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# THE OFM Wealth LETTER

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1st Quarter 2018

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## Retirement Spending Balancing Act

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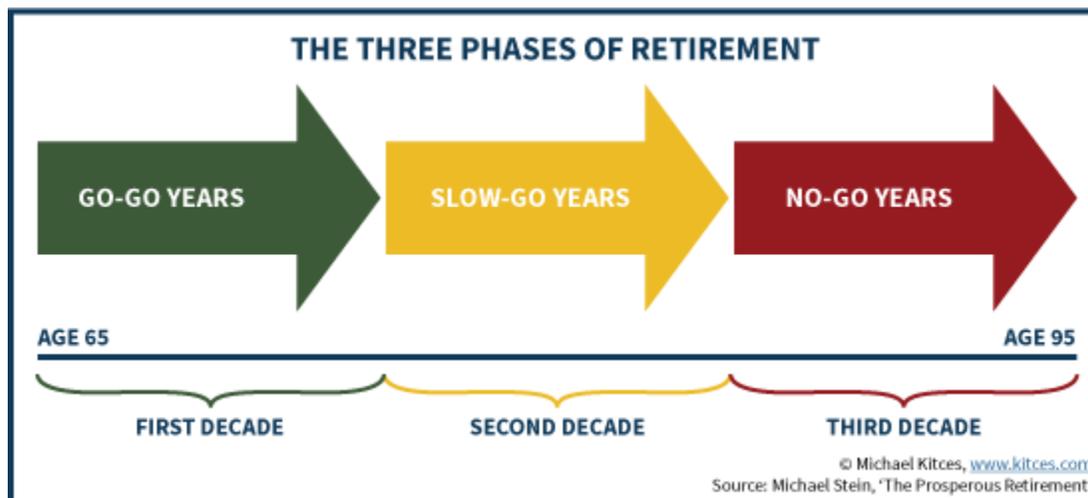
*“How much will I need for my annual expenses when I retire?”*

*“How might my spending needs change as I get older?”*

*“How long does my money need to last?”*

If you are nearing retirement, or have already retired, I’m sure you have asked yourself one or more of these questions. We help people work through these issues on a regular basis as we evaluate their retirement readiness. The planning process doesn’t stop, however, when one stops working – we continually assess retirement income needs each year during retirement.

As you might guess, figuring out the answers to these questions is not simple. Nor are the considerations the same for everyone. Retirement income planning melds together science, art, and quite a bit of flexibility and adaptability based on changing personal and economic circumstances.



Consider how the spending of many retirees tends to evolve over time. In *The Prosperous Retirement*, Michael Stein broke down retirement into three phases.

In the Go-Go Years initial phase, retirees tend to be more active and their spending does not necessarily decrease compared to pre-retirement. In fact, expenses often increase in this phase as people pursue

activities or projects that they put off while focused on their careers.

The Slow-Go Years see a reduction in spending on travel and other discretionary expenses as people slow down and become less active.

Finally, the No-Go Years often reflect the impact of declining health and increasing health care costs. Long-term care costs in later years can also have a tremendous financial impact.

The overall composition of annual spending in retirement changes over time, especially due to health issues (e.g., travel and leisure expenses are replaced by higher medical costs). We encourage people to plan for achieving the goals and enjoying the experiences that are most important to them while they are physically able in the earlier years of retirement.

This brings up one of the key “balancing acts” in retirement income planning—how do I balance living for today with making sure that I don’t run out of money? Planning for longevity is increasingly important.

**If you're 65 today, the probability of living to a specific age or beyond**

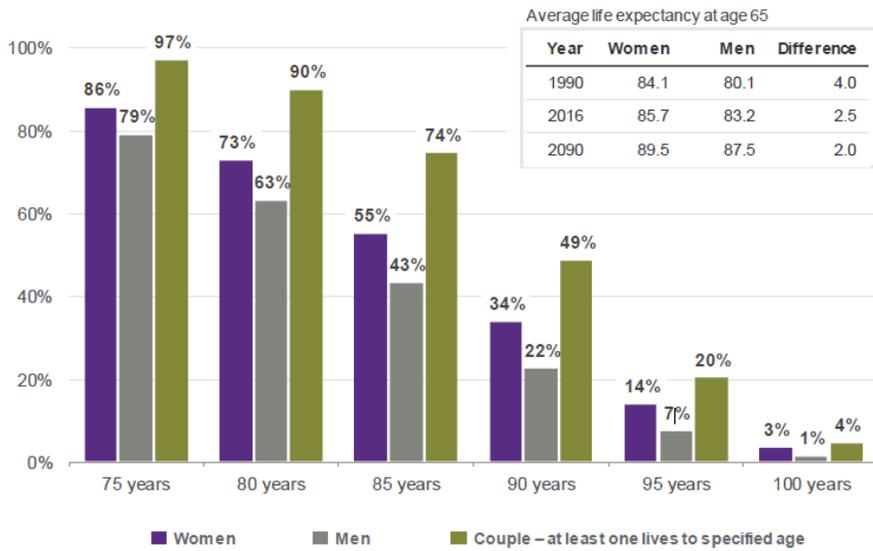


Chart: Social Security Administration, Period Life Table, 2014 (published in 2017), J.P. Morgan Asset Management.  
 Table: Social Security Administration 2017 OASDI Trustees Report.  
 Probability at least one member of a same-sex female couple lives to age 90 is 56% and a same-sex male couple is 40%.

According to recent Social Security Administration life expectancy tables, a 65-year-old man has a 43% chance of living until age 85 while the probability rises to 55% for a 65-year-old woman. There is an even higher likelihood (74%) of at least one person of a couple living until age 85. The probability of one person living until 90 is almost 50%. With continuing advancements in medical treatments, it is not unreasonable to expect life expectancies to continue to trend upwards over time.

It is critical to balance spending as retirement evolves. That balance drives many decisions such as determining an appropriate investment blend, deciding when to claim Social Security benefits, evaluating sustainable portfolio withdrawal rates, and legacy planning for your heirs. These are the vital issues that we discuss with our pre-retirees, as well as those of you in the Go-Go Years, Slow-Go Years, and the No-Go Years.

- Cris

**OFM Wealth Studios**

Our new website ofmwealth.com has been up and running for a few months now. We would like to thank you for the warm reception and positive feedback so many of you have graciously provided.

It's always a challenge to determine website content. We knew, however, we wanted to provide video to showcase our unique place in the financial services industry.

It has come to our attention that some individuals have had trouble locating the videos. To find the individual videos please go to the top menu of ofmwealth.com and select

“WHO WE ARE” from the menu, then scroll down to “OUR TEAM”. After clicking on “OUR TEAM” you can go to an individual’s bio page by clicking the image of the person or clicking their name. Once on an individual bio page, you can click the photo and a video will play. This is not available for every team member. We also have a video towards the bottom of the home page and on the investment committee page that are activated by clicking on the respective images.



Please feel free to email us with any feedback you have about the videos or the website in general.

Enjoy!

- Will



## Welcome Marlo!

We are pleased to announce the birth of Marlo Ann Grenchik. Marlo was born on March 19, 2018 and weighed 6 lbs. She is Jeff and Amy’s first child. Both mother and daughter are doing well – and dad is very proud!

- OFM Wealth Team

## Quick Takes: First Quarter 2018

**Streak Over** – In February, the S&P 500 recorded its first negative month since October 2016. The 15 consecutive months of positive returns between October 2016 and February 2018 tied the record. Over the last few months, we have been

presenting an illustration in client reviews noting how unusual it has been to not have a correction for such a long period of time. We were reminding clients to be prepared because it will happen and in February we did suffer a 10% correction.

*Source: AMG Funds*

**Demographic Shift** – By the year 2035, the projected number of American seniors will be 78.0 million, while the number of American children under the age of 18 is projected to be 76.4 million. This will be the first time in American history that seniors will outnumber children in the United States. This demographic shift could lead to government debt accumulation, greater demand for health care services and strains on Social Security and pension plans due to a smaller pool of workers paying for a larger number of retirees. *Source: U.S. Census Bureau*

**Social Security Starting Age** – 48% of women and 42% of men begin taking their Social Security retirement benefits at age 62, the earliest age possible, while just 2% of men and 4% of women wait until age 70. Each year you wait to take Social Security after full retirement age, your benefits will increase by 8%. There are also benefit reductions between age 62 and full retirement age (e.g. age 66). *Source: Social Security Administration, Kiplinger*

**New Tax Law** – In the 2017 tax year, there were an estimated 46.5 million itemizers. Due to the new tax law, it is estimated that only 19.3 million U.S. taxpayers will claim itemized deductions in 2018. This is primarily due to doubling the standard deduction. Also, the deductibility of home equity loans is impacted. The interest payments are deductible only if the funds are used to buy, build or substantially improve the taxpayer’s home that secures the loan – not car or school loans, etc. *Source: Tax Policy Center*

**Retirement Savings** – 51% of pre-retirees say that their efforts to save for retirement are “behind schedule, while only 15% say they are “ahead of schedule”. If you know of a pre-retiree or Generation X’er working hard to save for retirement, please refer them to our new website to provide some insight on how we may be able to help them get “ahead of schedule”. *Source: AMG Funds*

**Living Longer** – In 1916, life expectancy at birth in the USA was 51.7 years. In 2016, life expectancy at birth in the USA was 78.6 years. Conventional wisdom suggests that as you near retirement, you should decrease your stock allocation. Given that life expectancy has increased so significantly over the years, we take a very personalized look at each client’s situation to determine when – or whether – to adjust stock exposure in a portfolio. *Source: AMG Funds*

Simplified 1040 Form	
Department of the Treasury - Internal Revenue Service	
1040 U.S. Individual Income Tax Return	
Part 1. Income	Your Social Security Number
1. How much money did you make last year? .....	▶
2. Send it in. ....	▶
3. If you have any questions or comments, please write them in the box provided. .... <input type="checkbox"/>	

- Jeff

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