Strategies for Investing Success at Every Life Stage

Christine Benz

Director of Personal Finance, Morningstar, Inc.

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In this presentation, I'll share strategies for the following life stages

- Young Accumulators: People in their 20s who are just getting started
- Multitaskers: People in their 30s and 40s who are simultaneously saving for college for their kids and their own retirements
- Pre-Retirees: People in their 50s and 60s who are strategizing about retirement
- Retirees: People in their 60s and 70s who are already retired

Young Accumulators (20s): Key Priorities

- Get out of debt
- Stay out of debt
- Kick-start the retirement plan
- Save and invest for near-term goals

Get Out of Debt

- Pay off credit card debt--cards with highest rates should take priority.
- Pay off college loans--pay down highest rates first, or consider consolidation.
- Set a monthly savings target.
- Do a monthly budget to familiarize yourself with your spending habits, identify places to cut back.

Stay Out of Debt

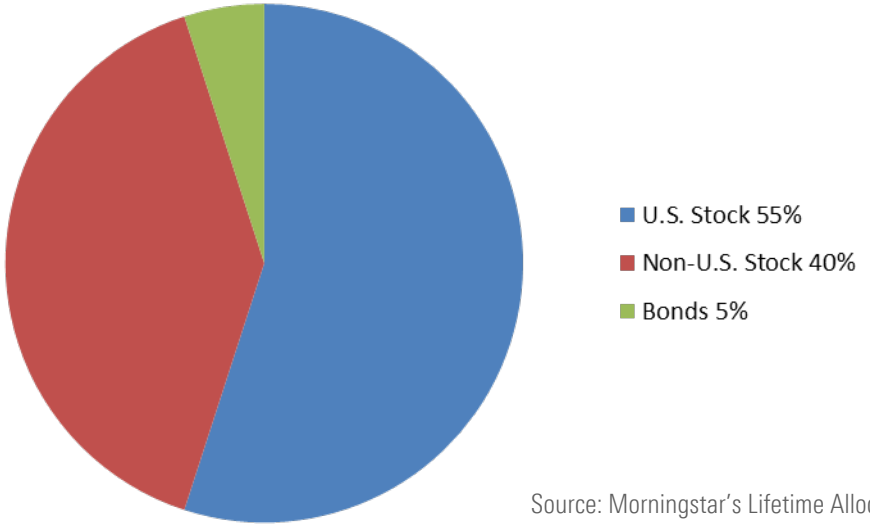
- Establish an emergency fund that can cover at least 3 months worth of living expenses, or up to 6 months if you think it would take longer to find a job if you became unemployed.
  - Gig economy workers should keep an even larger cushion
- Keep emergency savings liquid by using a bank money market or regular savings account.
- Build up credit history.
- Having multiple credit cards won't hurt you, unless you overuse them.
- If you can't pay off the balance on your credit card(s) each month, a debit card may be a better choice.

Kick-Start the Retirement Plan

- For most people just starting out, the following accumulation sequence will make sense:
  - Contribute enough to 401(k) to earn company match
  - Contribute to a Roth or traditional IRA (if within income limit; $5,500 annual limit for either)
  - Max out contributions to 401(k), 403(b), 457 plan: $18,500 for Roth or traditional contributions
- Roth or traditional: If you expect to pay higher or the same tax rate later, use a Roth; if you expect to pay a lower rate later, use traditional; if not sure, use both.
- Remember that pretax contributions keep your adjusted gross income down, qualifying you for credits and deductions

Kick-Start the Retirement Plan

- Investment mix of retirement assets for accumulators should skew heavily (or entirely) toward stocks, be diversified globally.



Source: Morningstar's Lifetime Allocation Indexes

Sample Portfolio Geared Toward a Young Accumulator

55%: Vanguard Total Stock Market Index
40%: Vanguard Total International Stock Market Index
5%: Vanguard Total Bond Market Index

Save for Near-Term Goals

- Buying a car
- Down payment on a home
- Wedding/honeymoon
- Starting a family
- Additional education/training
- Any money you will need within the next 5 years should not be invested in stocks; instead use money markets, CDs, short-term bond funds.

Multitaskers (30s and 40s): Key Priorities

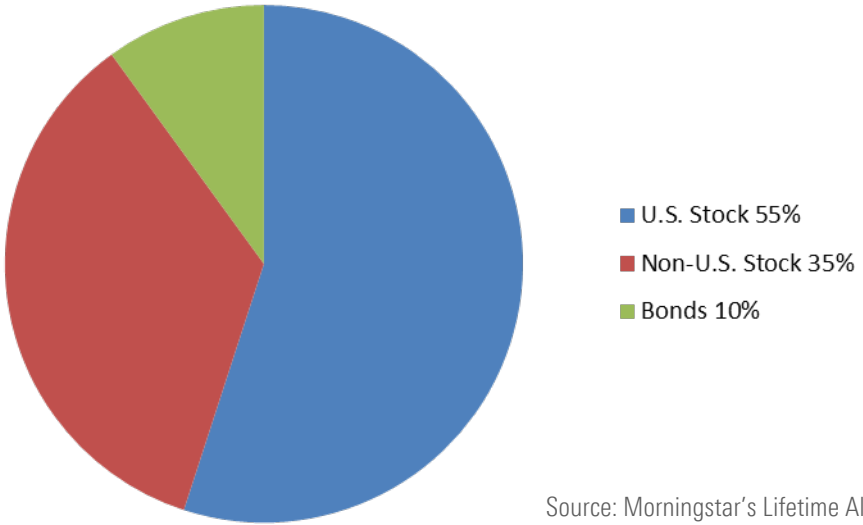
- Maximize contributions to company retirement plans and IRAs
- Retain emphasis on long-term growth through stocks
- Save in taxable accounts if maxing out tax-sheltered contributions
- Save for college for children

Maximize Contributions to Company Retirement Plans and IRAs

- Continue to aim for maximum allowable IRA and 401(k) contributions
  - $5,500 for IRAs
  - $18,500 for 401(k)s, 403(b)s, and 457 plans
- Contribute to IRA on behalf of non-earning spouse
  - "Spousal" IRA allowable as long as earning spouse has enough income to cover contribution amount.

Retirement Assets Remain Tilted Toward Stocks

- For people in their 30s and 40s, equity allocations remain high.



Source: Morningstar's Lifetime Allocation Indexes

Sample Portfolio Geared Toward a 30- or 40-Something

55%: Vanguard Total Stock Market Index
35%: Vanguard Total International Stock Market Index
10%: Vanguard Total Bond Market Index

Build Assets in Taxable Accounts

- Use for additional retirement savings once 401(k) and IRA are maxed out.
- Use to grow money for near- or long-term needs; only long-term money should be invested in stocks.
- Keep taxes and expenses low by investing in low-cost funds and funds that don't trade a lot, such as index funds.
- Individual securities give you greater control over capital gains, but watch transaction costs.

Save and Invest for College

- 529 college savings plan: Provides tax-free growth and distribution; contributions may be deductible on state income taxes.
- 529 prepaid plan: Locks in tuition payments at today's rates.
- Coverdell Education Savings Account: Can also be used for K-12 educational expenses; $2,000 annual limit per beneficiary; income limtis apply.
- UGMA/UTMA: Assets belong to child; may hurt financial aid.
- Understand the role financial aid plays in your college planning.

Review 529 Savings Plan Options

- If your state offers a tax deduction for 529 contributions, check it out first.
- Top-rated 529 plans, according to Morningstar analysts:
  - IL Bright Start Direct-Sold College Savings
  - Invest529 (Virginia)
  - Vanguard 529 College Savings Plan (Nevada)
  - My529 (Utah)

Pre-Retirees (50s and 60s): Key Priorities

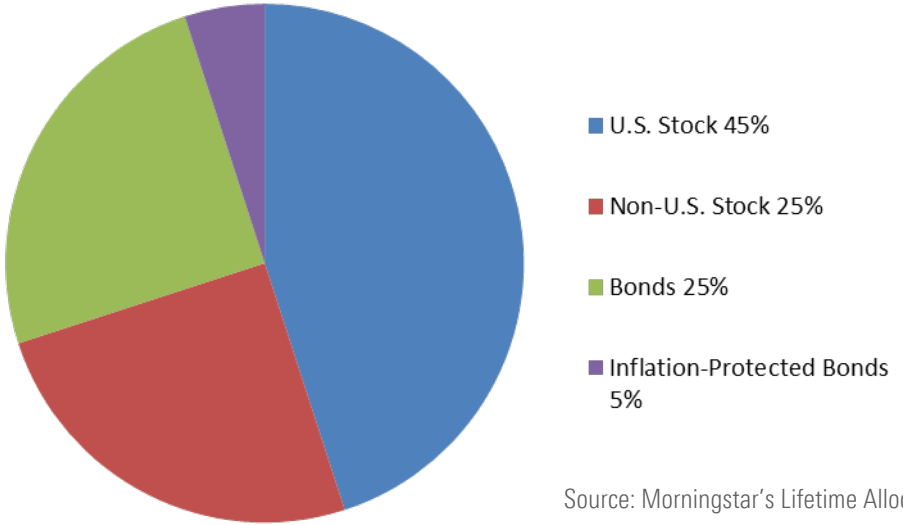
- Continue to save aggressively for retirement.
- Gradually reduce risk in the portfolio.
- Pay off debt, including “good” debt like mortgage debt if you intend to stay in your home.
- Assess retirement readiness by looking at income needs, withdrawal rates, and portfolio sustainability.
- Develop a Social Security and retirement date strategy.
- Formulate a long-term care, estate plan.

Continue to Save Aggressively for Retirement

- "Catchup contributions" available for 401(k)s, 403(b)s, 457s: $24,500 total contribution limit for investors over 50.
- "Catchup contributions" available for IRAs: $6,500 total contribution limit for investors over 50.
- Spousal IRA contributions available for non-earning spouse as long as earning spouse has enough income to cover contribution amount.
- Saving in taxable accounts also valuable to provide control over taxes in retirement.

Gradually Reduce Risk in the Portfolio

- Bond stake increases at the expense of stocks.
- Inflation protection plays a greater role.



Source: Morningstar's Lifetime Allocation Indexes

Sample Portfolio Geared Toward a Pre-Retiree

45%: Vanguard Total Stock Market Index
25%: Vanguard Total International Stock Market Index
25%: Vanguard Total Bond Market Index
5%: Vanguard Inflation-Protected Securities

Pay Off Debt (Little Debt Is ‘Good Debt’ in Retirement)

- As your investment portfolio becomes more conservative, its return potential also declines.
- That makes it less likely that you’ll be able to out-earn the interest rate on any debt you have.
- Consider prepaying your mortgage if you intend to stay in your home because:
  - The return on your investment is guaranteed (good luck earning 3%, 4%, or 5% on your CDs!)
  - Mortgage interest deduction likely to be less valuable under new tax laws

Assess Retirement Readiness

- Multiple online calculators can help you determine whether you can safely retire without running out of money
- Favorite: T. Rowe Price Retirement Income Calculator
- You can also crunch the numbers on your own, using the 4% rule:
  - Start with desired annual income in retirement
  - Subtract steady sources of annual income such as Social Security, pension
  - The amount left over is what your portfolio will need to replace
  - If it's less than 4% of your balance, you're on solid footing

The 4% Rule in Action

- Couple wants $60,000 in annual income during retirement
- Social Security supplies $30,000
- Portfolio needs to replace the other $30,000
- Their portfolio value is $800,000.
- Using the 4% rule, they could withdraw $32,000 per year in retirement, assuming a 60% stock/40% bond portfolio and a 30-year time horizon.
- The initial withdrawal amount ($32,000) is inflation-adjusted annually
- Year two withdrawal = $32,960 (assuming 3% inflation)

Develop Social Security, Retirement Date Strategy

- Deciding when to retire, take Social Security are two of the most important decisions retirees can make.
- For people in good health who don't have to take care of others, delaying both can deliver a tremendous payoff.
- Delaying retirement has a triple benefit:
  - Can continue to add to investment portfolio
  - Reduces demands on portfolio
  - Increases Social Security payments by 8% per year for every year past full retirement age (no benefit for waiting past 70)

Formulate a Long-Term Care, Estate Plan

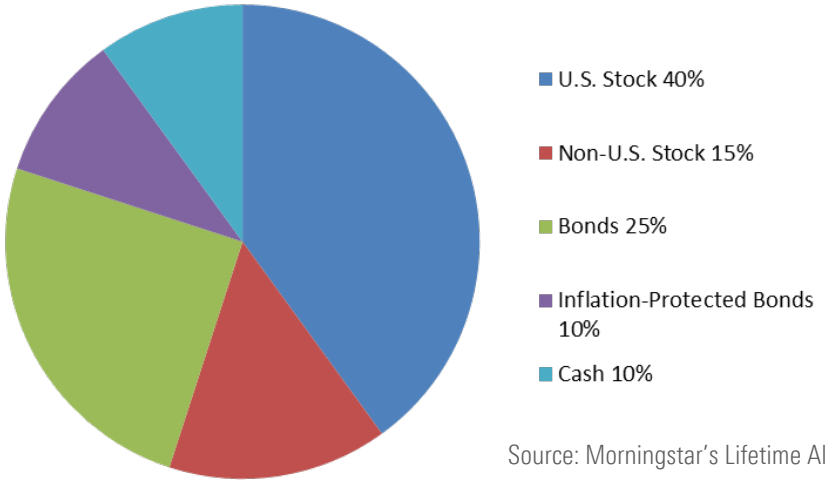
- Long-term care insurance can be prohibitively expensive, but there are a few ways to save.
  - Investigate whether your company offers a group plan for long-term care.
  - Buy a minimal amount of coverage rather than 100% (average long-term care stay ~18 months).
  - Investigate long-term care/life insurance hybrids.
- Estate planning isn't just for the wealthy. Regardless of income level, everyone needs:
  - A will
  - An advance directive (i.e., living will)
  - Power of attorney for medical, financial matters
  - Up-to-date beneficiary designations

Retirees (60s, 70s, and Beyond): Key Priorities

- Continue to reduce risk in investment portfolio
- Segment portfolio by time horizon
- Liquidate investments in a tax-efficient manner
- Regularly revisit withdrawal rate to make sure it's sustainable

Continue to Reduce Risk in Investment Portfolio

- In the years leading up to and in retirement, it's essential to shift assets to safe securities: cash and bonds.
- Inflation protection also increases to help protect purchasing power.



Source: Morningstar's Lifetime Allocation Indexes

Segment Portfolio by Time Horizon

- The "bucket" approach can help you figure out how much of your retirement portfolio to hold in cash, bonds, and stocks, based on your spending needs.



Bucket 1: Years 1 and 2
Holds: Cash
Goal: Funds Living Expenses



Bucket 2: Years 3-10
Holds: Bonds, Balanced Funds
Goal: Stability with Income, Growth



Bucket 3: Years 11+
Holds: Stocks, Higher-Risk Bonds
Goal: Growth, Inflation Protection

Sample Portfolio Using the Bucket Approach: $750,000 portfolio, $30,000 annual income needs

Bucket 1: Liquidity Portfolio for Years 1 and 2: $60,000

$60,000 in CDs, money market accounts/funds, other cash

Bucket 2: Intermediate Portfolio for Years 3-11: $240,000

$65,000 in Vanguard Short-Term Bond

$100,000 in Vanguard Total Bond Market Index

$75,000 in Vanguard Short-Term Inflation-Protected Securities

Sample Portfolio Using the Bucket Approach: $750,000 portfolio, $30,000 annual income needs

Bucket 3: Growth Portfolio for Years 11 and Beyond: $450,000

$300,000 in Vanguard Total Stock Market Index

$150,000 in Vanguard Total International Stock Index

Liquidate Investments in a Tax-Efficient Manner

- Taxes can be a big expense for retirees, especially those with big shares of their portfolios in traditional IRAs and 401(k)s.
- Properly sequencing those withdrawals can result in a big savings over time.
- The following sequence will make sense in many (but not all) situations
  - Taxable assets
  - Traditional tax-sheltered assets
  - Roth assets

Regularly Revisit Withdrawal Rate

- As much as a steady income stream is desirable, it's worth revisiting your withdrawal rate regularly to make sure it's sustainable.
- Factor in:
  - Market performance: Lower withdrawals in poor markets, may be able to increase in bad
  - Your asset allocation: If you're more conservative, lower withdrawal rate
  - Your age: Depending on portfolio performance, you may be able to take more as you age
  - Inflation: If your personal inflation rate is low, forego inflation adjustment
  - Unplanned expenses

Questions?

Christine Benz: christine.benz@morningstar.com

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