REDEEMING RETIREMENT

A PRACTICAL GUIDE TO CATCH UP

C. J. CAGLE

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C. J. (CHRIS) CAGLE

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ISBN: 979-8-7071-9878-6

RetirementStewardship.com

Charlotte, NC

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To JoAnne, my wife of almost 50 years, who has supported me in all of my (sometimes) crazy endeavors, and who tolerates my long hours sitting in front of a computer writing books and blog posts. Thank you! Your love and encouragement (and patience) mean so much to me. I love you very much!

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ACKNOWLEDGMENTS

I want to thank John Gillette, my good friend and former championship water-skier, 2008 inductee into the Florida Water Ski Federation Hall of Fame, and author of *Barefooting: John Gillette's Complete Guide to Barefoot Water Skiing 2nd Edition*, for proofreading an early manuscript and providing invaluable input and feedback. Also, my friend, Ivan Mesa, Books Editor at The Gospel Coalition for his encouragement and technical assistance with the manuscript as well. And Cassie Watson helped with some edits of later material. Finally, thanks to Kostis Pavlou of 99Designs.com for the cover design.

PREFACE

I started doing financial coaching and counseling in my local church almost twenty years ago. Over time, I've become increasingly concerned about how ill-prepared many households are for retirement. More concerning is many don't even know it.

Not that everyone *should* retire, or at a particular age. We each possess considerable freedom to decide what later-life will look like for us. Some will work for the sheer joy of it well into their 60s, 70s, and beyond. Others want to retire sooner than later or be forced to due to health issues, layoffs, or other challenges.

I'm assuming most people will want to retire someday and prefer to do it on their terms. Regardless of the timing, if you want a "work-for-pay-optional" retirement, you'll need a plan to fund it.

Because I wanted to help others like those I've encountered as a financial coach in my church to be as well-prepared for retirement as possible, I created a blog (RetirementStewardship.com). I also wrote two books (*Reimagine Retirement* and *The Minister's Retirement*). But this is a book I always wanted to write. I want to help those who have fallen behind in planning to "redeem" their retirement so they can live it with financial dignity.

Enter the "Grey Swan"

I started writing this book in January of 2020 and published it in early 2021. In retrospect, 2020 was a year none of us will likely ever forget. We were ten years past the "black swan" event known as the 2008–2009 recession, and the economy (and many investors' retirement portfolios) had bounced back. The U.S. economy had been growing at a rate of two to three percent a year.

Although many were again warning of stock-market bubbles and increasing personal and governmental debt, things kept humming along.

Then came another "swan," which many would say was of the "grey" variety—a pandemic the likes of which the world has not experienced since the Spanish flu in 1918–1920.[1] The stock market (and the investment portfolios of those who invest in stocks, stock mutual funds, and ETFs) was clobbered once again. The markets bounced back surprisingly in 2020, and as I write this, there is hope that the pandemic is abating, but the economy is still in pretty bad shape. We may not know the long-term economic fallout of the 2020-2021 pandemic for some time.

Recessions and market crashes happen with surprising regularity. There have been eight recessions between 1970 and 2020 and five market crashes (defined as a loss of 30 percent or more). Conclusion: they've happened before, and they'll happen again.

Market crashes like those in 2008 and 2020 may not be of significant concern to savers and investors in their twenties and thirties, nor should they be. That demographic is twenty or thirty or more years away from retirement and will likely recover. Time is on their side. But when it happens to older people, especially those getting close to retirement, the prospects are far less rosy. Depending on how close they are, they can be downright dire.

Been There, Done That

When I started my first job out of college, there was no such thing as a 401(k), and IRAs had just been introduced (401(k)s didn't come on the scene until 1978). No one was talking about the importance of saving for retirement.

I was already married, so I was also dealing with rent payments, cars, insurance, and other bills that made long-term savings the farthest thing from my mind. Two kids entered the picture a few years later, adding more costs to the equation. My employer, the State of Florida, had a pension plan, but it didn't occur to me that I might not work there forever (and I didn't).

So, like many young couples our age, we didn't start saving for retirement until many years later, well into our 30s. My wife transitioned to a stay-at-home mom after we adopted our first child, which also limited our income. With saving and investing, time is money. Not

starting in our 20s meant we missed out on both; the math shows that saving something is more important than how much you save when you're young.

Even after I started saving more consistently, I also had two children to raise, and I wanted to regularly give to my church and others. I had to balance those things with saving as best I could.

You can never get back the money you didn't invest or the time you've lost. (I missed some of the most critical years of a person's saving life—the first ten. Perhaps you did too.) But you can play catch up, and I'll show you how.

Hope and Help

In my first book, *Reimagine Retirement*,[2] I looked at both the financial and non-financial aspects of planning for retirement. But many people get to mid-life or later and realize they've fallen behind and need to find ways to catch-up. That's the focus of this book.

For many households, the lingering effects of the Great Recession of 2008–2009, and the yet-to-be-fully-known long-term implications of the 2020-2021 pandemic, will make it impossible for people to retire in the timeframe they hoped.

I wrote this book to help those who are a little older (early middle-age and up) and are either unsure whether they are on-track to retire or know that they have fallen behind in saving for retirement and want to do something about it. (But if you're younger than that, the book may be of help to you as well.)

I want to provide hope and help in the form of practical guidance for those in that position. Because of the pandemic, the number has probably grown considerably.

My hope and prayer are that if you were behind and are now in a worse position, or you were doing okay and now find yourself in an undesirable place because of events outside your control, this book will help you find hope and map out a plan to "redeem your retirement."

C. J. (Chris) Cagle
April 2021

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[1] "A black swan is an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences. Black swan events are characterized by their extreme rarity, their severe impact, and the widespread insistence they were obvious in hindsight." (Source: Investopedia, "Black Swan," https://www.investopedia.com/terms/b/blackswan.asp.) Many would say that the coronavirus pandemic was actually a "gray swan," which is a predictable event that is unlikely to occur and but still possible. Unlike a black swan, which is a hidden danger we never saw coming, a gray swan is a more obvious danger that we tend to ignore. (Source: Investopedia, "Grey Swan," https://www.investopedia.com/terms/g/grey-swan.asp.)

[2] C. J. Cagle, *Reimagine Retirement: Planning and Living for the Glory of God* (Nashville: B&H Publishing Group, 2019).

INTRODUCTION

Ed Grimley, played by comedian Martin Short, was one of my favorite *Saturday Night Live* characters. (Please don't judge—I was raised on *I Love Lucy*.) In his frequent episodes of neurotic hysteria, he would exclaim, "we're as doomed as doomed can be, I must say." It wouldn't be the same without the "I must say" part, which was a kind of verbal tic since he said it at the end of many phrases. He also ended other phases with "ya know." I think he did it to temper his emotional excesses.[1] There's no shortage of hysterical and hyperbolic "we're doomed" rhetoric about the state of the U.S. retirement nation. The doomsayers' view is that most of us are heading toward a financial cliff at retirement.

The "grimlies" of the world say we're woefully unprepared for retirement because of low-savings rates and little or no retirement savings. They also remind us that Social Security alone will be inadequate for all but the lowest income earners. It'll supply only a small percentage of the income needed by most middle-income and higher households. The "grimliest" outlook (a worst-case scenario) is that to maintain their pre-retirement lifestyle, retirees in this income group may not have the ability to retire fully until much later in life, if ever.

Those close to retirement have a lot of questions and concerns about whether they've saved enough. Two major recessions in the last twelve years (which affected employment, incomes, real estate, and investment portfolios), wage stagnation (which hampers the ability to save), and low interest rates (which have reduced fixed-income returns) have made things difficult for many.

Others don't see it quite the same way. While they agree that many Americans will experience some challenges, and a small percentage will enter retirement with little more than Social Security to live on, they maintain that a larger percentage will retire with sufficient retirement

income to last the rest of their lives. However, this income may be less than what they hoped.

Those who have this perspective say that most of us will have *some* savings or other income sources, such as an employer pension, besides Social Security. Plus, surely those with a shortfall will delay retirement, make cost-of-living adjustments, or work part-time in retirement to make ends meet. They'll also leverage other income streams (from an annuity or reverse mortgage) and adjust their savings withdrawal rates to make sure they don't run out of money. Perhaps.

Lack of Savings

Both the "doom and gloom" and "we're mostly okay" (maybe, hopefully) perspectives have some truth to them, so the reality is probably somewhere in between. Almost no one is saying there's nothing to be concerned about. The facts show that many people haven't been able to save enough in their tax-deferred savings accounts (such as 401(k)s and IRAs) to retire without experiencing a significant reduction in their standard of living.

Baby boomers have saved an average of $152,000 for retirement, which is twice as much as Generation X's savings of $66,000.[2] Even more concerning, almost half of baby boomers have less than $100,000 saved, and a quarter of them have saved virtually nothing. About a third of GenXers have little or nothing saved. In the baby boomer group, half of those aged 55 to 61 have less than $21,000 saved for retirement, and those in the 50–55 age range have about half that much.[3]

Will savings of $150,000 to $200,000 be enough? It may be adequate for someone with a salary of $50,000 who can live on 70–80 percent of that in retirement. But those with higher incomes may struggle to maintain their standard of living with only $200,000 and Social Security to fund it.

To be sure, someone with $200,000 saved won't fund a world cruise every year (nor should they), but it translates into around $8,000 to $10,000 in annual income.[4] Added to $30,000 in total Social Security benefits, we're talking about an income of $40,000 a year, which will be adequate for many people. It would at least keep them in the low end of

the middle class. But if someone is earning between $75,000 and $100,000 today and is nearing retirement with only $200,000 saved, they'll have some challenges; they're likely to experience a significant retirement income shortfall.

Is Social Security the Answer?

Retirement savings shortfalls increase reliance on Social Security. It will undoubtedly be a huge help to those with low savings, but the government never intended Social Security to be the primary source of retirement income for most people. It was initially established to be a safety net for the neediest and most vulnerable retirees among us. An unintended consequence is that Social Security has become a significant, albeit disproportional, part of most people's retirement plans.

While Social Security will be a significant part of middle-class worker retirements, it won't satisfy their full income requirement. Plus, the higher their pre-retirement income, the more dependent they'll be on savings unless their income needs in retirement are less than 80 percent of their pre-retirement income.

Because of low-income replacement ratios by Social Security, those in the middle- and upper-middle-income ranges with low savings balances in their retirement will have a significant gap between their living expenses and their retirement income.

This gap is a problem because most workers in the middle class would prefer to remain there once they've retired. Many in the middle class won't have enough savings to maintain their pre-retirement standard of living after retirement. Some will fall out of the middle class altogether. Why? Because they aren't able to save enough to support that lifestyle, even when combined with Social Security and other income sources.

Granted, what constitutes low savings for one person may not be for another, as the amount you'll need in retirement varies based on your situation. But those earning a middle-income or higher with $300,000 or less in savings as they approach retirement will experience some significant challenges unless they have additional income from sources other than Social Security.

What then?

Because everyone's situation is unique, there are many reasons people are in poor shape in terms of retirement preparedness. It could be due to procrastination, excessive optimism, or pessimism about the future. Some overly rely on Social Security, engage in overspending, or take on excessive debt. It could also result from chronic job instability, un- or under-employment, excessive debt, health problems, catastrophic events, family issues, or others that take their toll.

Looking at this book's cover, you may wonder why the guy is so tiny, and the piggy bank is so large. Perhaps it's because saving enough for retirement is a big challenge and many folks need to save more than they have. Or why there's a clock on the piggy bank. I don't have a great answer for that either, except I wanted a clock to convey the concept of time, and it had to go somewhere. And what exactly is the little guy on the top of the piggy bank doing? I can explain that: He's trying to "turn back the hands of time," literally. He needs more time to prepare for retirement because he's fallen behind.

I don't tell you in this book how to go back in time (it's not possible as far as I know), but I'll offer information and guidance to help you make up for lost time. I'll help you determine: 1) where you are; 2) where you want to be; 3) what you need to do to get there.

After some introductory chapters to help you figure out where you are and where you want (or need) to be, the rest of the book will describe specific catch-up strategies you might implement depending on your situation. A particular approach may be more or less workable and effective based on your financial condition and how near you are to retirement.

Once they understand their situation, most people have the creativity and initiative to deal with life's challenges, including preparing for retirement. They adapt, change plans, and alter their expectations. For example, someone who has fallen behind but with time to catch-up probably needs to save more (chapter 11). To do so, they may have to spend less (chapters 9 and 10).

For someone who wants to retire in a year or two, chapter 11 (increase savings) may not have a significant impact unless they do what I recommend in chapters 8 and 16 (postpone retirement and delay Social Security.) But for someone with ten plus years to retirement, saving more could make a

difference, especially if combined with spending less (chapters 9 and 10). You want a mix of strategies that deliver the optimal result.

To help you see the impact of these strategies, we'll follow an example couple, whom I call the "Samples," through the book to see how the various strategies affect their ability to retire with financial dignity. The Samples' situation seems grim to start but dramatically improves as we go.

Yes, There Will Be Math

Saving for retirement is a tricky subject because it forces us to consider uncomfortable issues such as budgets, mortality, and legacy. Then we add to this already emotionally fraught topic a layer of mathematical calculations. Math is the default language of retirement planning, making it one big, lifetime story problem like the ones you worked on in grade school. Not getting it right has more significant consequences than miscalculating whether train A or B will arrive at the station first.

These calculations involve all kinds of variables and hypotheticals: if you're aged X, you should have saved X so that you can have X amount of replacement income for retirement (which is unknown) by the time you retire at age X, assuming you or your spouse will live to age X (based on factors such as gender, genetics, other income, healthcare costs, and inflation; all of which are unknown).

Then, once you have calculated your retirement story problem, you need to determine your risk tolerance, diversification strategies, investments, retirement income needs, and sources of retirement income.

In this book, I try to simplify this big scary math problem. Still, I will introduce you to quite a few mathematical formulas. Most are very simple, and you can apply them using a calculator and the values pertinent to your situation. To help, I use the Samples as to show the effectiveness of different catch up strategies over time, which I trust will encourage you that they can work for you as well.

I also provide information on various financial and retirement calculators available online in the endnotes for chapter 3.

A Couple of Final Things

Rather than take up a lot of space in the body of the chapters explaining terms or pertinent financial concepts, I will do so in the notes at the end of each one. However, I will elaborate in the text when necessary for context or clarity.

Many of the references listed in the endnotes may be useful to you for further research and study.

So, go ahead—take a deep breath and dive in. I believe you'll find it worth your time to come up with a solid plan to "redeem" your retirement.

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[1] To see a classic Ed Grimley skit where his dreams to be a contestant on the TV show *Wheel of Fortune* (he's a big fan of the show and its host, Pat Sajak) appear to come true: https://www.nbc.com/saturday-night-live/video/the-contestant/2872683. His neurotic hysteria is on full display.

[2] Transamerica Center for Retirement Studies, "19th Annual Transamerica Retirement Survey: A Compendium of Findings About U.S. Workers," https://www.transamericacenter.org/docs/default-source/retirement-survey-of-workers/tcrs2019_sr_19th-annual_worker_compendium.pdf.

[3] Monique Morrissey, "The State of American Retirement Savings," The Economic Policy Institute, December 2019, https://www.epi.org/publication/the-state-of-american-retirement-savings/.

[4] This calculation is based on yearly withdrawals in the 4 to 5 percent range.

Chapter 1

WHAT IS "REDEEMING" RETIREMENT?

The movie *The Shawshank Redemption* (1994) is one of the most popular of all time. Its appeal has a lot to do with how the characters, who are inmates at Shawshank prison (one falsely accused and convicted), find solace and eventual redemption through the bond of friendship and acts of common decency. In other words, they "redeem" their human dignity in the harsh confines of the penitentiary. Their ultimate redemption comes when their freedom is restored. Red is paroled, and Andy's claims of innocence are vindicated.

In its most basic form, to redeem something can be defined as the act of buying or gaining something back. It typically involves going from one condition to another, often by repairing or restoring what has been lost; or rescuing something threatened. For Andy in *Shawshank*, redemption was to have his innocence proven, leading to his release from prison.

I chose "redeeming retirement" for this book's title as I wrote it for those who have fallen behind with their planning and preparations and find themselves ill-prepared for retirement. It's about the things they can do to move from a less-than-desirable financial condition to a better one, so they can "retire with dignity."

Well-known author, radio personality, and entrepreneur Dave Ramsey describes retiring with dignity as being able to retire with sufficient financial independence and security. He alludes to this in his book, *The Total Money Makeover*, where he wrote, "You need to reach the point where your money works harder than you do. . . You want to reach your golden years with financial dignity. That happens only with a plan."[1]

Dave points out that achieving financial independence and security also means you can transition to something you want to do rather than working for a living, something God has designed you to do in retirement. Ramsey suggests you might "write a book, design churches, or spend time with your grandkids."[2] Those are just a few options; the list is endless.

For author and financial advisor Ron Blue, financial independence "means that you have the resources necessary to generate enough income in retirement to fund all your short-term spending needs over an extended period."[3] Simply put, you can pay the bills in retirement, hopefully with a little to spare.

More Than Baby Steps

You may be familiar with the baby steps Dave Ramsey teaches as part of his Financial Peace University (FPU) curriculum. The interesting thing about his baby steps is that they aren't baby steps at all. They're not like the advice Dr. Leo Marvin (Richard Dreyfus) gives his new patient Bob (Bill Murray), along with his brand-new book called *Baby Steps*, in the classic comedy movie *What About Bob?* The conversation goes like this:

Dr. Marvin: "It means setting small, reasonable goals for yourself. One day at a time, one tiny step at a time—do-able, accomplishable goals."

Bob: "Baby steps."

Dr. Marvin: "When you leave this office, don't think about everything you have to do to get out of the building, just deal with getting out of the room. When you reach the hall, just deal with the hall. And so forth. Baby steps."

This movie is one of my favorite older comedies. It's zany and just a little dark. "Baby steps" may have helped Bob a little (if only to make him *think* he was making progress), but taking the right steps can undoubtedly lead to desirable changes in any area of one's life (finances, weight loss, career, and relationships, to name a few). Bob and Dr. Marvin eventually figure things out. Still, it took Bob blowing up the doctor's lakefront vacation home with explosives, which Dr. M intended

for him, to finally get the good doctor's attention. Sometimes, you have to go big or go home. Or, in Bob's case, he went big (unintentionally, of course) by blowing up Dr. M's home.

Dave's FPU baby steps include things like "pay off all debt except your mortgage." For most people, that's not a baby step. It's a giant leap —it can take five or ten years to complete—and progress comes little by little. In this book, the things we'll look at to help you achieve financial dignity in retirement are not baby steps either. They'll probably require decisive, consistent action and may require some pretty big steps on your part.

If you've fallen behind in planning for retirement, I want to remind you of this single, unalterable truth: If you don't take care of funding your retirement, no one is likely to come to your rescue—not the government, your family, or your friends. Sure, you may get help here and there, but it may not be enough to retire at the level of financial independence and security you need. And even if you do, that probably isn't the solution you prefer.

What If You Didn't Plan?

There are hundreds and perhaps thousands of books that tell you how to prepare for retirement. I have read many of them; I even wrote a couple.

But what if you're fifty-years-old and failed to complete your assigned reading? What if you didn't plan, or didn't plan well? Perhaps you neglected to take certain baby steps when you were younger and now realize you must take some big ones to redeem your retirement. Or maybe you were busy working and raising a family, serving in your local church and community, taking care of sick parents, or dealing with a chronic illness. You may have been employed by a company with a not-so-great retirement plan or no plan at all.

If so, you're not alone.

As Ramsey also points out, many people don't know if they can retire with a modicum of independence and security. "Not only have we not done anything about retiring with dignity, we have lost hope it's even

possible."[4] Ramsey wrote those words in 2003, but sadly they are still valid for many people today.

Chris Hogan references the same issue when he writes, "Now you're facing retirement years with a lot less money in the bank than you planned. There's no way you'll be able to do the things you've imagined."[5]

Hogan encourages those who find themselves in that situation not to give up. As he explains, "You can't change the past, but you can change your future. And you can start those changes right now. I can't guarantee making these changes will put you on easy street, but they may allow you to retire comfortably and with dignity."[6]

A "Redeemed" Retirement

Most people retire, either by choice or not, and want to do so with some level of financial dignity. But your "redeemed retirement" will look different from someone else's.

For some, that means being able to take care of their essential needs: food, clothing, shelter, transportation, and healthcare for as long as they live. Others will want at least a little more. They may want to maintain a middle- or upper-middle-class lifestyle, perhaps with a little extra for an occasional splurge. Many also want to be generous and share with others —their families, friends, churches, charities, and the needy—perhaps even more so than before they retired. You may have heard Dave Ramsey's oft-quoted phrase, "If you will live like no one else, later you can you can live (and give) like no one else."

If your primary goal is not to have to work for pay, you need a plan to get there. It'll take some combination of Social Security (which replaces only 30 to 40 percent of pre-retirement income for most middle-income earners) and personal savings, perhaps supplemented with a pension (although less than 20 percent of companies still offer them), or an income annuity.

Research studies and surveys of retirement readiness are all over the map regarding the general population's retirement readiness. As we discussed previously, some suggest many will live in poverty; others are more optimistic. Despite mixed signals, I think it's fair to say many retirees will have a "retirement income gap" (RIG). A RIG (which is the

first of many catchy acronyms I'll use in this book) means you'll have a shortfall in the income you need to retire with financial dignity. At that point, it doesn't matter what all the research says; it's your situation that matters. The sooner you know you're headed toward a RIG, the better able you'll be to do something about it. Even if your time to retirement is short, you'll still need a plan to close your income gap.

Looking Ahead

I don't intend to shame you or play the "they told you so" card. There are a lot of good reasons you may be behind in saving for retirement. But if you've made it to your 40s, 50s, or 60s with little savings, you may be fearful. Maybe that's why you're reading this book. Still, it's not my purpose to scare you into doing something about your retirement. There's already too much fear-mongering by the media, financial professionals, and government bureaucrats about the so-called "retirement crisis," no matter how real or contrived.

Chris Hogan wrote this about fear and finances in retirement: "Fear is a real thing. . . [I]t is often the first sensation we feel when we take an honest look at our planning and dreams for retirement. We end up asking . . . what if we outlive our money in retirement?"[7] The fear of running out of money before we run out of life is genuine for many, but it can also prompt us toward decisive action. "Bad fear" distracts and paralyzes; "good fear" motivates for action. While acknowledging fear as a great motivator, Hogan reminds us "it won't keep you motivated and focused over two, three, or four decades of working and saving. . . Fear may be an effective motivator, but it's a terrible master."[8] I agree.

If you've read Ramsey's and Hogan's books and others' but still wonder if you'll ever be able to retire with confidence, this book is for you. I will spare you a lot of inspirational platitudes and instead offer you hope in the form of helpful information and detailed practical guidance. (And, I should remind you again, as I forewarned you in the introduction, there will be math, but most of it will be in the form of simple calculations you can do with a smartphone app or online calculator.)

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[1] Dave Ramsey, *Total Money Makeover: A Proven Plan for Financial Fitness* (Nashville: Thomas Nelson, 2009), 152.

[2] Ibid., 152. (Ramsey thinks work is optional in retirement. That is an accurate statement. But if you have financial independence, and since he's referring to work-for-pay, I believe some productive activity should be part of everyone's retirement if at all possible.)

[3] Ron Blue, *Master Your Money: A Step-by-Step Plan for Experiencing Financial Contentment* (Chicago: Moody Publishers, 2016), 29.

[4] Ramsey, *Total Money Makeover*, 153.

[5] Chris Hogan, *Retire Inspired: It's Not an Age, It's a Financial Number* (Brentwood, TN: Ramsey Press, 2016), 17.

[6] Chris Hogan, "How to Enjoy Retirement with a Small Nest-Egg," https://www.chrishogan360.com/retirement/how-to-enjoy-retirement-with-a-small- nest-egg

[7] Hogan, *Retire Inspired*, 17.

[8] Ibid., 18-19.

Chapter 2

WE'VE GOT SOME CHALLENGES

The biggest challenge in retirement planning may be that your retirement could last a long time. Your initial reaction may be, "Yeah, bring it on; I'll have an extra helping of that!" But extra helpings may come with some financial heartburn.

Most retire by age 65 and live two or three decades beyond. The longer you live, the greater the financial uncertainty. Planning involves lots of variables, and few are constant or predictable.

The problem current and future retirees need to solve is funding a possibly long and uncertain time in retirement. Solving this problem is a major lifelong undertaking. It requires thoughtful planning throughout our lives and wise decision-making as we get closer to retirement and during retirement itself.

Yogi Berra once said, "It's tough to make predictions, especially about the future." Because we can't predict anything with absolute certainty, we have to make certain assumptions. Those assumptions can be factored into a plan, though it may lack absolute certitude.

This set of unpredictable variables includes our income before retirement, the value of our portfolio at the start of retirement, market returns, the volatility of those returns, inflation, life expectancy, healthcare costs, and, most importantly, our lifestyle spending in retirement. There are also unplanned financial surprises we all have to deal with. But just because we can't predict all these things doesn't mean we can't come up with a reasonable plan. By that, I mean one likely to help you meet at least your essential spending needs for a lifetime.[1]

Basic Retirement Equation

Funding retirement is, in some respects, a basic equation: income must at least equal expenses. It's a basic accounting principle you didn't need to purchase this book to learn about. I bring it up because it's a challenging equation to solve in retirement.

We'll look at both sides of the equation in this book. Not to over simplify—it's a complex problem. But for most of us, solving it will involve combining Social Security and retirement savings to provide the income we need to meet our retirement expenses. Others fortunate enough to have pension income will need less.

The problem is that fewer of us have pensions. Furthermore, personal saving rates, current savings account balances, and Social Security benefits will fall short of what many will need to fund a life in retirement equivalent to their pre-retirement lifestyle. Plus, many haven't done the math and, therefore, don't understand and appreciate the challenges they face.

I'm not suggesting you've stumbled through life oblivious to these challenges. Most people know they need to prepare but haven't dug into the details. Or, they say to themselves, "I'll get to it someday, when . . . [fill in the blank]." Then life gets in the way. Well, if that's you, let this be the day you start to assess, plan, and act.

Challenges We Face

If you understand the challenges and issues involved, you'll be better able to understand the actions you need to take. Sure, you can't control everything, but that doesn't mean there aren't things you can do in your situation to increase the likelihood you can reach your goals.

We're living longer.

"Live long and prosper," the Vulcan salutation popularized by Mr. Spock (played by Leonard Nimoy) of *Star Trek* fame, is an old Jewish religious blessing.[2] (Who knew Spock was Jewish? Actually, Spock wasn't, of course, but Nimoy was, and quite outwardly, which is reportedly one reason he based the Vulcan salute on that phrase.)

Nimoy's character Spock lived to age 162, but a Vulcan's life expectancy was 200 years.[3] Perhaps a long life and financial prosperity are linked because the former requires at least some of the latter.

Average lifespans in the U.S. continue to increase. Most of us will retire around age 65, but a fourth of us will live into our 90s. The Social Security full retirement age (FRA) ranges from age 65 to 67.[4] I derived Table 1, below, from the Social Security Actuary Life Table as of 2016.[5] I've listed the average life expectancies for men and women aged 35 to 70 (in five-year increments).[6]

Age	*Male*	*Female*
35	78	82
40	79	82
45	79	83
50	80	83
55	81	84
60	82	85
65	83	85
70	84	87

Table 1: Social Security Actuarial Life Expectancies

As you can see, average life expectancies for both men and women in these age groups are in the high 70s to low 80s and increase with age. (On average, a 50-year-old female will live to age 83, but at age 60, her actuarial average rises to age 85.) The life expectancy of a 60-year-old male is 82, which is an average. The average isn't so bad, but if you're hoping for 90 or 100, remember, as *Good to Great* author Jim Collins says, "By definition, it is not possible for everyone to be above the average."

Although some will die younger, this implies many of us will live longer, perhaps well into our 90s. Some may even make it to 100!

Someone who retires at age 65 and lives to age 95 will spend thirty years in retirement, almost as much time as they spent working!

Although most of us won't make it to age 90 or 100, we all still face the same dilemma: do we plan as though we'll live a long time or not? Well, wisdom says we should unless we have good reasons to think otherwise. If we die sooner, our retirement will be shorter and, so, less costly. But I don't think assuming (or hoping) you'll die before your money runs out is a wise retirement plan. Better to prepare for a long retirement and leave a little money on the table than to plan for an average one and die broke.

Except for those who retire early, most will need to work and save for about 35 to 40 years to fund 20, 30, or 40 years in retirement. Our challenge is to earn enough in the first 35 years to pay for our living expenses and sock away enough savings to fund the last 35 years. Remember, you don't have to save everything you'll need in retirement. You just need to save, and then grow by investing, enough to supplement Social Security to cover your expenses. A fortunate few, especially government employees, will be helped by a pension.

Fewer of us have pensions.

Retirees used to have Social Security and a defined-benefit plan (a.k.a., pension) to fall back on in retirement.[7] Social Security is still around, but pensions are becoming scarce; they've gone the way of the necktie and wingtips as a staple in corporate America. Both public and private companies used to offer pensions to employees who worked 20, 30, or 40 years. Those who worked for GE, AT&T, or IBM for 35 years could retire, but the company kept sending them paychecks for the rest of their lives. Based on Bureau of Labor Statistics, in 2019, only 16 percent of private industry workers had access to a defined-benefit (pension) plan.[8] That's down from 35 percent in the early 1990s. The percentage is much higher for government workers (86 percent).[9]

Access to such plans will continue to decline as the strategy of most companies is to reduce their defined-benefit (D.B.) plans (pensions) and increase their defined-contribution (D.C.) plans, such as 401(k)s.[10] They're shifting a more significant part of the financial burden from themselves to their employees. The main reason is increasing longevity.

As Jane Austen wrote in *Sense and Sensibility*, "People always live forever when there's an annuity to be paid them." Well, maybe not forever, but I think you get the point.

Employee participation in these D.C. plans has increased, but many do not take full advantage of their employer plans. Without traditional pensions to fall back on, they'll have to create their own, which is what planning, saving, investing, and creating a retirement income plan are all about.

Inflation and healthcare costs will take a big bite out of savings.

Because it insidiously erodes purchasing power over an extended period, inflation is a bigger problem in retirement than many realize. At an average inflation rate of 2.5 percent per year, living costs will double in about 28 years. If you estimate the need for a total annual income of $45,000 per year at age 65, you'll need almost twice as much ($90,000) to support a comparable lifestyle at age 90, though admittedly your lifestyle will be very different.

In the first (and in my opinion, best) Indiana Jones movie *Raiders of the Lost Ark*, during a scene in a Cairo marketplace that starts as not-so-romantic dates and end up with Ninjas, Indy's whip, and some roof-jumping, Marion (Karen Allen) remarks to him, "You're not the man I knew ten years ago." He responds as only Indy can (in a somewhat patronizing way), "It's not he years, honey, it's the mileage."

If you're as adventurous as Indy—with the "extra miles" it brings—your "parts" may also wear out sooner than expected. To make matters worse, healthcare costs (Medicare and supplemental insurance premiums, copays, and deductibles), which Fidelity Investments estimates will average over $200k per person during retirement, increase at a higher rate.

Most retirees will have Medicare insurance. Some inaccurately assume Medicare will cover 100 percent of their medical expenses at little or no cost to them. Medicare Part A is free for most people over age 65, but Part B isn't.[11] Neither are Medicare "Advantage Plans" (Part C), Medicare supplemental plans ("Medigap" policies), or prescription drug

plans (Part D).[12] Those with these supplemental plans will pay premiums and may still have some out-of-pocket expenses.

Inflation also affects our savings. If you earn 5 percent a year on your investments, that's your *nominal* (i.e., before inflation) return. If inflation is 2.5 percent, your *real* return is only 2.5 percent. That's better than inflation, but not by much. With lower yields, higher fees, or greater inflation, you could end up with minimal or even negative returns.

It's very tempting to start Social Security benefits early.

A recent Gallup Poll reported that 57 percent of current retirees consider Social Security a "major source" of income, and 33 percent say it's a "minor source." Among future retirees, 33 percent say it will be a "major source," and 50 percent say it will be a "minor source."[13] Therefore, it would be reasonable to say that over 80 percent of current and future retirees rely on Social Security for part of their retirement income. Those in lower-income brackets will depend on it more, solely perhaps.

Most don't fully understand the program. About three-fourths of Social Security recipients don't know their "full retirement age" (FRA), and 38 percent don't realize they'll receive a permanent reduction in benefits if they claim them early.[14] Almost 4 in 10 pre-retirees who want to claim early think their benefits will automatically increase when they reach FRA.

The more dependent on Social Security you are, the more critical it is to understand these provisions and maximize your benefit. You can withdraw benefits at age 62 (what I call the "take the money and run" strategy), but if your FRA is 67, the Social Security Administration (SSA) will reduce your benefit by 30 percent. That means you (and perhaps your survivor) will receive a reduced benefit for the *rest of your lives*.

The Center for Retirement Research at Boston College found that 42 percent of men and 48 percent of women elect to receive Social Security retirement benefits starting at age 62.[15] Also, 14 percent of men and 16 percent of women claim benefits between age 62 and their FRA. Doing this results in the smallest possible annual benefit. The reasons for this trend aren't obvious. As the Boston College study explains, "The question

is whether this decision appropriately reflects the individual and family circumstances of these individuals or whether they are making a mistake."[16] I imagine it's both.

Some people need early benefits because they are forced into early retirement or can't work. Others do it for the extra income while still working. No matter why, receiving early benefits may be desirable in the short-term, but it carries significant negative long-term implications. Not only do early benefit recipients see their payments permanently reduced for the rest of their lifetimes, but they also forfeit the benefit increases they would have received for each year they postponed past their FRA, up to age 70. (For someone with an FRA of 67, it's a 24 percent increase.) And because benefits are adjusted annually for inflation, they don't benefit as much for all those years.

It's hard to make retirement savings last a lifetime.

Almost half of all Americans approaching retirement don't take the time to analyze how much they need to generate a lifetime retirement income. Instead, they guess how much to draw down their retirement savings. Statistics show many start out withdrawing too much from their savings, jeopardizing their income's long-term sustainability.

Unlike Social Security, 401(k)s and IRAs are accounts with actual money we can draw from at will. Because they are savings accounts, they continue to grow as we (and sometimes, our employers) add money to them, and our investments in things like stocks and bonds keep growing on their own. How much you'll have will depend on your savings rate, savings balance, company contributions, time frame, and investment performance when you retire.[17]

After the saving (accumulation) phase, you enter the withdrawal (distribution) phase. That involves setting up an income stream to last as long as you do. It may sound easy, but it's one of the more challenging aspects of retirement planning. Withdraw too little, and there will be less money to enjoy (and there may not be enough to live on). If you spend too much too fast, and you could deplete your savings much sooner than expected.

Many experts say if we withdraw much more than 4 percent of our savings each year, we risk running out of money before we die. Financial and retirement professionals refer to this as "longevity risk"—the risk we'll last longer than our savings do.

We also have to contend with market volatility. If we have a losing year (and there will inevitably be some), we lose money while also spending from our portfolio. We refer to this as "sequence of returns risk." [18] Losses early in retirement do more damage than later on because you are drawing from your portfolio and have less capital to compound over time.

Before retirement, you aren't too concerned about the sequence (or order) you get your returns. It doesn't matter if you have one positive, two negatives, and one positive, or two positives and two negatives—the result is the same. But what if you're taking withdrawals early in retirement during negative return years? That has the opposite effect of compound interest. Each withdrawal is negatively–compounded because your returns are negative, which means you'll deplete your savings faster. Hence, the sequence of returns *risk*.

It's important to note that nobody can tell you precisely how long your savings will last. If your financial advisor claims he can and breaks out a crystal ball, politely end the meeting. No matter how sophisticated their calculations, retirement planning is an inexact science. As we've discussed, there are so many variables involved—investment returns, inflation, and unforeseen expenses—and all can affect how long your savings last.

Biggest Challenge

I started this chapter by saying that generating enough income to meet your essential living expenses (at a minimum) while ensuring the income lasts for your lifetime *and* keeps up with inflation isn't easy. That's daunting, but it isn't necessarily the biggest challenge. The greatest is to resist becoming overly preoccupied with, or overwhelmed by, retirement planning and giving up and resigning yourself to decades of struggle. Instead, the goal is to move forward by doing something with whatever time, abilities, and resources you have.

We all know that change can be hard. As Dave Ramsey writes, "Change is painful. Few people dare to seek change. Most people won't change until the pain of where they are exceeds the pain of change."[19] Are you feeling some pain? I own a bottle of hot sauce called "Pain is Good." You may not think that's true for hot sauce, but if your concerns about retirement lead you to act, that's good.

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[1] "Likely" in this case doesn't mean 100 percent certainty. A reasonable probability is in the 75 to 95 percent range. That probability, when subtracted from 100 percent, is also sometimes referred to as the "probability of ruin." That's strong language, but I think you get the point. If your savings have a survival probability of 95 percent, your "probability of ruin" is 5 percent.

[2] Deut. 5:33: "Stay on the path that the LORD your God has commanded you to follow. Then you'll live long and prosperous lives in the land you're about to enter and occupy."

[3] Fandom, "Memory Alpha," https://memory-alpha.fandom.com/wiki/Spock#Involvement_in_the_alternate_reality.

[4] The Social Security Administration defines "full retirement age" (FRA) as the age you are entitled to full benefits. If you receive benefits before your FRA, they'll be permanently reduced. But, if you delay taking your benefits from your full retirement age up to age 70, your benefit amount will increase.

[5] Social Security, Benefits Planner, "Full Retirement Age," https://www.ssa.gov/planners/retire/retirechart.html. (There's some likelihood the government will increase the FRA in the future, perhaps as high as age 70.)

[6] Social Security, "Actuarial Life Table," https://www.ssa.gov/oact/STATS/table4c6.html.

[7] Defined benefit plans provide a fixed, pre-determined retirement benefit for employees. Employers, rather than employees, generally contribute (and can therefore deduct for tax purposes) to these plans.

[8] U.S. Bureau of Labor Statistics, Databases, Tables & Calculators by Subject, "National Compensation Survey-Benefits," https://data.bls.gov/timeseries/NBU11900000000000028290.

[9] Ibid.

[10] Defined contribution plans are a type of employer-sponsored retirement plan typically funded by contributions from both employers and employees (unlike "defined benefit plans," which are funded by employers Examples are 401(k) and 403(b) plans.

[11] You could get premium-free Part A benefits at age 65 if you or your spouse worked and paid Medicare taxes for at least ten years. The standard Part B premium amount is $148.50 in 2021. You pay more if your modified adjusted gross income (MAGI) reported on your IRS tax return from 2 years ago is above a certain amount. (Source: Medicare Costs, https://www.medicare.gov/your-medicare-costs/part-b-costs.)

[12] To get a full description of Medicare and its various plans and what they cover, go to: https://www.medicare.gov/what-medicare-covers.

[13] Gallup, "Social Security," https://news.gallup.com/poll/1693/social-security.aspx.

[14] Fidelity Investments, "Fidelity Survey Finds More Americans Waiting Later to Claim Social Security," https://www.fidelity.com/about-fidelity/individual-investing/2017-social-security-survey.

[15] Alicia H. Munnell and Anqi Chen, Center for Retirement Research, Boston College, "Trends in Social Security Claiming," http://crr.bc.edu/wp-content/uploads/2015/05/IB_15-8.pdf.

[16] Ibid.

[17] Although most people focus on their investment strategy, studies have shown that how much you save and how soon you start are of greater importance.

[18] Sequence risk is the risk that you retire during a period of poor market returns. It has a "double whammy" effect such that your savings go down in value at the same time you start drawing down your portfolio. An extended market downturn can have a dramatic long-term negative impact on the longevity of your portfolio, and therefore your retirement income.

[19] Ramsey, *Total Money Makeover*, 15.