THE COMPLETE CARDINAL GUIDE
TO PLANNING FOR AND LIVING IN RETIREMENT

The financial complexities we face in retirement can be daunting. The landscape of Social Security, Medicare, insurance, benefits, investments, and planning for long-term care presents many choices, challenges, and opportunities. The Complete Cardinal Guide gives you the tools you need to understand how to make informed decisions that are right for you.

The purpose of this book is to guide you through the major retirement options that retirees face. It explains simple and effective strategies you can put in place now, with the help of professionals, to make your retirement financially successful.

Author and founder of Cardinal Retirement Planning Hans "John" Scheil, a Certified Financial Planner™ (CFP®) and Chartered Advisor for Senior Living (CASL®), calls upon his 40 years of experience in the business to answer the following questions in depth, and he illustrates each with real-life stories:

- At what age should I start receiving my Social Security check?
- What's the best way to supplement my Medicare coverage?
- Can I receive long-term care and stay at home? How do I afford it?
- How should I handle my IRA and/or 401k accounts?
- What's a smart investment strategy for financing my retirement years?
- How do my income taxes change after I retire?
- What if I live longer than my retirement savings last?
- What's the best way to transfer my life insurance and other assets to my children and grandchildren?
- How do I ensure my survivors are OK after I die?
- How should I approach choosing financial and legal professionals to help me plan my retirement?

Hans "John" Scheil is a Chartered Financial Consultant (ChFC®), Chartered Life Underwriter (CLU®), Certified Financial Planner™ (CFP®), and Chartered Advisor for Senior Living (CASL®) with 40 years of experience. He can be reached at 919-535-8261, or via email at Hans@PlanWithCardinal.com. See Cardinal's website at PlanWithCardinal.com

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Scheil

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Navigating Social Security,
Medicare and Supplemental Insurance,
Long Term Care, IRA,
Life Insurance,
Post-Retirement investment
and Income Taxes

Hans Scheil

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NAVIGATING SOCIAL SECURITY,
MEDICARE AND SUPPLEMENTAL INSURANCE,
LONG-TERM CARE, IRA, LIFE INSURANCE,
POST-RETIREMENT INVESTMENT AND INCOME TAXES

Cardinal, an adjective—“of the greatest importance; fundamental”
Synonyms: fundamental, basic, main, chief, primary, crucial, pivotal, prime, principal, paramount, preeminent, highest, key, essential.

- When do I start my Social Security check?
- How do I supplement Medicare?
- Should I purchase Long-Term Care Insurance?
- What should I do with my IRA or 401(k)?
- Am I investing and creating enough income in retirement?
- What about income taxes after age 65?
- How do I handle life insurance and transferring assets to children and grandchildren?
- How do I choose financial and legal professionals to help me?

The information presented in this book is not intended to be used as investment advice, legal advice, tax advice, or insurance recommendations. Consult a qualified professional, like a Certified Financial Planner™, for advice specific to your needs.

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Hans Scheil

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CHAPTER 6 | INVESTING YOUR MONEY AND LIVING ON IT FOR THE REST OF YOUR LIFE

"I violated the Noah rule: Predicting rain doesn't count; building arks does."

—Warren Buffett

I once worked with Jared, who invested 100% of his 401(k) in the stock of the company we worked for. The stock was riding high for a while and then whammy, the company couldn't swallow a large acquisition, filed for bankruptcy, and down the drain went Jared's 25 years of hard work and several hundred thousand dollars. That's a hard way to learn the principle of diversification. Don't put all your eggs in one basket, or even two or three baskets. When investing in stocks, you should have holdings in several companies spread across several industries and even several countries. That way, if one company goes bankrupt, or otherwise takes a big financial hit, you can make it up with gains from the others. A mutual fund or a professionally managed portfolio of stocks and bonds makes investments for you in a large number of companies. This is called diversification, and this is the cardinal investing principle we follow at Cardinal.

Types of Risk

Managing risk is the key to a successful investment strategy. You need to understand the different types of risk, as well as your own tolerance levels for them in the context of your overall financial plan.

SUMMARY: STRATEGIZING INVESTMENT RISK

- Stop chasing return and start managing risk.
- As you age, income becomes more important than account balances.
- Consider fixed indexed annuities, which can provide lifetime income and some nice guarantees.
- Long-term care implications of your investments: Using long-term care services, paid for by you, will create a big dent in your savings and income. Many fixed indexed annuities have long-term care enhancements and don't require you to answer health history questions. The need for long-term care funds could come at the wrong time relative to the ebb and flow of markets, so buying these enhancements could be a good choice.

Market risk is what most people think of when they hear the word "risk." When investors are scared, when banks are afraid to lend, or when consumers stop spending, the value of your stocks decreases. Those potential losses represent the market risk for everyone who owns stocks. The ways to mitigate stock market risk are to invest part of your money in products that stay even or go up in value when stock prices go down, for example, cash, selling stock short, and put options.

Interest rate risk means you might lose money on your investment when interest rates go up. Rising interest rates are generally bad for both stocks and bonds.

Inflation or purchasing power risk is the risk that your money will be worth less to you in the future; in other words, a given amount of money will buy fewer goods and services in the future. This is the risk of avoiding other risks by being too conservative in your investing. The strategy for mitigating inflation risk is to own a variety of asset types, including stocks, real estate, and gold.

Liquidity risk is the risk that you can't turn your money into cash quickly if you need it quickly. Liquidity risk is mitigated by holding some cash plus stocks and bonds.

Credit risk is the possibility that you own stock in a company that will be unable to pay its bills or have to go out of business. Again, the way to mitigate credit risk is to have a diversified asset portfolio.

It's a risky world out there. It is impossible to avoid all types of risk unless you don't have any money. As I've advised throughout this book, get professional help when investing your money. The chart below provides a simple way to understand the risks associated with the various kinds of investments that tend to appeal to the seniors who come to Cardinal for help

Managing Risk: Green Money, Red Money, and Yellow Money

A simple way to think about the risks you are taking with your money is to divide the pot into "green money" and "red money." (Thanks to Gradient Financial Group for this concept.) Green money is "know so" and red money is "hope so." In other words, green is money you know you are going to receive; red is money you hope will produce a good return, but you don't know for sure. Examples of green money include bank CDs, your Social Security check, a company pension, fixed annuities, and government bonds. Examples of red money are stocks, corporate bonds, options, mutual funds, alternatives (such as gold, silver, and other commodities), and ETFs (Exchange Traded Funds, similar to a mutual fund). The money you need to live on

Investment Vehicle	Market Risk	Inflation Risk	Interest Rate Risk	Liquidity Risk	Credit Risk
Equities/Stock	High	Low	Moderate	Low	Moderate
Bonds	Low	High	High	Low	Moderate
Equity-Indexed Annuities	Low	Moderate	Low	High	Low
Fixed-Rate Annuities	None	High	Low	High	Low
Bank CDs	None	High	Low	High	None
Cash/Money Market	None	High	None	None	Low
Real Estate	Moderate	Low	Low	High	None
Gold/ Commodities	High	Opposite	Moderate	Low	Low
Options	High	None	Opposite	High	Moderate

should be parked in green money. The money you don't need or want for a while, and which you can afford to lose, can be invested in red money. Red money becomes yellow money when you place it in the hands of a professional money manager. Your money is still at risk when it is yellow, but the risk is calculated, diversified, and managed. Professional, fee-based management is now available if you have as little as $50,000 to invest.

When we work with new clients, we help them learn about their personal tolerance for market risk. How much market risk can you afford to take? How much do you desire to take? What effect will it have upon you, emotionally and financially, to suddenly lose part of your money? We quantify your risk and then match it against your current investments.

Sybil, whom you met in chapter 5, hired us to prepare a financial plan for her. Three years ago she inherited a good sum of money and now she is planning for retirement. We plugged all of her current investments into a calculator provided by Morningstar. Morningstar provided us with a page of analysis on every position in her portfolio. The report quantifies the risk Sybil is taking with every stock she owns and shows how well the stock is performing given the associated market risk. Morningstar also tallied up the fees Sybil is being charged. (A copy of the summary page of this Morningstar report is in appendix E.) We compared Sybil's Morningstar analysis to her risk profile and looked for gaps between where she thought she was and where she wants to be. We also looked at inflation risk, liquidity risk, and credit risk. We then suggested changes she can make in her investments to line up her portfolio with her desired risk. As a result, Sybil moved her inherited IRA into an equity-indexed annuity with an income rider (see the sidebar on page 55), her personal IRA into a professionally managed portfolio of large-dividend-paying stocks, her mother's trust to a local bank, and her personal nonqualified money to a credit union.

Ross and Fiona are a couple I met when they attended a financial planning workshop I led at their church. Ross retired in 2012 at age 62; Fiona continues to work, has a small employee retirement plan, and will receive a pension when she retires. Ross receives a pension of $1,100 monthly, and if he predeceases Fiona she will receive the same amount for the rest of her life. Ross managed his 401(k) himself through the years, getting his counsel from his buddies at work, research on the Internet, and the goal maker program within his 401(k). At its highest point his 401(k) balance was over $400,000. But the stock market crash of 2008 was more than he could stomach as he looked ahead to retirement a few years later. So he

FIXED INDEXED ANNUITIES

Fixed indexed annuities with income riders are a poorly understood and much criticized insurance policy. Like any investment, if it is purchased by the wrong client for the wrong reasons in the wrong amount, it is a bad deal. But a fixed indexed annuity can also be a useful and valuable policy for some people.

The biggest gripe about fixed indexed annuities is that your money is tied up for several years. The second honk is that the costs and fees are high and mostly hidden from the untrained eye. A good amount of those fees and costs pay the insurance company for the guarantees you are buying. They guarantee that you will never lose your principal, yet they share a portion of your upside gains in the market. Through an income rider, which you pay for, the insurance company guarantees you an annual or monthly payment that will last as long as you or your spouse live. And the payments continue even if the principal is depleted. The longer you wait to begin taking payments, the larger the payment. Many companies selling these policies offer a long-term care enhancement benefit that doubles or triples the income rider amount for a period of time if you need such care.

If you purchase a fixed indexed annuity with part of your retirement money, you will tie up that money for a long time and you will pay fees within the contract. What you will receive in return is protection from an insurance company against some very scary things: market losses, outliving your savings, and not having enough money to pay long-term care expenses. An experienced financial advisor can help you figure out whether or not this is a good choice for you.

converted his 401(k) to all cash in early 2009. Consequently, Ross missed the bull market that started in 2009 and has continued for the past several years.

Ross and Fiona came in to see us in late 2014, when his 401(k) had decreased to $221,000. He had made several withdrawals to supplement his reduced Social Security and pension (reduced because he retired early). Now 64 and retired, Ross needed to make this $221,000 last for the rest of his and Fiona's lives. He did not want to take the risk of getting back into the stock market. We split the funds into two buckets:

REVERSE MORTGAGES: BEWARE

$ A reverse mortgage is designed for people age 62 or older who are cash poor and home equity rich. It allows an older homeowner to spend the equity in his or her home without having to make any mortgage payments until they die or move out of the home. I generally don't recommend a reverse mortgage unless the income is very much needed for your health and welfare and you have no other alternative sources of money. The home will be sold after you pass away or move out, and the loan balance will have to be paid off from the proceeds. Your heirs will only receive what's left, if anything. I don't have a client story because I have never had a client implement a reverse mortgage. But there are lots of commercials on TV aired by banks offering reverse mortgages and pitched by celebrities. Proceed with caution and ask an advisor who has no stake in the deal for an opinion before you do anything.

$75,000 for current income and $150,000 in an account he is not going to touch for seven years. The $75,000 is now in a laddered bond fund (a series of bonds that mature at different times) that pays him $15,000 per year for between five and six years. Fiona has about $40,000 in her 401(k) and is still working and contributing. We will use her money to get them through years six and seven. The $150,000 is guaranteed by an insurance company to grow in the next seven years to the point where they can pay Ross and Fiona $15,000 annually as long as either one of them is alive.

The lesson here is that trying to time the market without professional help can put you in a bad situation. The closer you are to retirement, or if you're already retired, the less risk you need to take.

You met Nicole in chapter 4; she came to Cardinal for help with Medicare planning, and then we looked at her assets to plan for the eventuality of long-term care. After we constructed Nicole's financial plan, she elected to invest her nonqualified portfolio of $521,000 in a managed portfolio of high-quality dividend-paying stocks. This investment reduced her market risk but still left her with more risk than she wanted to hold. Recently, she came to us needing to increase her income by $3,000 per month. Our recommended solution was to move $300,000 of her $521,000 into an equity-indexed annuity with an income rider. She plans to leave the $300,000 annuity alone for ten years and allow it to grow, tax deferred. The insurance company guarantees her an income starting in ten years at a minimum of $36,000 annually. The remaining value of the dividend-paying stocks will start at $221,000 and we will draw that account down at the rate of $3,000 per month as long as she needs that amount.

She is able to take out a good portion of the $3,000 per month tax free because it is simply returning her principal. Nicole will have a gap in her income in her early 70s when the account is depleted. We will fill that gap for her out of other investments, or simply start taking money from the annuity earlier than originally intended and at a smaller amount. Nicole has substantially reduced her market risk, increased her inflation risk, and begun using liquidity to create income.

One principle of financial planning for retirement stands out to me as very important yet little understood: **When you get to be 65, and then 75 and you're looking forward, income and the guarantees of income should become much more important to you than returns on investment**. Cardinal can help you figure out how to create a diversified asset portfolio that takes this recommended shift in perspective into account as you get older.

SUMMARY: STRATEGIZING INVESTMENT RISK

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