



Retirement Planning

2:00pm-3:30pm

Speaker: Lyle Benson, Jr., CPA, PFS,
CFP, L.K. Benson & Company, P.C

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LYLE K. BENSON, JR., CPA, PFS, CFP

Lyle K. Benson, Jr. is the President and Founder of L.K. Benson & Company, a CPA/Financial Planning firm based in Baltimore, Maryland. The firm specializes in personal financial planning, tax and investment advisory services for high income individuals and families as well as corporate executives and entrepreneurial, closely held business owners across the country. Prior to starting the firm in 1994, he was a partner in a local CPA firm, building their financial planning practice over a fifteen year period.

Lyle has a B.A. in Accounting from Loyola College in Maryland, a Masters of Science in Taxation from the University of Baltimore. His profession designations include CPA, PFS (Personal Financial Specialist), and CFP (Certified Financial Planner).

As a leader in the financial planning and accounting professions, he has served in many roles of various professional organizations over the past 25 years including the AICPA PFP Division Executive Committee, National Accreditation Committee (AICPA), and Baltimore Association for Financial Planning. He has also chaired numerous national conferences including the AICPA Personal Financial Planning Investment Conference and AICPA Retirement Planning Conference. Lyle helped to found and is the President of the Association of CPA Financial Planners, (an organization of PFS). Currently, he is chair of the Media Task Force of the AICPA PFP Section. He has taught courses for various state CPA societies, spoken at numerous conferences around the country, and developed and taught a graduate level course in Personal Financial Planning at the University of Baltimore.

His accomplishments include earning the AICPA Personal Financial Division Distinguished Service Award, being named to the *Worth Magazine* Top 250 Financial Advisors, and named as One of the 100 Most Influential People in the Accounting Profession by *Accounting Today*.

Lyle has also been active in numerous civic charitable organizations including: the University of Baltimore Alumni Association, Cloverland Community Association where he serves as president, Baltimore Junior Association of Commerce, and is a past President of the Loyola College Alumni Association.

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By: Lyle K. Benson, Jr., CPA, PFS, CFP
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Chesapeake Tax Conference
MACPA
September 17, 2009

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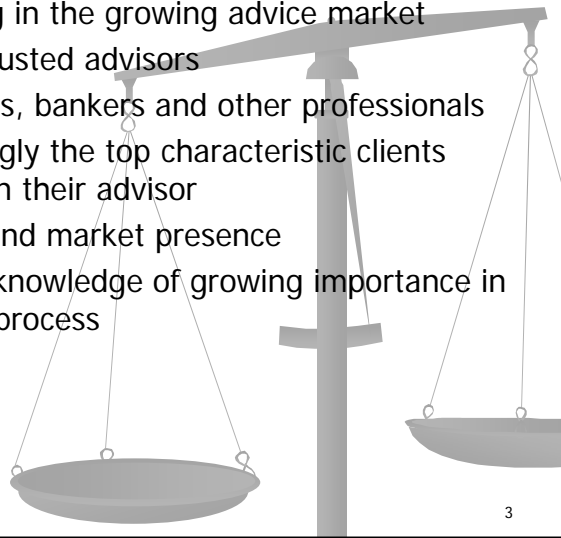
The CPA as a Financial Planner



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CPAs Are Uniquely Positioned

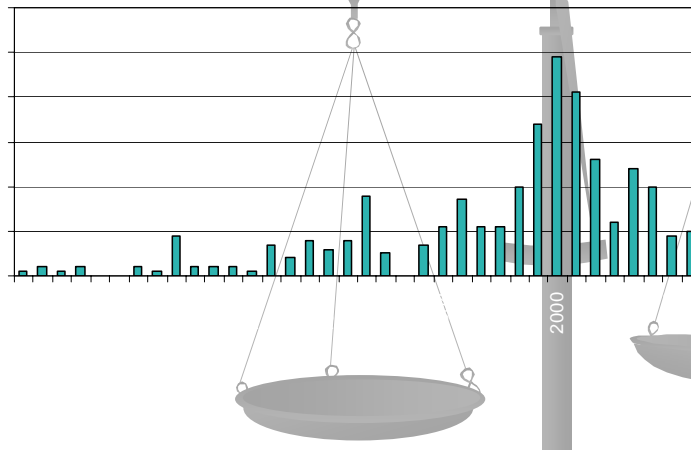
- Favorable positioning in the growing advice market
- CPAs are the most trusted advisors
 - Ahead of attorneys, bankers and other professionals
- Trust is overwhelmingly the top characteristic clients look for and expect in their advisor
- Existing client base and market presence
- Tax and accounting knowledge of growing importance in the overall planning process



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CPA Financial Planning Boom

Year in Which Respondents First Offered Financial Planning/Advisory Services



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Motivations Behind Offering Advice

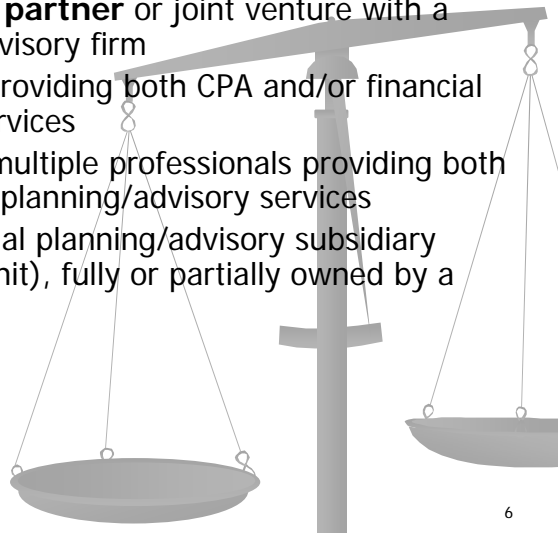
- Respond to client needs
- Build on existing relationships
- Diversify the service offering of the overall firm
- Increase revenue and profitability



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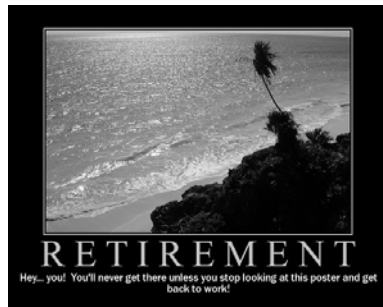
Four Models of Delivery

- A preferred **referral partner** or joint venture with a financial planning/advisory firm
- **Solo practitioner** providing both CPA and/or financial planning/advisory services
- **Single entity** with multiple professionals providing both CPA and/or financial planning/advisory services
- **Stand-alone** financial planning/advisory subsidiary (entity or business unit), fully or partially owned by a CPA firm



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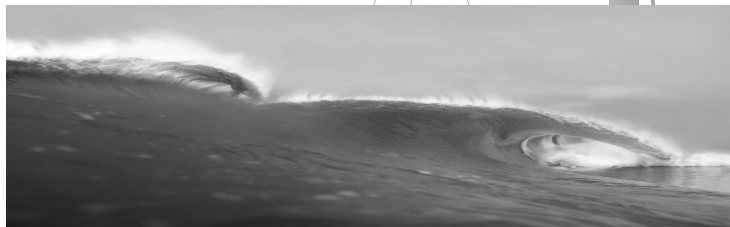
The Changing Definition of Retirement



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THE AGE WAVE IS COMING ASHORE!

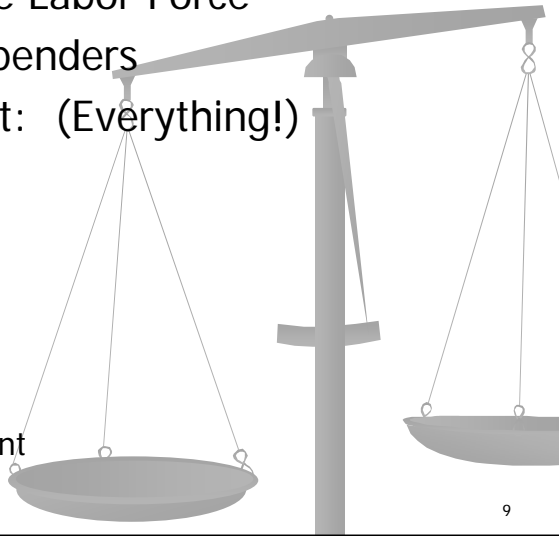
One baby boomer will turn 59 1/2 every seven seconds between now and 2025.



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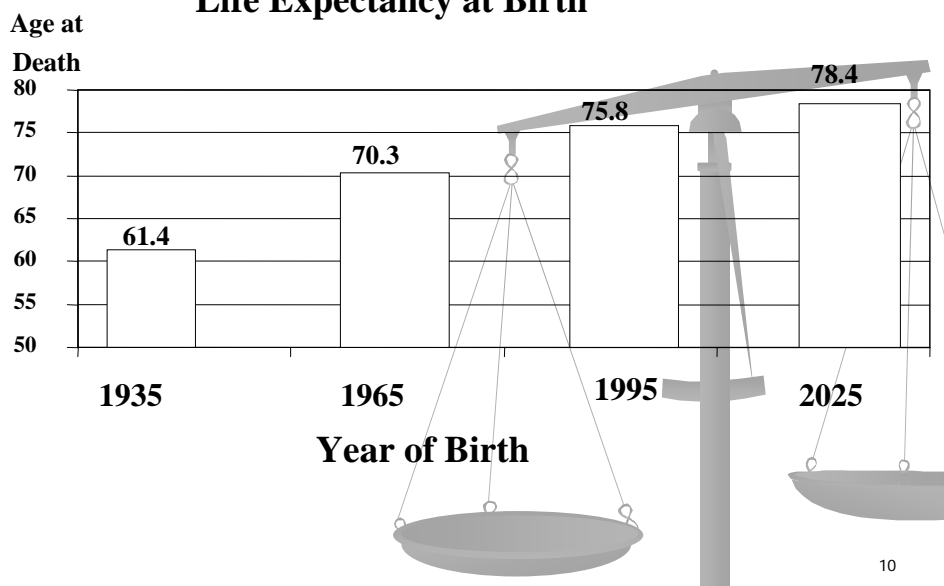
THE BOOMER: BIG BUT DIVERSE

- Large Part of the Labor Force
- History of Big Spenders
- Areas of Interest: (Everything!)
 - Health
 - Lifestyle
 - Nostalgia
 - Family values
 - Relationships
 - Expensive hobbies
 - Money management

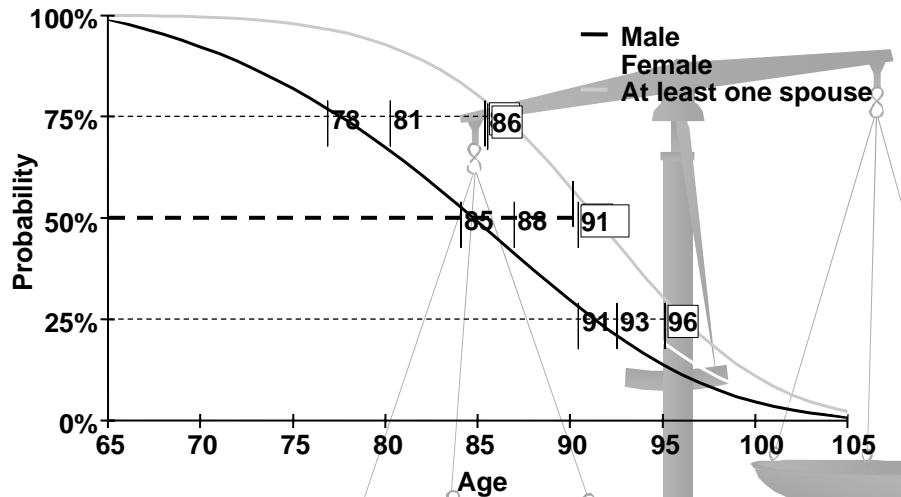


Our Life Expectancy is LONGER

Life Expectancy at Birth



Probability of a 65-year-old living to various ages



Source: Annuity 2000 Mortality Tables

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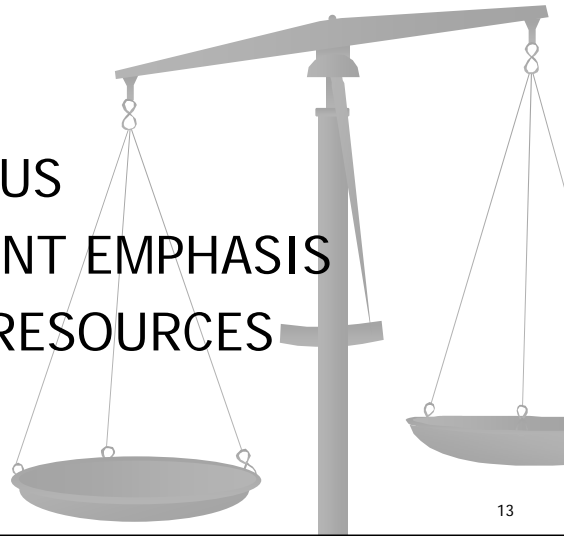
BOOMERS REJECTING “RETIREMENT”

- DESIRE TO STAY MENTALLY ACTIVE
- DESIRE TO STAY PHYSICALLY ACTIVE
- DESIRE TO REMAIN PRODUCTIVE AND USEFUL
- Nobody says “I WANT TO CONTINUE TO WORK SO I CAN AFFORD TO FEED MYSELF,” even if that’s true.

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REINVENT NOT RETIRE

- LIFESTYLE
- CAREER
- FAMILY FOCUS
- ENVIRONMENT EMPHASIS
- FINANCIAL RESOURCES



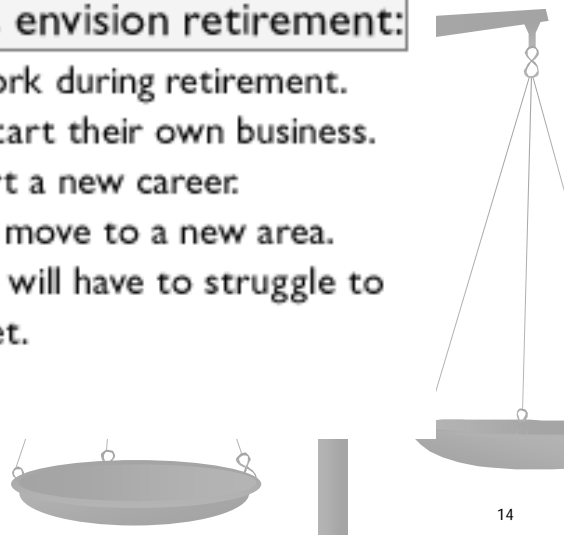
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WHAT WILL BOOMERS DO?

Baby Boomers envision retirement:

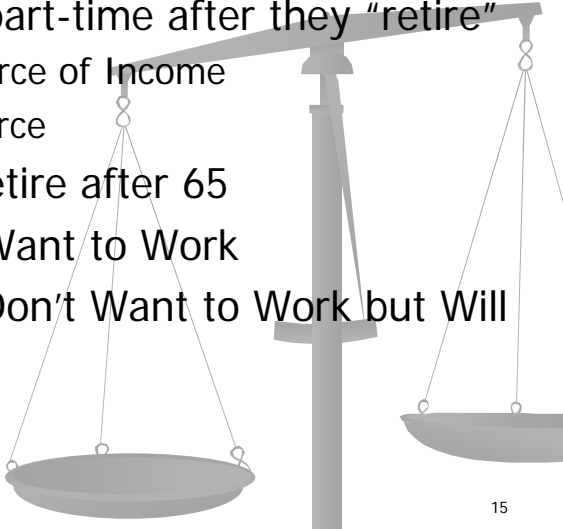
- 80% plan to work during retirement.
- 17% want to start their own business.
- 5% plan to start a new career.
- 21% expect to move to a new area.
- 23% think they will have to struggle to make ends meet.

Source: AARP



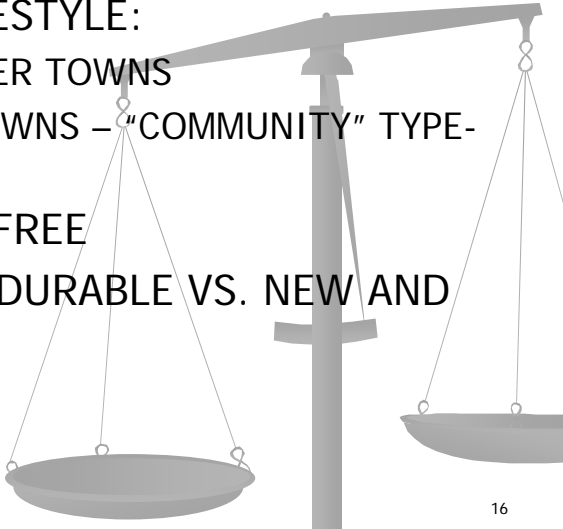
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2007 Gallup Annual Personal Finance Poll

- 78% will work part-time after they "retire"
 - 21% Major Source of Income
 - 52% Minor Source
 - 57% will fully retire after 65
 - 49% Say they Want to Work
 - 49% Say they Don't Want to Work but Will
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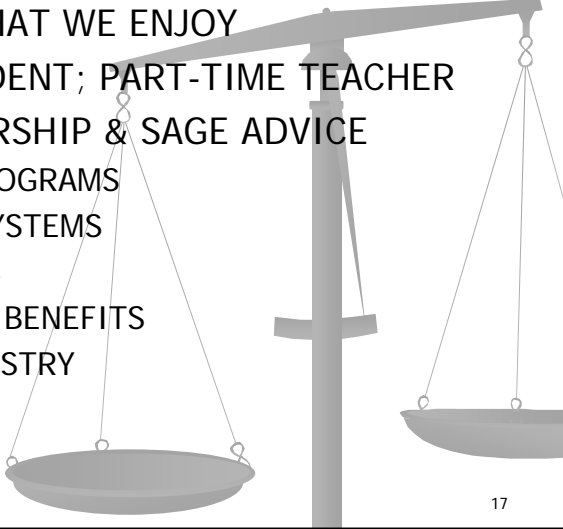
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LIFESTYLE

- DOWNSIZE LIFESTYLE:
 - LIVE IN SMALLER TOWNS
 - LIVE IN BIG TOWNS – "COMMUNITY" TYPE-HOUSING
 - BECOME DEBT FREE
 - VALUE OLDER, DURABLE VS. NEW AND SHINY
- 

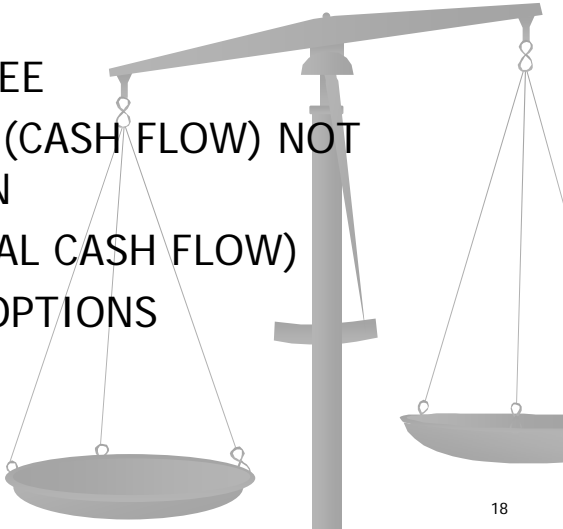
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CAREER

- DO MORE OF WHAT WE ENJOY
 - PART-TIME STUDENT; PART-TIME TEACHER
 - PROVIDE LEADERSHIP & SAGE ADVICE
 - RETIREMENT PROGRAMS
 - HEALTH CARE SYSTEMS
 - LABOR MARKETS
 - OLDER WORKER BENEFITS
 - FINANCIAL INDUSTRY
- 

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THE BOOMER FINANCIAL WANTS/NEEDS

- DEBT FREE
 - DEPENDENT FREE
 - DISTRIBUTION (CASH FLOW) NOT ACCUMULATION
 - INFLATION (REAL CASH FLOW)
 - NEXT CAREER OPTIONS
- 

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Example

- Corporate Executive/Doctor
- Career with big pharmaceutical company
- Moved to better geographical area and a public health role.
- Key Planning Points:
 - Cash out or hold options?
 - Asset Sufficiency Analysis
 - Develop and Implement Inv Strategy

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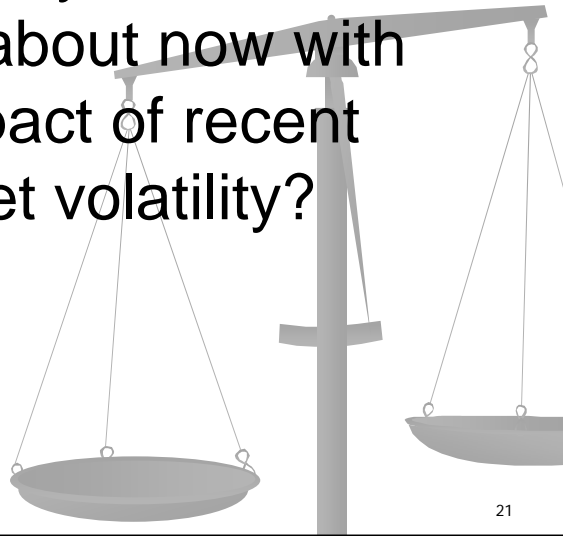
Challenges in the Current Market

What are we telling clients?



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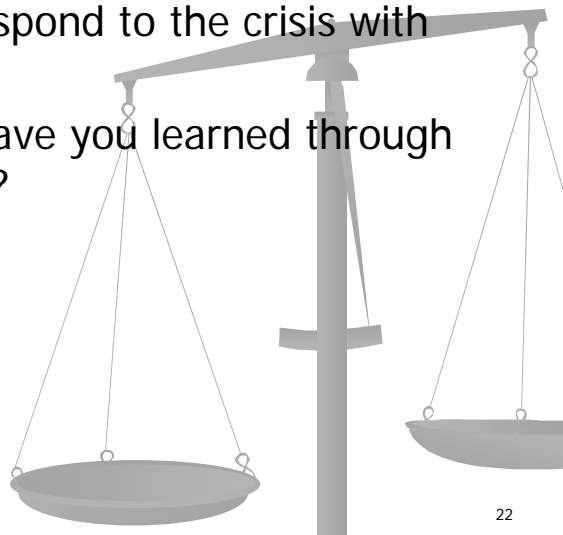
What are your clients worried about now with the impact of recent market volatility?



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Communicating with Clients

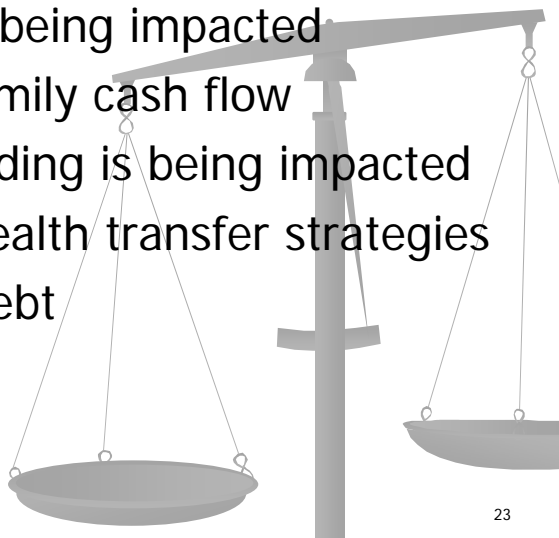
- How did you respond to the crisis with your clients?
- What lessons have you learned through this experience?



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Market Volatility

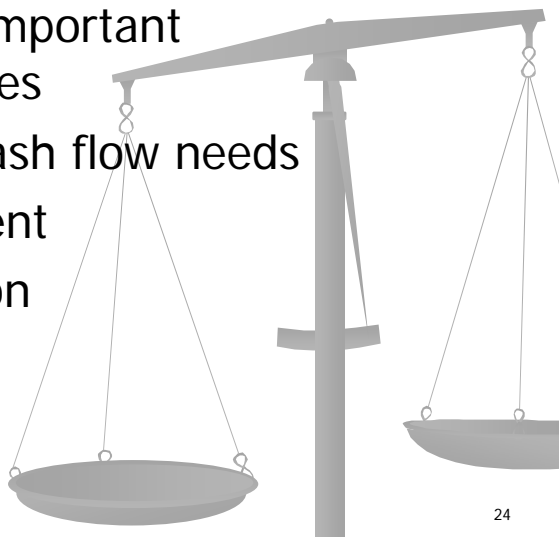
- Retirement is being impacted
- Changes in family cash flow
- Education funding is being impacted
- Gifting and wealth transfer strategies
- Restructure debt



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The CPA/PFS Approach

- Clients most important goals/objectives
- Understand cash flow needs
- Risk assessment
- Asset allocation



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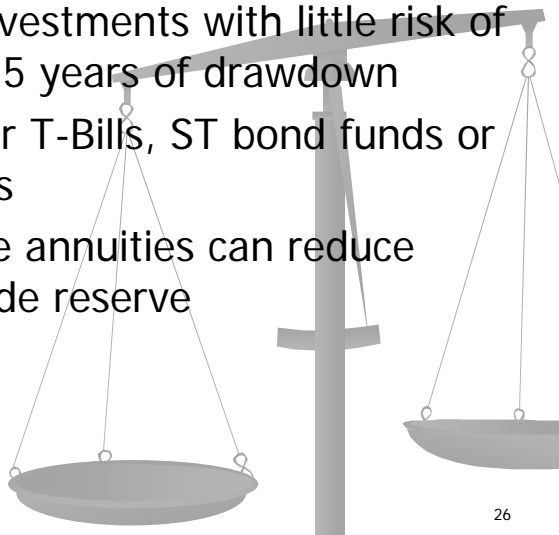
Drawdown Studies and Thoughts



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Cash Reserves

- Fixed income investments with little risk of loss for up to 3-5 years of drawdown
- Laddered CDs or T-Bills, ST bond funds or cash equivalents
- Fixed immediate annuities can reduce need for set aside reserve



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Cash Reserve Example:

- Mary age 65 has cash needs of \$60,000/yr
- SS of \$20K and employer plan of \$5k/yr
- Needs \$35K from portfolio
- Portfolio income is \$15K so principal need is \$20K
- Five year set aside = $\$20K * 5 = \$100,000$

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Tax Bracket Strategies

- Tax Bracket Strategies
 - Pre-Retirement – Roth vs. regular IRA
 - Early Retirement – Years between retirement and age 70½
 - Later Retirement - RMD's push into higher tax bracket after age 70½
 - Cash Flow Needs > RMD – Use Roth IRA funds; Use fixed immediate annuities
 - Best to have mix of taxable and tax deferred asset pools to draw from.

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Mechanics of Drawdown Studies

- “Initial Withdrawal Rate” (IWR) – The percentage of the portfolio withdrawn in the first year.
 - Safe – Highest IWR that guarantees the required portfolio longevity.; 4-4.5%
 - Practical – IWR that anticipates modest failure(10% or less); 5%
- Simulation Software
 - Monte Carlo Simulations
 - Limited database of return numbers

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Why is IWR important?

Investment related reasons

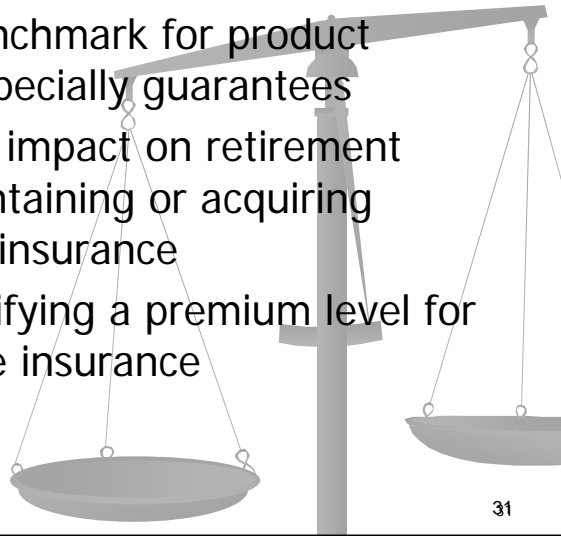
- Establishes a rule of thumb for portfolio withdrawals
- Compare IWR to guaranteed income products
- Simulate impact to IWR when adding asset classes
- Identify costs of investment management relative to IWR

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Why is IWR important?

Risk Management Reasons

- Provides a benchmark for product solutions – especially guarantees
- Highlights the impact on retirement needs by maintaining or acquiring additional life insurance
- Assist in identifying a premium level for long term care insurance

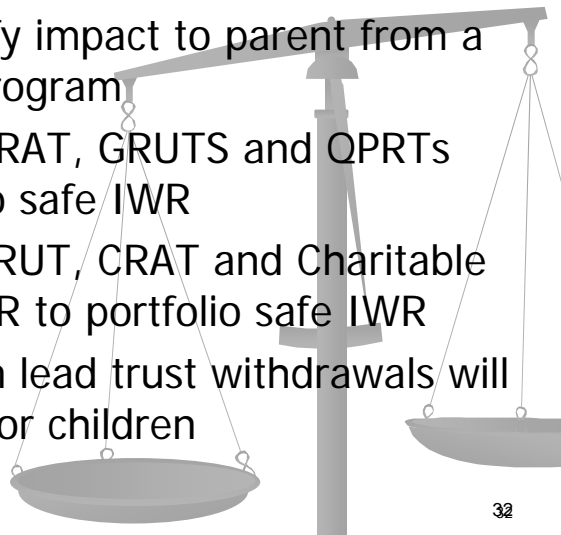


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Why is IWR important?

Estate Planning Reasons

- Can help identify impact to parent from a family gifting program
- Can compare GRAT, GRUTS and QPRTs IWR to portfolio safe IWR
- Can compare CRUT, CRAT and Charitable Gift Annuity IWR to portfolio safe IWR
- Highlights when lead trust withdrawals will exhaust funds for children



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Higher IWR can be tolerated when:

- Discretionary share of spending is high
- Fixed income with COLAs as share of total resources is high
- Personal Inflation rate is below CPI
- Risk management coverage is adequate and have inflation protection
- Fixed income or other sources commence after start of projection period
- Expenditures drop off after start of projection

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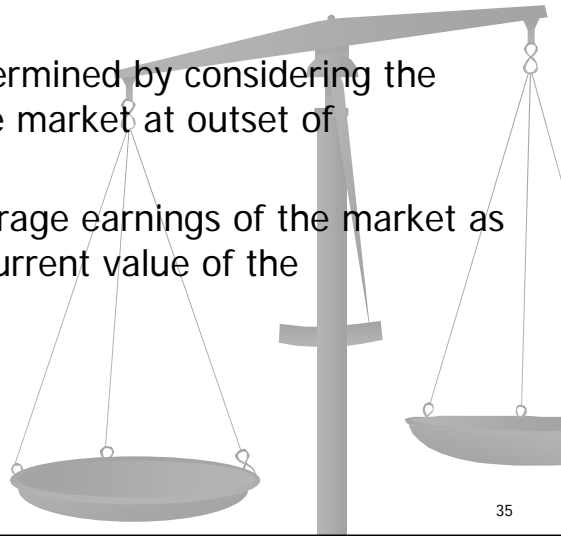
The Drawdown Studies

- Bengen
 - 4% IWR safe for 50/50 stock/bond mix
- Guyton
 - Introduced "Multi Asset Class" (8 different asset classes)
 - Increased IWR to 5% for 80% stock portfolio
- Guyton & Klingler
 - Considered capital preservation and prosperity rules.
 - Monte Carlo analysis

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The Drawdown Studies, ctd.

- Kitces
 - IWR's best determined by considering the valuation of the market at outset of withdrawals.
 - Used 10-yr average earnings of the market as a ratio to the current value of the market (P/E10)



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Safe IWR based on PE10 quintiles for a 60/40 mix

PE10 Quintile	<u>Lower</u> PE10 Range	<u>Upper</u>	Lowest IWR	Highest IWR	Average IWR
1	5.4	12.0	5.7%	10.6%	8.1%
2	12.0	14.7	4.8%	8.3%	6.7%
3	14.7	17.6	4.9%	8.1%	6.3%
4	17.6	19.9	4.9%	7.2%	5.8%
5	19.9	28.7	4.4%	6.1%	5.1%

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Safe IWR based on PE10 quintiles for different mixes

PE10 Quintile	Equities 0%	Equities 20%	Equities 40%	Equities 60%	Equities 80%	Equities 100%
1	2.5%	3.8%	5.2%	5.7%	5.8%	5.8%
2	2.5%	3.5%	4.5%	4.8%	5.0%	5.0%
3	2.4%	3.3%	4.3%	4.9%	5.0%	5.0%
4	2.5%	3.4%	4.2%	4.9%	4.7%	4.5%
5	2.5%	3.2%	3.9%	4.4%	4.3%	4.0%

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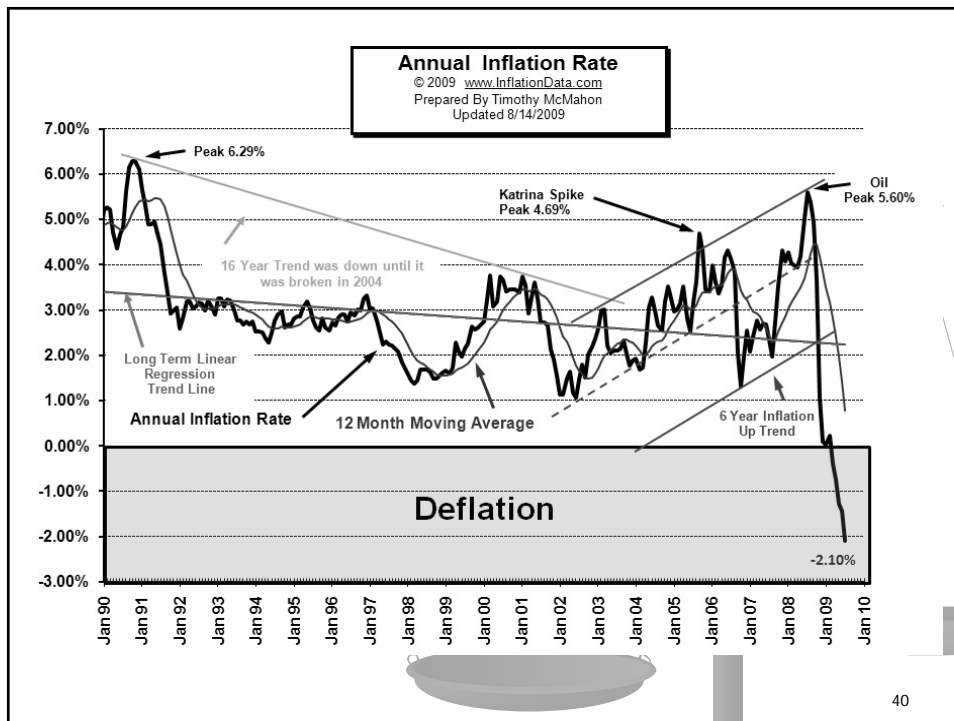
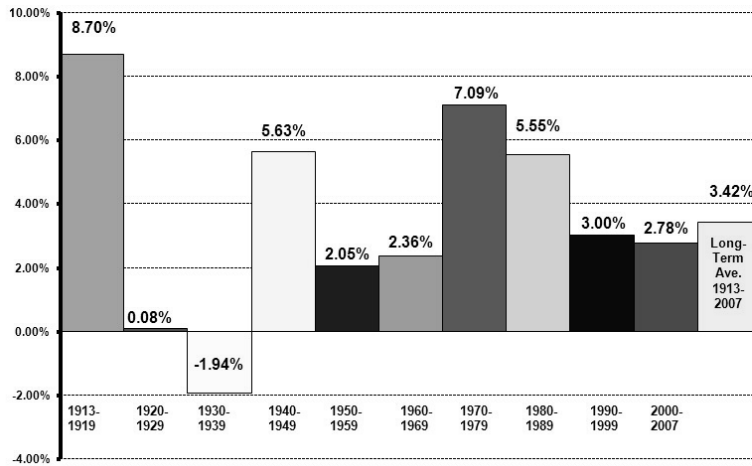
Drawdown Summary

- Drawdown should include portfolio, tax, withdrawal and longevity strategies
- Drawdown studies provide insight into these strategies but should only be used as rules of thumb
- Individual withdrawal strategies should personalize spending behavior and coordinate with set aside reserves, tax management and the IWR

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Impact of Inflation

Average Annual Inflation by Decade
© 2008 InflationData.com



Measuring spending inflation

- Behavioral Finance highlighted the need to understand investing behavior
- The behavioral issues of spending however, have been largely ignored
- Spending inflation is a key component of retirement forecasts
- We have accepted an inappropriate benchmark to measure it?

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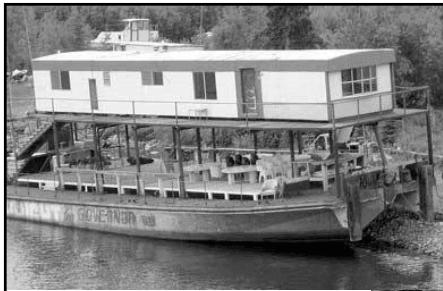
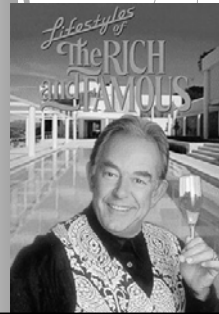
Simulation results

- Real spending inflation of .55% resulted in a reduction of the safe withdrawal rate from 4.5% to 4.19%
- Small errors in understating a client's spending growth rate will understate needs significantly
- Solutions provided to incorporate personalized spending

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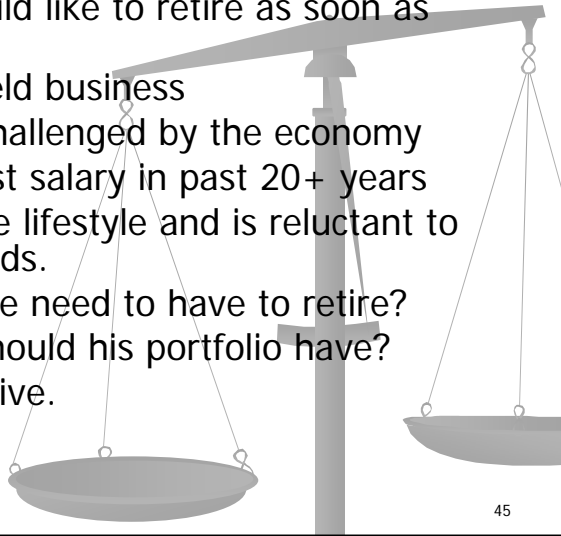
Cash Flow Needs

- A clients' expenses can be the determining factor as to when they can retire and how much they need.
- Some clients have a tough time cutting back expenses even if they wish to retire earlier.
- Good practice to have clients detail their expenses so you can review with them. Often they don't have any idea what they are spending



Example

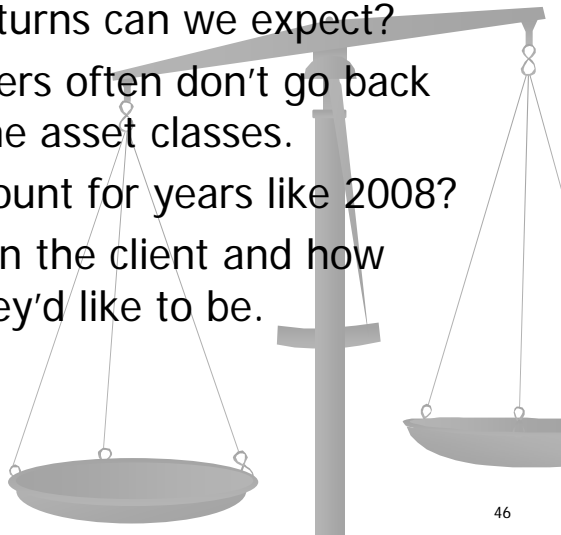
- 54 years old; Would like to retire as soon as possible.
- Sold his closely held business
- Works in a field challenged by the economy
- 2009 will be lowest salary in past 20+ years
- Lives an expensive lifestyle and is reluctant to cut back/cut off kids.
- How much does he need to have to retire?
- What allocation should his portfolio have?
- Give him perspective.



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Return Assumptions

- What kind of returns can we expect?
- Historical numbers often don't go back very far for some asset classes.
- How do we account for years like 2008?
- Could depend on the client and how conservative they'd like to be.



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Tools

- Excel – Used to give very basic straight return calculations
- Financial Planning Software – Several programs that can run complex analysis.
 - Monte Carlo – most software programs will run these simulations to quantify the chance of success of a portfolio.
 - Worst Case – some software programs will run simulations with bad years occurring at bad times to show a worst case scenario for the portfolio.

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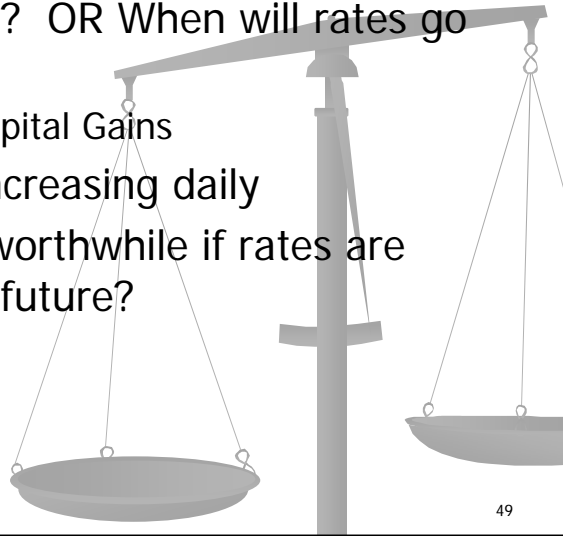
Tax Planning Implications



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Future Tax Rates

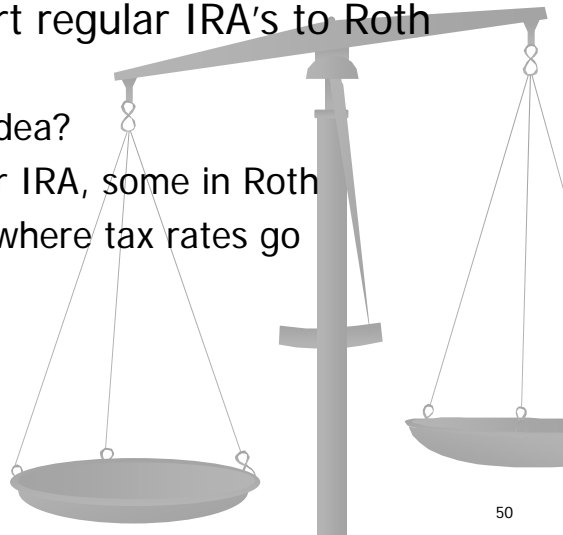
- Will rates go up? OR When will rates go up?
 - Ordinary vs. Capital Gains
- National debt increasing daily
- Is tax deferral worthwhile if rates are much higher in future?



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Roth Decisions

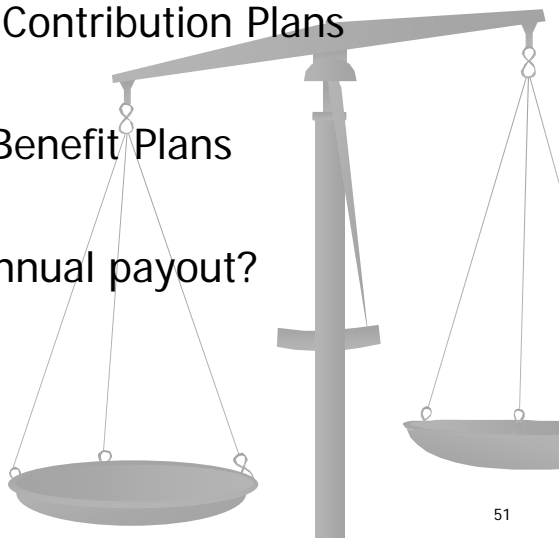
- Ability to convert regular IRA's to Roth IRA's in 2010
 - Is this a good idea?
 - Some in regular IRA, some in Roth
 - Dependent on where tax rates go



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Pension Plans

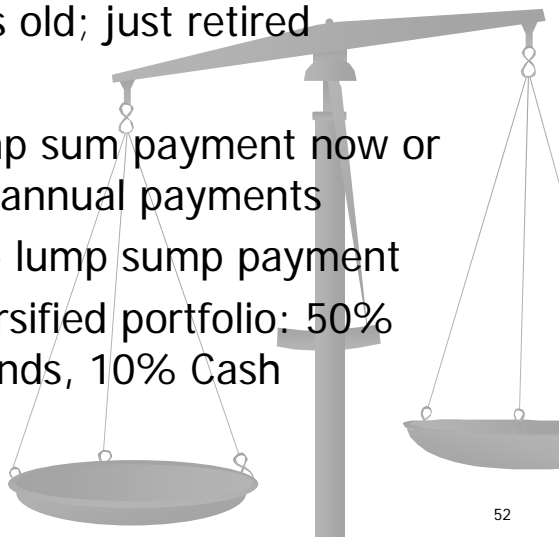
- Rise of Defined Contribution Plans
- Fall of Defined Benefit Plans
- Lump Sum or annual payout?



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Example

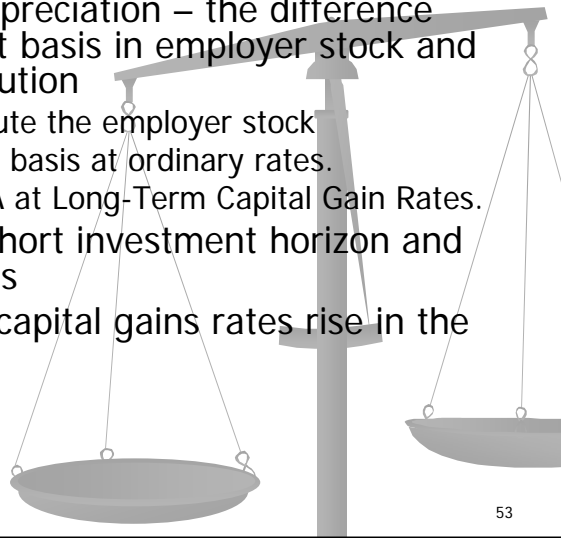
- 61 and 58 years old; just retired
- \$800k portfolio
- \$1.8 million lump sum payment now or \$120k per year annual payments
- Chose to do the lump sum payment
- DCA into a diversified portfolio: 50% Equity, 40% Bonds, 10% Cash



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NUA Election

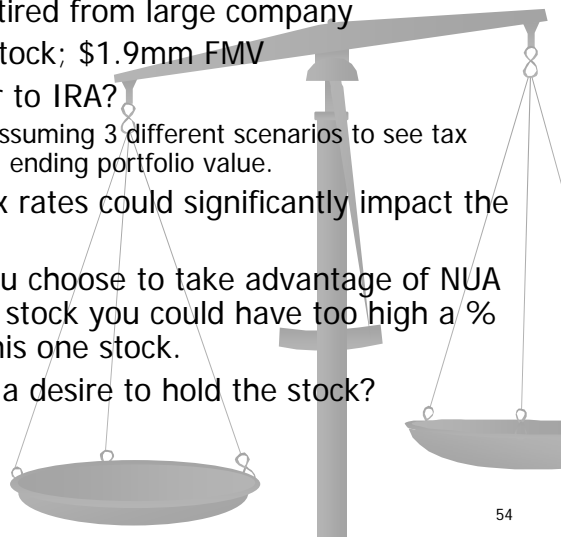
- Net Unrealized Appreciation – the difference between your cost basis in employer stock and the FMV at distribution
 - Election to distribute the employer stock
 - Taxed on the cost basis at ordinary rates.
 - Taxed on the NUA at Long-Term Capital Gain Rates.
- Advantageous if short investment horizon and current cash needs
- Will ordinary and capital gains rates rise in the future?



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Example

- 69 Years old; Just retired from large company
- \$300k cost basis in stock; \$1.9mm FMV
- Distribute or Rollover to IRA?
 - We ran calculations assuming 3 different scenarios to see tax impact and impact on ending portfolio value.
- Changes in future tax rates could significantly impact the analysis
- Diversification – if you choose to take advantage of NUA and distribute all the stock you could have too high a % of your portfolio in this one stock.
- Does the client have a desire to hold the stock?



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Conclusions

- CPA's are uniquely positioned to give good financial advice to clients.
- People are changing their ideas and outlooks for retirement.
- We need to keep in touch with our clients in tough economic times like these.
- It is important to understand drawdown rates and to establish one that works for each individual scenario.
- Inflation is something that cannot be ignored when planning for retirement needs.
- There are many tax planning techniques that can be utilized in retirement planning

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Q&A



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Thank You!

Lyle K. Benson, Jr., CPA, PFS, CFP

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