Retire on Purpose

A Framework to Build Retirement Income While Also Leaving a Legacy.

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Introduction

Welcome to "Retire on Purpose," a guide designed to help you navigate the often complex journey of retirement income planning and provide actionable strategies to secure your financial future and help you become the CEO of your financial life.

As a financial advisor, I have worked with many individuals and families from diverse backgrounds. Each shared a common goal: to achieve a comfortable and worry-free retirement. The most successful retirees had a plan and, most importantly, followed that plan with discipline and adaptability. They understood that a well-crafted retirement plan goes beyond merely accumulating assets; it involves a holistic approach that focuses on converting those assets into reliable income streams while minimizing tax burdens and managing risks.

Why This Book?

Retirement planning is much more than just saving enough money. It's about building a life post-career that is as fulfilling and purposeful as the years spent in the workforce. In "Retire on Purpose," we move beyond traditional retirement planning that focuses solely on numbers. Instead, we explore a holistic approach that integrates financial security, health care, lifestyle choices, and legacy building, ensuring a well-rounded and satisfying retirement.

This book is a culmination of my passion for teaching and my hope to spread the possibility of retirement freedom to as many people as possible. There's a tremendous satisfaction in seeing someone gain clarity and confidence about their financial future, just like when I learned the lessons I will be teaching you in this book. While my professional life is dedicated to helping individuals and families navigate their financial paths, time and capacity limit the number of people I can assist directly. This book is my attempt to bridge that gap, offering a starting point on your journey to a successful retirement.

Through the chapters of this book, I hope to provide you with insights and strategies that are easy to understand and implement. My goal is to demystify retirement planning, making it accessible to anyone willing to learn and take action.

What You Will Learn

This book is structured to take you through a step-by-step process of creating a dynamic and robust retirement plan. Here's what each section covers:

Section 1: Retirement Reality Check In section — 1, I discuss some challenges you will face on your retirement journey. This section is mostly about shifting your mindset around retirement planning.

Section 2: A Comprehensive Retirement Income Plan — Dive into the core of retirement planning with strategies to determine your financial status, maximize income, minimize taxes, and invest wisely to ensure your financial base is as strong as possible.

Section 3: Securing Your Future — This section Addresses critical aspects of healthcare planning and estate management, helping you safeguard your health and ensure your legacy is managed according to your wishes.

Section 4: Application — This final section reinforces the importance of an integrated approach to retirement planning and encourages readers to actively manage and refine their strategies to achieve a successful and fulfilling retirement.

Who Should Read This Book?

"Retire on Purpose" is for anyone who wants to take proactive steps toward crafting a fulfilling retirement. However, you would see the most benefit if you are within a 10 – 15-year window to retirement or about five years into retirement. If you have a longer time horizon or are further into retirement, you would have to adjust the plan a little to fit your current needs.

My Promise

By the end of this book, you will understand what it takes to plan effectively for retirement and be equipped with the knowledge to adapt and refine your plan as your life and the world around you change. Retirement is one of life's significant transitions, and it should be approached with thoughtfulness and intent — a purpose this book aims to serve.

Remember, this book is not the final word on retirement income planning. The financial landscape constantly evolves, and your circumstances will change over time. Consider this book as a starting point on your journey to a successful retirement. Use it to build a strong foundation, and don't hesitate to seek further advice and education as you progress.

I encourage you to approach this book with an open mind and a willingness to learn. Take notes, ask questions, and, most importantly, take action. Your future self will thank you.

Now, let's embark on this journey together. The road to a secure and fulfilling retirement starts here.

SECTION 1

Retirement Reality Check

Section 1 of "Retire on Purpose" provides a foundational understanding of the financial challenges that retirees face today. It underscores the need for a comprehensive retirement plan that protects and maximizes retirement income. Through a detailed exploration of the risks associated with retirement and common investment mistakes, this section prepares you to approach retirement planning with a more strategic and informed mindset.

Chapter 1: Risks to a Retiree's Dream Retirement

This chapter delves into the various risks that threaten the stability and longevity of retirement income. It covers key areas such as the sequence of return, interest rate, market, tax, and longevity risks. Longevity risk is highlighted as a central theme that compounds the effects of other risks, emphasizing the importance of planning for a more extended retirement period than one might expect. The chapter aims to equip readers with the knowledge to recognize these risks and their potential impacts on retirement plans.

Chapter 2: Common Investor Mistakes

This chapter explores frequent missteps investors make that can undermine their retirement savings. It addresses the pitfalls of trying to outperform the market, the dangers of panic selling during market downturns, and the lack of a unified investment strategy. The chapter aims to guide readers toward more prudent and effective investment strategies that support long-term retirement goals by highlighting these common errors and providing insights into how they can be avoided.

Purpose of the Section

Section 1's primary purpose is to shake the reader out of complacency regarding retirement planning by presenting the realities and risks upfront. It challenges common preconceptions and encourages a mindset shift towards more proactive, strategic retirement income planning. The insights and examples provided are designed to prompt readers to critically evaluate their current retirement strategies and recognize areas where they may be vulnerable to everyday risks and mistakes.

By the end of this section, readers should feel better equipped to reassess their retirement plans, recognize potential risks, and avoid common pitfalls that could derail their financial security in retirement.

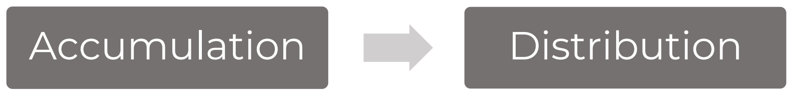
Chapter 1

Risks to a Retiree's Dream Retirement

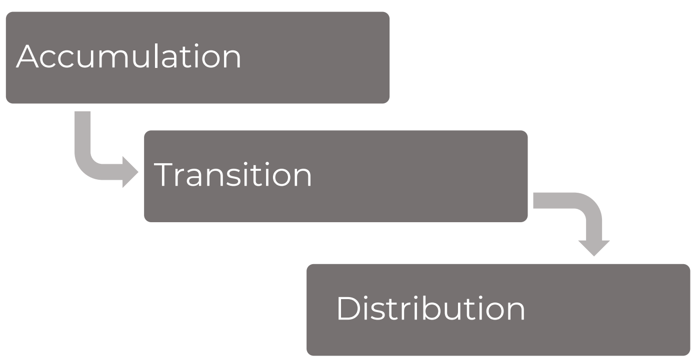
Retirement is often envisioned as a time to relax and enjoy the fruits of a lifetime of hard work. However, to truly enjoy this period without financial stress, it's crucial to understand and manage the various risks that can threaten your retirement income. These risks can significantly impact your financial stability and overall quality of life.

Before discussing those risks, educating you on the money cycle is essential. Understanding The Money Cycle will help you see where these risks fit in and, most importantly, how to mitigate them.

Most people would describe retirement planning in two phases: The accumulation and distribution phase. You spend your working years accumulating assets, saving, and investing until you retire. You enter the distribution phase when you spend the rest of your years taking distribution and spending down the money you saved.



If you did an excellent job at saving and investing, you could live out the rest of your years on the income the money produced and even have enough to leave to your heirs. However, if you did a poor job, you might have to work longer than you originally intended or run out of money and return to work.



We add a transition phase to the money cycle in our planning process. The transition or buffer phase allows you to step back to position your money for the distribution phase. This staging of assets enables you to reposition the assets you need in the earlier years of retirement to a safer asset or income producing asset.

Sequence of Return Risk

The sequence of returns refers to the rate of return on your investments. This is often misunderstood because it has different effects depending on The Money Cycle. That's why we started with making sure you understood this cycle. During the accumulation phase, the sequence of returns isn't as important because the ending balance will be the same.

Sequence of Return Risk
(During Accumulation)

Starting with $100,000 deposit

Year	Rate of Return	Ending Value
1	30%	$ 130,000.00
2	25%	$ 162,500.00
3	20%	$ 195,000.00
4	15%	$ 224,250.00
5	10%	$ 246,675.00
6	10%	$ 271,342.50
7	15%	$ 312,043.88
8	-20%	$ 249,635.10
9	-25%	$ 187,226.33
10	-30%	$ 131,058.43

Year	Rate of Return	Ending Value
1	-30%	$ 70,000.00
2	-25%	$ 52,500.00
3	-20%	$ 42,000.00
4	15%	$ 48,300.00
5	10%	$ 53,130.00
6	10%	$ 58,443.00
7	15%	$ 67,209.45
8	20%	$ 80,651.34
9	25%	$ 100,814.18
10	30%	$ 131,058.43

The rate of return has been dramatically exaggerated for illustration purposes

From the examples above, we started with a $100,000 balance and inverted the investment returns over a ten-year period. If you notice, the balance is the same.

However, this only turns out to be valid during the accumulation of assets. The sequence of returns has a much more pronounced effect on the investment balance during the distribution phase. Receiving lower or negative returns early in retirement can severely impact the longevity of your savings. Even if the average returns over the long term are the same, poor returns in the initial years can deplete your savings faster than anticipated.

Sequence of Return Risk

(During Distribution)

Starting with $100,000 deposit and withdrawing $6,000 a year

Year	Rate of Return	Beginning Value	Withdrawal	Ending Value
1	30%	$ 130,000	$ 6,000	$ 124,000
2	25%	$ 155,000	$ 6,000	$ 149,000
3	20%	$ 178,800	$ 6,000	$ 172,800
4	15%	$ 198,720	$ 6,000	$ 192,720
5	10%	$ 211,992	$ 6,000	$ 205,992
6	10%	$ 226,591	$ 6,000	$ 220,591
7	15%	$ 253,678	$ 6,000	$ 247,679
8	-20%	$ 198,143	$ 6,000	$ 192,143
9	-25%	$ 144,107	$ 6,000	$ 138,107
10	-30%	$ 96,675	$ 6,000	$ 90,675

Year	Rate of Return	Beginning Value	Withdrawal	Ending Value
1	-30%	$ 70,000	$ 6,000	$ 64,000
2	-25%	$ 48,000	$ 6,000	$ 42,000
3	-20%	$ 33,000	$ 6,000	$ 27,000
4	15%	$ 31,740	$ 6,000	$ 25,740
5	10%	$ 28,314	$ 6,000	$ 22,314
6	10%	$ 24,545	$ 6,000	$ 18,545
7	15%	$ 21,327	$ 6,000	$ 15,327
8	20%	$ 18,392	$ 6,000	$ 12,392
9	25%	$ 14,871	$ 6,000	$ 8,871
10	30%	$ 11,532	$ 6,000	$ 5,532

The rate of return has been dramatically exaggerated for illustration purposes

Consider two retirees, Alice and Bob, who are starting retirement with $100,000 and planning to withdraw $6,000 annually. Suppose Bob experiences a market downturn in the first few years while Alice experiences positive returns. In that case, Bob's portfolio might suffer significantly more, even if long-term returns are identical. This happens because withdrawals during down markets lock in losses, making it harder for the portfolio to recover.

In the example above, Bob's account has a double negative because she is experiencing an adverse market and has to withdraw money to survive.

Going back to The Money Cycle, we started off the chapter with. We added a transition phase in that money cycle. During this transition phase, we will fund a volatility buffer account. This volatility buffer account would have saved Bob in this situation because he wouldn't have to tap into his accounts during adverse market conditions; he would be receiving income from the money in the volatility account.

We, as investors, have no control over, nor can we predict, what the stock market will do. However, by understanding the sequence of return risk and the risk it poses during the distribution phase of The Money Cycle, we can create a strategy that can withstand market fluctuations, especially during the initial retirement years.

Interest Rate Risk

Interest rates are some of the least understood areas of finances because we usually only pay attention to them when getting a loan. We know that typically, the higher our credit scores, the lower our interest rate, thus leading to a lower payment and lower overall repayment amount. What's often overlooked is how these interest rates might affect us in retirement. In this case, the person can look at the rate and decide whether or not to take out a loan. However, the effects of interest rates on retirement are less clear-cut.

Conventional wisdom usually tells retirees to put their money into bonds the closer they get to retirement to reduce the risk or volatility in their investment portfolio. However, they often must be told about the risk interest rates might pose on their bonds.

To explore the effects of this, let's define a stock and bond. Essentially, there are two ways for a company to raise money: they can either raise money by taking on debt, which they do by issuing bonds, or they can raise money by selling shares in the company, which is considered a stock. So, if a company needs money, it can sell shares in the company in the form of stocks or borrow money in the form of a bond.

There is a direct relationship between interest rates and bond performance. Most people own bonds through bond mutual funds or ETFs. Owning bonds this way doesn't allow you to hold the bond to maturity.

While eliminating this risk in retirement may not be possible, being aware of it allows you to adjust your portfolio accordingly.

When rates are low and will increase over time, bonds of shorter durations will give you the best return over the same period. Conversely, when interest rates are high and appear to be falling in the future, you want to look at the longest bond term possible because the price of that bond would be increasing.

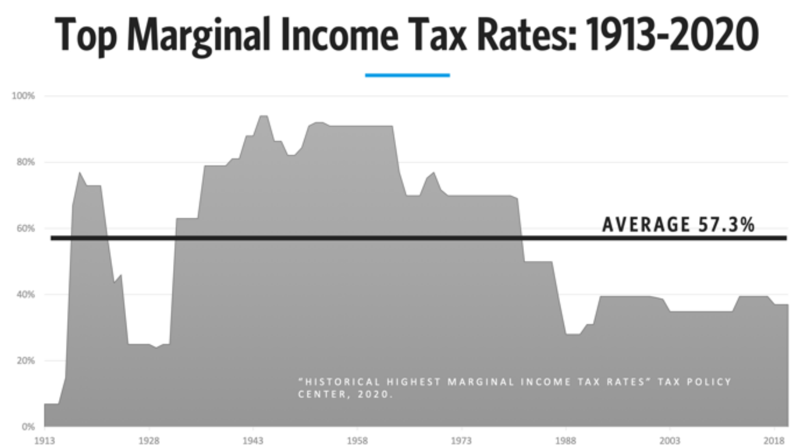
When interest rates rise, existing bonds with lower rates become less attractive, reducing their market value. New bonds are issued with higher yields, making existing bonds with lower yields less desirable. For retirees, this can mean a reduction in the value of their bond portfolio, leading to lower overall returns.

Furthermore, in a low-interest-rate environment, retirees may struggle to generate the same income from new bond investments. This can create a dilemma where safer investments do not provide sufficient income, forcing retirees to consider higher-risk alternatives, which may not align with their risk tolerance or financial goals.

Tax Risk

According to the IRS, every American has the right to pay no more in taxes than what's legally owed. However, with thousands of pages of tax instructions, it can be challenging to figure out how much taxes are owed.

Later in the book, we will discuss ways to legally reduce your tax bill, but let's consider some reasons taxes may pose a risk in retirement.



Here's a chart of tax rates going back to the 1920s. You can see that taxes were much higher then. This also illustrates how much taxes can potentially increase in the future.

As I write this book, we are over 34 trillion dollars in debt, and our congressional leaders have yet to discuss trying to cut the deficit or balance the budget.

Let's be clear: I have no idea what taxes will be in the future, and if someone definitively tells you they do, you should be wary of that person. That said, I believe taxes will have to increase to compensate for the massive government spending we've had just in the last five years.

Now that we've established why this is possible let's examine the policies that have been enacted in the past few years.

One planning strategy around estate and retirement planning was the ability for non-spouse beneficiaries of an IRA to stretch the IRA over the remainder of their lives and, if done correctly, sometimes in the lives of their beneficiaries. In 2019, they passed the Secure Act, which effectively eliminated the stretch option by requiring the beneficiaries of IRAs to withdraw the money within ten years. As small as that may seem, it changed the retirement and legacy planning landscape.

The government has floated the possibility of eliminating the long-term capital gains tax rate. If you sell a stock or bond after holding it for more than a year, the profit from the sale would be taxed at a preferential rate, thus effectively reducing your overall tax bill.

The current White House proposal would almost double the capital gains tax to 39.6% and, in some cases, up to 44.6%.

The tax implications of your retirement accounts can significantly impact how much money you have available to spend. Withdrawals from traditional IRAs and 401(k)s increase your taxable income, which can push you into a higher tax bracket, resulting in a more significant portion of your withdrawals going to taxes. On the other hand, Roth IRAs provide a tax-free source of income in retirement, offering more flexibility in managing your tax liability.

Planning for tax risk involves understanding the tax characteristics of your retirement accounts and developing a withdrawal strategy that minimizes your tax burden. This strategy may include tax-efficient withdrawals, Roth conversions, and utilizing tax-advantaged accounts to their fullest potential.

Longevity Risk

As the medical community discovers new ways to keep us alive longer, it comes with some challenges. One is trying to make your money last for as long as you are alive while leaving a legacy for your family.

That's why I call longevity risk the risk multiplier; the longer you live, the more likely you are to experience multiple market cycles, changes in interest rates, and varying tax laws. Additionally, longer lifespans mean more years of withdrawals, which increases the risk of depleting your savings. Healthcare costs also tend to rise with age, adding another layer of financial stress.

While there is no way to eliminate all risks, we can aim to transfer or reduce them. This is why we advocate for a properly structured income plan. By planning for longevity, you can ensure that your retirement savings last as long as you do, providing financial security throughout your retirement years.

In section 2, we will discuss the process of setting up an income plan, but first, let's address some of the common mistake’s investors make on their retirement planning journey.

Recap

In this chapter, we explored some of the critical risks that can threaten a retiree's dream retirement: sequence of return risk, interest rate risk, market risk, tax risk, and longevity risk. Understanding these risks and their potential impact on your retirement income is crucial for developing a comprehensive and resilient retirement plan. If not properly managed, these risks can significantly affect your financial stability and overall quality of life in retirement.

Action Steps

- ☐ Assess your current retirement plan for exposure to these risks.
- ☐ Regularly review and adjust your retirement plan to align with your goals.
- ☐ Please educate yourself about these risks and stay informed on best management practices.

ABOUT THE AUTHOR

Quincy Baynes, President of Baynes Financial LLC*, is a highly sought-after retirement income planning professional and author. He frequently speaks on personal finance, tax strategy, and retirement planning strategies.

Quincy provides comprehensive financial planning strategies to business owners and pre-retirees, aiding them in achieving total wealth optimization and reliable income sources during retirement. He utilizes a blend of standard and alternative asset classes to select the best portfolios for his clients.

With a firm belief in establishing a clear purpose for an individual's financial future, Quincy is a financial coach who optimizes current financial situations and identifies areas where money may be overlooked.

His journey began in the United States Marine Corps, where he rose to the rank of Sergeant, serving as a helicopter mechanic and Quality Assurance Representative. Quincy transitioned to the financial industry after assisting colleagues during the 2008 financial crisis. He holds a Bachelor of Science in Business with a Concentration in Finance. He is an Investment Adviser Representative (IAR) and licensed life insurance agent.