

**Silicon Valley Chapter
American Association of Individual Investors**

Financial Planning Workshops

Retirement Planning I

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Silicon Valley Chapter of American Association of Individual Investors

Please check us out!

- Chapter website: www.siliconvalleyaaii.org
- Meetups: www.meetup.com/AAll-Silicon-Valley-Meetup
- Facebook: www.facebook.com/sv.aa
- Slides and Recordings
www.siliconvalleyaaii.org/financialplanning/
- AAI National website: www.aaii.com
- My email address: dstikes.svaaii@gmail.com

Our Next Event and Special Interest Group Webcasts

- Monthly Event: Saturday March 14th at 9:00am; webcast only:
 - 1.) Kristina Kuprina, CEO, Chief Economist Sequoia Wealth Advisors – Managing Wealth in 2026
 - 2.) Lisa Lang – Schwab – Financial Crimes
- Financial Planning Workshop
 - Debra Stikes: Second Wednesday of each month at 6:30pm
September to May
- Investing Discussion Group
 - Lynn Gillette: Fourth Monday of each month at 6:30pm except Dec.
- Computerized Investing Group
 - Don Mauer, Bill Paseman: First Thurs of each month at 6:30pm

Financial Planning Workshops

- **Financial Planning ... The Big Picture**
- **Social Security and Medicare: Claiming strategies, Medicare traps**
- **Taxes: TRJA, SECURE Act, Tax diversification, Asset location, QCDs**
- **Investing I: Modern Portfolio Theory, Building a diversified portfolio**
- **Investing II: Efficient Market Hypothesis; Can you beat the market?**
- **Retirement Planning I: Tax-advantaged plans, RMDs**
- **Retirement Planning II: Safe withdrawal rates, Bengen's 4% rule**
- **Risk Management/Insurance: Annuities, Long-term care, Litigation**
- **Estate Planning: Probate, Executor/trustee duties, Philanthropy**

Today we will cover ...

- Retirement Planning
 - The accumulation phase
 - The distribution phase
- Various types of accounts
 - Traditional and Roth IRAs
 - 401(k) plans, etc.
- Estate planning issues with retirement accounts
- Stretching your retirement plan to age 100
- Financial planning software

Retirement Planning

- Typical life cycle
 - Birth Graduation day Retirement day Death
- Goal of retirement planning
 - Accumulate enough assets between Graduation Day and Retirement Day (Accumulation phase)
 - to live comfortably after Retirement Day (Distribution phase)
- Known Unknowns
 - Length of accumulation and distribution phases
 - Return on retirement portfolio, inflation, etc.
 - Sequence of return risk
 - Sequence of expense risk, medical expenses, LTC

Meet Alan

- Graduation Day
 - Alan, a bright young twenty-something, just graduated from Prestige U.
 - Advanced degree in computer sciences
 - Starts work shortly at Giggle Corp
 - Starting salary \$100k per annum
- Fast forward 50 years to Retirement Day
 - Alan is now seventy-something
 - Looking forward to a long and comfortable retirement
 - How will Alan fund his retirement?

How Much Will Alan Need?

- Expenses in Retirement
 - Assume 80% of salary = \$80,000 pa (Today's \$)
- Income
 - Social Security; assume \$30,000 pa
 - Pension; assume Giggle offers none
 - Retirement portfolio must fund \$50,000 pa
- Retirement Portfolio
 - Need \$1.25M assuming Bengen's 4% rule
 - Alan should plan for \$2.5M to be safe.

Alan's Accumulation Phase

- How do we get from \$0 on Graduation Day to the \$2.5M required in the retirement portfolio on Retirement Day?
- Assume Alan starts saving for retirement at age 35 and continues contributing to his portfolio until age 70, i.e. for 36 years
- \$15,000 pa for 36 years → \$2.2M at age 70

Today's \$, assuming 7% CAGR

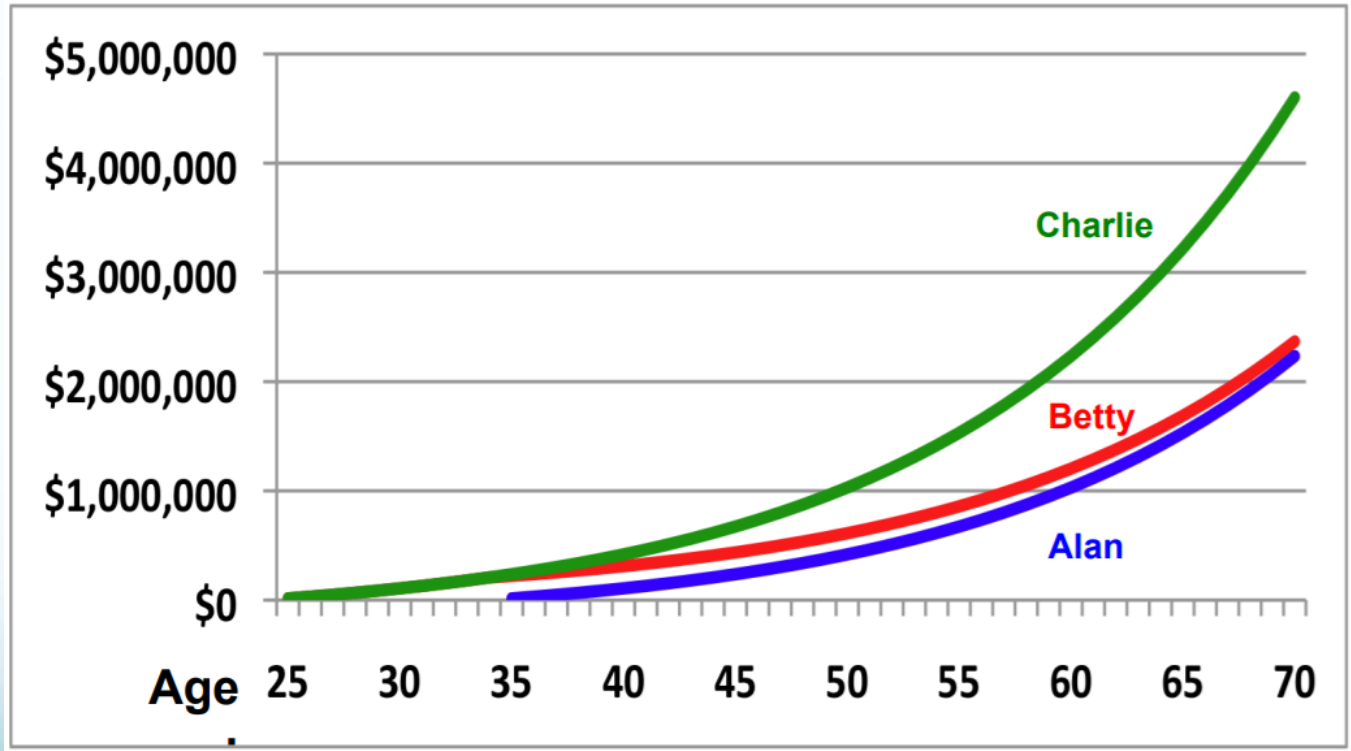
Meet Betty

- Betty is the same age as Alan, and graduated the same year
- She also works at Giggle and earns the same salary as Alan
- But she starts saving for retirement at age 25
- Then she drops out of the workforce at age 35, no longer contributes to her retirement portfolio
- \$15,000pa for 10 years → \$2.4M at age 70

Meet Charlie

- Charlie was a classmate of Alan and Betty and started with them at Giggle
- Charlie started contributing to his retirement plan at age 25, and continued making contributions to age 70
- \$15,000pa for 46 years → \$4.6M at age 70

Let's Compare The Three Plans



Are You On Track For Retirement?

- Recommendations from T. Rowe Price

If you are	Aim to have	0.5x salary saved
30		
35		1x
40		2x
45		4x
50		6x
55		8x
60		10x

FS opinion: 65 Need 15x-20x-25x for 4% withdrawal

- Save at least 15% of your current gross salary
- Michael Kitces: Avoid “lifestyle creep”
 - Goal: 30x current lifestyle expenses for 3.3% withdrawal

Tax Advantaged Retirement Plans

- Employee salary deferral plans
 - Traditional IRA, Spousal IRA, Non-deductible IRA
 - Roth IRA
- Employer sponsored plans
 - 401(k) and 403(b) plans
 - 401(k) and 403(b) Roth plans
 - SIMPLE
 - SEP
 - Solo 401(k) plans
 - Non-Qualified Deferred Compensation Plans
- Pseudo retirement plan
 - Health Savings Account, HSA

Traditional IRA

- Contributions may be deductible from 1040 income
 - Maybe eligible for Saver's Credit
- Growth within the plan is tax-deferred
- Withdrawals after age 59.5 are taxed as ordinary income
- Withdrawals before age 59.5 are assessed a 10% federal penalty (some exceptions) and possible additional state penalty (2.5% in CA)
- Required minimum withdrawals (RMD) start at age 73 for those born before 1960 and who haven't previously been required to start RMDs
- Failure to take RMD may trigger 25% penalty reduced to 10% if promptly corrected. Waiver of the penalty can be requested and is often granted.

Traditional IRA Limits

- Must have reportable income
- Contribution limits for 2024-2026:
\$7,000 pa, plus extra \$1,000 pa catch-up for those over age 50

Traditional IRA Limits

- Who is eligible to deduct their IRA contribution?
 - Anyone not covered by an employer retirement plan
 - Phase out income for those covered by an employer retirement plan

Modified Adjusted Gross Income, MAGI, in 2025

< 79,000 - \$89,000 for singles

< 126,000 - \$146,000 for married filing jointly

Modified Adjusted Gross Income, MAGI, in 2026

< 81,000 - \$91,000 for singles

< 129,000 - \$149,000 for married filing jointly

IRA Rollovers

- Individuals can temporarily withdraw funds tax-free from a traditional IRA if they are deposited within 60 days to the same or another IRA
- Only 1 non-trustee-to-trustee rollover per person every 12 months regardless of the number of IRAs owned (not calendar year)
- Solution is to do a trustee-to-trustee transfer
 - No limit on the number of these rollovers allowed

Required Minimum Distributions, RMDs

- Beginning in 2023, the SECURE 2.0 Act raised the age for starting RMDs to 73 for those born before 1960 and had not previously required to take RMDs
- RMD is based on age and life expectancy

2026 Table

Uniform Lifetime Table

Unmarried
at age 73

26.5 years

RMD percent

3.77%

RMD = % of account value Dec 31st of the previous year

Required Minimum Distributions, RMDs

- Penalty for missed RMD
 - SECURE ACT 2.0 decreased the Penalty from 50% to 25%
 - Penalty is further reduced to 10% when corrected by the end of second year after the missed RMD.
 - It is routine for the IRS to forgive the penalty of a first missed RMD.

IRS RMD Tables

- Table I: Single Life Expectancy
 - For use by beneficiaries
- Table II: Joint Life and Last Survivor Expectancy
 - IRA owner
 - Married and spouse is the sole beneficiary and is more than 10 years younger
- Table III: Uniform Lifetime
 - IRA Owner
 - Unmarried
 - or Married and Spouse is not the sole beneficiary or is not more than 10 years younger

Other IRAs

- Non-deductible IRA
 - Available to those who do not meet the MAGI limit
 - Same contribution limits as the traditional IRA
 - but contributions are not deductible on 1040
 - Earnings on account grow tax-deferred
 - After-tax contributions are withdrawn tax free
 - Tax basis is pro-rated
 - Earnings are taxed as ordinary income on withdrawal
 - Administrator does not track tax basis
- Spousal IRA
 - Similar to a traditional IRA for a spouse with little or no earned income
 - Same contribution limits and tax treatment

Roth IRA

- Contributions are not deductible
 - Growth within the plan is tax-free providing distributions are qualified
 - Contributions can be withdrawn any time for any reason
- Qualified withdrawals of earnings are tax-free
 - After age 59.5
 - Original plan must be > 5 tax years old
 - Otherwise, there is a 10% fed penalty plus possible state penalty
 - except \$10,000 for first home purchase
 - education expenses, medical expenses, etc
- No required minimum distributions
- Good estate planning tool

Roth IRA Limits

- Who can contribute in 2025
 - Phase out income limits
 - \$150,000 - \$165,000 for single taxpayers
 - \$236,000 - \$246,000 for married filing jointly
- Who can contribution in 2026
 - Phase out income limits
 - \$153,000 - \$168,000 for single taxpayers
 - \$242,000 - \$252,000 for married filing jointly

Roth IRA Limits

- Contribution limits same as for traditional IRA
 - Contribution limit is combined for Traditional and ROTH IRAs
 - 2025 - \$7,000 pa plus \$1,000 catch-up for age 50 and older
 - 2026 - \$8,500 pa plus \$1,100 catch-up for age 50 and older

Roth Conversions

- Anyone can convert a traditional IRA to a Roth IRA
 - Will owe taxes on the pre-tax portion of contributions and the earnings
- Consider partial conversions to fill up to the top of your current tax bracket
- Can no longer recharacterize a conversion
- Must wait 5 years before withdrawing any converted balances (contributions or earnings)
 - Otherwise, if under 59 ½ there is a 10% federal penalty plus possible state penalty on withdrawal

The “Backdoor” Roth

- Can be used when AGI exceeds Roth limits
- Make a non-deductible contribution to regular IRA
- Then convert the non-deductible IRA to your Roth IRA
- IRS “pro-rata rule” requires total of all IRAs be used to compute the tax owed on conversion
 - Best when there are no tax-deferred Traditional IRAs
 - Beware the pitfall of rolling old 401(k) plans into an IRA when changing jobs
 - Move all pre-tax dollars to 401(k) or 403(b) plans
 - Not included in computation for Roth conversion
 - Convert all after-tax contributions to the Roth IRA

Reason for ROTH Early Withdrawal Penalty

- Originally, ROTH has not Early Withdrawal Penalty
- This allowed the unintended loophole where the Early Withdrawal Penalty on a Traditional IRA by converting to a ROTH then immediately taking a distribution.

Order of Withdrawal from ROTH

- Used to determine if any withdrawals are taxable which is only for non-qualified withdrawals
- Order
 - Participant contributions
 - Always tax free and penalty free
 - Taxable conversions
 - Early withdrawal penalty if not held for 5 years and under 59 1/2
 - Non-Taxable conversions
 - Early withdrawal penalty if not held for 5 years and under 59 1/2
 - Earnings
 - Qualified after a ROTH open 5 years otherwise taxable and possible early withdrawal penalty

Traditional 401(k) Plan

- Employer sponsored pension plan allowing employees to defer pre-tax salary
- Employer may require up to 1 year of service before eligible to contribute.
- Employer may require up to 2 years of service before eligible for employer match.

Super Catch-up

- Why?
 - Congress hasn't explained
- Ages from when you turn 60 ends the year that you turn 64.
 - Not eligible the calendar year you turn 64
 - Employer may but isn't required to offer
 - Applies to 401k, 403b and 457b plans
 - Simple IRA – Not Simple - Three possible limits
 - Does not apply to Traditional IRAs or ROTH IRAs

Traditional 401(k) Plan

- Tax implications same as for traditional IRA
 - Pre-tax contributions
 - Earnings grow tax-deferred
 - Distributions taxed as ordinary income
 - 10% federal penalty plus possible state penalty for early withdrawal < age 59.5
 - RMDs start at age 73 for those who have not previously required to start RMDs
 - Missed RMD penalty same as IRA

Traditional 401(k) Limits

- Limit:
 - 2025: \$23,500 for employee contribution
 - 2025: Catchup employee contribution
 - \$7,500 for 50 through 59 and 64+
 - \$11,250 for 60 through 63 (providing plan allows)
 - 2026: \$24,000 for employee contribution
 - 2026: Catchup employee contribution
 - \$8,000 for 50 through 59 and 64+
 - \$11,250 for 60 through 63 (providing plan allows)
- Combined limit of Traditional and ROTH contributions
- Employer matching contribution
 - Most common match 50% of first 6%
 - Vesting schedule (up to 6 yrs) for employer contributions
 - Employee contributions always fully vested

Traditional 401(k) Limits

- Sponsor must do Average Deferral Test (ADP) to limit benefits for Highly Compensated Employees (HCEs)
 - Overcontribution resulting from ADP for HCE must be distributed by April 15 of the following calendar year.
- Employer may allow additional after-tax contributions
 - IRS limits for all contributions including employer
 - 2025: \$70,000 +
 - \$7,500 catch-up for age 50 through 59 and 64+
 - \$11,250 catchup for 60 through 63 (providing allowed by plan)
 - 2026: \$72,000 +
 - \$8,000 catch-up for age 50 through 59 and 64+
 - \$11,250 catchup for 60 through 63 (providing allowed by plan)
- The plan may allow after-tax contributions to be converted to ROTH
- Catch-up is a combined limit for all 401K contributions
- Participant loans allowed by some plans (Beware!)
 - What happens when separating from your employer?

Responsibilities of 401(k) Plan Sponsor

- The plan sponsor has a fiduciary duty to act in the best interest of the plan's participants
 - Selection and ongoing monitoring of service providers
 - Understand where all the fees are hidden
 - Provide a diverse selection of low-cost funds, and benchmark these regularly regarding performance, fees
- If the plan sponsor does not offer an acceptable plan, and live up to its fiduciary obligations, the employee should
 - Discuss the problem with the sponsor and/or HR dept
 - Try to have a few index funds and/or a brokerage window
 - Document problems, perhaps signed by fellow employees
 - Consider legal action

c.f. Boeing \$57M and Lockheed Martin \$62M settlements

403(b) Plan

- Usually sponsored by not-for-profit organizations, educational groups, local governments, etc. for the benefit of their employees
 - Teachers, Police, Firemen, etc.
- Similar to a traditional 401(k) plan in most respects

Roth 401(k) and Roth 403(b) Plans

- Similar to traditional 401(k) and 403(b) plans except
 - Contributions are not tax deductible
 - No incomes taxes on distribution of contributions, conversions, and qualified earnings
 - Maybe penalties on withdrawals before 59 1/2
- Employer plans may limit withdrawals for current employee
- RMDs
 - No longer required unless already required to take RMDs

Savings Incentive Match Plan for Employees, SIMPLE IRA

- Usually set up by small employers
 - 100 or fewer employees
- Employee contributions are optional
 - Limits for 2026 for 26 to 100 employees
 - Employee contributions \$17,000
 - Catch up contributions
 - Age 50-59 and 64+ : \$4,000
 - Age 60-63 : \$5,250
 - Companies with 25 or few employee may allow
 - Employee contributions \$18,100
 - Catch up contributions
 - Age 50-59 and 64+ : \$3,850 (maybe \$3,500)
 - Age 60-63 : \$5,250

Savings Incentive Match Plan for Employees, SIMPLE IRA

- Employer matches employee contribution \$ for \$
 - For all employers, the match is up to 3% of employee compensation
 - Employers of 26 to 100 may allow their employees to make higher contributions provided the employer choose to match up to 4% of employee compensation.
 - Employers can choose to reduce their match rate to less than 3% (provided it is at least 1%) for up to 2 out of every 5 years.
 - Employers may make contributions without requiring employee contribution
 - The nonelective contribution is 2% of employee compensation
 - 2026 maximum salary is \$360,000
 - Whatever percentage an employer elects applies to themselves as the owner and all eligible employees.
 - Additionally, Employers are allowed to make an additional nonelective contribution to each employee in a uniform manner, up to 10% of compensation or a maximum of \$5,000.

Simplified Employee Pension Plan (SEP) IRA

- For use by small business owner or if you have self-employed income from consulting work, etc.
- Works well for married couple in a family business
- 2026 limits = lesser of 25% of income or \$72,000. Contribution limits are not affected by participation in Traditional or Roth 401(k) plans
- Employees cannot make contributions to their SEP IRA; only employer contributions are allowed
- There are no elective salary deferrals or catch-up contributions allowed in SEP plans.
- Distributions are taxed as ordinary income
- Can convert to a backdoor Roth year after year
 - Get professional help!

Simplified Employee Pension Plan (SEP) IRA

- Contribution limits are combined for all defined contribution plans

Solo 401(k) Plan

- Suitable for sole proprietors or partners
 - No common-law employees
 - Can contribute as employer and/or employee
- No age or income restrictions
- Employee pre-tax or Roth contributions
 - Limits for 2026
 - \$24,500 + \$8,000 catch-up if age 50-59 or 64+ or 11,250 if age 60-63
- Employer contributions
 - Limit 25% of compensation
- Limit on total contributions
 - \$72,000 for 2026 plus catch-up contribution

Non-Qualified Deferred Compensation Plans (NQDC Plans)

- Set up by company to benefit well-paid non-owner employees, i.e. officers, executives, managers
- Company owners cannot receive favorable tax treatment
- No Internal Revenue Code limit on deferral amount, but plan may impose limits
- No Internal Revenue Code limit on withdrawal time, but plan may impose limits; “Golden handcuffs”
- Distributions are taxable on receipt
 - Cannot be rolled over to a traditional or Roth IRA
- Risk: NQDC remains in company’s general assets
 - Not protected in bankruptcy, even in a “rabbi trust”
- Get professional help!

Which Retirement Plan Should I Fund First?

1. Fund traditional 401(k) or 403(b) up to match limit first (free money!)
2. Then contribute to Roth IRA up to limit
3. Back-door Roth IRA
4. Complete post-match funding of 401(k), 403(b)
5. SEP IRA
6. Traditional IRA
7. Taxable brokerage account

Health Savings Account

- Eligibility
 - Must have a high-deductible health insurance plan
 - Cannot be on Medicare
 - Beware of effective date of Medicare Part A which is the lesser of six months retroactive or 65th birthday
- Triple tax benefits
 - Contributions are tax-deductible
 - Investments grow tax-free
 - Qualified medical distributions are tax-free
 - Distributions for non-medical expenses are taxed as ordinary income
- 2026: Contribute up to \$4,400/person, \$8,750/family plus \$1,000 catch-up if age 55 or older
- 2025: Contribute up to \$4,300/person, \$8,550/family plus \$1,000 catch-up if age 55
- Can make withdrawals after you no longer qualify for contributions

Asset Location

- Tax-inefficient products
 - Corporate bonds and (non-muni) bond funds, zero-coupon bonds, active funds
 - Generate interest and non-qualified dividends and short-term capital gains
 - These are best in tax-advantaged accounts such as IRAs, Roth IRAs, 401(k) accounts
- Tax-efficient products
 - Muni bonds, ETFs, index funds, collectibles
 - Generate qualified dividends and long-term capital gains
 - These are best in taxable accounts

QCD – Qualified Charitable Distribution

- Many IRAs are eligible – Traditional, Rollover, Inherited, SEP (inactive plans only), and SIMPLE (inactive plans only)
- IRA Owner must be over 70 ½
- Direct transfer to qualified charity
 - Donor Advised Fund is not qualified recipient
- Counts towards RMD
 - Track to verify removed from taxable income on 1099-R
- Annual Maximum \$100,000
- Track cleared QCDs for filing Income Tax

QCD – Qualified Charitable Distribution

- Check written from an IRA. According to IRS Notice 2007-7, an IRA check written to a qualified charity by the IRA owner from the traditional IRA account can be considered a QCD issued by the trustee. Therefore, you can write a check from such an account to a qualified charity and characterize it as a QCD.
- Self-directed IRA LLC checkbook. When it comes to using a self-directed IRA LLC checkbook, the situation is different. QCDs must be made directly by the IRA trustee to the charity. Since the LLC is a separate entity from the IRA itself, writing a check from the LLC does not qualify as a direct transfer from the IRA.

Transfer 529 to ROTH IRA

- SECURE ACT 2.0
 - Allows lifetime rollover of \$35,000 per beneficiary in unused 529 assets
 - Rollover to the beneficiary of the 529 plan
 - Plan must be held for the beneficiary for at least 15 years old
 - Transferred amount must have resided in the 529 for at least 5 years before the transfer
 - The aggregate amount transferred from 529 account and other IRA contributions for the year, must not exceed the ROTH IRA annual contribution limited applicable for the beneficiary.

Estate Planning Issues

- Federal estate tax exemption = \$15M in 2026
 - No longer sunsets
- American Taxpayer Relief Act of 2012 (ATRA 2012)
 - Deceased Spouse Unused Exemption Portability
 - File an Estate Tax Return within 5 years (was 2 years)

Estate Planning Issues

- Be careful with income tax efficiency:
 - Roth accounts are best
No taxes owed.
 - Taxable accounts are good
New basis; no tax if sold immediately
 - Tax deferred IRA accounts are worst
Unfavorable tax treatment; no step-up in basis
Owe ordinary income tax on distributions
Only a surviving spouse can assume an IRA at death
Stretch RMDs eliminated for most
If considering charities, best to leave tax deferred to charity
- Talk to your estate planning professional!

Long Term Care

- When Long Term Care becomes a deductible medical expense, income taxes on distributions from a pre-tax retirement account are reduced
- Converting too much to ROTH means prepaying income tax which is good for Estate Planning but may not be the best for Long Term Care

Inheriting IRA Assets: The “Stretch IRA”

- The SECURE Act (December 2019) eliminated the Stretch IRA except for ...
 - Surviving spouse of original owner
 - Must transfer to the surviving spouse within 10 yrs
 - Minor child < age of majority
 - Person >10 years younger than the decedent
 - Disabled individuals
 - Chronically ill individuals
- For all others the account must be completely distributed within 10 years of the original owner's death, RMDs are required
- Important to educate heirs now about options
- Talk to your estate planning attorney!

Inheriting IRA Assets

- When a spouse inherits, the spouse should be listed as the primary beneficiary.
- A living trust which becomes irrevocable at death can be a primary or contingent beneficiary.
 - A consideration when non-spouse(s) inherit
 - The beneficiaries of the trust must be individuals (no charities, etc...)

Important to Review Beneficiary Forms Regularly

- Have there been any
 - Births, Deaths
 - Consider designating contingent beneficiaries
 - Specifying a trust is an option
 - Marriages, Divorces
 - Marriage/Remarriage may void beneficiary designations – This is a recent change
 - Current spouse consent is often required if they are less than a 50% beneficiary
 - Beneficiaries reaching the age of majority
 - Has the beneficiary information been lost?

Important to Review Beneficiary Forms Regularly

- A spouse is the only beneficiary that can transfer a retirement account to their name
- If a spouse is to inherit the account, they should be specified as the primary beneficiary
- Specifying an estate as the beneficiary subjects the account to probate
- No beneficiary subjects the account to probate
- The administrator of the account will not notify the estate administrator or trustee the identity of the beneficiaries. What happens when inheritance taxes are due?

Important to Review Beneficiary Forms Regularly

- TOD accounts also pass by contract and not by will or trust
- Beneficiary designations are often lost when the plan administrator changes
- DIY Estate Planning is strongly NOT recommended. Mistakes can be expensive and not correctable. Get professional help, but avoid unnecessarily complicated estate plans!

What If I Can't Stretch My Portfolio to Age 100?

- Possible solutions to longevity challenge
 - Start saving earlier (Talk to your kids, grand-kids!)
 - Save more during working years
 - Work longer
 - Reduce withdrawals
 - Downsize home, move to a cheaper area
 - Seek higher returns (more risk)
- Other possible solutions
 - Tap into home equity; Reverse mortgage
 - Buy insurance; Annuity

FHA Reverse Mortgage for Seniors

- Home Equity Conversion Mortgage (HECM)
 - Insured by the Federal Housing Administration
- Requirements
 - Be 62 years of age or older
 - Own property outright or have significant equity
 - Occupy property as principal residence
 - Continue to pay property taxes, insurance, and maintain the property
 - Not be delinquent on any federal debt
 - Must undergo counseling, financial assessment

How Much Can I Borrow?

- Maximum loan
 - Lesser of appraised value or \$1,249,125 (2026)/
\$1,209,750 (2025)
 - Adjusted for age of the youngest borrower
and the interest rate
- Form of loan
 - Lump sum
 - Monthly payments
 - Line of credit (non-cancellable)
 - Combination of the above
- Repayment due on sale, no longer primary
residence or death of owner

Costs for a HECM

- Interest, accumulates on loan
- Mortgage insurance premiums
 - Initial: Typically, 0.5% of home value
 - Annual: 1.25% of outstanding loan balance
- Closing costs
 - Appraisal, title search, inspections, taxes, etc.
- Origination fee: 1% to 2% capped at \$6,000
- Servicing fees: Capped at \$35 per month
- Most fees rolled into loan; many waived by mortgage lender

HECM Line of Credit

- Converts home equity into easily accessible funds
- No monthly payments on principal or interest
- Lender cannot reduce or cancel line of credit
- Unused line of credit grows over time
- Non-recourse loan, i.e. can never owe more than the home is worth when the loan is repaid
- Can be converted to a monthly cash flow at any time

Uses for a HECM Line of Credit

- Defer Social Security benefits for a higher benefit
- Allows smaller short term cash bucket
 - Reduces opportunity cost of “dead money”
- Provides flexibility in long-term investment bucket
 - Reduces sequence of returns risk, i.e. need to sell assets in bear markets
- Can extend life expectancy of retirement portfolio
- Can provide living expenses if retirement portfolio is exhausted

Consider an Annuity

- Single premium immediate annuity, SPIA
 - Benefit starting immediately
 - \$1900/month, i.e. \$22,800 pa
 - Cost for 65-year-old male: \$300,000 (Jan 2024)
 - Cash flow = 7.6 per annum
- Single premium deferred annuity, SPDA
 - Benefit starting at age 85
 - \$12,883/month, i.e. \$154,596 pa
 - Cost for 65-year-old male: \$300,000 (Jan 2024)
 - Cash flow = 51.5% per annum

Retirement Planning Software

- Available free from most financial houses
 - T Rowe Price, Vanguard, Fidelity, Schwab, AARP, etc.
- Inputs
 - Marital status
 - Age, spouse's age, target retirement age, etc.
 - Income: Salary, Social Security benefits, etc.
 - Expenses: Fixed expenses, variable expenses
 - Portfolio size and return, inflation rate, etc.
- Output
 - Shortfall or surplus, required savings rate, etc.
 - Confidence level from Monte Carlo simulations
 - Remaining balance data

Problems With Retirement Planning Software

- Beware precision output to 5 significant figures
 - Garbage in ... Garbage out
- Output is only as good as the input assumptions
 - Life expectancy; actuarial tables only give averages
 - Rate of return assumptions for portfolio
 - Sequence of returns risk
 - Tax rate forecast in retirement
 - Inflation estimate
- Compounding the “known unknowns” 35 years into the future is not an exact science!

“Too err is human; to really screw up you need a computer!”

Best Uses for Planning Software

- Learning tool
 - Provides a feel for how all the pieces play together
 - Guides the safety first versus lifestyle trade-off
- Scenario analysis
 - What if I work for 2 extra years?
 - What if I delay taking Social Security benefits to age 70?
- Sensitivity analysis
 - What if the return on my portfolio is 5% instead of 7%?
 - What if inflation is only 2%? How about 4%?
- Even a rough plan is much better than no plan
 - Re-evaluate the plan annually

To Probe Further

- *Want to Create a Retirement Paycheck? ...*, Carrie Schwab-Pomerantz, December 2020
- *Many Retirees Limit Withdrawals to the RMD Amount*, AAI Journal, November 2020
- *Estimating the End (of Retirement)*, David Blanchett, Morningstar, April 2020
- *Converting to a Roth IRA Can Minimize RMDs*, Judith Ward, AAI Journal, March 2015
- IRS Publication 590
- *How to Invest in an Annuity*, Christine Benz, Morningstar, September 30, 2020
- *Can You Save too Much in a Health Savings Account?*, Christine Benz, Morningstar, September 25 2020

Useful Websites

- <http://aaii.com> Broad selection of investing material
- <http://siliconvalleyaaii.org> Previous presentations on various topics
- <https://sccld.org/resources/business/> Business & Money
Morningstar Research Center, S&P's NetAdvantage, Value Line
- <https://portfoliovisualizer.com> Free access to a wide selection of tools
- <https://vanguard.com> <https://fidelity.com> <https://schwab.com>
- <https://www.personalcapital.com/financial-software/retirement-planner>
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