Maximize Retirement Income and Preserve Accumulated Wealth
Welcome!

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Securities offered through Comprehensive Asset Management and Servicing, Inc. ("CAMAS") 800-637-3211, Member FINRA, SIPC & MSRB. Brophy Wealth Management, LLC is independent of CAMAS. Consult appropriate counsel for tax and legal advice. Charts are shown for illustrative purposes only. Past returns are no guarantee of future results. Diversification does not guarantee investment returns and does not eliminate risk of loss.
FAQs from the Retiree

• When should I take Social Security?
• How can I manage taxes in retirement?
• Will my money last?
• What’s the best way to leave an inheritance?
Investments

IRAs

Home equity

Annuities

Pension

Social Security

Expenses

Inflation

Taxes

Longevity
Understanding the Value of Social Security
Social Security offers income you can't outlive

If your monthly benefit is $2,000 today and you live:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th>in lifetime benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 more years</td>
<td>you'll receive a total of $304,256</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 more years</td>
<td></td>
<td>$673,622</td>
<td></td>
</tr>
<tr>
<td>30 more years</td>
<td></td>
<td>$1,160,479</td>
<td></td>
</tr>
</tbody>
</table>

Assumes 2.8% annual cost-of-living adjustments
Social Security offers annual inflation adjustments

If your monthly benefit is $2,000 today and annual cost-of-living adjustments are 2.8%:

<table>
<thead>
<tr>
<th>Year</th>
<th>Monthly Benefit Will Be</th>
</tr>
</thead>
<tbody>
<tr>
<td>In 10 years</td>
<td>$2,636</td>
</tr>
<tr>
<td>In 20 years</td>
<td>$3,474</td>
</tr>
<tr>
<td>In 30 years</td>
<td>$4,580</td>
</tr>
</tbody>
</table>

Assumes 2.8% annual cost-of-living adjustments
How much can I expect to receive?
Your benefit will depend on:

- How much you earned over your working career
- The age at which you apply for benefits
How Social Security benefits are calculated

• At age 62, each year’s earnings are tallied up and indexed for inflation
• Highest 35 years of earnings are averaged (AIME)
• Benefit is increased each year by cost-of-living adjustments (COLAs)
• Monthly benefit at full retirement age is referred to as Primary Insurance Amount (PIA)
<table>
<thead>
<tr>
<th>Year of Birth</th>
<th>Full Retirement Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1943-54</td>
<td>66</td>
</tr>
<tr>
<td>1955</td>
<td>66 and 2 months</td>
</tr>
<tr>
<td>1956</td>
<td>66 and 4 months</td>
</tr>
<tr>
<td>1957</td>
<td>66 and 6 months</td>
</tr>
<tr>
<td>1958</td>
<td>66 and 8 months</td>
</tr>
<tr>
<td>1959</td>
<td>66 and 10 months</td>
</tr>
<tr>
<td>1960 and later</td>
<td>67</td>
</tr>
</tbody>
</table>
What if you apply for early benefits?

You will receive a percentage of your PIA

<table>
<thead>
<tr>
<th>Apply at age</th>
<th>If FRA = 66</th>
<th>If FRA = 67</th>
</tr>
</thead>
<tbody>
<tr>
<td>62</td>
<td>75.0%</td>
<td>70%</td>
</tr>
<tr>
<td>63</td>
<td>80.0%</td>
<td>75%</td>
</tr>
<tr>
<td>64</td>
<td>86.7%</td>
<td>80%</td>
</tr>
<tr>
<td>65</td>
<td>93.3%</td>
<td>86.7%</td>
</tr>
<tr>
<td>66</td>
<td>100%</td>
<td>93.3%</td>
</tr>
<tr>
<td>67</td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>
What if you apply after FRA?

You will earn 8% annual delayed credits

<table>
<thead>
<tr>
<th>Apply at age</th>
<th>Benefit will be % of PIA if FRA = 66</th>
<th>Benefit will be % of PIA if FRA = 67</th>
</tr>
</thead>
<tbody>
<tr>
<td>66</td>
<td>100%</td>
<td>93.3%</td>
</tr>
<tr>
<td>67</td>
<td>108%</td>
<td>100%</td>
</tr>
<tr>
<td>68</td>
<td>116%</td>
<td>108%</td>
</tr>
<tr>
<td>69</td>
<td>124%</td>
<td>116%</td>
</tr>
<tr>
<td>70</td>
<td>132%</td>
<td>124%</td>
</tr>
</tbody>
</table>
Spousal Benefits

Spousal benefit $= 1/2 \text{ the primary worker's PIA if started at full retirement age}$

Example:

- John's PIA is $2,000
- Jane's PIA is $800
- If Jane applies at FRA, her benefit will be $1,000 (50\% \text{ of John’s PIA})
Rules for spousal benefits

• Primary worker must have filed for benefits (but can suspend to build delayed credits if over FRA)
• Spouse must be at least 62 for reduced benefit or 66 for full benefit
• No delayed credits on spousal benefits after 66
Divorced-spouse Benefits

Same as spousal benefits if:

• Marriage lasted 10 years or more
• Person receiving divorced-spouse benefit is currently unmarried
• The ex-spouse is at least age 62
• If divorce was more than two years ago ex-spouse does not need to have filed for benefits
Rules for divorced-spouse benefits

• More than one ex-spouse can receive benefits on the same worker's record

• Benefits paid to one ex-spouse do not affect those paid to the worker, the current spouse, or other ex-spouses

• The worker will not be notified that the ex-spouse has applied for benefits

• Divorced-spouse benefits stop upon remarriage of spouse collecting benefits (not upon remarriage of primary worker spouse)
Survivor Benefits

- Survivor benefit will depend on:
  - The age at which the deceased spouse originally claimed his benefit (the “original benefit”)
    - If he claimed before FRA, survivor benefit will be limited to the higher of the deceased spouse’s benefit or 82.5% of his PIA
    - If he claimed after FRA, the survivor benefit will include delayed credits
  - The age at which the widow claims the survivor benefit (the “actual benefit”)
    - If she claims before her FRA, her survivor benefit will be a fraction of the original benefit (e.g., 71.5% if claimed at 60)
    - If she claims at her FRA or later, her survivor benefit will equal 100% of the original benefit
Survivor Benefits

• If spouse dies while both are receiving benefits, widow(er) may switch to the higher benefit

Example:
• Joe and Julie are married. Both are over full retirement age.
• Joe's benefit is $2,000, Julie's benefit is $1,200.
• Joe dies.
• Julie notifies Social Security and her $1,200 benefit is replaced by her $2,000 survivor benefit.
Survivor Benefits
Example of early claiming

• Joe and Julie are married.
• Joe’s PIA is $2,000.
• Joe files for Social Security at 62; his benefit is 75% of $2,000, or $1,500.
• Joe dies.
• Julie’s survivor benefit will depend on when she claims it.
  • If Julie claims her survivor benefit at 66 or later, her benefit will be 82.5% of Joe’s $2,000 PIA, or $1,650 (special floor for survivor benefits).
  • If Julie claims her survivor benefit at age 60, her benefit will be 71.5% of $2,000, or $1,430.
Survivor Benefits

Example of delayed claiming

• Joe and Julie are married.
• Joe’s PIA is $2,000.
• Joe files for Social Security at 70; his benefit is 132% of $2,000, or $2,640.
• Joe dies.
• Julie’s survivor benefit will be equal to Joe’s benefit of $2,640.
  • If Julie claims her survivor benefit at age 60, her benefit will be 71.5% of $2,640, or $1,887.
  • If Julie claims her survivor benefit at 66 or later, her benefit will be 100% of $2,640, or $2,640.
Rules for survivor benefits

• Couple must have been married at least 9 months at date of death (except in case of accident).

• Survivor must be at least 60 for reduced benefit (50 if disabled), or FRA for full benefit.

• Survivor benefit not available if widow(er) remarries before age 60 (or 50 for disabled survivor), unless that marriage ends.

• Divorced-spouse survivor benefit available if the marriage lasted at least 10 years.
Factors to consider when deciding when to apply

• Health status
• Life expectancy
• Need for income
• Whether or not you plan to work
• Survivor needs
Maximizing Your Benefits
Coordinate Spousal Benefits
“File and Suspend”

At FRA, higher-earning spouse applies for his benefit and asks that it be suspended

Lower-earning spouse files for spousal benefit

Higher-earning spouse claims benefit at 70

Example:

- Bob and Barbara are 66
- Bob’s PIA is $2,000; Barbara’s PIA is $800
- Bob wants to delay his benefit to age 70. Barbara wants to file for her spousal benefit now
- Bob “files and suspends” at 66. This entitles Barbara to her spousal benefit while Bob’s benefit continues to earn delayed credits

Caution: “File and suspend” may not be done before FRA
“File and Suspend”

<table>
<thead>
<tr>
<th>Total Benefits</th>
<th>Each collect at 62</th>
<th>Each collect at 66</th>
<th>“File and Suspend”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 90</td>
<td>$989,145</td>
<td>$1,119,366</td>
<td>$1,441,458</td>
</tr>
</tbody>
</table>

Assumes 2.8% COLA, $2000/month for higher wage earner, $800/month for lower wage earner at FRA of 66
Tax Management

Taxes?!
Tax Management

• Required Minimum Distributions (RMD) from tax deferred accounts begin at age 70.5
• Initial distribution rate is approximately 3.65% and increases every year
• “Old” thinking was to spend down taxable accounts first and defer withdrawals from IRAs as long as possible
• Large retirement account means large taxable distribution which can cause excessive taxation
Tax Management

• RMDs can push taxation into higher brackets

Source: J.P. Morgan Asset Management, "Beware the retirement tax cliff"
Tax Management

• RMDs can push taxation into higher brackets

Source: J.P. Morgan Asset Management, *Beware the retirement tax cliff*
Tax Management

• Consider blending distributions from IRAs and taxable accounts prior to 70.5
• Reducing size of IRA balances reduces RMD and may keep taxation in lower brackets
• Converting IRA amounts at lower brackets to Roth IRA will reduce future RMDs
• Offset taxes of Roth IRA conversions with charitable gifts
• Potential charitable IRA rollovers with proposed tax laws
Tax Management

QLAC, QLAC!
Qualified Longevity Annuity Contract

- Defer income up to age 85
- Lesser of $125,000 or 25% of aggregate IRA account balances
- Reduces RMD calculations
- Cash refund on unused income at death

Example:
Male age 70 $100,000 deferral into QLAC
Provides $1,120.29 monthly ($13,443.51/year) at age 80
Alternatives

Equities

Equities, Diversified
Fixed Income

Social Security, Pension, Annuities, High Quality Bonds, Cash
Timing Risk of Withdrawals

Source: J.P. Morgan Asset Management, Convergent Retirement Plan Solutions, LLC. Returns are based on a hypothetical portfolio, which is assumed to be invested 40% in the S&P 500 Total Return Index and 60% in the Barclays Capital U.S. Aggregate Index. The assumptions are presented for illustrative purposes only. They must not be used, or relied upon, to make investment decisions. There is no direct correlation between a hypothetical investment and the anticipated future return of an index. Past performance does not guarantee future results.

SEQUENCE RETURN RISK

Withdrawing assets in volatile markets early in retirement can ravage a portfolio. Adjust your plan and strategy regularly.

• Results: Actual annual average return of our hypothetical portfolio over the sample period was 9.85%.
Diversify for Risk Adjusted Returns

Maximizing the power of diversification
2000-2014.

Traditional Portfolio

- U.S. stocks: 55% S&P 500
- U.S. bonds: 30% Barclays Capital Aggregate
- International stocks: 15% MSCI EAFE

Return: 4.83%
Standard Deviation: 10.74%

More Diversified Portfolio

- U.S. stocks: 22.2% S&P 500, 8.8% Russell 2000
- International stocks: 4.4% MSCI EM, 13.2% MSCI EAFE
- U.S. bonds: 26.5% Barclays Capital Aggregate
- Alternatives: 8.3% CS/Tremont Equity Market Neutral, 8.3% DJ/UBS Commodities, 8.3% NAREIT Equity REIT Index

Return: 6.19%
Standard Deviation: 10.19%

• Indexes and weights of the traditional portfolio are as follows: U.S. stocks: 55% S&P 500, U.S. bonds: 30% Barclays Capital Aggregate, International stocks: 15% MSCI EAFE. Portfolio with 25% in alternatives is as follows: U.S. stocks: 22.2% S&P 500, 8.8% Russell 2000, International stocks: 4.4% MSCI EM, 13.2% MSCI EAFE; U.S. Bonds: 26.5% Barclays Capital Aggregate; Alternatives: 8.3% CS/Tremont Equity Market Neutral, 8.3% DJ/UBS Commodities, 8.3% NAREIT Equity REIT Index.

• Return and standard deviation calculated using Morningstar Direct.

• Charts are shown for illustrative purposes only. Past returns are no guarantee of future results. Diversification does not guarantee investment returns and does not eliminate risk of loss. Data as of December 31, 2014.
Leaving a Legacy

• Generation with largest accumulation of wealth will be responsible for largest distribution of wealth
• Prudent planning should begin now
• Consider efficiency of leaving an inheritance
Estate Planning Tools

• Wills (subject to probate)
• Will substitutes (avoid probate)
  • Trusts (Revocable and Irrevocable)
    • Provide distribution rules
    • Beneficiary Designations
• Powers of Attorney
  • Financial Durable Powers of Attorney
  • Health care proxies, living wills
<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Method</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment accounts</td>
<td>Name in will/trust, Transfer on Death, Payable on Death</td>
<td>May receive a step up in cost basis, no income tax to beneficiaries</td>
<td>Potential estate tax consideration</td>
</tr>
<tr>
<td>Bank accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance Policy</td>
<td>Beneficiary form</td>
<td>Guaranteed gift amount, no income tax to beneficiaries</td>
<td>Potential estate tax, but can be owned outside estate to avoid taxation</td>
</tr>
<tr>
<td>Roth IRA</td>
<td>Beneficiary form</td>
<td>No income tax to beneficiaries</td>
<td>RMD and potential estate tax</td>
</tr>
<tr>
<td>IRA, 403b/401k</td>
<td>Beneficiary form</td>
<td>Non-profit receives full value</td>
<td>RMDs and taxation to beneficiaries, potential estate tax</td>
</tr>
<tr>
<td>Annuities</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Charitable Planning

• Can be part of retirement strategy

• Reduce taxes with gifts
  • Offset Roth IRA conversions
  • Diversify highly appreciated stocks

• Provide retirement income
  • Charitable gift annuities
  • Charitable remainder trusts
Charitable Gift Annuity Illustrated: Harvard Medical School

<table>
<thead>
<tr>
<th>Gift</th>
<th>Tax Deduction</th>
<th>Annuity Income</th>
<th>Income Taxation</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>$35,613</td>
<td>$6,700</td>
<td>$5,192.50 Tax-free</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$1,507.50 Ordinary Income</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>After 12.4 years, income becomes ordinary income</td>
</tr>
</tbody>
</table>

Assumptions: IRS Discount Rate is 2%, quarterly payment schedule at end, 75 year old single life annuitant

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.
Final Thoughts and Questions

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