Financial Planning for Professionals Nearing Retirement

7 Questions You Need to Answer

In today's world with economic, political, and social conditions constantly changing, retirees continue to express deep concerns about preserving their wealth and ensuring it lasts throughout their retirement years. With inflation rates trending higher, life expectancies on the rise, and healthcare costs continuing to soar, seeking experienced financial advice as you begin transitioning into retirement has become increasingly more important.

For many professionals nearing retirement, you are probably busier than ever before. Your work and family responsibilities may crowd out proper management of your finances and your retirement preparations. For many pre-retirees with hectic schedules and competing priorities it is easy to become overwhelmed and complacent, and simply determine that you are "probably in good shape", and just leave it at that.

We strongly urge you not to. Ensuring you are adequately saving, managing your expenses, mitigating your taxes, and structuring your portfolio appropriately is essential. Doing so can make a big difference in the short run and potentially lead to enormous benefits over the long run. The reality is your wealth accumulation window is quickly closing and may never reopen.

For most professionals, chances are you will likely "hit your number" and achieve financial independence – that is when you no longer need to work to achieve your lifestyle and financial goals. Assuming you decide to exit the workforce around age 65, there is a decent chance your retirement may last for 30 years or more. This possibility creates a unique set of financial issues and distinct planning considerations.

Developing a thoughtful plan is vital at this stage of your life. Our team has focused our entire wealth management practice on understanding the challenges people face in preparing for retirement and sustaining a comfortable lifestyle throughout their golden years. This paper identifies several important questions that you will need to answer as you begin to make the transition from the workforce to retirement. We hope it helps!

Regards,

Mercer Partners Wealth Management

What is Your Retirement Number?

Q1

The most common question we get asked is: "How much money will I need to save so I can retire comfortably?" The answer really depends on several factors, like your retirement age, your projected life expectancy, your withdrawal rate, and other uniquely personal dynamics. In fact, narrowing this decision down to a single number is not the right approach. Instead, the best way to answer this question is to use comprehensive financial planning software to model your family's net worth from now until the end of your projected life, accounting for all your expected inflows, outflows, investment returns, and tax rates—adjusted for inflation.

However, you need to proceed with caution. Any model or analysis that projects 30+ years into the future is bound to be wrong, yet it can still serve as a valuable framework for quantifying important financial decisions. Before making any major financial decision—especially one as important as deciding to retire—you can refer to this model for its long-term implications and assess the real-life trade-offs. How else can you answer major questions like "can I retire now," "am I spending too much", or "can I buy a new home?"

THE PROCESS OF FINANCIAL PLANNING CAN PROVIDE A VALUABLE FRAMEWORK FOR EVALUATING IMPORTANT RETIREMENT DECISIONS

This calculation is hypothetical information and intended for your independent use and are not intended to provide investment advice. We cannot and do not guarantee their applicability or accuracy in regards to your individual circumstances.

If this advice feels unsatisfying—we reluctantly offer the following exercise to calculate a rough estimate of your "retirement number". Determine what dollar amount will you need to draw from your investments to comfortably sustain your lifestyle in the first year of retirement (this is above social security or any other fixed pension benefits). Next, multiply your projected annual withdraw number (in today's dollars) by 25. Finally, gross the resulting number up by 25% to cover income taxation during withdrawal. The result is a very rough estimate from which you may consider taking 4% annual withdrawals from your portfolio without excessive risk of draining your capital too quickly. At this point, the growth from your investments should outpace your withdrawals. Please use this exercise only as a guide, and the not basis for any big decisions.

How Will You Generate the Income You Need?

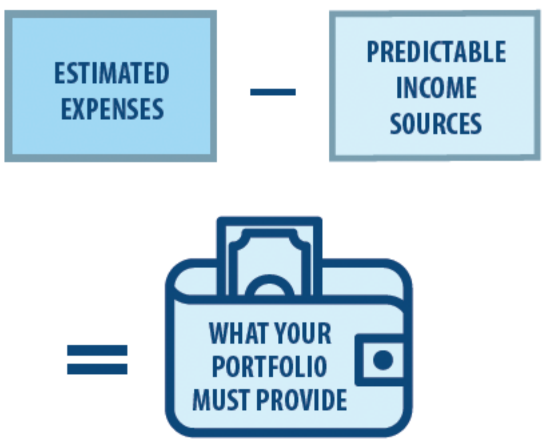
Q2

The day will come when you need to turn your savings into a consistent income stream to replace the paychecks you are no longer receiving. Most likely your retirement funding needs will not depend on a single source of income. Instead, your cash flows will come from a combination of sources. Creating a retirement income stream may seem like a daunting task, but it is possible with the right planning approach.

The first step is understanding how much you'll spend in retirement. The best way to do this is to analyze your current spending patterns. We suggest breaking down your expenses into two separate categories: those that are essential (i.e., housing and food) and those that are discretionary (i.e., travel and entertainment). Once you have a firm grasp of your current spending habits you can begin to project what your expenses will be in the first few years of retirement. Know that your spending patterns will change over time. Some expenses will be reduced or eliminated entirely, while others will stay the same or begin to rise over time. You will also need to factor in the potential for major one-time expenses, such as a child's wedding, buying a new car, home improvements, or the cost of purchasing long-term care insurance.

Next, add up all the income sources you will receive during retirement. These sources include social security benefits, fixed-pension benefits, real estate income, and any other non-portfolio income sources. Finally, you will need to take a complete inventory of your investable assets. Add up the balances in your 401k's, IRA's, brokerage accounts, savings accounts, and any other investments. The difference from your reliable income sources and your monthly expenses will need to be funded from your investment portfolio. Once you lay out all the pieces, you can start putting the puzzle together to create a monthly retirement paycheck.

DETERMINE HOW MUCH OF YOUR SPENDING NEEDS ARE COVERED BY PREDICTABLE INCOME SOURCES AND HOW MUCH WILL NEED TO COME FROM YOUR PORTFOLIO



When Will You Take Social Security?

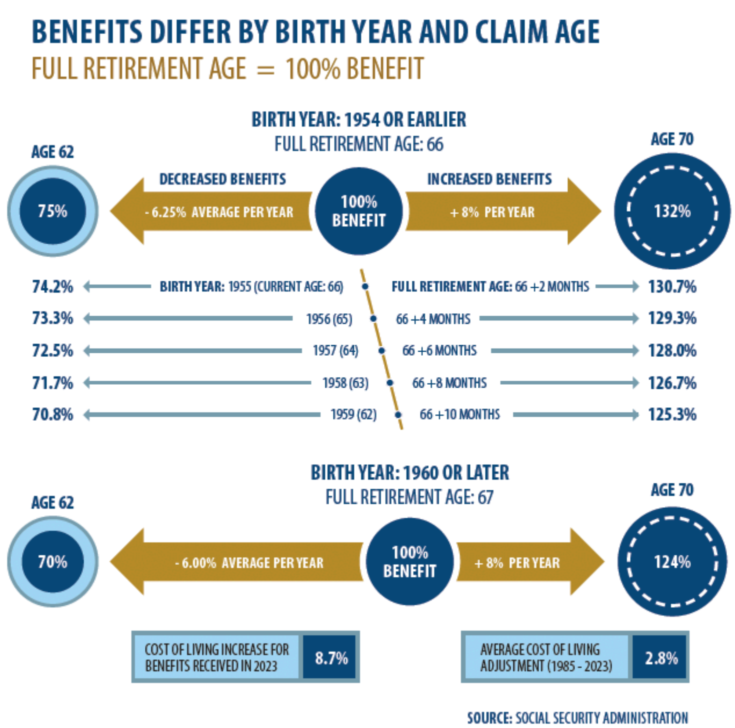
Q3

Deciding when to claim your Social Security benefit will have a permanent impact on the benefit you receive. There are different ideas about when to claim Social Security benefits. Some suggest you should take it as early as possible, especially if you need the money. While others say you should delay as long as possible to lock-in the highest monthly benefit.

Assuming you earned the 40 credits required (10 years) to be eligible for Social Security retirement benefits, the earliest you can claim your benefits is age 62. You can delay taking your benefits all the way to age 70 before you stop seeing incremental increases in your benefit amount. Your primary insurance amount (PIA) is the monthly benefit you stand to receive at your full retirement age (FRA). Know that your PIA is calculated by taking the average of your best 35 years of employment, while your FRA varies based on your birth year.

We believe the best way to decide when you should claim your benefits is to use comprehensive software to calculate lifetime benefits under various claiming scenarios and see which strategy yields the most benefits over your lifetime, accounting for your projected life expectancy and assumed cost-ofliving adjustments. Many retirees only look at the monthly benefit they will receive today, when they really should be analyzing how much money they stand to receive over their lifetime. You also need to consider spousal strategies and survivor benefits into your analysis. The right claiming strategy can potentially translate to hundreds of thousands of extra dollars in your pocket over the course of your lifetime. It's worth your time and effort.

USE SOCIAL SECURITY PLANNING SOFTWARE TO FIND THE RIGHT CLAIMING STRATEGY TO POTENTIALLY INCREASE YOUR LIFETIME BENEFITS



What is Your Investment Strategy?

Q4

The most important factor of a portfolio's return is the allocation to "growth" assets (i.e., stocks, REITs) versus "conservative" assets (i.e., bonds, cash). This portfolio decision represents your asset allocation strategy and is a critical step in the investment process. There is a clear trade-off: allocating more of your portfolio to "growth" assets may improve your expected returns in the long run, but also increases the volatility of those returns and your range of possible outcomes in the short run. There is no free lunch in the world of investing.

Determining the right investment strategy for your retirement will require a deep understanding of your personal goals, risk tolerance, assets, liabilities, income, expenses, investment constraints, and individual temperament. These factors are not static, so your asset allocation should be monitored regularly to make sure that your portfolio continues to match your evolving situation. This process is more art than science.

TREAT A THREE-DECADE RETIREMENT AS A PROBLEM OF MAINTAINING YOUR PURCHASING POWER, RATHER THAN SIMPLY PRESERVING YOUR PRINCIPAL

In our experience, the natural tendency for many retirees is to "play it safe" with their investment strategy; selecting more conservative investments to reduce portfolio volatility and provide more predictable returns. While this approach may be appropriate for ultra-wealthy retirees, for most folks reading this paper—and most of my clients—this approach can lead to poor retirement outcomes. The problem with trying to make your money last over a 30-year retirement is not as much a function of preserving your principal, but rather maintaining your purchasing power. We know that the cost of living has gone up nearly every year of our lives, so a fixed-income strategy may not be sustainable through a long retirement of rising living costs.

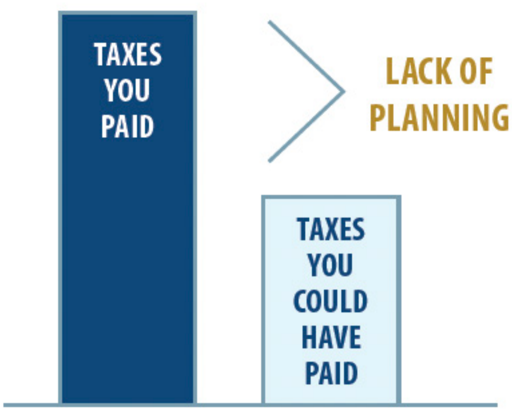
DISCLOSURE: Asset allocation does not ensure a profit or protect against loss. Investing involves risk, including possible loss of principal.

How Will You Reduce Taxes?

Q5

It is important to reduce your tax burden and keep more of your hard-earned money by utilizing various wealth management strategies. Of course, tax strategy will differ greatly depending on your marginal tax bracket and personal circumstances, but here are several considerations as you are preparing for retirement:

YOU WANT EVERY DOLLAR GROWING TAX-ADVANTAGE WHENEVER POSSIBLE



DISCLOSURE: Mercer Partners Wealth Management and LPL Financial do not provide legal advice or tax services. Please consult your legal advisor or tax advisor regarding your speci c situation. Contributions to a Traditional IRA may be tax deductible in the contribution year, with current income tax due at withdrawal.

Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing. (19-LPL)

You should strongly consider using low-cost, passive funds for your core positions, which have lower turnover and are therefore inherently more tax efficient. You should "harvest" tax losses (by selling positions with unrealized losses in taxable accounts) to offset other income to reduce your overall tax liability. Also, hold tax-inefficient asset classes (i.e., REITs and bonds) in tax-sheltered accounts (i.e., 401k and IRAs).

Make sure you are using tax-advantaged accounts wisely. You want every allowable dollar growing tax- advantaged whenever possible. Many pre-retirees are already maxing out their 401k contributions and are ineligible to contribute Roth IRA's due to the IRS income phase-out limits but should consider making nondeductible Traditional IRA contributions, Roth conversions, and 529 plans for education savings.

We would strongly consider working with a tax professional. It is quite possible your situation is complex enough that outsourcing tax preparation to a CPA is probably wise. Your accountant should work closely with you (and/or your financial advisor) to ensure that your investment and tax strategies are well-aligned.

A Roth IRA conversion—sometimes called a backdoor Roth strategy—is a way to contribute to a Roth IRA when income exceeds standard limits. The converted amount is treated as taxable income and may affect your tax bracket. Federal, state, and local taxes may apply. If you're required to take a minimum distribution in the year of conversion, it must be completed before converting.

To qualify for tax-free withdrawals, you must generally be age 59½ and hold the converted funds in the Roth IRA for at least five years. Each conversion has its own five-year period, and early withdrawals may be subject to a 10% penalty unless an exception applies. Income limits still apply for future direct Roth IRA contributions.

Are You Prepared for the Unexpected?

Q6

For most of you reading this paper the likelihood of you achieving financial security is probably very high. As you approach retirement, your mission is to not screw it up. Doctors take an oath, above all else, "to do no harm". We suggest you adopt the same guiding philosophy when it comes to your retirement preparations.

In every instance, there will be a cost for applying this philosophy. Buying sufficient insurance will cost you premium payments. Implementing an estate plan will cost you time and money. Allocating a small portion of your portfolio to conservative investments may cost you long-term returns. Protecting yourself against longevity risk will cost you even more time and money. We strongly suggest you do them anyway because the consequences are too high if you don't.

The three major events that could truly damage your retirement plans are a premature death, a long - term disability / mental impairment, or the possibility of outliving your money. Each possible outcome needs to be guarded against through proper risk management and advanced planning strategies which require your immediate attention. If you don't already have a plan that prepares for these three major contingencies, it's not too late to create one. You can't predict what will happen in the future, but you can prepare for it with care and attention.

CONSEQUENCES OF AN UNEXPECTED HEALTH EVENT

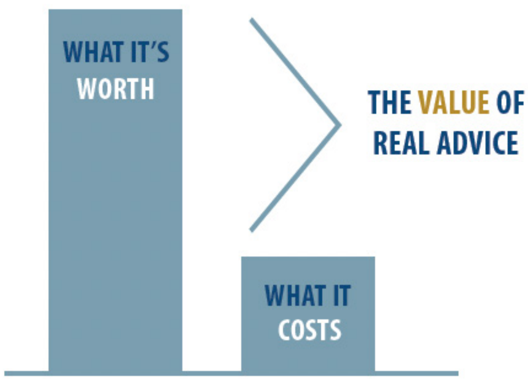
CONSEQUENCES OF OUTLIVING YOUR INCOME

CONSEQUENCES OF PASSING AWAY FINANCIALLY UNPREPARED

PURSUING FINANCIAL INDEPENDENCE IS NOT ONLY ABOUT BUILDING WEALTH, BUT ALSO PRESERVING WEALTH

Should You Work With a Financial Advisor?

Q7



THE RIGHT ADVISOR CAN HELP YOU CLEARLY DEFINE YOUR GOALS, BUILD A PLAN TO POTENTIALLY ACHIEVE THOSE GOALS AND AVOID COSTLY FINANCIAL MISTAKES.

While the do-it-yourself versus hire-an-advisor decision involves many factors, for most folks it essentially boils down to just one: if investing and personal finance is a hobby of yours—in other words, if you are truly enthusiastic about managing this aspect of your life—then you should do it yourself.

Working with an advisor would likely be a frustrating experience for both you and your advisor. However, if these responsibilities feel more like a burden, then outsourcing to a professional could help you increase your wealth and decrease your stress. Your time is better spent on family, friends, and true hobbies.

Finding the right advisor is critical. A good advisor's value far exceeds their costs, while a bad advisor is probably worse than no advisor at all. Retirement planning is quite complex and the cost of getting it wrong is incredibly high—so the decision to work with a smart and empathetic advisor seems logical.

How do you find good one? Beyond the minimum credentials, it comes down to finding the right fit: Do the advisor's services align with what you are looking for? Do you understand their investment philosophy? Do they understand the needs of people in your life stage and with your financial goals? Do you like this person? Do they seem knowledgeable? Can you see yourself working with him/her for a long time?

It's Time to Act!

Making a smooth transition into retirement is not easy. The key is proper financial planning!

A retirement plan doesn't have to be daunting — it's important to just get started. Once you know where you're heading, a solid financial plan is like any good GPS. It helps you stay on track to your destination — even as your life, the economy, and the markets change over time.

As your career has matured, so has your financial situation, quietly transforming into something far bigger and more complex than when you began. With the next chapter of your life on the horizon it is important to fully leverage your financial resources. With some targeted efforts, you can address any gaps in your plan and capitalize on the value of your professional accomplishments. We hope this paper is a useful resource.

Personalized Guidance for Your Financial Journey

MERCER PARTNERS
WEALTH MANAGEMENT

WE OFFER ONGOING FINANCIAL PLANNNING ADVICE AND PERSONAL INVESTMENT MANAGEMENT FOR PROFESSIONALS NEARING RETIREMENT

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