STEVEN PAUL, CFP® & MATT PAUL, CFP®

RETIREMENT APPROVED

What You Need To Know Before You Tell Your Boss You're Done!

STEVEN & MATT PAUL

A NOTE FROM THE AUTHORS

Please be aware that you should consult with a financial professional prior to implementing any strategies discussed in this book. All case studies in this book are hypothetical and are used to explain retirement strategies in a relatable way.

We sincerely hope this book helps you in your retirement journey.

Cheers to your future retirement!

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CHAPTER 1

INTRODUCTION

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NOTHING HAPPENS UNTIL SOMETHING MOVES

Albert Einstein

INTRODUCTION

Congratulations!

If you are reading this book, you are taking your first steps towards a successful retirement. After working for decades to provide for your family and loved ones, this is your time. Your time to travel, to spoil your grandchildren, to bask all day in the sun around the pool... whatever goals you have for retirement. You've saved your whole life, you'll have a reliable social security check, and if you're lucky, maybe even a pension. Your children are doing well. Maybe they still need help financially from time to time, but for the most part, they're making their way. Your retirement years, you think, could be the best years of your life.

Trouble is, you're not exactly sure how to get the most out of your money and your retirement. The very thought of retiring might make you nervous. You may find yourself second guessing yourself and you may become fearful to give up the career you've worked so long to master. You may start to wonder what the heck you're going to do all day, or might even question if you've saved enough money. In your retirement years, the last thing you want to do is be a burden on your children. In fact, you'd like to leave them a healthy inheritance. Retirement and the years leading up to it can undoubtably be a stressful time. What is meant to be a time of joy and relaxation can quickly turn to stress and anxiety as you enter the next phase of your life.

We're here to tell you to take a deep breath. As financial planners that specialize in retirement planning, we see this all the time. Our clients tend to do a great job of setting themselves up for retirement, but once they are nearing the finish line, doubt starts to creep in. This is why having a plan is critical. When you have a retirement plan, it helps to alleviate any fear and anxiety you have about the financial aspect of retirement. The lifestyle side, well that's another story.

If you could, please think for a moment on what you envision for your retirement. Ask yourself the following questions:

- What do you want to do in retirement?
- Who do you want to spend time with?
- Do you want to learn any new skills?
- Do you want to still work?
- Where would you like to travel?
- What would make you feel fulfilled?

If you struggled to envision answers to these questions, you're not alone. After working with retirees for over a decade, we started to notice a pattern, so we used our wonderful clients as inspiration to create a list of the 12 Retirement Personalities. This is all in good fun and you may find that you fit into multiple categories or maybe even into a category of your own, as everyone has a different concept and unique goals for retirement. So, on the following pages, read through the Retirement Personalities and pick what matches you best!

1 "ONE MORE YEAR" RETIREE

This type of retiree is always one year away from retirement. They say they are one year away, but then a year from saying that they are one year away again!

You may fall into this category if you truly love your job. Sometimes, this type of retiree just doesn't want to hang it up, which generally makes planning for their retirement easier because it gives the accounts more time to grow

2 "RETIRE YESTERDAY" RETIREE

This type of retiree is the exact opposite of the "One More Year" Retiree. This retiree wants to see a plan, crunch the numbers with an advisor, and they are ready to pull the trigger on retirement.

3 "TRAVEL THE WORLD" RETIREE

As you probably guessed, this type of retiree wants to get as many vacations in as possible. Afterall, you were working all those years and always wanted to travel Europe, or Alaska, or anywhere the world takes you!

Many times, this lifestyle calls for what we call a Frontloaded Retirement Plan. If you are retiring at 65, maybe we plan for an additional $10k-$20k per year to help fund vacations and travel, and have that fall off or reduce in your mid-to-late seventies once you've gotten your travel goals in and begin to slow down.

4 "NOW THAT I SEE THE PLAN" RETIREE

This type of retiree plans to retire in three to five years. But once we begin planning, they see what their portfolio can generate, and realize they have the potential to retire earlier than they originally thought! This type of retiree is also some of our favorite to work with. Reason being, is they are some of the happiest people when they get the news they can retire.

5 "BACK TO WORK" RETIREE

This type of retiree seems to have become a more popular choice these days. There are many benefits to going back to work. You may opt for a job with a different company or you could stay with your current company in a lesser role. You may want to work on your own time, or work from home in your pajamas.

Some of our clients start entirely new careers or even invent products! The key here is doing something you truly enjoy, as you're no longer working for the money, although the extra income certainly helps in the early retirement years.

6 "BUSIER THAN EVER" RETIREE

You may not be able to predict if this will be you, but once you're retired, there is a good chance you will find yourself saying this. This type of retirees always wonders when they ever found time to do routine things when they were working, because it now seems like a full-time job!

7 "FAMILY IS EVERYTHING" RETIREE

This type of retiree lives for their family. Whether its relocating to be near their children, or spoiling the grandchildren, or spending time with Nieces and Nephews, Brothers or Sisters, their ideal retirement is maintaining close relationships with the ones they love.

This could also involve taking care of a parent. Many clients these days lend a helping hand, which is always time well spent, even if it may be exhausting. Leaving a legacy behind to their heirs is typically of high importance to this retiree.

8 "HOBBY BECOMES MY JOBBY" RETIREE

Do you find yourself dreaming of a little white ball? If you answered yes to that question, you may fall into this category. Golf is a great way to stay active in retirement, both physically and mentally. But... it can also drive you mad!

9

"BIG SPENDER" RETIREE

As the name suggests, this type of retiree wants to spend the big bucks! Believe it or not, this type of retiree is quite rare, as most retirees typically aren't looking to spend their hard-earned nest egg on expensive cars or homes. A detailed budget is critical for this type of retiree.

10

"RV" RETIREE

We've had numerous clients embrace the RV life, and every time we talk to them they are in a different state!

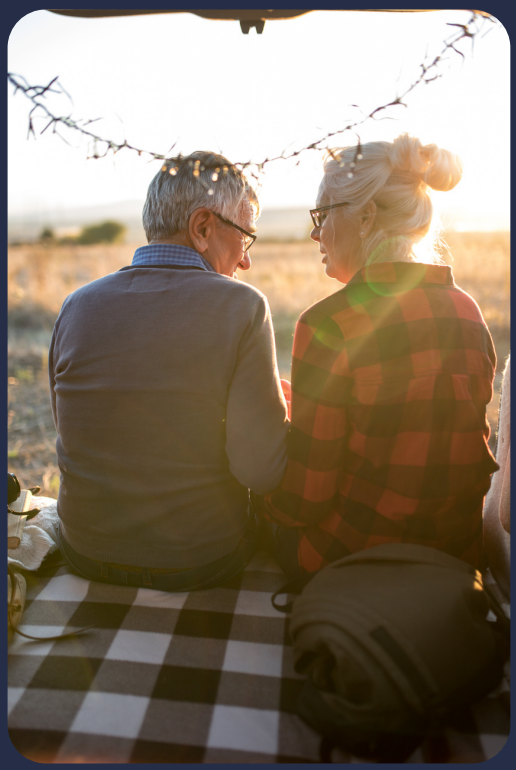
One small problem is RV's certainly aren't cheap. But this retiree is willing to pay the up-front cost to have the ability to go anywhere, anytime.

11

"QUIET LIFE" RETIREE

This type of retiree looks forward to exiting the workforce and getting off the grind. Here in Michigan, there is a good chance they'll head to a cabin Up North.

If you are in this category, your hobbies might include camping, reading, animals, charity work, fishing, gardening, etc. As such, they typically have a modest budget and generally have no problem sticking to it



12

"DAY TRADER" RETIREE

This retiree lives to buy and sell stocks. Their ideal is spent enjoying a morning coffee in front of the computer waiting for the morning bell. This retiree is typically looking for the next hot stock and enjoys talking stocks with their friends.

Our opinion is that it is fine to trade stocks as a hobby, but you should not be in front of a computer from 9:30 AM to 4:00 PM everyday throughout your retirement

RETIREMENT APPROVED

The first step to becoming Retirement Approved, is figuring out what the heck you're going to do with your life after work. When you work a certain job for years or even decades, it tends to become your identity. And losing that identity, can certainly be a challenge. You must have a vision for what you want out of retirement and figuring this out before you retire is a must. We'll talk more about finding happiness in retirement later in this book, but for now, pick a what you feel are the retirement personalities you most identify with. Or, create your own and let us know what you come up with!

Beyond your retirement personality, you now need to understand what retirement is and the unique challenges the Baby Boomer generation is facing.

Let's face it, many retirees have no idea how to best utilize their assets to support a three-to-four-decade retirement.

When you look at retirements of previous generations, it seems like it was much simpler... because it was. A basic mix of **stocks, bonds, CDs,** powered by the greatest economic growth ever seen in history with the United States, was all most retirees needed. Add in a strong pension to pair with social security, not to mention the shorter longevity and lesser healthcare costs, you can see why retirement planning was not as complicated as it is today.

RETIREMENT TRIVIA

We all know retirement hasn't been around forever.
In what time frame was the concept of retirement created?

A. The late 1600's
B. The early 1700's
C. The late 1700's
D. The late 1800's

answer can be found on page 25

Looking back, just 100 years ago, coming off the World War I, the modern US investment system we know today really began to develop. Electricity was just starting to become part of daily life and radio programs were now becoming mainstream. And most importantly, as innovation was booming, the market was flourishing. From 1924 to 1929, investing became more accessible to the middle class, while the Dow surged 294.66%. Mutual Funds were first introduced in this era of investing, allowing investors to diversify rather than hold riskier individual stocks. On Tuesday, October 29, 1929, the Dow crashed 13% in one day, losing over 30% that week. Twenty-five years later, the Dow finally recovered. By that time, it was too late, retirements for many were non-existent.

To help protect retirees, President Franklin D. Roosevelt enacted the Social Security Act of 1935. After the recovery of the Dow, the market roared in the 1950s and was somewhat stagnant from the 1960s to 1970s due to the Vietnam War.

NEW FINANCIAL TOOLS

Over the next few decades, we saw further innovations in the financial industry. Hedge Funds started in 1949, followed by Private Equity, REITs, and Venture Capital (these are alternative investments not normally accessed by the average investor). The variable annuity was created in 1952. The first index fund was created by the late Jack Bogle in 1976, followed by the first Exchange Traded Fund (ETF) in 1993. Later in the 1990's fixed indexed annuities were created. Now, over the past decade, we've seen the rise of an entire new asset class with cryptocurrencies.

Suffice to say, we've seen a great deal of innovation in the financial industry with new strategies and vehicles being released much more frequently these days.

Those working and saving for retirement through 2000-2020 saw quite the interesting two decades. From 2000-2009 we endured two life changing recessions with the tech bubble and global financial crisis. And we don't think anyone needs a reminder of the recent stock market downturn we saw as a result of the COVID-19 pandemic and subsequent inflation issues.

Retirement used to be simpler, but today is a much more complex planning task. In the past, retirees depended on social security for more of their income. Pensions helped cover the remainder of their income needs. The stock market was powered by enormous global growth. Bonds were stable and had great returns thanks to decreasing interest rates over the last 30+ years. Even CDs had solid returns. Healthcare wasn't much of a concern and was likely covered by their employer. Life expectancies weren't as long, as men thirty years ago were only projected to live to 79, and women to 84. A simple 60% stock / 40% bond portfolio would easily get you through retirement assuming a safe withdrawal rate.

RETIRING IN THE 2020'S

But retirees in today's ever-changing environment are in quite an interesting predicament...

Social Security is under-funded and likely won't keep up with true inflation. Pensions are few and far between. Global growth has slowed making the equity markets less dependable. The 30-year bond bull market has likely ended, with bonds and CDs no longer covering inflation. Healthcare costs have skyrocketed. We're living much longer, as the Society of Actuaries states that a healthy male at retirement age, can expect to live to 87.6, and female to 89.3. And to top it all off, newer strategies like index funds, alternatives, and annuities have left retirees as confused as ever as to what they should be doing with their money.

There are new questions we need answers to:

- *How should my portfolio be allocated so it's protected?*
- *How much income can my portfolio generate in a safe way?*
- *What is inflation going to do to my expenses, and how am I going to keep up with it throughout a potential thirty-year retirement?*
- *What can I expect from social security?*
- *If there's a market downturn, how will I generate income in retirement?*
- *If my spouse passes away, how will that effect my retirement?*
- *If there is a long-term care event, how will we pay for that?*

There are so many more questions that we need answered when planning for retirement. Retiring in today's world can be very complex and is vastly different than the retirements of previous generations.

Retirement has evolved substantially over the last century. Heck, it's changed dramatically since your parent's retirement! Because of this, Retirement Planning has become a well-defined niche in the financial planning industry.

It's critical that retirees find an advisor who will invest in their lives, their future goals, and help answer these new questions retirees are asking themselves. No one wants to out-live their money and become a burden to their families. Beyond that, our retirement goals differ tremendously. It all depends on the person. Some want to travel the world. Some want to live the simple life and leave some money behind for their family. Others have entirely different goals, pensions, and portfolios.

The typical retiree lacks the expertise to design and maintain a portfolio that allows them to live out secure, comfortable, and rewarding non-working lives, regardless of how well they set themselves up for their retirement years.

CASE STUDY

Take John and Jennifer, for example, who came to us several years back for advice regarding their retirement. They believed they had everything covered, but after losing nearly 40 percent of their retirement portfolio in the 2008 financial crisis, John and Jennifer wanted to make sure. In many ways, they were in an excellent position.

Both received roughly $1,750 a month in social security, both had pensions of roughly $1,500 a month, and their portfolio was worth $1,000,000. With a monthly budget of $9,500, they could cover the majority of their monthly expenses with their pensions and social security and still have a room in the budget to travel and to support their children and grandchildren.

For simplicity purposes, let's assume they needed to generate $3,000 per month from their $1,000,000 portfolio.

This represents a withdrawal rate of 3.6% which is under the common 4% withdrawal rate rule of thumb.

RETIREMENT TRIVIA

For a retiree with $1,000,000, the 4% rule states that a retiree could reasonably expect to take $40,000 out of the portfolio on an annual basis. Due to rate lows and potential weakening future economic growth, this number is now less.

According to Wade Pfau, PhD, CFA, what is now considered a safe withdrawal rate?

A. 1.5%
B. 2.4%
C. 3.0%
D. 3.5%

answer can be found on page 25

On the surface, they looked like they were sitting pretty, but when we dug a little deeper, their retirement picture became less clear.

Like most of us, John and Jennifer hadn't considered the loss of income that accompanies the eventual passing of a spouse. John was

sixty-seven years old and already had heart problems. If he were to pass, Jennifer would have instantly lost his pension and social security. With just half her current income, Jennifer wouldn't have been able to cover her most basic expenses and would have become a burden to her family—the last thing any of us wants in retirement.

They also hadn't thought much about the health care expenses that come with getting older. A minor health crisis could have caused major financial problems for John and Jennifer; a more serious, long-term health event could have put them in a precarious financial situation. If they were to become ill, they'd have had no room in their budget to pay their medical bills, and they would have had to rely on their children for financial assistance, let alone long-term health care.

On top of that, their portfolio was extremely risky. Like most of us, their portfolio was designed to get the best possible return while Jennifer and John were working, which meant much of their portfolio was heavily invested into equities. This approach makes sense when you're working, and your portfolio is focused on growth. The reason you can focus on growth while you're working, is because you have the time horizon to do so. While the market has its ups and downs, you're earning a consistent income stream and not relying on your investments for income.

This approach makes sense when you're working; it makes no sense when you're approaching retirement or already retired.

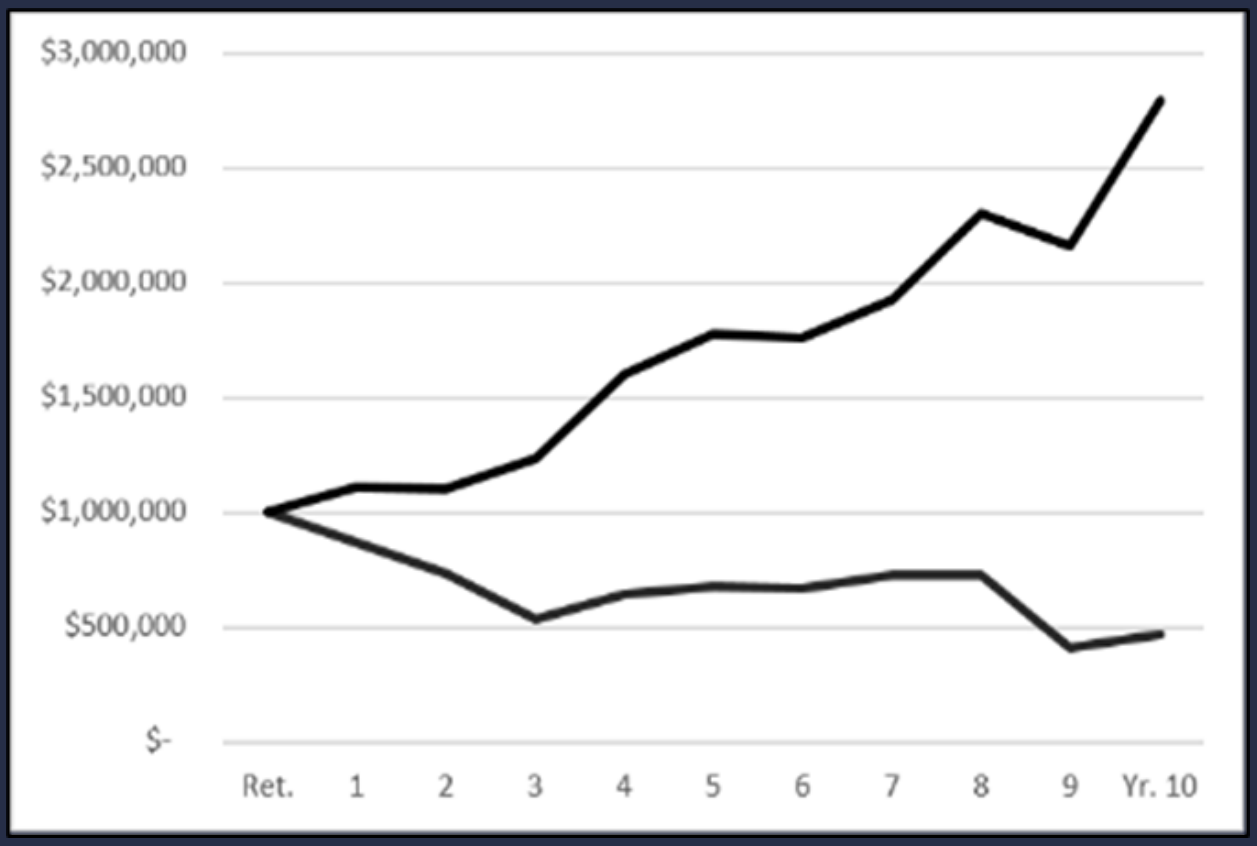
Think about John and Jennifer again: They worked long and hard to build a portfolio that would provide them with a secure and comfortable retirement. They did not work all those years to risk losing their portfolio to the market in retirement. With all the risk built into their portfolio, its value could have plummeted from $1,000,000 to $600,000 if another financial crisis were to occur. This would have left them with less money to retire on or to pass on to their families.

WHY SEQUENCE OF RETURNS MATTERS

Let's take a look at how their retirement would have looked in two different time periods if they were invested into the S&P 500. The top line is if they were to retire in 2010, versus the bottom line if they were to retire in 2000, both starting at $1,000,000.

This graph is also assuming a $36,000 ($3,000 per month)v withdrawal rate increasing by 3% each year on both portfolios. This comparison is critical to understand because it shows you how risk on the backend of your working years and the early years of retirement are extremely important, because in many cases, this is when your portfolio is the largest, and you are most vulnerable.

Now, the lost decade is a devastating scenario to retire in and we would not wish that upon our worst enemy, but it is a very real scenario. As you can see if John and Jennifer were to have retired in 2000, just ten years into retirement their $1,000,000 would have been cut in half and they would be in real danger of running out of money should they not alter their lifestyle. On the flipside, if they would have retired in 2010 with that same million dollars, their portfolio would be worth



over $2.5 million, a difference of over $2 million. Again, the only difference of these two retirement scenarios is the returns of the market.

When we showed John and Jennifer the risk they were taking, they were shocked. They thought they'd planned everything just right, that they were secure in their retirement, and here we were telling them the opposite.

Luckily, their situation was nothing unusual. John and Jennifer were thinking in the short-term. They were only thinking about growth, when they needed to be thinking about protecting their money so that it could provide for them in the short and the long term.

In other words, John and Jennifer had won the game; all they needed to do was learn how to bask in the victory. All they needed to do was shift their mindset from growth to generating safe income and protecting their money.

Once they were able to switch their mindset, they were able to focus their portfolio on more conservative investments that produced their desired monthly income in addition to their pensions and social security. We were able to help John and Jennifer, using many of the strategies we will discuss later in this book.

OUR COMPANY

This is the lifeblood of our business: shifting our clients' mindsets from accumulation mode to capital preservation and income mode, and managing their money in a way that allows them to enjoy their retirement.

Growing up in a family where your father is a financial advisor, you learn the importance of a dollar, whether you want to or not. At an early age, our father taught us the power of saving, investing, and compounding. He piqued our interest, and that interest slowly became more and more of an obsession, and eventually led to both of us committing to this field, obtaining our degrees in Economics and going on to obtain the Certified Financial Planner™ designation.

We knew of the larger investment firms out there, and the culture of those firms; the salesman mentality of those firms. We wanted to build something different, more personal. We saw what our father was attempting to build and wanted be part of it. He specialized in retirement planning and talked to us about his vision of what he wanted this company to be. He wanted to build a company with strong values, driven by integrity, not by the almighty dollar. He did not want to be attached to a big wire house, he wanted to be a stand-alone, independent company. He wanted our loyalty to be to our clients.

So, we went for it!

Shortly after we joined the industry, we started Richard W. Paul & Associates. We put our faith in God's hands and got to work. It took many years to build what we have now, but we built our company with strong integrity and honest advice. We started in one little office, with one conference room, and now have offices across the Metro Detroit area.

There is not a day where we

do not think about where we started, and there is not a day that goes by where we don't think about how blessed we are to work together.

We remember early in our careers a client telling us *"Money is important only to extent of what it can do for your family."*

We both will remember this for the rest of our careers because we felt the same way. We wrote this book for all the investors out there with the same outlook as us. The investors that have worked so hard and saved so diligently to build what they have, not only for them, but for their families.

Regardless of the size of your portfolio, this book will show you how to find a financial planner you can trust, how to switch your mindset from growth to capital preservation and income, help you build a goal-oriented retirement plan, and help you minimize risk in your portfolio. Remember, all this time you've been working for your money, now it's time to make your money work for you. This is your nest-egg and it needs to be positioned to provide for you and your family for years to come.

3 KEY TAKEAWAYS:

1. It is perfectly normal to be nervous about retirement.

2. Understand that you are in a unique situation to enjoy your non-working years in a way that no other generation has experienced.

3. This biggest risk to your retirement is taking on too much risk and losing in the early years of retirement.

3 QUESTIONS FOR YOU:

1. What type of Retirement Lifestyle do I/we fall under?

2. How much risk am I taking with my investments?

3. How much income does my portfolio need to generate?

RETIREMENT TRIVIA

Question 1:

In what time frame was the concept of retirement created?

ANSWER: C) The late 1800's

According to ssa.gov:

"Germany became the first nation in the world to adopt an old-age social insurance program in 1889, designed by Germany's Chancellor, Otto von Bismarck. The idea was first put forward, at Bismarck's behest, in 1881 by Germany's Emperor, William the First, in a ground-breaking letter to the German Parliament. William wrote: ". . . those who are disabled from work by age and invalidity have a well-grounded claim to care from the state."

One persistent myth about the German program is that it adopted age 65 as the standard retirement age because that was Bismarck's age. In fact, Germany initially set age 70 as the retirement age (and Bismarck himself was 74 at the time) and it was not until 27 years later (in 1916) that the age was lowered to 65. By that time, Bismarck had been dead for 18 years."

Question 2:

According to Wade Pfau, PhD, CFA, what is now considered a safe withdrawal rate?

ANSWER: B) 2.4 %

"In a 2020 interview with ThinkAdvisor, Dr. Pfau states that due to the high market valuations, interest rate lows, and various other factors, the 4% rule of thumb for income withdrawal in retirement has shriveled to only 2.4% for investors taking a moderate amount of risk. [1]

1 https://www.thinkadvisor.com/2020/04/14/wade-pfau-virus-crisis-has-slashed-4-rule-nearly-in-half/

Glossary:

Stocks:

- A stock, also known as equity, is a security that represents the ownership of a fraction of the issuing corporation. Units of stock are called "shares" which entitles the owner to a proportion of the corporation's assets and profits equal to how much stock they own.

- Stocks are bought and sold predominantly on stock exchanges and are the foundation of many individual investors' portfolios. Stock trades have to conform to government regulations meant to protect investors from fraudulent practices.

Bonds:

- A bond is a fixed-income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental). A bond could be thought of as an I.O.U. between the lender and borrower that includes the details of the loan and its payments. Bonds are used by companies, municipalities, states, and sovereign governments to finance projects and operations. Owners of bonds are debtholders, or creditors, of the issuer.

- Bond details include the end date when the principal of the loan is due to be paid to the bond owner and usually include the terms for variable or fixed interest payments made by the borrower.

CDs:

- A certificate of deposit (CD) is a product offered by banks and credit unions that provides an interest rate premium in exchange for the customer agreeing to leave a lump-sum deposit untouched for a predetermined period of time. Almost all consumer financial institutions offer CDs, although it's up to each bank which terms it wants to offer, how much higher the rate will be compared to the bank's savings and money market products, and what penalties it applies for early withdrawal.

- Shopping around is crucial to finding the best CD rates because different financial institutions offer a surprisingly wide range. For example, your brick-and-mortar bank might pay a pittance on even long-term CDs, while an online bank or local credit union might pay three to five times the national average. Meanwhile, some of the best rates come from special promotions, occasionally with unusual durations such as 13 or 21 months, rather than the more common terms based on three, six, or 18 months or full-year increments.

Glossary:

4% withdrawal rate:

- The 4% Rule is a practical rule of thumb that may be used by retirees to decide how much they should withdraw from their retirement funds each year.

- The purpose of adopting the rule is to keep a steady income stream while maintaining an adequate overall account balance for future years. The withdrawals will consist primarily of interest and dividends on savings.

- Experts are divided on whether the 4% withdrawal rate is the best option. Many, including the creator of the rule, say that 5% is a better rule for all but the worst-case scenario. And some caution that 3% may be safer in current interest-rate conditions.

Interest rates:

- The interest rate is the amount a lender charges a borrower and is a percentage of the principal—the amount loaned. The interest rate on a loan is typically noted on an annual basis known as the annual percentage rate (APR).

- An interest rate can also apply to the amount earned at a bank or credit union from a savings account or certificate of deposit (CD). Annual percentage yield (APY) refers to the interest earned on these deposit accounts.

READY TO TAKE THE NEXT STEP?

If you're trying to figure out where you stand with your retirement plan, there's no reason to put off talking to someone who can help you regain control.

In our *Complete Planning Review* we can discuss your biggest concerns.

Click the link below to schedule your no-obligation consultation!

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