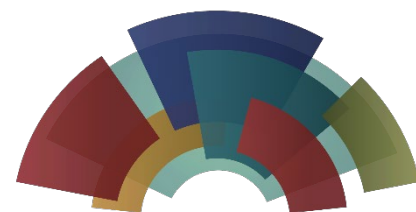




R2021-29

# RETIREMENT ISN'T FOR SISSIES

5 Crucial Rules to Building  
an Income Plan Like a Pro

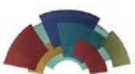


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## Contents

Rule 1: Have a Social Security Strategy.....	4
Note .....	6
Rule 2: Have a Health Care Strategy.....	7
Rule 3: Investment Strategy Recognizing Volatility .....	9
Rule 4: Have a Tax Strategy .....	11
Rule 5: Have an Estate Strategy.....	12



# YOUR RETIREMENT ROAD

Growing older requires most of us to think about the road ahead and things we have never approached before. A big one is the “R” word. Yes, retirement starts to get closer. If you have taken the time to prepare, then it’s probably an exciting time. But if you didn’t prepare, the thought of retirement can fill you with a sense of dread. I’ve created this booklet to share what I’ve learned, and hope it causes you to think about specific areas of your retirement.

As a Certified Financial Planner™, I’ve had the privilege of helping hundreds of people build retirement income plans. And in that experience, it comes down to five crucial rules that allow the best opportunity for building a successful income plan which should lead you to a happier and more successful retirement. Simply stated, the rules are to create a well-thought-out strategy (as early as possible) for navigating five crucial areas of retirement:

- Social Security
- Health Care
- Market Volatility
- Taxes
- Estates

Retirement isn’t for sissies. You have to roll up your sleeves and tackle critical areas.

I hope this booklet gives you some new information and helps you identify areas where your personal income plan may be strengthened. If it sparks any questions, or you’d like more information, you can always give me a call. I’ll be more than happy to help.

Best regards,



Craig Moser, CFP®, CRPC®  
Senior Portfolio Manager  
Maestro Wealth Advisors



# RULE 1: HAVE A SOCIAL SECURITY STRATEGY

The inflation adjusted income provided by Social Security makes it a significant retirement asset. With the decline of guaranteed pensions which had historically been a major income source, maximizing your Social Security benefits is a crucial foundation to building a successful income plan.

Social security was never designed to cover 100% of our income during retirement. The basic Social Security benefit is called the primary insurance amount (PIA), which is a function of average indexed monthly earnings for a worker. You receive your full PIA at your Normal or Full Retirement Age (FRA), which depending on your birth year, will fall anywhere from age 65 to age 67. Although you may apply for your Social Security benefits anytime between the ages of 62 and 70, if you apply earlier you will receive a reduced amount and if you delay starting your benefit you will receive a higher amount. The following table provides a brief summary of how the starting year impacts your annual benefit amount.

Normal Retirement Age		
Year of birth	Age	
	62	You will have up to a 30% reduction of your PIA benefit if you start your benefit at 62.
1937 and prior	65	Depending on your birth year this is the age you earn 100% of your PIA benefit.
1938	65 and 2 months	
1939	65 and 4 months	
1940	65 and 6 months	
1941	65 and 8 months	
1942	65 and 10 months	
1943-54	66	
1955	66 and 2 months	
1956	66 and 4 months	
1957	66 and 6 months	
1958	66 and 8 months	
1959	66 and 10 months	
1960 and later	67	Every year you delay your benefit past your PIA, your benefit will increase 8%.
	70	





The traditional way of deciding when to take benefits has been to calculate your break-even age (the age you must live beyond to actually receive your benefit from delaying your Social Security.) The month, day and year you choose to receive benefits directly impacts your overall lifetime benefit. Timing could equal a difference of \$120k (or more) in Social Security benefits:

Retirement ages considered	Break-even age	Sally's FRA on July 19, 2014	Sally pulls the trigger 6 months earlier
62 vs. 66	75	• \$1,350/month FRA	• \$1,200/month FRA
62 vs. 70	78	• Live to 100	• Live to 100
66 vs. 70	80	• 2% COLA	• 2% COLA
Note: this doesn't include factors like investment/longevity risk, inflation risk and financial risk due to death of a spouse. Considering these risks, you should try to maximize your Social Security benefits as much as possible.		• <u>\$793,713</u>	• <u>\$671,929</u>

\*FRA = Full Retirement Age

*This hypothetical example is shown for illustrative purposes only and is not guaranteed.*

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There are many factors that should be considered when determining the optimal time to start your Social Security Benefit:

- Are you Married?
- Are you Divorced or Widowed?
- Are you still working?
- What is the health of each spouse?

Because Social Security should be a guaranteed source of income for your retirement, you should take steps now to develop a strategy that best maximizes your personal need parameters. Other considerations would be the lifetime value and long-term effects if one or both spouses live a very long life, as well as what happens if one spouse passes before the other.

There are literally hundreds of different claiming strategies that will result in as many different lifetime income flows. Knowing the rules within social security and the tax implications at the time you receive your benefits can significantly impact how much this program can fuel your retirement income. Since social security is the foundation of your income plan, getting this income flow coordinated and maximized with your other cash flows is crucial to building your successful comprehensive plan.



***Note:***

We have contributed money out of our salaries and wages throughout the years into the Social Security trust with the expectation of getting a guaranteed stream of income each month for the rest of our lives. With the massive amount of post-World War II “Baby Boomers” moving into retirement, the safe and secure system we were expecting is poorly prepared to handle another 30-40 million new retirees.

Another dynamic which is a byproduct of the Baby Boomer generation is a more volatile investment environment. During those working years, you added to such investments as stocks and bonds, either directly or through mutual funds moving market prices higher. Now as you stop working, you may begin to withdraw from those same investment pools. If there are more sellers than buyers, then the value of the underlying investments logically will decline. Understanding what your cash flow needs and the impact of not only yours, but literally millions of other retirees will be on the investment markets is crucial to a happy and successful retirement.



## RULE 2: HAVE A HEALTH CARE STRATEGY

Your health is always important, but did you realize the cost of your health care may be one of your greatest expenses in retirement?

According to a 2018 Fidelity study on Retiree Health Care Cost Estimate, a 65-year-old couple who retired in 2019 should expect to spend \$285,000 in health care and medical expenses throughout retirement. For single retirees, health care cost was estimated at \$150,000 and for men at \$135,000<sup>®</sup>.

A complete health care strategy would contain provisions to meet the needs of ongoing health care and the possibility of Long-Term Care.

For ongoing health care, those retiring at 65 and beyond, your health care costs would consist of Medicare premiums, cost for a prescription drug plan and possibly a Medical supplement plan.

Medicare comes in four parts—A, B, C & D, with each part covering a different aspect of your health care costs. Parts A & B collectively are what is called Original Medicare. Original Medicare does not cover all of your health care costs. Expenses such as deductibles, co-payments, prescription drugs, and co-insurance associated with Hospitalization, doctors and tests are not covered.

**Part A** (Hospital Insurance)-**helps** with hospital expenses, inpatient services, limited stays in skilled nursing facilities, hospice care and home-health care.

**Part B** (Medical Insurance)-**helps** with doctor's services, outpatient service and other medical supplies. It also helps cover some occupational, physical therapy, home-health care, and some preventive services. Typically, the cost of your Medicare Part B is deducted from your Social Security Benefit.

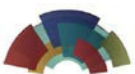
**Part C** (also known as Medicare Advantage Plans, similar to an HMO or PPO and are offered by private companies) This plan covers the same coverage as Original Medicare, but it can also offer extra benefits.

**Part D** (Prescription Drug Coverage)

**It is important to note that under our current federal tax structure, the cost you would pay for your Medicare Part B premium may increase based on your taxable income from two years prior. Another reason why understanding and managing your income strategy is important.**

If you retire prior to turning 65, health care costs can be covered in one of three ways prior to Medicare eligibility:

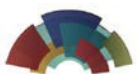
1. Group Retiree Coverage
2. Federal Exchanges – Private Insurance (The Health Insurance Marketplace)
3. COBRA – insurance continuation for a time after leaving your employer, where the premium cost is shifted from the employer to you.



Long Term Care involves a variety of services designed to meet a person's needs both short term and for a long period of time, when the person is no longer able to perform everyday activities on their own. Services help people live as independently and safely as possible. Care can be provided by family members, or paid professionals and the individual can live at home or in facilities designed to meet the needs of care over time.

The considerations and planning needed to address these potentially catastrophic costs need to be evaluated and decided upon early enough in life to have full access to all choices available to you. Evaluating the full impact of major health care event costs as early as possible, allows you to make a more informed decision.

<sup>①</sup>Source: Fidelity. "[Health Care Price Check: A Couple Retiring Today Needs \\$285,000 As Medical Expenses in Retirement Remain Relatively Steady](#)," Page 1. Accessed June 11, 2020.





## RULE 3: HAVE AN INVESTMENT STRATEGY RECOGNIZING VOLATILITY

Where social security is the foundation of your retirement income plan, it was only designed to cover about 40% of your need. Where does the other 60% come from? If you are one of the dwindling few, you may have a pension to fall back on, but for an increasing number of retirees, the shortfall must be covered by the dollars squirreled away over a lifetime—dollars saved in taxable brokerage accounts, 401k “like” accounts, IRAs and Roth accounts. Most likely these accounts are invested in a combination of stocks, mutual funds and/or exchange traded funds, collectively let’s call them Market Investments. Market Investment values vary over time and as they go up you see positive gains. When they go down, you see negative returns or losses.

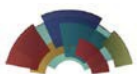
As you were accumulating money in these accounts, the market fluctuations, or ups and downs in value could be used to your advantage. When the value dropped you were able to buy more shares than before, so when the market eventually went back up you had more shares that increased in value.

The order in which you may encounter positive investment returns and negative investment returns—known as the “sequence of returns”—poses a retirement risk that you need to consider.

For example, if an investor earned an average return of 4.5%\* over an accumulation period of ten years, it makes no difference whether strong returns—or negative returns—are encountered early on. The ending values are the same.

### Sequence of Returns Using Actual Annual S&P 500 Returns

	Initial Investment				Annual Withdrawal*											
	\$500,000.00				Fixed Amount				o r				% of Prior Yr Balance			
					\$0				0.00%							
Using Actual Annual Annual Returns					Reverse Order of Actual Annual Returns				Actual Annual Returns: 1/2 upside and Zero downside				Uninterrupted Annual Returns			
	Beginning Balance	Annual Withdrawal*	Ending Value	Annual Return	Beginning Balance	Annual Withdrawal*	Ending Value	Rtns in Reverse Order	Beginning Balance	Annual Withdrawal*	Ending Value	Average Returns	Beginning Balance	Annual Withdrawal*	Ending Value	Average Returns
2000	\$500,000	\$0	\$635,000	27.00%	\$500,000	\$0	\$355,000	-29.00%	\$500,000	\$0	\$567,500	13.50%	\$500,000	\$0	\$530,000	6.00%
2001	\$635,000	\$0	\$736,600	16.00%	\$355,000	\$0	\$347,900	-2.00%	\$567,500	\$0	\$612,900	8.00%	\$530,000	\$0	\$561,800	6.00%
2002	\$736,600	\$0	\$891,286	21.00%	\$347,900	\$0	\$299,194	-14.00%	\$612,900	\$0	\$677,255	10.50%	\$561,800	\$0	\$595,508	6.00%
2003	\$891,286	\$0	\$802,157	-10.00%	\$299,194	\$0	\$350,057	17.00%	\$677,255	\$0	\$677,255	0.00%	\$595,508	\$0	\$631,238	6.00%
2004	\$802,157	\$0	\$866,330	8.00%	\$350,057	\$0	\$388,563	11.00%	\$677,255	\$0	\$704,345	4.00%	\$631,238	\$0	\$669,113	6.00%
2005	\$866,330	\$0	\$961,626	11.00%	\$388,563	\$0	\$419,648	8.00%	\$704,345	\$0	\$743,084	5.50%	\$669,113	\$0	\$709,260	6.00%
2006	\$961,626	\$0	\$1,125,103	17.00%	\$419,648	\$0	\$377,683	-10.00%	\$743,084	\$0	\$806,246	8.50%	\$709,260	\$0	\$751,815	6.00%
2007	\$1,125,103	\$0	\$967,588	-14.00%	\$377,683	\$0	\$456,997	21.00%	\$806,246	\$0	\$806,246	0.00%	\$751,815	\$0	\$796,924	6.00%
2008	\$967,588	\$0	\$948,237	-2.00%	\$456,997	\$0	\$530,117	16.00%	\$806,246	\$0	\$806,246	0.00%	\$796,924	\$0	\$844,739	6.00%
2009	\$948,237	\$0	\$673,248	-29.00%	\$530,117	\$0	\$673,248	27.00%	\$806,246	\$0	\$806,246	0.00%	\$844,739	\$0	\$895,424	6.00%



In retirement, however, you will be withdrawing from your accounts and the sequence of returns can have a long-lasting and significant impact on your ability to draw a sustainable income. In the example below, the two investors still show a 4.5% average return over the 10 year period, however the investor who experienced negative returns early in their retirement was left with 34.9% less, or \$173,351 less than the investor who experienced stronger returns early on.

## Sequence of Returns

### Using Actual Annual S&P 500 Returns

Initial Investment					Annual Withdrawal*			
\$500,000.00					Fixed Amount \$20,000			
	Using Actual Annual Annual Returns				Reverse Order of Actual Annual Returns			
	Beginning Balance	Annual Withdrawal*	Ending Value	Annual Return	Beginning Balance	Annual Withdrawal*	Ending Value	Rtns in Reverse Order
2000	\$500,000	-\$20,000	\$609,600	27.00%	\$500,000	-\$20,000	\$340,800	-29.00%
2001	\$609,600	-\$20,000	\$683,936	16.00%	\$340,800	-\$20,000	\$314,384	-2.00%
2002	\$683,936	-\$20,000	\$803,363	21.00%	\$314,384	-\$20,000	\$253,170	-14.00%
2003	\$803,363	-\$20,000	\$705,026	-10.00%	\$253,170	-\$20,000	\$272,809	17.00%
2004	\$705,026	-\$20,000	\$739,828	8.00%	\$272,809	-\$20,000	\$280,618	11.00%
2005	\$739,828	-\$20,000	\$799,010	11.00%	\$280,618	-\$20,000	\$281,468	8.00%
2006	\$799,010	-\$20,000	\$911,441	17.00%	\$281,468	-\$20,000	\$235,321	-10.00%
2007	\$911,441	-\$20,000	\$766,639	-14.00%	\$235,321	-\$20,000	\$260,538	21.00%
2008	\$766,639	-\$20,000	\$731,707	-2.00%	\$260,538	-\$20,000	\$279,024	16.00%
2009	\$731,707	-\$20,000	\$505,312	-29.00%	\$279,024	-\$20,000	\$328,961	27.00%

Assumptions:

\*Annual Withdrawal is made January 1.

\*% of Annual Withdrawal is calculated based on Prior Year Ending Value.

What does this mean to you as you build a successful and sustainable income stream? You will need to understand the relationship of risk (volatility) to return. Your income strategy should take into consideration different types of investments for short term and long-term needs and ultimately understand how your final income strategy may perform in different market environments.



## RULE 4: HAVE A TAX STRATEGY

Have you considered the impact taxes have on your spendable income? It could be a major issue later in life. It may also be more important to your retirement success than investment performance or timing of your social security payments.

Historical tax rates were much higher than today with tax brackets on average over 35% for most taxpayers. If taxes increase, a big issue will be where the majority of your retirement savings are located. More specifically, most Americans have the bulk of their retirement savings in pre-tax 401K "like" accounts or IRAs. These accounts have accumulated and compounded over the years, and taxes have never been paid on them.

When withdrawing money from a pre-tax account, you don't have the advantage of taking a capital gain or loss which is currently taxed at a lower rate. Instead, every dollar distributed is added to your taxable income. You're then taxed at the last highest bracket the distributions place you in from a tax perspective.

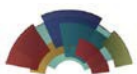
We've been told when we retire, we'll be in a lower tax bracket. However, with most people going from a family and a mortgage, itemizing these deductions, and having more exceptions, to an empty nest environment, income may be lower, but the effective tax rate may not be.

Tax planning includes evaluating the impact of when to pay your taxes on savings and investments and the long-term benefits of a well thought out tax plan. Given the large numbers of "baby boomers" retiring through 2025, the added stress on many government benefit plans will be much higher than in the past. The cost of social security and Medicare will have to come from somewhere and that could mean higher taxes.

Evaluating strategies such as Roth IRA contributions and conversions to those Roth accounts should be done early to determine if moving to these types of accounts can have a long-term beneficial impact on your future.

Another significant asset with potential tax consequences is the sale of real estate. As we age, we may not be able to maintain investment real estate properties. Designing tax efficient strategies for the disposition of investment properties can help you keep more of your sales dollars and maintain your income stream. The time to analyze tax saving strategies on real estate sales is before the property is sold. Once money changes hands, your options are limited.

The bottom line is that having a tax strategy is crucial for your retirement.



## RULE 5: HAVE AN ESTATE STRATEGY

The ultimate goal of estate planning is to provide for the most efficient management and transfer of your property in the event of your death or incapacity, at the least financial and emotional cost to your family. A properly structured estate plan allows you to choose your beneficiaries, provide for the management of your assets, avoid probate, and eliminate or reduce taxes.

Without careful planning, your property may pass to unintended beneficiaries, may be reduced in value by unnecessary taxes or poor investment choices, or may be unavailable to you and your family in the event of your illness or incapacity when needed the most. These potential problems may cause unintended outcomes that can be avoided by establishing a cohesive estate plan.

Estate planning also addresses questions such as who should own property and what property to own, whether it should be owned jointly or separately, whether trusts are needed for protection of assets, control or tax savings, and whether lifetime gifts should be made.

Estate planning is best accomplished when you bring your estate attorney, financial planner, and tax preparer together, thereby creating a cohesive and coordinated plan.



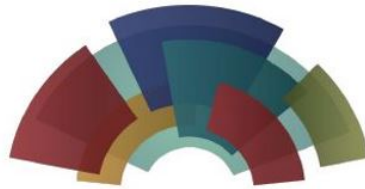
Almost everyone is in need of all the listed estate planning tools. Professional advice is necessary to customize the planning to ensure you accomplish your specific objectives.

The key to a successful estate strategy does not end once you have your legal documents in hand. Most estate plans fail because the assets were never titled appropriately, the beneficiaries not listed correctly based on the written plan, or over time as accounts open, you drift from the plan.

This booklet contains general information about very broad and complex topics. We caution you that creating a successful income plan isn't for sissies and must be personalized to meet your individual objectives and financial situation. Building a successful income plan that will meet your needs requires a comprehensive review by an experienced professional.

Maestro Wealth Advisors has Certified Financial Planners™ and Financial Advisors on staff who invite you to contact us for a complimentary, no-obligation consultation to help ensure all five critical areas are covered and coordinated.





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