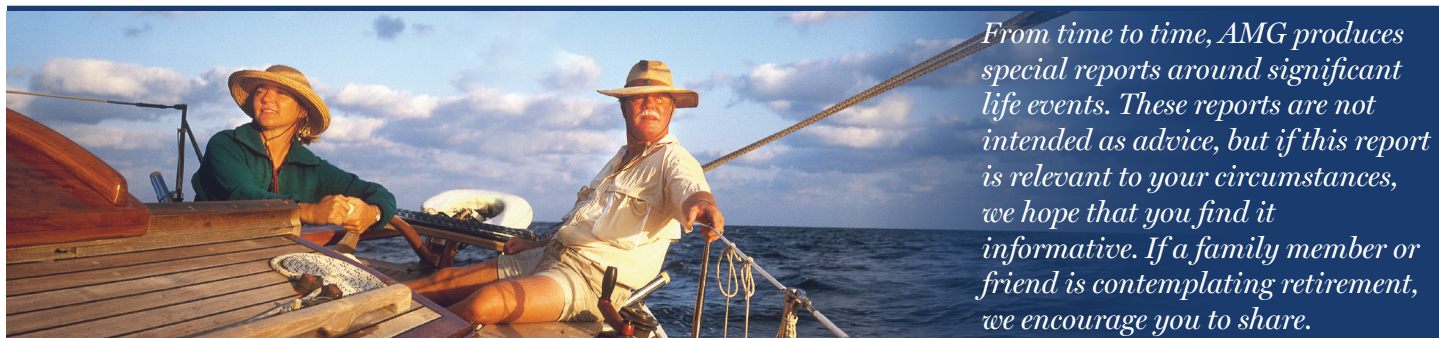


Busted: Eight Myths About Retirement Planning

Learning why they're wrong will help you better plan for your retirement and enjoy it more



From time to time, AMG produces special reports around significant life events. These reports are not intended as advice, but if this report is relevant to your circumstances, we hope that you find it informative. If a family member or friend is contemplating retirement, we encourage you to share.

For years you've heard several "rules of thumb" about retirement... everyone has a "magic number" they need for retirement, there is a perfect retirement age, tax brackets decline during retirement, people should invest more conservatively as they get older...

AMG believes that some of these rules of thumb may have been true in the past, but somehow retained credibility long past their expiration date. In this report, we identify several such myths, explain inaccuracies, and outline how you can better prepare for retirement success.

MYTH 1 There is a "best" retirement age

In the past, retirement centered around when an individual could get Social Security and pension payments. Much has changed over the years. Social Security provides minimal payments and is not likely to cover living expenses. Companies evolved from providing defined benefit pensions to offering defined contribution plans, e.g., 401(k) plans. Now, it is up to you to save toward your future and invest for later in life. AMG advisors help clients understand each of these components when deciding on a retirement age.

For example, if a client wishes to retire in their 50s, or even earlier as the [FIRE](#) (Financial Independence, Retire Early) movement encourages, they need to prioritize retirement savings over current spending, acquire health insurance for the gap years before becoming eligible for Medicare at 65, model a reduced Social Security benefit (which is calculated on a 35-year work history), and model expenses to support a retirement lifestyle that would need to be sustained for longer. It's not impossible, but certainly more difficult than Reddit boards suggest.

AMG's wealth advisors work to understand our clients' values and dreams while focusing discussions on financial reality. Clients receive detailed calendar year, cash flow-based projections so they can make informed choices based on the interrelated nature of the plan they are creating—and react flexibly when there are the inevitable bumps in the road.

Milestone Ages for Key Retirement Programs

| Age | Significance |
|-------|--|
| 55–65 | Often can receive full benefit payment from a defined benefit pension plan if applicable (varies by plan sponsor) |
| 59½ | Can take distributions from contributory IRA and 401(k) accounts without tax penalty; Roth IRAs require the contributions to have been made at least 5 years ago |
| 62 | Can take early Social Security, but benefit reduced 20–30% from benefit at full retirement age |
| 65 | Become eligible for Medicare |
| 67 | Full retirement age for Social Security (those born after 1960), can receive 100% of Social Security benefit |
| 70 | Can take 124% of full retirement age benefit, if born in 1960 or after |
| 73 | Must take required minimum distributions from contributory IRAs and 401(k)s by April 1 after age 73 |

As of January 2023.

Sources: U.S. Dept. of Labor, Social Security Administration

Strange But True: Social Security Can Earn You 8% Risk-Free

Social Security is one of the best retirement investments you can make. Really.

Typically, you can start receiving your monthly Social Security benefit at age 62. But there is a catch: The amount you receive at 62 will likely be 20% to 30% less than the complete benefit you would receive at full retirement age, which Social Security sets at 67, if born in 1960 or later.

If your monthly benefit at full retirement age is \$100, for example, the amount you'd get at 62 is only \$70, if born after 1960. You get the entire \$100 only if you start benefits at 67, the full retirement age.

But Social Security becomes a slam dunk investment if you can wait until 70 to take your full benefit. For each year between 67 and 70 in which you don't receive benefits, Social Security will pay you 8%—a much higher return than if you invested the same money in most bonds or dividend-paying stocks. There's no investment risk. The only things you'll need are patience and smart retirement planning.

That being said, taking your benefit at 70 may not be your best choice. AMG provides clients with an analysis to determine social security options—and for your spouse, if married. Advisors provide guidance on how to elect benefits while taking personal situations and family health histories into consideration.

MYTH 2 You Must Have a Magic Number

Over the years, people focused only on accumulating enough in retirement savings to support known expenses. They didn't always account for life's unforeseen obstacles. Knowing the "magic number" without learning how to maneuver around the detours can create issues later. AMG's planning takes into account building your total net worth and planning for expected expenses PLUS unanticipated expenses so you retain financial flexibility well into retirement.

While it may be comforting to assign a number for your retirement account balance—25x your expected annual retirement spending is often used—this heuristic is too simplistic to model the future with high confidence. Ask yourself the following questions:

- When do you wish to retire?
- How long must your savings last?
- How is your health? Is there family health history that may lead to increased costs?

- Will you spend less in retirement? Or more?
- What is the risk of outliving your assets and are you comfortable with it?
- What can the impact of market volatility have on your retirement cash flows?
- Have you accounted for taxes on required minimum distributions on retirement accounts?

People assume having an account balance in the millions will ensure a carefree retirement. They're often surprised that once we talk through these questions and define their ideal retirement lifestyle that they could actually have insufficient savings and might need to make adjustments to their spending plans or target retirement age.

AMG helps clients understand and determine their choices, actively working with clients to:

- Build other assets to fill a retirement account savings gap (e.g., after-tax accounts, rental income, part-time work, etc.).
- Determine an investment portfolio's asset allocation so clients have flexibility to adjust to market volatility, unforeseen expenses, economic headwinds, etc.
- Plan tax-efficient withdrawals from your retirement savings accounts.

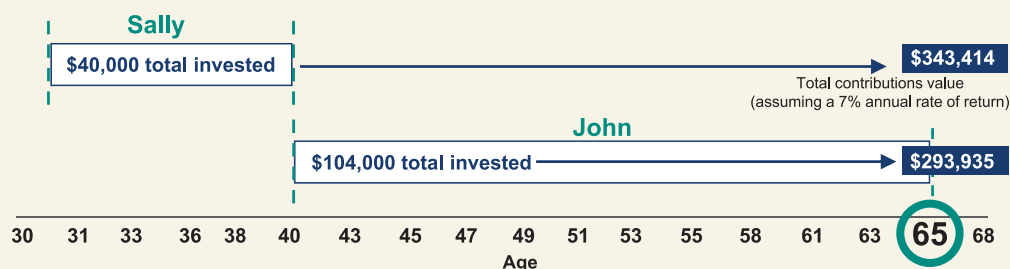
MYTH 3 You Have Lots of Time to Save for Retirement

There are always competing priorities when it comes to how you spend your money. We often get asked when is the right time to start retirement planning and retirement saving? The answer is: As soon as possible! Make yourself a priority!

Time is your greatest asset. It enables you to take maximum advantage of the wondrous phenomenon of compound interest. Albert Einstein, who was no slouch when it came to understanding math, is reputed to have said that "Compound interest is the eighth wonder of the world."



Starting Early Makes A Big Difference*



Sally

- Pretax contribution of \$4,000 per year from ages **30 to 39**
- Total amount contributed = \$40,000
- Total contributions value = \$343,414

John

- Pretax contribution of \$4,000 per year from ages **40 to 65**
- Total amount contributed = \$104,000
- Total contributions value = \$293,935

Aside from Social Security, which is designed to replace a small portion of your pre-retirement income and is capped for high earners, there is no available government or commercial bank program to fund your retirement. This is unlike other high-ticket items like housing, cars, and your children's higher education which have multiple types of loan programs.

Planning becomes most urgent during what AMG calls the Milestone phase, which covers the key years leading into most people's retirement. This phase not only covers what is typically the peak years both for earnings and wealth maximization, but also is often the time when the biggest expenses (especially your children's higher education and the mortgage on your primary residence) are typically paid in full.

AMG helps clients identify proactive methods to build savings for their future.



You Should Invest More Conservatively as You Get Older

This myth suggests that as you get older, you should keep a percentage equal to your age in cash and/or bonds. This worked extremely well in the early 1980s when interest rates were in the double digits. However, if you took this approach since the Great Recession in 2008, you would not have sufficient returns or investments to beat inflation and meet living expense needs. Today, the S&P 500 yields more than the 10-year U.S. Treasury bond.

Your standard of living in retirement—along with your projections for income and expenses—should help determine your asset allocation. If you want to live at least as well as you did pre-retirement, you may need a healthy allocation to equities to achieve and maintain a level of principal that will generate sufficient income.

The Typical Five Phases of Financial Life

1

Starting Life

20s–30s

- Getting education
- Laying career foundation
- Not many calls on time yet
- Balancing lifestyle today vs. tomorrow

2

Maturing

30s–40s

- Career advancing
- Raising children, planning for their education
- Caring for aging parents
- Accumulating wealth

3

Milestone

50s–60s

- Career at peak earnings, maximizing wealth
- Planning for wealth transfer tax liabilities
- Posturing for post-work roles

4

Retirement

60s–70s

- Transitioning to retirement income
- Living out priorities and values
- Transferring excess wealth in most productive way

5

Before Death

- Document intentions
- Prepare beneficiaries
- Create governance structures
- Designate professional resources

Source: AMG National Trust

* This hypothetical is not intended to predict or project investment performance. Your own results will vary. It assumes systematic \$4,000 pretax contributions to a tax-deferred retirement plan account made annually on Jan. 1 for the number of years indicated above and a 7% annual rate of return. No distributions are taken from the plan account during the entire period. Taxes on distribution, and fees and expenses are not taken into account. If account fees and expenses were deducted, performance would be lower. Pretax contributions and any earnings will be taxed at the time of distribution and may also be subject to an early withdrawal penalty if distributed before age 59½. Systematic investing does not ensure a profit and does not protect against loss in a declining market.

AMG believes that most retirees could benefit from an investment portfolio focused on generating a total return (consisting of growth and income) sufficient to meet spending needs over many years in retirement.



MYTH 5 The Four Percent Rule

A [1994 study](#) calculated that withdrawing four percent of initial portfolio assets (and adjusting the amount annually for inflation) would give retirees enough income to safely live on. The inverse of the equation would calculate your required savings. For example, if you wish to have \$100,000 a year in retirement spending, divide \$100,000 by 4% to get \$2.5 million in required savings.

Even though the author of the study himself subsequently [revised this work](#), the snappy sounding “4% rule” became widely adopted.

Why does withdrawal rate matter? If you withdraw too much too fast, it can deplete your portfolio and increase the chances of outliving your assets. If you withdraw too little, you may have too much “excess wealth” upon your death, which you must plan to constructively distribute to family and/or charity.

We see significant problems with the four percent rule. For example:

- The original data on which it is based—stock and bond returns from 1926 through 1976—are now nearly 50 years old, meaning that the rule is rooted well in the past and assumes everyone has the same investment goals and risk tolerance.
- It assumes that everyone needs the same proportion of their assets for living and health care needs, and everyone is expected to live in retirement for the same 30-year period.

- It’s designed to work only if you adhere to it every year, which ignores the impact of market downturns and changes in your standard of living.
- It assumes that your portfolio consists of 60% U.S. large-cap equities and 40% in intermediate-maturity Treasury bonds. There are significantly more investment options available to today’s investors.

In short, the four percent rule—or any other universal withdrawal standard, for that matter—no longer makes sense for most people. Your withdrawal rate should be tailored to account for your own specific goals and circumstances.

MYTH 6 Your Taxes Decline in Your Later Years

The idea that your income tax rate will decline in retirement seems reasonable: Since you’re not working, you’re generating less taxable income. But tax rates frequently stay at pre-retirement levels or even rise. Why?

For starters, it’s not uncommon for people to retire and find themselves bored. Or they simply prefer to work, so rejoin the ranks of the employed. Many people serve on corporate boards, consult, manage income producing real estate, or take a part-time job.

Even for those fully embracing leisure mode, tax surprises can arise because of how you fund retirement income. Well-funded IRA and 401(k) accounts could grow so much that by the time you must take required minimum distributions at age 73 (or 75 starting in 2033), the distribution amounts could be similar to your final salary. The strength of equity markets in the past few years raises the probability of this scenario.

AMG believes that a well-orchestrated retirement distribution plan incorporates how you source income tax efficiently from your various liquid and illiquid assets.

MYTH 7 Spending Doesn’t Have Much Impact

After your income, expenses are the biggest factor determining whether you’ll have enough to live the retirement lifestyle you want. Saving prodigiously won’t help much if you spend money faster than you take it in.

In most cases, expense reduction often requires modest measures such as traveling a bit less, not dining out as much, giving less to charity or not buying a new car as often. But life does not always run smoothly, and you may find yourself with unforeseen extraordinary health care or other expenses.

It can require some tough decisions:

- Should you sell your house and downsize?
- Should you move to a state with lower or no income taxes?
- Should you work longer to save enough to put you over the spending hump?
- Should you take your Social Security benefit earlier?
- Should you withdraw more from your retirement accounts sooner than you'd planned?

How Does Divorce Affect Retirement Planning?

Retirement planning can significantly change for those who divorce before or during retirement. What had previously been one pool of financial resources is split in half to support two households for roughly double the expense!

Armed with the specifics of your life circumstances and post-employment goals, an AMG advisor can provide detailed cash flow-based models and run different scenario forecasts to help you make better choices—and position you to get the most out of your retirement. We help you maneuver around expected and unexpected expenses.

MYTH 8 Medicare Will Pay for All Health Care Costs

One of the biggest spending categories as we age is health care. There's a common misconception that Medicare will cover all health care costs for enrollees. While it covers many such costs (e.g., hospital care), it doesn't cover others, notably long-term care. And even then, your coverage will vary according to the type of Medicare plan chosen, Original Medicare with Medigap or Medicare Advantage.

Also, Medicare coverage doesn't begin until you turn 65. If you plan to retire earlier than that, you'll have to find some other way to pay for health care during the time gap between retirement and 65—an expense that can be substantial. Options typically include continuing your employer-sponsored health care plan through COBRA (only available for a short period of time), using a broker to assist you with identifying a new plan, or choosing an insurance plan offered under the Affordable Care Act (if a health care exchange is available in your state).

Consider what your health care needs may be based on personal and family health history. For example, you may

need to consider supplementing with critical care insurance, which covers especially costly emergencies such as strokes and heart attacks. At AMG, we help clients walk through the multitude of decisions well in advance of Medicare enrollment eligibility.

A Brief Explanation of Medicare

Once you're eligible and enrolled in Medicare, you'll be charged premiums based on the amount of your modified adjusted gross income (MAGI), which is your gross income plus tax-exempt interest received as reported on your most recent tax return. Your premiums will exceed the standard rate if your MAGI tops \$103,000 (or \$206,000 for married couples filing jointly) and reach the maximum amount if your MAGI is above \$500,000 (or \$750,000 for married couples).

You'll have to choose between two main types of Medicare plans. Original Medicare offers traditional fee-for-service coverage for Medicare Parts A (for hospital costs) and B (doctor services, outpatient care, durable medical equipment, home health care and certain preventive services). Prescription coverage is available through separate policies (known as Part D). Medigap (Medicare Supplement Insurance) is private health insurance designed to supplement Medicare Parts A and B. Depending on the Medigap policy, it will pay for some of the health care costs that are not covered by Medicare, like copayments, coinsurance and deductibles.

As an alternative to the à la carte model, Medicare Advantage plans are offered by insurance companies and bundle Part A, Part B and usually Part D; collectively, and confusingly, Medical Advantage plans are known as Part C.



Prepare for Retirement Success

Now that we've debunked several myths, what should you do to properly set up your retirement plan? Your starting point is a comprehensive financial analysis—the core of a sound plan—which enables you to:

- See what your income and expenses might look like before and after retirement
- Identify your short- and long-term liquidity needs
- Account for the potential risks associated with disability, death, or changes in your life situation
- Project your taxes and income into the future
- Determine an appropriate investment allocation to help meet your specific needs now and into the future
- View when and how to exercise your company stock options

Having the data laid out clearly using AMG's five-year projections and *Financial Security Analysis* will help you understand the choices available to you so you can build a path toward retirement.

AMG Can Help

If you don't plan for retirement, you risk not having the income you'll need to cover your expenses and maintain your desired lifestyle. You also may lose the peace of mind that comes from knowing that by taking good care of your assets, your assets will take good care of you.

AMG believes that retirement planning should be comprehensive, transparent, tailored to your specific goals and circumstances, and flexible enough to give you financial choices when life inevitably takes unexpected detours.

Most important, we know that it takes highly skilled professionals backed by a full slate of services to do the job right. We've been the trusted partner of individuals and families planning for retirement since we opened our doors in 1975.



AMG is honored to work with the Pi Beta Phi Foundation and support how you are lighting the way for your sisterhood.

DISCLOSURES

As of February 2023. This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, legal or tax advice. AMG's opinions are subject to change without notice, and this report may not be updated to reflect changes in opinion. Forecasts, estimates, and certain other information contained herein are based on proprietary research and should not be considered investment advice or a recommendation to buy, sell or hold any particular security, strategy, or investment product. Data contained herein was obtained from third-party sources believed to be reliable, but AMG does not guarantee the reliability of any information contained in this report.



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