

Retirement: A New Place to Explore

May 10, 2012
Parsons Auditorium
Johns Hopkins University
Applied Physics Laboratory

Presented By:



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- Independent firm est. 1986 (Columbia, MD)
- Retirement and Estate Planning, Investment Management, Tax Services
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- **Spending Plan for The New Retirement**
~Mark Stinson, Director of Planning, BWFA
- **Investing for Lifetime Income: “Decumulation”**
~Saxon Birdsong, President and CIO, BWFA
- **Issues in Planning**
~Mark Stinson, Director of Planning, BWFA
- **Questions & Answers**
- **10 minute break**
- **Retiring Abroad: Entering the Third Culture**
~Bryan Hancock, CFP, ChFC, Timberchase Financial, LLC

- 1. Living longer and healthier → inflation risk**
- 2. Independent and active → higher costs**
- 3. Loss of pensions → reduced safety net**



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Am I prepared?

- 1. To retire / work part time and do what I enjoy?**
- 2. To meet my needs and my family's needs?**
- 3. With enough income and reserves?**
- 4. To relax or be more active?**

What is MY spending plan?



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- 1. Lower your standard of living / spend less**
- 2. Hold it all to the end, then spend it**
- 3. A sophisticated planning approach**

Are there shortcuts?



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Shortcut #1: Spend less than my portfolio returns, and I won't run out. Will I?

- My portfolio earns about 10%, so I can withdraw 8%, reinvest the rest, and I'm set for life.

Example: \$500,000 nest egg

- withdraw \$40,000 per year or 8%
- invest in 50% stocks and 50% bonds
- start in 1972, adjust annually for inflation

How long will my income stream/portfolio last?

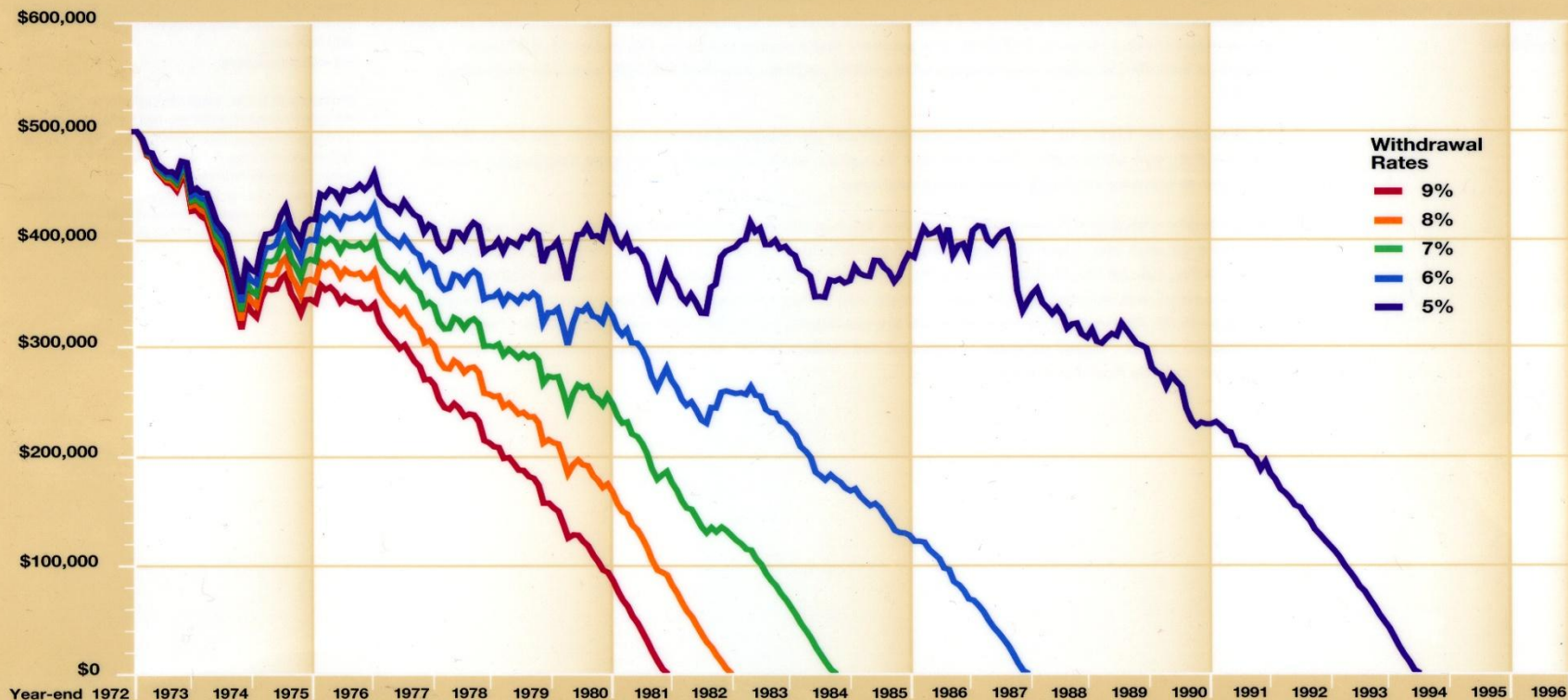
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Running Out in Ten Years

ibbotson.

Potential Shortfall: The Risk of High Withdrawal Rates

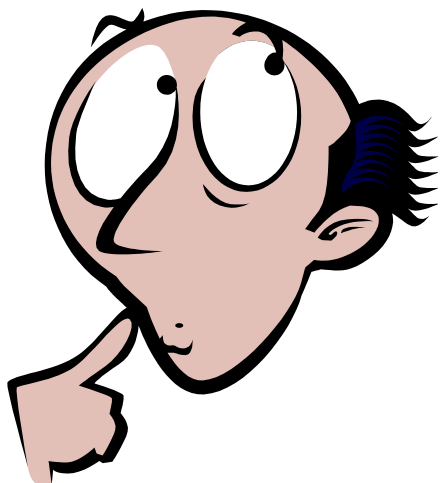
Annual inflation-adjusted withdrawal as a % of initial portfolio wealth



Hypothetical value of \$500,000 invested at year-end 1972.
Portfolio: 50% Large Company Stocks/50% Intermediate-Term Bonds.
Assumes reinvestment of income and no transaction costs or taxes.

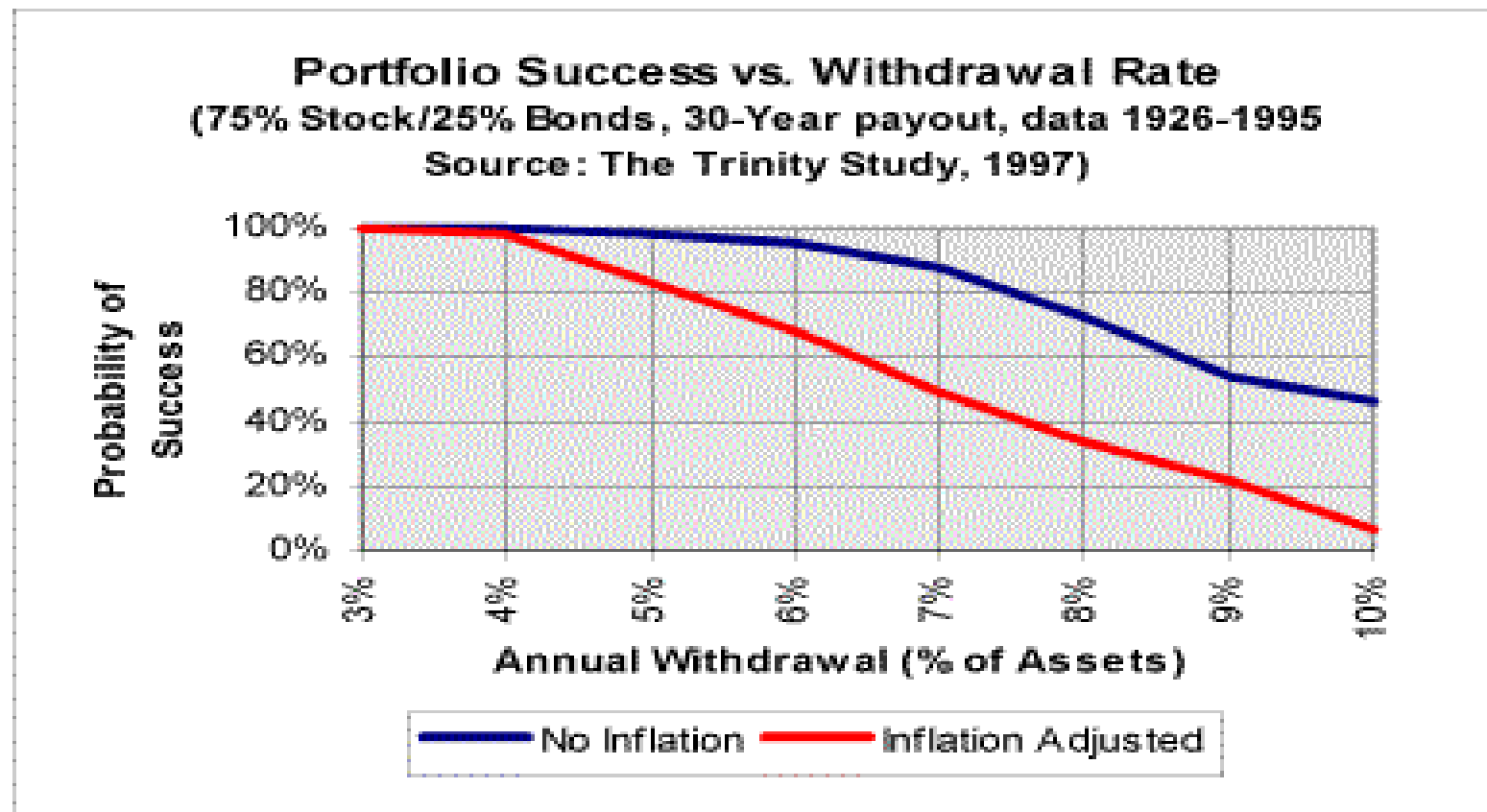
This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.
Past performance is no guarantee of future results. March 1, 2006. © 2006 Ibbotson Associates, Inc.

Shortcut #2: I don't need a plan because I know I can safely withdraw 4-5% of my portfolio. Right?



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A “Safe” Withdrawal Rate?



So 3 - 5% might work. But are there limitations?

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- You need to know how many years you will live
- Expenses will vary from year to year
- Requires you to reduce spending drastically if the market falls
- You never really know if you're on track to succeed

- Designed for and prepares you for variable spending needs
- Reviewed annually for your changing circumstances
- Estimates tax impacts in advance
- Combine with a disciplined investment strategy for long term success
- Offers low stress or worry free approach

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Goals for Mr. and Mrs. Hopkins:

- Year 1: retire with net income of \$62,000 per year
- Year 5: move to North Carolina condo, sell Maryland home
- Year 10: buy new car

Assumptions: 6.5% return, rounding for simplification

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Mr. & Mrs. Johns Hopkins

Assets

403(b) \$1,000,000

Home \$500,000

Expenses \$62,000

Liabilities

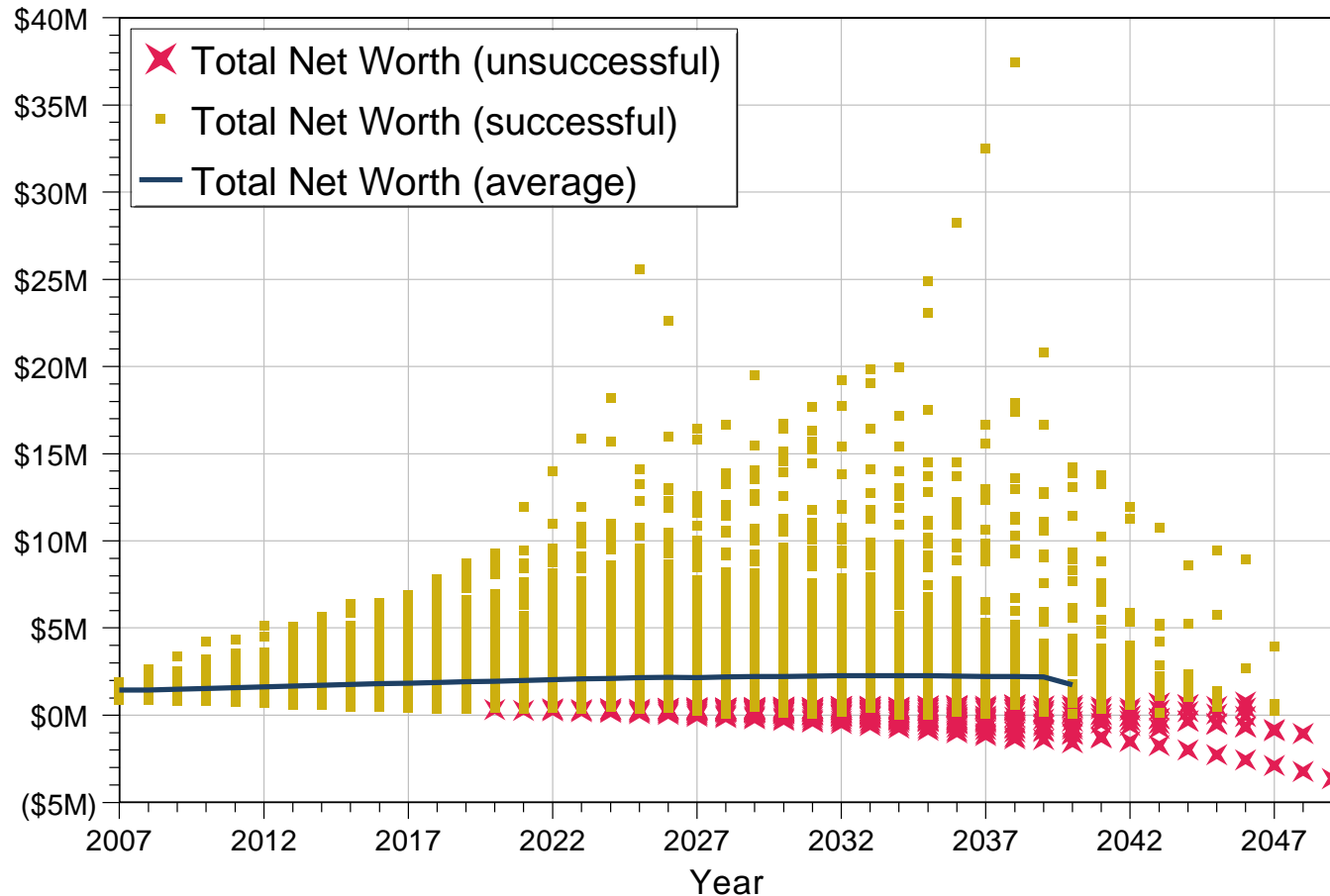
Mortgage 70,000

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	<u>Year 1</u>	<u>Year 5</u>	<u>Year 10</u>
<u>Income</u>	\$72,000	\$66,000	\$120,000
Social Security	-	\$32,000	\$34,000
Joint account (from home sale)	-	\$34,000	\$32,000
403(b)	\$72,000	\$0	\$54,000
<u>Expenses</u>	(\$72,000)	(\$66,000)	(\$120,000)
Lifestyle	\$62,000	\$66,000	\$70,000
Car purchase			\$34,000
Taxes	\$10,000	\$0	\$16,000
<u>Surplus/(Shortfall)</u>	\$0	\$0	\$0

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Net Worth Graph



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- 1. Start with an annual budget** (lifestyle expenses)
- 2. Include all of your resources / liabilities**
- 3. Prepare for family / emergency needs**
- 4. Manage your largest expense: Taxes!**
- 5. Make course corrections, autopilot does not work**



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Are you ready?

- If you have a financial plan and know your plan will work
- If you have addressed all of your risks, for example, taxes
- If you have an investment plan in place to create income

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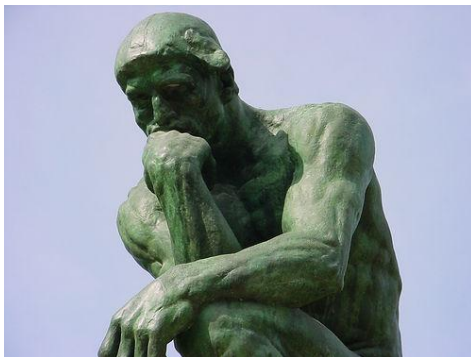
“Decumulation”



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Problem: How do I retire...

- with the highest average income stream?
- adjusted for inflation?
- from pool of accumulated assets?
- at an acceptable risk level?



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Answer: Decumulation phase requires using a different strategy

- **Three Concerns:**
 - 1. Creating income**
 - 2. Managing risk**
 - 3. Providing growth**



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Accumulation Phase

S&P 500

- 1970 92 \$ 100
- 2011 1,258 \$1,367
- Up Years 62%
- Down Years 38%
- Average Annual Rate = **9.8%**

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“Black Monday”

**On 10/18/87 DJIA closed
-22.6% (-24% intraday)**



“Flash Crash”

**On 5/6/10 DJIA closed
-3.2% (-9.2% intraday or -998.5 points)**

- Dollar cost averaging during **accumulation**: **purchase more shares at lower prices** and fewer shares when prices are high

	<u>Month 1</u>	<u>Month 2</u>	<u>Month 3</u>	<u>Total</u>
Monthly purchase amount	\$ 1,000	\$ 1,000	\$ 1,000	\$ 3,000
Actual price per share	\$ 15	\$ 10	\$ 20	
Number of shares purchased	67	100	50	217
Average price per share				\$15.00
Average cost per share				\$13.85

- Results in lower average cost per share over time

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- Dollar cost averaging during **decumulation**: **sell more shares at lower prices** to meet monthly income needs

	<u>Month 1</u>	<u>Month 2</u>	<u>Month 3</u>	<u>Total</u>
Monthly redemption amount	\$ (1,000)	\$ (1,000)	\$ (1,000)	\$ (3,000)
Actual price per share	\$ 15.00	\$ 10.00	\$ 20.00	
Number of shares sold	(67)	(100)	(50)	(217)
Average price per share				\$ 15.00
Average cost per share				\$ 13.85

- This reduces the potential for future gains by selling more shares during periods of lower prices

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- **Trade inefficiently**
- **Principal value drops when rates rise**
- **Reinvestment risk**
- **Credit risk**



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- **Simplify**
- **Establish and manage a reserve account**
- **Structure a portfolio with discipline for growth and income**

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- **60% - 80% of income need from interest and dividends**
- **Use individual securities where possible**
- **Include growth stocks and foreign sector**

Asset Class Winners and Losers

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Large Stocks				Small Stocks	LT Gov't Bonds	Small Stocks	LT Gov't Bonds	Small Stocks	Int'l Stocks				LT Gov't Bonds	Int'l Stocks	Small Stocks	LT Gov't Bonds
Small Stocks			Int'l Stocks		30 Day T-Bills			Int'l Stocks	Small Stocks	LT Gov't Bonds	Small Stocks	LT Gov't Bonds	30 Day T-Bills	Small Stocks	Large Stocks	
LT Gov't Bonds	Int'l Stocks	LT Gov't Bonds		Large Stocks	Small Stocks	LT Gov't Bonds	Small Stocks	Large Stocks		Small Stocks	Large Stocks		Small Stocks	Large Stocks	LT Gov't Bonds	30 Day T-Bills
Int'l Stocks	30 Day T-Bills				Large Stocks		Int'l Stocks	LT Gov't Bonds		30 Day T-Bills	LT Gov't Bonds	30 Day T-Bills	Large Stocks	30 Day T-Bills	Int'l Stocks	Small Stocks
30 Day T Bills	LT Gov't Bonds	Int'l Stocks	Small Stocks	LT Gov't Bonds	Int'l Stocks		Large Stocks	30 Day T-Bills		Large Stocks	30 Day T-Bills	Small Stocks	Int'l Stocks	LT Gov't Bonds	30 Day T-Bills	Int'l Stocks

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BWFA Portfolio Models										
Model	Objective	Types of Investments	Allocation							
			Money Market	Aggr. Growth	Long-Term Growth	Growth & Income	Income	High Income	Foreign Equity	Foreign Income
		Estimated Income Yield	4%	0%	1.75%	4%	7%	8.5%	1%	5%
		Estimated Capital Appreciation	0%	12.5%	8.75%	7.5%	1%	1%	12.5%	1%
Capital Appr.	Seeks solid long-term appreciation of capital. Low level of current taxable income. Fluctuation in market value is very high. Suitable for investors with an investment horizon of at least 5 years.	Invests primarily in well-established companies. May invest in stocks and convertible preferred securities. Avoids income investments.	0%	25%	30%	25%	0%	0%	20%	0%
Conserv. Growth	Seeks capital appreciation with slightly less fluctuation in value than overall equity market. Most used model among clients	Invests in all classes of equity investments with a small portion in income producing investments to provide “downside cushion” in declining equity markets.	0%	15%	20%	25%	20%	0%	10%	10%
Growth and Income	Seeks “growth” offered by capital appreciation investments with high dividend yields. “downside” protection through income investments. Appropriate for current income needs.	Invests mostly in larger dividend paying stocks and larger growth stocks.	5%	0%	15%	35%	15%	10%	10%	10%

Conserv. Growth	Seeks capital appreciation with slightly less fluctuation in value than overall equity market. Most used model among our clients	Invests in all classes of equity investments with a small portion in income producing investments to provide "downside cushion" in declining equity markets.	0%	15%	20%	25%	20%	0%	10%	10%
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Creating a Paycheck

- **9 months of distributions in an ultra short-term bond fund**
- **Distribute “monthly paycheck”**
- **Replenish every 6 months**

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Individual Investors Vs. Market

❖	Stock Investors – 20 years	
	❖ S & P	9.1%
	❖ Individual	3.8%
❖	Bond Investors	
	❖ Aggregate Bond Index	6.9%
	❖ Individual	1.0%



Source: Kiplinger Magazine: Nov. 2011, pg. 24

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- **Decumulation requires a new strategy**
- **Don't overweight fixed income (bonds)**
- **Structure portfolio to control risk**
- **Hassle Free Solution**

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4 Stories, April 2001 – April 2012

Description	Income & Growth Client 1	Growth & Income Client 2	Growth & Income Client 3	Conservative Growth Client 4
Beginning Value	\$1,379,800			
Withdrawals	(\$1,053,700)			
Capital Appreciation	\$205,700			
Income	\$640,600			
Expenses	(\$112,700)			
Ending Balance	\$1,059,700			
Investment Gain	\$733,600			
Total Net Return	84.4%			
S&P 500 Return	49.1%			

4 Stories, April 2001 - April 2012

Description	Income & Growth Client 1	Growth & Income Client 2	Growth & Income Client 3	Conservative Growth Client 4
Beginning Value	\$1,379,800	\$1,023,000		
Withdrawals	(\$1,053,700)	(\$429,000)		
Capital Appreciation	\$205,700	\$103,200		
Income	\$640,600	\$373,900		
Expenses	(\$112,700)	(\$99,000)		
Ending Balance	\$1,059,700	\$972,100		
Investment Gain	\$733,600	\$378,100		
Total Net Return	84.4%	47.6%		
S&P 500 Return	49.1%	49.1%		

4 Stories, April 2001 - April 2012

Description	Income & Growth Client 1	Growth & Income Client 2	Growth & Income Client 3	Conservative Growth Client 4
Beginning Value	\$1,379,800	\$1,023,000	\$378,400	
Withdrawals	(\$1,053,700)	(\$429,000)	(\$161,100)	
Capital Appreciation	\$205,700	\$103,200	\$73,500	
Income	\$640,600	\$373,900	\$144,600	
Expenses	(\$112,700)	(\$99,000)	(\$41,700)	
Ending Balance	\$1,059,700	\$972,100	\$393,700	
Investment Gain	\$733,600	\$378,100	\$176,400	
Total Net Return	84.4%	47.6%	61.8%	
S&P 500 Return	49.1%	49.1%	49.1%	

4 Stories, April 2001 - April 2012

Description	Income & Growth Client 1	Growth & Income Client 2	Growth & Income Client 3	Conservative Growth Client 4
Beginning Value	\$1,379,800	\$1,023,000	\$378,400	\$1,672,200
Withdrawals	(\$1,053,700)	(\$429,000)	(\$161,100)	(\$1,256,500)
Capital Appreciation	\$205,700	\$103,200	\$73,500	\$118,300
Income	\$640,600	\$373,900	\$144,600	\$428,700
Expenses	(\$112,700)	(\$99,000)	(\$41,700)	(\$112,600)
Ending Balance	\$1,059,700	\$972,100	\$393,700	\$850,100
Investment Gain	\$733,600	\$378,100	\$176,400	\$434,400
Total Net Return	84.4%	47.6%	61.8%	51.4%
S&P 500 Return	49.1%	49.1%	49.1%	49.1%

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Recurring Planning Issues with APL Employees

- **Estate planning**
- **Roth conversion**
- **APL 403(b) - In Service Transfer**
- **Social Security**

- **Estate taxes are high**
- **Equalize your estates**
- **403(b) is subject to income tax**
- **Revocable Living Trust**
- **Credit Shelter Trust**

- **Federal**

- ✓ **2010 No estate tax**

- ✓ **2011 - 2012**

- Exemption - \$5 million**

- Estate Tax Rate – 35%**

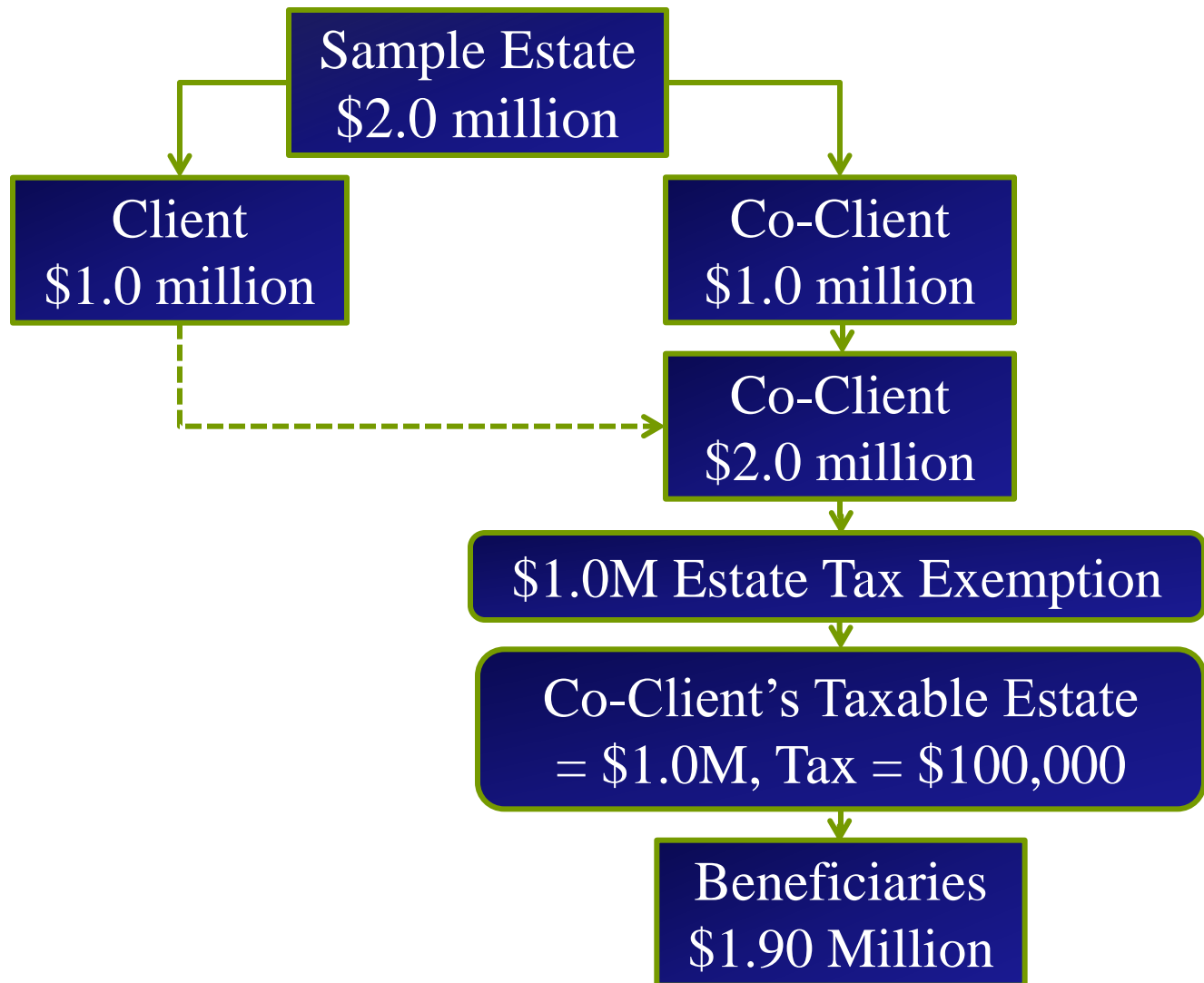
- ✓ **2013**

- Exemption - \$1 million**

- Estate Tax Rate – 55%**

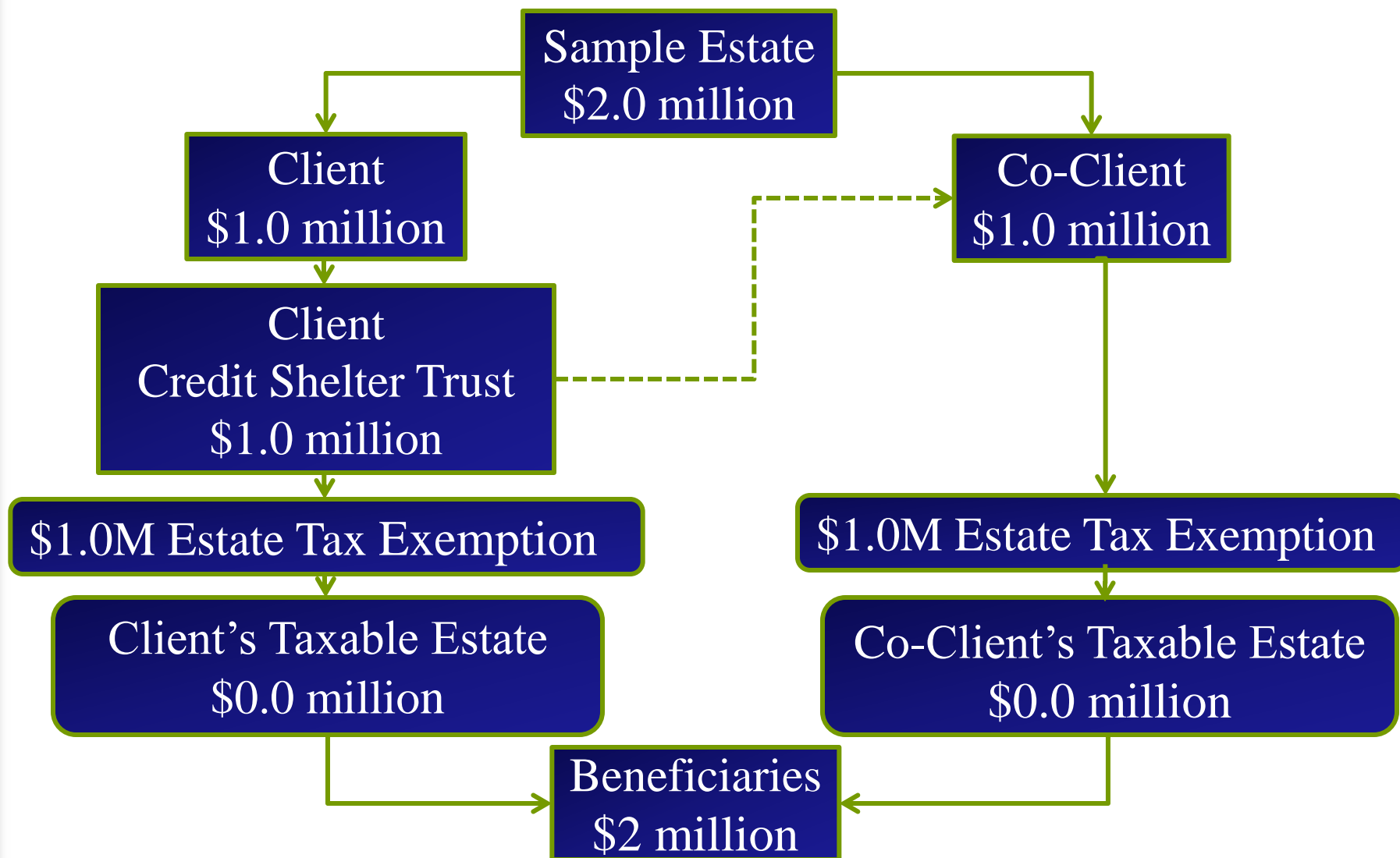
- **Maryland**
 - ✓ **\$1 million exemption**
 - ✓ **16% estate tax rate**
- **Credit Shelter Trust**

Estate Plan without CST:



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Estate Plan with CST:



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- **403(b) / IRA –**
 - ✓ **subject to estate tax**
 - ✓ **subject to income tax**
- **life insurance**
 - ✓ **subject to estate tax**
 - ✓ **not subject to income tax**
- **beneficiary designations**
 - ✓ **life insurance, 403(b) / IRA / Roth IRA, annuity, trusts**

- **Roth IRA conversion**
 - ✓ low tax year

- **In Service Transfer**
 - ✓ Plan A – Age 62
 - ✓ Plan B - Age 59 ½

- **Social Security**
 - ✓ reset
 - ✓ file and suspend
 - ✓ restricted application

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THANK YOU!



Thank you for your time and attention!

For more information or to schedule a complimentary initial consultation, please contact:

**Mark Stinson, Director of Financial Planning
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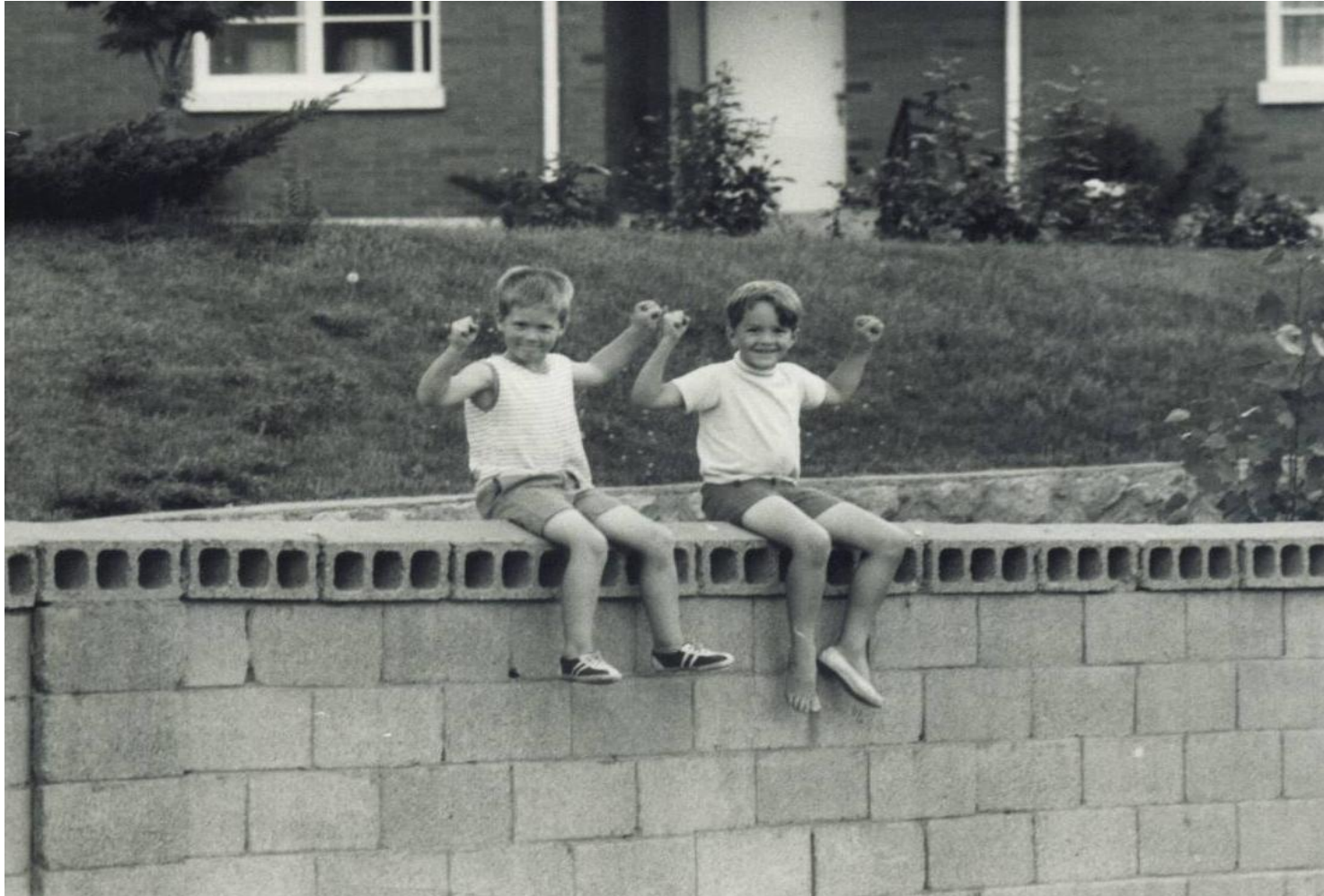
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Retiring Abroad: Entering the “Third Culture”



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What is the Third Culture?



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A Successful Journey

- ❖ Make Three Trips
 - Two Week Vacation
 - Three Month Exploring
 - Find a US tax expert in the host country
 - Network with other Americans
 - Eleven months living
 - Rent
 - Bundle medical care in the US
- ❖ VOIP phone with local number
- ❖ Don't burn your bridges
- ❖ Avoid PR status
- ❖ Fly under the radar



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Pink Parachute

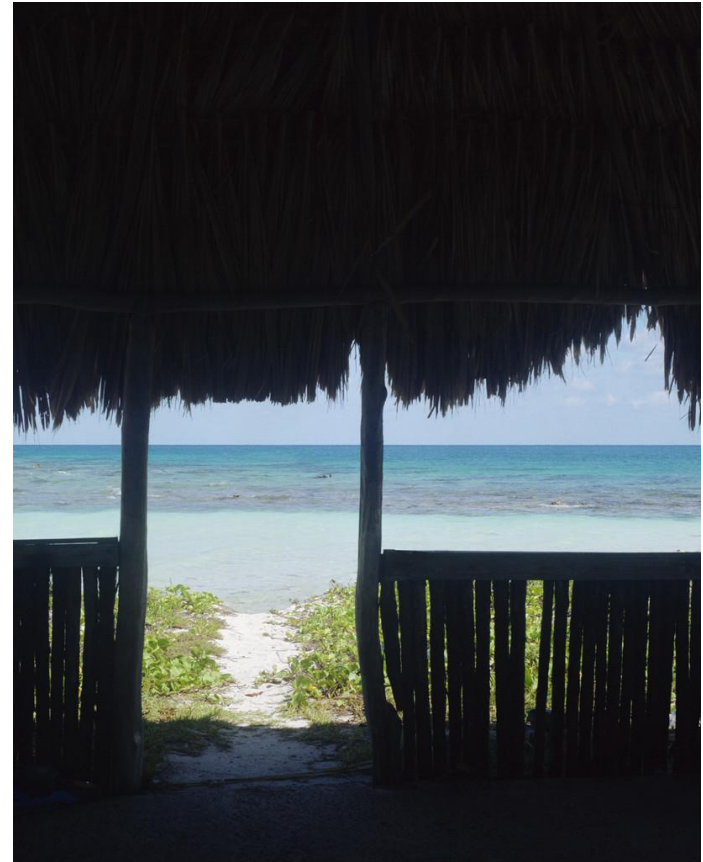
- ❖ Safety
- ❖ Grab and go bag
- ❖ Access to your own money



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Resources

- ❖ Toy Town Germany
- ❖ Families in Global Transition
- ❖ American Club
- ❖ AMCHAM
- ❖ American Women's Groups
- ❖ English speaking house of worship



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THANK YOU!

Questions?

Bryan Hancock, MBA, CFP, ChFC

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Saxon Birdsong, President

Mr. Birdsong is President and Chief Investment Officer of Baltimore-Washington Financial Advisors in Columbia, Maryland. Mr. Birdsong started a fee-only Financial planning practice in Ellicott City in 1990, and is now one of two principals in Baltimore-Washington Financial Advisors, Inc., responsible for managing the firm and its investment activities. Saxon sits on the Board of Directors Consumer Credit Counseling Corporation, and chairs the Audit Committee.

Prior to founding BWFA, Mr. Birdsong worked for First National Bank of MD for 12 years, managing their Cash Management and Trust & Investment operations. He was also a Senior Consulting Manager with the big-six accounting firm of Deloitte Haskins and Sells. Mr. Birdsong has his bachelor's degree from the College of William & Mary and earned an MBA at Loyola College in finance and accounting. He also served as a commissioned officer in the US Army Corps of Engineers for 4 years.



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Mark Stinson, Director of Planning

Mark joined Baltimore-Washington Financial Advisors in July of 2004 to run the Financial Planning Department. Mark comes to BWFA from AXA Advisors, LLC, where he was a financial consultant. Prior to his work at AXA, Mark spent twenty years in corporate accounting with manufacturing firms in the suburban Baltimore region. Mark holds a Bachelor of Business Administration degree from James Madison University with a double major in accounting and finance. He earned an MBA at Loyola College in Maryland.

Mark, his wife, and sons live in Marriottsville, Maryland. Mark is active in coaching, and participates in the Boy Scouts with his sons. When he has spare time he enjoys bicycling, basketball, and reading.



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Bryan Hancock

Bryan has a B.S. in Business from Samford University and an MBA from the University of Alabama, Birmingham. He holds the Chartered Financial Consultant designation and is a CERTIFIED FINANCIAL PLANNER™ professional. He is a graduate of the Financial Planning Association's Residency Program at DePaul University in Chicago, a member of the National Association of Personal Financial Advisors (an association of Fee-Only professionals), and a member of the Estate Planning Council of Birmingham.

His early years in Korea helped form his views of the value in living away from "home." The rich experience and perspective that comes with living outside one's own country is why many Americans choose to live the expat lifestyle. This is something Bryan deeply understands and values, and seeks to support in his clients.



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