in the plexiglass tank and changing colors to match the different surroundings. I'm guessing the length of each of its eight arms was between 4 to 6 feet and it's still growing. According to an article in the Jenks newspaper, "their boneless bodies can morph into nearly any shape imaginable; and they can squeeze through almost any crack, crevice, or opening… To put this in perspective, a hundred-pound octopus can squeeze through an opening the size of a dime." It was a marvelous thing to watch, and I highly recommend going to see it and all the other wonderful creatures in the aquarium.

Now that John and I have both had the COVID vaccine, I hope to do more things and have more interesting articles for you!

Happy spring!

Brenda C. Bolander,
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