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## Retirement Planning Assumptions

To enjoy your retirement without financial worries, make sure you have enough money saved when you retire. This calculation can be a daunting task, since a variety of factors affect your required amount and inaccurate estimates for any factor can leave you with way too little in savings. Some of the more significant factors include:

### What percentage of your preretirement income will you need?

You can find various rules of thumb indicating you need anywhere from 70% to over 100% of your preretirement income. On the surface, it seems like you should need less than 100% of your income. After

all, you won't have any work-related expenses, such as clothing, lunch, or commuting costs. But look carefully at your current expenses and how you plan to spend your retirement before deciding how much you'll need. If you pay off your mortgage, stay in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, then you might need less than 100% of your income. However, if you travel extensively, pay for

health insurance, and maintain significant debt levels, even 100% of your income may not be enough. You need to take a close look at your expenses and planned retirement activities to come up with a reasonable estimate.

**When will you retire?** Your retirement date determines how long you have to save and how long investment returns can compound. You want to make sure your retire-

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## Frankly Speaking

The English astronomer Edmund Halley prepared the first detailed mortality table in 1693. Life and death could now be studied statistically, and the life insurance industry was born.  
-Mathshistory.st-andrews.ac.uk

*"You can live to be a hundred if you give up all things that make you want to live to be a hundred."* -Woody Allen

*"Don't go around saying the world owes you a living. The World owes you nothing. It was here first."* -Mark Twain

Summertime an' the livin's easy, fish are jumpin' & the market is high...And where is RISK when the Market is HIGH? Where is the market today? You got it- HIGH! And what can you do about it? Ever hear of Guaranteed Income Accounts\*? Or 'Buffered' accounts, either Exchange Traded Funds or (God forbid) annuities\*? They each offer downside protection in exchange for a 'cap' on gains. So, WHEN do you think the next correction will occur? Sooner or later? If you or anyone you know wants to discuss protection of your gains, PLEASE contact me ASAP! ○○○

*\*All guarantees and protections are subject to the claims-paying ability of the issuing company.*

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## Assumptions

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ment savings and other income sources, such as Social Security and pension benefits, will support you for what could be a very lengthy retirement. Even extending your retirement age by a couple of years can significantly affect the ultimate amount you need.

**How long will you live?** Today, the average life expectancy of a 65-year-old man is 81 and of a 65-year-old woman is 84 (Source: Social Security Administration). Most people use average life expectancies to estimate this, but average life expectancy means you have a 50% chance of living beyond that age and a 50% chance of dying before that age. Since you can't be sure which will apply to you, it's typically better to assume you'll live at least a few years past that age. When deciding how many years to add, consider your health as well as how long other family members have lived.

**What long-term rate of return do you expect to earn on investments?** A few years ago, many retirement plans were calculated using fairly high rates of return. Those high returns don't look so assured now. At a minimum, make sure your expectations are based on average returns over a very long period. You might even want to be more conservative, assuming a rate of return lower than long-term averages suggest. Even a small difference in your estimated and actual rate of return can make a big difference in your ultimate savings.

**Have you considered inflation?** Even modest levels of inflation can significantly impact the purchasing power of your money over long time periods. For instance, after 30 years of just 2% inflation, your portfolio's purchasing power will decline by 45%. When estimating an inflation figure, don't just look at the historically low inflation rates of the recent past. Also consider long-

## What Kind of Retirement Do You Want?

**W**e all know the process. Estimate how much is needed in retirement (which can range anywhere from 70% to over 100% of preretirement income), determine available income sources, and then calculate how much to save annually to reach those goals. As you go through this largely mathematical exercise, however, don't forget the most important part. You need to give serious thought to the type of retirement you want — visualize what retirement will be like.

Retirement is no longer viewed as a time to slow down, but considered a new beginning in life. That means your current living expenses may have very little to do with your retirement expenses. To help you visualize your retirement so you can estimate retirement expenses, consider these questions:

- ✓ When do you want to retire? Will you realistically have the resources to retire at that age?
- ✓ Do you plan to stay in your current home, trade down to a smaller one, or move to a different city? If you plan to move, is the cost of living there more or less expensive than your present city?
- ✓ Will your mortgage be paid off by retirement? What about other debts?
- ✓ Will you continue to work after retirement? If so, will you work part- or full-time? Where will you work and how much can you expect to earn? Do you have any hobbies or interests

that can be turned into paying jobs? Are you planning to start a business after retirement?

term inflation rates, since your retirement could last for decades.

**What tax rate do you expect to pay during retirement?** Especially if you save significant amounts in tax-deferred investments that will be taxable when withdrawn, your tax rate can significantly affect the amount you'll have available for

that can be turned into paying jobs? Are you planning to start a business after retirement?

- ✓ How will you spend your free time? What hobbies will you pursue? How much and where will you travel? How much will all these activities cost?
- ✓ How will you pay for medical costs? Will your employer provide health insurance or will you need to purchase insurance to supplement Medicare coverage?
- ✓ Do you have any medical conditions that are likely to impact your quality of life in retirement? What would you do if you became physically disabled? Would your spouse take care of you, would you move in with your children, or would you go to a nursing home? How will you provide for long-term-care costs?
- ✓ How much of your income will be provided by personal investments, including 401(k) funds? Are you confident those investments will last your entire retirement?
- ✓ What would happen financially if your spouse dies? If you die, would your spouse be able to support himself/herself financially?

Answering these questions should give you a clearer picture of what your retirement will be like. If you'd like to review these questions in more detail, please call. ○○○

spending. You may find your tax rate is the same or higher after retirement.

Once you've estimated these factors, you can calculate how much you'll need for retirement. Please call if you'd like help with this calculation. ○○○

# Avoid These 10 Insurance Mistakes

Few people enjoy thinking about their insurance needs, shopping for coverage, or reading through a policy's fine print. Once they do buy a policy, many people rarely think about it again, other than when they pay the premiums. But that tendency to avoid thinking about insurance can lead to insurance mistakes that can put a person's assets at risk. Below are some of the most common insurance mistakes:

✓ **Expecting the best** — Some people may think they can skip various types of essential insurance (like auto or health insurance) because it won't happen to them. Or they may buy a bare-bones policy thinking they won't ever need to make a claim. But the reality is that accidents and injuries can happen to anyone. A comprehensive insurance plan protects you when they do.

✓ **Not shopping around** — If you're in the market for a new policy, shop around and compare prices to get the best deal. But make sure you're comparing equivalent policies and coverage — an ultra-cheap policy may offer skimpy benefits.

✓ **Buying too much insurance** — While insurance is a valuable part of your overall financial plan,

there is such a thing as being over-insured. If you're paying high premiums for insurance coverage you don't really need, you're wasting money. What types of insurance might you skip? Extended warranties, cell phone insurance, insurance for specific diseases (like cancer), rental car insurance, and mortgage life insurance are usually not worth the premium you pay.

✓ **Not negotiating on insurance rates** — Here's a little-known tip: The premium price you're quoted isn't set in stone. Depending on the type of coverage you need, you may be able to get discounts based on your profession, the age of your car, installing an alarm system in your home, choosing a higher deductible, and more. Bundling — buying several policies through the same carrier — can also lead to premium price breaks.

✓ **Forgetting to pay the premium** — It's a simple but potentially devastating mistake. Missing premium payments could cause your policy to lapse, leaving you without coverage. Reduce the risk of this happening by automating your payments.

✓ **Dropping coverage to save money** — When your budget is tight, dropping insurance coverage may seem like a good way to save cash. You may save money in the short term, but you could end up worse off in the long term if you need to make a claim. If premium payments are straining your budget, consider raising your deductible or asking your insurer if you're eligible for any discounts.

✓ **Forgetting to update life insurance beneficiaries** — As your life changes, so should the people named as beneficiaries on your life insurance policy. Divorce, remarriage, the death of a spouse, or the birth or death of a child are all times when you should update these designations. If you fail to

take this simple step, your life insurance may not do its job when you need it most. After all, do you want your insurance benefits to go to your ex-spouse or have one child receive a generous insurance payment while the other receives nothing? Keeping your beneficiary designations up-to-date can help you avoid those outcomes.

✓ **Having coverage gaps** — Everyone faces different risks, and thus has different insurance needs. Sometimes, it's easy to overlook a risk until it's too late. For example, if you live in an earthquake-prone area, you likely need separate earthquake insurance. If you serve on a nonprofit board of directors, you may need personal liability coverage. If you own ATVs, snowmobiles, or other vehicles, you may need special policies to protect yourself in case of damage to the vehicle or a lawsuit. The list of possible risks goes on and on.

✓ **Not researching an insurance company before you buy** — Not every insurance company is created equal, and what looks like a great deal today may be less appealing tomorrow when you are struggling to get a claim processed quickly. Before you buy, get multiple quotes, read the policy's fine print, review the insurer's complaint record with the state department of insurance, and check the company's ratings with ratings agencies like Fitch, Moody's, and A.M. Best.

✓ **Not thinking about insurance as part of your overall financial plan** — Insurance isn't something you should think about in isolation. In fact, it's an essential part of your overall financial plan. A solid risk management strategy protects your hard-earned wealth and your family's future. Please call if you'd like to discuss insurance in more detail. ○○○





## Life Insurance for Stay-at-Home Spouses

**W**hen most people think about life insurance, they think about replacing the take-home pay earned by the family's primary breadwinner should he/she die. Yet it could be just as important to insure a stay-at-home parent.

The issue is one of valuation: how do you set a dollar figure on the contributions that a stay-at-home parent makes to a family? Start by looking at the functions he or she provides: cooking, cleaning, childcare, shopping, laundry, paying bills. How much would it cost to pay someone to provide those same services?

For a newly single parent of two children, the price of continuing to work could mean spending as much as \$40,000 or more a year on childcare and household services. If you can't imagine finding that kind of additional cash flow, covering your spouse or partner with a life insurance policy to pay those expenses for as many years as needed makes sense.

You have two choices: you can take out a *separate policy* on your spouse that names you as the benefi-

ciary, or you can add a *spouse rider* to your own policy. The advantage of a rider is that it can be cheaper than securing a separate policy for the stay-at-home parent.

On the other hand, if your spouse dies after you do, the rider typically doesn't pay a death benefit to your spouse's beneficiary. In addition, your spouse will have no access to cash value accumulation since the policy and cash values are owned by you. And, with some insurance companies, you can't secure as much coverage on your spouse in a rider as you can in a separate policy.

If there are other reasons for your spouse's life to be insured than simply replacing his/her homemaking services — like designating different beneficiaries or meeting estate-planning objectives — then a separate policy might be the better choice.

As with all life insurance decisions, the best way to insure a stay-at-home spouse differs for every family. For help assessing which spousal coverage decision is best for you, please call. ○○○

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## Managing Correlations

**T**he correlation, or relationship, between two different investments can be difficult to determine without a lot of analysis. However, there are some basic rules of thumb that can help explain how the different forces interact.

Most investments have a high correlation-to-market performance. In other words, when the overall market is rising, they're rising too. Other investment classes have a low correlation-to-market performance. Investments in this category typically include currencies, commodities, and most hedge funds.

Then there are investments with a negative correlation to the market — they rise when the market falls, and vice versa. While they can serve to diversify a portfolio and lower risk, by themselves they carry the highest risk of all investments. Investments in this category include shorted indexes and stocks of companies dealing with inferior goods.

While each of these investment classes carries its own risk, combined they can lower your portfolio's overall risk. When investors combine assets whose returns show low correlation with each other, they can minimize risk while maximizing return. In other words, it is possible to be a prudent investor even if your portfolio includes riskier assets. ○○○

## Financial Thoughts

**P**articipants in 401(k) plans became more attentive to expense ratios and portfolio allocations after fee and performance statements were provided. Participants then actively moved away from allocating to expensive funds. Additionally, more investors allocated more to index funds, since these funds tend to be cheaper offerings among plan choices. Trends were stronger among young men (Source: *AAIL*

*Journal*, September 2020).

Even though Social Security's full retirement age has increased to age 66, most workers still time their retirement and exit from the work force at age 65. However, the change in the full retirement age to age 66 did cause many retirees to claim their Social Security benefits later than age 65. The main reason people continue to retire at age 65 is because most individuals working at companies

retire at that age, suggesting that employers play a significant role in shaping the retirement decisions of their employees (Source: National Bureau of Economic Research, May 2020).

Approximately 30% of investors said that ethical trust was the most important component of an advisory relationship (Source: *Journal of Financial Planning*, March 2020). ○○○