

CONTEMPLATING WHAT RETIREMENT MIGHT LOOK LIKE

If you are ready to retire, entering a second career, caring for aging parents, or have adult children, you won't want to miss our series about the financial implications, opportunities and gotchas regarding life challenges.

NEXT NEST SERIES, VOLUME 3

OUR FICTITIOUS FAMILY, THE CARLSONS

Our Next Nest series features a fictitious family—the Carlsons. In our last issue, James, age 60, an executive with a publicly-held company headquartered in the Philadelphia suburbs and Jeanne, age 58, owner of a small public relations firm, received news that their first grandchild was on the way and sought ways to financially help their children and future grandchild. Now they find themselves in the dead of winter, wondering when they will be financially secure enough to spend their winters someplace warm. Have they saved enough money for James to consider stepping down from his high-paying, high-stress position?

IS IT TIME TO CONSIDER A LOW-STRESS, LOWER PAYING POSITION AS AN INDEPENDENT CONSULTANT? MAYBE VOLUNTEER WORK OR MORE GRANDPARENTING IS IN HIS FUTURE.

James still enjoys working—being productive, making an impact, and being part of something that fulfills his sense of personal purpose, but also wants to know if he and Jeanne have the financial freedom to potentially dial down the stress. The Carlsons have amassed an investment portfolio comprised of joint taxable accounts, IRA rollovers from prior employer retirement plans, current 401(k)s, James' deferred compensation plan and employer stock—options, restricted stock and employer stock purchase plan (ESPP) shares.



James approached Fairman Group Family Office to help them figure out what retirement may look like, when James might be able to step away from his full-time job, and what lifestyle they may be able to enjoy. As you can expect, they had a lot of questions.

THE CARLSONS' QUESTIONS

- What happens to James' employer stock options and unvested restricted stock if he leaves the company?
- Does the deferred compensation plan pay out immediately, at some point in the future, or can he roll it into an IRA?
- What happens to his 401(k)? Should he leave the money in the plan or roll it over to an IRA? What happens to the portion of his 401(k) that is in employer stock?
- How drastically would their income tax liability change with James earning less or not earning anything at all? What about deeper in retirement when they are collecting Social Security and taking required distributions from their qualified retirement accounts?

QUESTIONS CONTINUED

- James is used to getting a paycheck. Where will the money to fund their lifestyle come from and how will the logistics work? Can Jeanne run her business remotely and still earn an income?
- What about health insurance from now until Medicare and what happens when Medicare kicks in? How much will coverage cost and how will James access coverage?
- James will be eligible for Social Security in less than two years when he turns 62. When is the optimal time for him to begin receiving his benefit? How should Jeanne's future Social Security benefits be considered and when may be the right time for her to begin receiving her benefit?
- James has some life insurance coverage through his employer. Does he still need the death benefit? If so, is the policy portable? If not, can and should James seek a policy to replace the death benefit?
- What happens down the road if James or Jeanne or both need long-term care? How much will that cost? How will they pay for it? Should they investigate purchasing long-term care insurance or manage that risk another way?
- Jeanne's grandparents lived into their 90's. What happens if she and James live to 95 or even 100? Will they run out of money?

Fairman Group discussed the three phases of retirement with the Carlsons: the go-go years, the slow-go years, and the no-go years, as well as the expenses they see other clients incur in each of those phases. Starting with a long-term cash flow model, Fairman Group helped the Carlsons lay out a most-likely scenario of lifestyle, travel, major purchases, and non-recurring expenses such as weddings, home improvements, and assisting with grandchildren's education. Conservative assumptions for inflation and return on investments were used in the model, as there is a great risk that aggressive assumptions would provide a false sense of financial security over the long haul.

Once the base case plan was constructed, Fairman Group helped James and Jeanne test alternate scenarios, such as purchasing a vacation home in a warm place, the feasibility of both of them retiring simultaneously, the impact of philanthropic contributions, and a situation where they both need a significant amount of medical care later in life. The Carlsons now have a much better context for making financial decisions and understanding the sensitivity of items that can enhance or diminish their likelihood of successfully meeting their financial needs throughout their remaining years. The long-term cash flow analysis provided a basis for Fairman Group to help the Carlsons construct a diversified investment portfolio specific to their life and built upon their needs.

YOU MAY HAVE SOME OF THE SAME QUESTIONS, CONCERNS, AND DREAMS AS THE CARLSONS.

Whether you are building assets for retirement, getting ready for a major milestone, having a really bad day at work and wondering when you can just walk away or, quite the opposite, feeling like you have accomplished all that you can in your current position and want to go out on top, the experienced professionals at Fairman Group Family Office can help you plan and make educated decisions regarding your finances and your life.