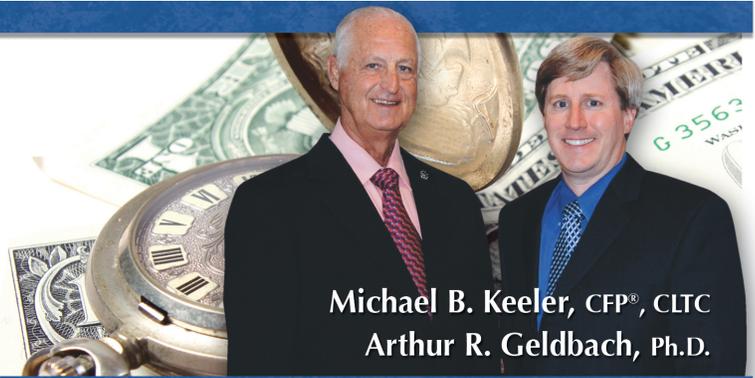


# GFS & Associates

The Retirement Specialists



Michael B. Keeler, CFP®, CLTC  
Arthur R. Geldbach, Ph.D.

## Retirement Planning in Today's Environment

**R**etirement is usually defined as a time when someone stops employment. You can also semi-retire by reducing your work hours. Retirement is a time a person typically devotes to relaxation and enjoyment. During this time, many retirees focus on indulging in a favorite hobby, traveling, doing volunteer work and spending time with family and friends.



Many people choose to retire when they are eligible for private or public pension benefits, although some are forced to retire when physical conditions no longer allow that person to work anymore.

Not everyone is content to sit back on a rocker after they stop working. Entrepreneurial types can use their past work experience to embark on a new career or start their own business using their accumulated knowledge and professional contacts.

In most countries, the concept of retirement is of near recent origin, being introduced during the late 19th and early 20th centuries. Prior to this, low life expectancies and the absence of financial arrangements meant that most workers continued to work until they couldn't or death.

Today, the prospect of retiring early can sometimes seem more unrealistic than ever, especially during adverse economic conditions. Shrinking retirement benefits, increased volatility in the securities markets and rising prices have combined to make a successful retirement harder than ever to achieve. In today's expensive world, many workers are postponing their retirement for two to five years or even longer, depending upon their situations. There are some advantages to taking this route, especially

for those who have big plans for their lives after they finish their current careers. Each individual needs to carefully weigh out the benefits that they can reap when deciding the

best time to retire. Are they on the path to a comfortable retirement or financial ruin?

Currently, interest rates are down and inflation is up. For retirees who depend on interest income from their fixed-income investments to pay living expenses, these are concerning and confusing times. As many retirees and workers have discovered, today's historically low interest rates are crimping their retirement savings. The yield on the 10-year U.S. Treasury note is about 2.7% while the yield on the two-year note is 0.3%. Meanwhile, inflation has risen 1.7% over the 12 months ending June 2013. (Sources: treasury.gov, bls.gov)

A June 2013 study by the Employee Benefit Research Institute (EBRI) quantifies just how much the sustained low-interest rate environment is hurting peoples' retirement savings. EBRI, using its proprietary Retirement Security Projection Model (RSPM), found that more than a quarter of Baby Boomers and GenXers who would have had adequate retirement income under historical return assumptions are simulated to end up running short of money in retirement if today's historically low interest rates are assumed to be a permanent condition and if retirement income/wealth is

assumed to cover 100% of simulated retirement expense.

This analysis revealed that the potential impact varies by income levels. “There appears to be a very limited impact of a low-yield-rate environment on retirement income adequacy for those in the lowest pre-retirement income quartile, given the relatively small level of defined contribution and IRA assets and the relatively large contribution of Social Security benefits for this group,” said Jack VanDerhei, EBRI research director and author of the study. “However, there is a very significant impact for the top three income quartiles.”

Among EBRI’s findings:

The study assumes that the current low rates are permanent, but the impact is lessened if the situation is temporary, according to EBRI. The impact of low rates is magnified by years of future eligibility for participation in a defined contribution plan. “For the younger Gen X generation, the decline in retirement adequacy would range from 4 percentage points under a five-year, low-yield-rate environment, to 7 percentage points if rates remain depressed for 10 years, and 11 percentage points if those low rates are permanent, assuming they have one to nine years of remaining eligibility in a defined contribution retirement plan (such as a 401(k)),” according to the report’s results. (Source: [www.ebri.org](http://www.ebri.org))

Let’s put this in perspective. If in 2010 you had a \$1,000,000 portfolio of 10-year U.S. Treasury notes generating \$40,000 in income to fund your living expenses, and for some reason you had to reinvest all that money in the 10-year notes being issued today, your portfolio would generate only \$27,000 in interest income. Meanwhile, the cost of goods and services that your \$40,000 in interest income once paid for may have now risen to over \$42,000.

In other words, to maintain the very same standard of living you need to generate another \$15,000 in interest income. This is impossible to do without taking on more risk; and/or start dipping into your

principal, which could put your living standard in jeopardy later in life. At this point you might consider reducing your standard of living today and wait for interest rates to rise. (Sources: [treasury.gov](http://treasury.gov), [bls.gov](http://bls.gov))

### **What’s a retiree to do?**

First, identify and prioritize your risks.

Among the items high on your to-do list should be:

- ✓ **Get a handle on the risks you will face in retirement.**

Your risks can include; longevity, inflation, interest rates, and/or the stock market. Next, determine which of those risks will have the greatest impact on your retirement, and then develop a plan that addresses these risks and your situation.

Doing this late in the game, while you’re in a state of duress, isn’t ideal but can still be better than making rash decisions and chasing yields only to expose yourself to another risk for which you are unprepared. If you already have a strategy in place, now would be the time to schedule a session with us

to revisit what, if any, changes you might want to make to your plan. Planning for interest-rate risk is one thing; living through it with real money at risk is a different story.

- ✓ **Revisit your expenses.**

We often think of fixed expenses in retirement as being just that — fixed. Sadly, many retirees can often underestimate their discretionary expenses.



Retirees should calculate their monthly income needs for the basics — food, housing, and essential bills — and see how much of that Social Security and existing retirement incomes will cover.

Most retirees will be faced with hard decisions and people typically don’t want to compromise on essential expenses. Determining your “wants” vs. your “needs” can often be a challenging process. It might be that you can cut some expenses that are more “wants” than “needs,” and thus reduce the

need to make up lost interest income. “Now is a good time to figure out what’s essential and what’s not,” said Craig Lemoine, CFP, an assistant professor of financial planning at The American College.

Lemoine noted that the low interest rate environment is a double-edged sword: interest rates on investments are low but so, too, are rates on loans. He advises that “Now would also be a good time to take advantage of opportunities to refinance your mortgage or unsecured debt.”

✓ **Some investors are trading safety of principal for higher yield.**

Because of the unusually low interest rates, investors are being offered more options for income generation. These alternatives can many times be associated with additional risks that are not easily understood. For those who have a handle on the risks they will face in retirement and who don’t mind trading safety of principal for a higher yield, there can be a number of options to consider, including; corporate-bonds, floating-rate bonds, preferred-securities bonds, and maybe even high yield bonds.



When looking at these investments, your questions should include:

- *What kind of risk are you willing to take?*
- *How can you look across the investments available and come up with something that provides diversification and the highest-adjusted yield or return?*

Your choices should not be made without research and your decisions need to be analyzed.

✓ **Review your investment allocations.**

When swapping safety of principal for yield, retirees might consider adding capital-market investments. No one knows exactly where interest rates are going and therefore some traditional models that looked healthy in prior times may no longer be appropriate. When you design your

investment plan, you decide your ideal amounts for fixed income. With interest rates artificially low, these types of investments can generate an unusual amount of “interest rate risk.” According to Investopedia.com, “Interest rate risk affects the value of bonds more directly than stocks, and it is a major risk to all bondholders.” As interest rates rise, bond prices fall and vice versa. The rationale is that as interest rates increase, the opportunity cost of holding a bond decreases since investors are able to realize greater yields by switching to other investments that reflect the higher interest rate.

✓ **How about Social Security?**

Today’s challenging economic environment has forced many Americans to review their retirement planning goals with a more critical eye centered toward self-funding. Why? The uncertainty surrounding both Social Security and Medicare has left many doubtful that these will be available as secure parts of their retirement plan strategy.

For pre-retirees, this is a wake-up call. According to the EBRI study, Social Security doesn’t supply enough income for people to get by financially for even two weeks of each month. Delaying the start of your Social Security benefits can make your payments higher. We enjoy helping our clients create a plan that tries to maximize Social Security benefits. Something to keep in mind is that many people over 65 will need to rely on earnings and personal savings to meet at least half of their retirement income needs. It’s a shocking thought, but one that needs to be confronted.

✓ **Consult your advisor.**

All in, it’s possible to make up the interest income lost when interest rates fall and inflation rises. Typically it can’t be done without an investment of another sort; your time and energy. We enjoy meeting with our clients and having an active role in weighing choices and helping to make decisions.

**A good financial advisor can help make this process a lot easier. Our goal is to understand**

our clients' needs and then try to create a plan to address those needs. We then monitor your portfolio. While we cannot control interest rates, we keep a watchful eye on them. No one can predict the future with complete accuracy, so we keep the lines of communication open with our clients. Our primary objective is to take the

“emotions” out of investing for our clients. We can discuss your specific situation at your next review meeting or you can call to schedule an appointment.

As always, we appreciate the opportunity to assist you in addressing your financial issues.

**As always, if you have any questions or would like to discuss the specifics of your portfolio, please call our office at (702) 870-7711.**



Mike and his family made their annual trip to Bemidji, MN in June. For such a small town, it is amazing how many people have actually heard of or been to this place. The Keeler connection to Bemidji dates back to Mike's grandfather, who grew up in the area. In fact, Mike's grandfather received one of the first 4-year degrees from Bemidji Teachers College, now known as Bemidji State University. You can even find Dr. Irvin Keeler in the BSU Athletic Hall of fame. Mike has been staying at the Keeler Cottage on Lake Bemidji almost every year and now enjoys sharing these experiences with his own family. And no, he has never been there in the winter. He's not crazy!

**About Michael B. Keeler:** Mike is a Certified Financial Planner and is the owner of GFS & Associates, a financial planning firm that has been serving Las Vegas for 30 years. Mike works with individuals and small businesses on a variety of financial topics, including retirement planning and employee benefits. Mike can be reached at (702) 870-7711 or find him on the web at [www.GeldbachFinancial.com](http://www.GeldbachFinancial.com).

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If you are not currently a client of GFS & Associates, we would like to offer you a complimentary, one-hour, private consultation with one of our professionals at absolutely no cost or obligation to you. To schedule your financial check-up, please call Cher at (702) 870-7711

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