THE OFM Wealth LETTER

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Retirement Transition Plan

Preparing for your eventual retirement from a job or career involves much more than looking at dollars and cents. Yes, it is still crucial to crunch the numbers to assess your progress in saving, to decide when to claim Social Security, and to review whether your anticipated retirement income needs might be sustainable over the long-term.

However, it is also critical to prepare for the emotional and personal adjustments retirement may present.

Transitioning away from a lifelong activity is a major event that, while typically positive, can be stressful. Some may even confront feelings of grief due to a loss of a long-standing routine, relationships with coworkers, or loss of a sense of purpose or identity.

Retirement may also be a source of conflict between spouses. Each person may have a different vision of what retirement looks like: where to live, what to do, who to spend time with, etc.

How to Prepare?

You can use this checklist as a starting point to plan for your retirement transition. Consider three important areas—your needs, wants, and wishes.

Financial Security Needs

- ☐ Have I created a sustainable plan for funding my retirement income needs?
- ☐ Are my investment accounts properly allocated to support my long-term needs?
- ☐ Are my insurance protections in order (health, life, long-term care)?
- ☐ Is my estate plan up to date? Does it reflect my current wishes?
- ☐ Other ______________________________

Personal Wants

- ☐ Who do I want to spend my time with?
- ☐ Where do I want to live?
- ☐ What would I put on my mid-life bucket list?
- ☐ What have I always wanted to do but haven't had the time?
- ☐ Other ______________________________

Purpose & Wishes

- ☐ What will my new purpose be post-career?
- ☐ Who do I want to help?
- ☐ Do I want to pursue volunteer activities?
- ☐ What legacy do I want to leave for family, friends, or charity?
- ☐ Other ______________________________

Final Advice

- ✓ Start thinking about your retirement vision well before the actual date.
- ✓ Have open discussions about your vision with the important people in your life—your spouse, partner, children, and/or close friends.
- ✓ Think about retiring "to" something as opposed to "from" something.
- ✓ Don't plan to concentrate all your time and energy on one activity or social group. This could get boring.
- ✓ Be flexible! Even the best laid plans don't always work out as expected and you may need to make course adjustments. Give yourself permission to change your mind or vision.

We are here to help you navigate your transition to a secure, meaningful retirement. - Cris

From Our Sustainable Investing Quote Library…

"What's exciting about the ESG movement is that it's a market-led revolution, not some government office imposing its view of which concerns should be addressed."

Don Phillips, Managing Director of Morningstar (taken from Morningstar magazine October/November 2018)

"Sustainability is going to be an organizing concept of the 21st Century—one of the big-picture ideas that frames how all aspects of life, in business, in public affairs, in academic settings, are thought about."

Daniel C. Esty, faculty director of the Yale Sustainability Leadership Forum (taken from Morningstar magazine October/November 2018)

Winter Semester Exam

1. **The top long term capital gains tax rate is:**
    a. 15%
    b. Equal to ordinary income tax rates
    c. 20%
    d. Eliminated by the new tax law
2. **All of the following are true of Required Minimum Distributions (RMD's) except:**
    a. Up to $100,000 annually can be directly given to qualified charities without claiming those dollars as income
    b. Distributions must begin by April 1st of the year following reaching age 70 ½
    c. RMD's are based on end of year retirement plan balances and government tables of life expectancies
    d. Withdrawals from retirement plans in excess of RMD's are federally tax free
3. **Stock market (S&P 500) corrections (declines of 10%-20%) have occurred:**
    a. Mostly in mid-term election years
    b. Only once since the 2008 financial crisis
    c. On average, once per year
    d. To test the nerves of investors
4. **Which is NOT true of ESG investing?**
    a. It is the result of government mandates that relate to environmental, social, and corporate governance policies
    b. It is a layer of investment analysis that measures the potential impact of environmental, social, and corporate governance of a company
    c. It is intended to reduce risk without compromising investment results
    d. Began in the 1970's and recently gained interest such that an estimated $25 Trillion is invested globally based on ESG considerations (Barron's, 6/25/18)
5. **All the following are true of Social Security except:**
    a. The current wage base is $128,400
    b. In most cases, starting benefits at age 62 results in the most lifetime income
    c. The 2018 cost of living adjustment was 2%
    d. Expected benefits between full retirement age (FRA) and age 70 increase by 8% annually

(See page 3 for answers)

Stick to Your Plan

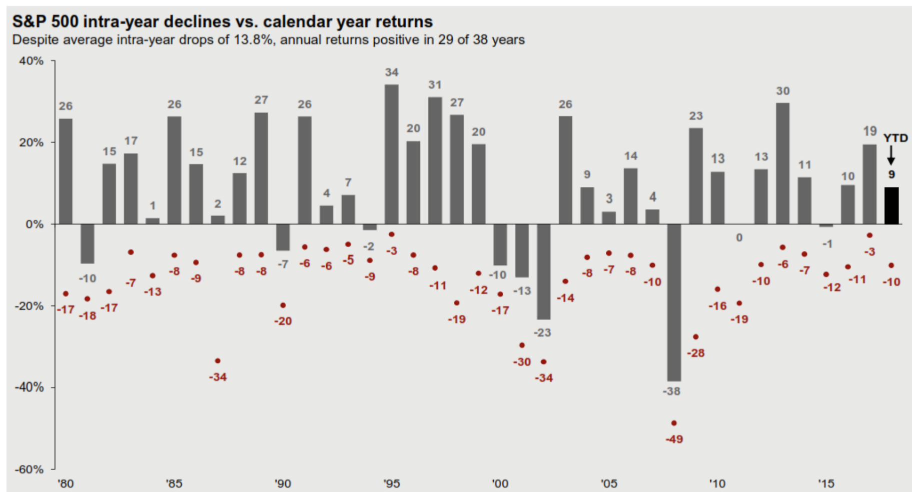
Ouch! It was a tough October for the U.S. stock market. The broad index, S&P 500, had its worst month (-6.8%) in over 7 years. From my experience, the tolerance of such a decline is much lower for relatively new clients (less than 5 years with OFM Wealth) than for longer term clients.

Those of you who have been with us for over 5 years have experienced past declines (particularly from 2000-2002 and the big one during 2007-2009) of various levels. Most importantly, you have experienced the recoveries as well. Tolerance comes from experience and education.

This chart is particularly insightful. There are a few things I would like to highlight:

- Despite average intra-year declines of -13.8%, the S&P 500 finished higher in 29 of the last 38 years – better than 75% of the time.
- With the exception of 2000-2002, there were no consecutive negative years.
- There was an intra-year decline every year ranging from -3% to -49%. That puts our recent -6.8% decline in perspective.
- The average annual return for 1980-2017 was 8.8% for the S&P 500.

Annual Returns & Intra-Year Declines



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2017, over which time period the average annual return was 8.8%. Includes 2 worst market declines since the Great Depression.
JP Morgan Asset Management Guide to the Markets U.S. Data are as of September 30, 2018.

One final word…If you are timing portfolio contributions or income withdrawals to stock market movements, don't. Adding more money during good times and either not adding or withdrawing additional money in bad times are failing strategies. These movements can't be timed. Continuous, steady contributions during one's accumulative years followed by steady withdrawals later reduces the volatility impact.

\- Sam

Answers:

1. **C** (This did not change in 2018.)
2. **D** (Withdrawals in excess of RMD's may be taken but are similarly taxed.)
3. **C** (This is a common phenomena.)
4. **A** (Capitalistic markets, not government mandates, drive results.)
5. **B** (The breakeven age is around 77, meaning that if one lives longer, the greater benefit would have been realized by waiting beyond age 62.)