Retirement Essentials

Protecting your Retirement in the COVID-19 Era

Workbook

BRIGHTER WEALTH

COVID Economy

This pandemic has already begun to change the way that we live. Social uncertainty seems to be the new normal as we have become accustomed to frequent government directed restrictions and guidelines that continue to dictate how we interact socially in our communities. And these changes have impacted our financial confidence for the future.

List a few of the aspects that your daily lives have been affected by the Social Changes, Market Volatility, Long-Term Economic Damage and Social Unrest that has happened since March of 2020.

The impact has caused economic uncertainty throughout the world and brought to the surface 4 specific risks that are a threat to your retirement success.

COVID-19 Era Risks:

Threats to Successfully Retire in a Covid-19 Era.

#1 Timing Risk

#2 Increasing Taxes Risk

#3 Increasing Healthcare Costs Risk

#4 Inflation Risk

Risk #1 Timing Risk

Choosing a retirement date is most often determined by your eligibility for retirement benefits, accumulation goal or your inability to work due to health concerns. In addition to these considerations should also be the health of the financial markets several years before and several years after we retire. Wait a minute… if we don't know the health of the financial markets after we retire how do we know it is safe to retire? Well… we can't and that is called timing risk.

The 10 year period around your retirement date is called the "Retirement Red Zone". During this period, your retirement assets are most vulnerable to market losses, so they need more protection. This vulnerability is caused by the common need for retirees to take withdrawals to supplement their retirement income or the requirement to take a withdrawal as an Required Minimum Distribution. In either case withdrawal will force a permanent double loss inside of your investment accounts.

Timing Risk is often called "Sequence of Return Risk" because of the unpredictable order in which your investment returns might fall. This risk is illustrated well in the example of two families; the Hatfields and the McCoys.

> In this example both families retired at the age of 65 with a 500k account balance taking 20,000/year of income and averaged a 9% return over a 30 year period. However the Hatfields experienced some early losses in their portfolio and ran out of money at age 90 while the McCoys experienced the same losses later in retirement and passed away at age 95 with a 2.7MM balance. The only difference was the sequence in which their returns happened.

What year do you plan on retiring? ______________________

Are you in the Retirement Red Zone? ______________________

How much per year do you plan on withdrawing from your investment accounts? ______________________

Risk #2 Increasing Tax Risk

The COVID-19 pandemic brought a screeching halt to the US economy when national and state governments mandated business closures and quarantine measures. In an effort to avoid a significant economic recession a series of stimulus packages were approved by congress to aid individuals and small businesses. The CARES act ($1.8 trillion), the Families First Coronavirus Response Act ($192 billion) and the Coronavirus Preparedness and Response Supplemental Appropriations Act ($8 billion) came with a hefty total price tag of $2 Trillion dollars and lots of strings attached for those that received funds.

This new $2 Trillion in addition to the already $23 Trillion of national debt brought our countries debt to $25 Trillion. Whether you are a household or government there are fundamentally 4 options to improve your finances; File Bankruptcy, Cut Expenses, Increase Revenue, or Cut Expenses & Increase Revenue. Each of these options has significant consequences to the american economy and people but Cut Expenses (Reduction in Social Security payments and Medicare benefits) and Increasing Revenue (Increasing future tax rates) are the most likely outcomes.

> David Walker, former Comptroller General under Bush and Clinton, head of the General Accountability Office and Board of Trustees for Social Security said that, "Regardless of what politicians tell you, any additional accumulations of debt are . . . basically deferred tax increases."

If your income taxes doubled how would your retirement plan be impacted?

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Do you know if you will be in a higher tax bracket or lower tax bracket when you retire?

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Risk #3 Increasing Healthcare Costs Risk

Medicare generally won't pay for long-term care since it's custodial in nature -- meaning, it relates to assistance with everyday living and isn't strictly medical. As such, seniors and their families are often left to absorb these astronomical costs on their own.

Unfortunately, though, current monthly costs may start to look like a bargain in the coming years as facilities change their policies -- and pricing models -- in the wake of COVID-19.

Though the impact of COVID-19 has been felt all over the country, nursing homes are unquestionably hard-hit. As of June 2, over 60,000 cases have been reported, according to a federal government report. And with only 54% of nursing homes reporting numbers the total COVID-19-related cases are expected to be much higher.

COVID-19 has made a known appearance at more than 8,000 long-term care facilities across the country and has caused more than 26,000 deaths among residents and staff members alike.
As such, it's likely that nursing homes and other long-term care establishments will need to rethink the way they train and rotate staff and implement sanitary standards to avoid a repeat scenario.

All of this is likely to come at a cost, though. The question is: Will that cost get passed on to seniors who can barely afford these facilities to begin with?

Do you have a plan to cover your future Long-Term Care costs for you and/or your spouse?

Risk #4 Inflation Risk

> *"Inflation is always and everywhere a monetary phenomenon..."*
> - Milton Friedman in 1970

1. Too Much Money Creation

The central bank of the United States seems to have the ultimate superpower as it virtually "prints" dollars out of nothing with a few strokes on a computer.

By the end of the year, the Fed is projected to have purchased $3.5 trillion in government securities with these newly created dollars. This is one of many tools it is using to help support the ailing economy during the COVID-19 pandemic, according to Oxford Economics.

But at that rate of money creation, if Friedman is right, we should get inflation close to triple digits, 18 to 24 months from now.

2. Budget Deficits

The Congressional Budget Office projected a $1.1 trillion deficit in the year to September 30, 2020, to which the recent CARES act added around another $2 trillion. So, in round numbers, the U.S. looks like it will run a $3 trillion deficit in the current fiscal year, around 14 percent of GDP (and with output falling, it is likely to end up higher).

Support for a “stimulus” like the CARES act comes from economist Maynard Keynes but his assumption is that the extra boost from government dollars would directly result in immediate economic production. However, when 20 million people have been forcibly prevented from working by the government and the coronavirus then, at least in the short term, there is no way to put them back to work and make them productive.

The output they would have produced is lost forever; a restaurant meal not served in April cannot be served in August. Hence the extra money inserted into the economy has no goods to buy. That is the position we had in World War II — “too much money chasing too few goods.” It caused inflation.

3. Increasing Economic Inefficiency

The U.S. economy was humming like a well oiled machine as recently as February, running at full employment, producing goods and services through a globalized distribution system that had been optimized over the previous decade of increasing prosperity. The whole economic machine was running at maximum efficiency, producing maximum output.

Then it stopped. Even where factories could still operate, global supply chains were optimized on the “just in time” principle. That meant if any one supplier in the chain stopped production, the entire output had to be halted until alternative suppliers could be found. So production will not be able to restart unless all the

> suppliers are in place. Some key workers will be missing, some key factories will have gone out of business.
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> As a result of the COVID crisis the U.S. & global economies will no longer be operating smoothly. Inevitably, that will cause increased costs; it has to. There are the costs of shortening the global supply chains and perhaps re-domesticating some production. Simply from observing how the world economy is operating in 2020 and probably 2021, you come to an inevitable conclusion: There will be inflation.

If your monthly expenses increased 10%/year (example. 5,000/mo to 5,500/mo) how would that impact you and your retirement lifestyle?

COVID-19 Era Solutions:
How to be financially prepared in any economy.

The application of these solutions will be identified and implemented inside of your Brighter 360™ Plan. Based on our discussion write down a few that you feel might apply to your finances.

Timing Risk **Solutions**

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- ______________________________
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Increasing Tax Risk **Solutions**

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Increasing Healthcare Costs Risk **Solutions**

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Inflation Risk **Solutions**

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