REFLECTIONS

Client Newsletter

WINDGATE
WEALTH MANAGEMENT
www.windgatewealth.com

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Financial Planner

It's crunch time. T-minus 10 years until retirement. Are you ready? Are you on track to have enough saved to last for the rest of your life?

If you're like most Americans, the answer is no. In fact, a recent study shows that the median retirement account balance of households headed by those aged 56-61 was only $25,000.[1] This is concerning. Fortunately, 10 years is a lot of time. There's a lot you can do in 10 years—if you use it wisely.

Let's look at four ways to use it wisely.

1. Squeeze 20 Years of Savings Into 10

One major obstacle to playing retirement catch-up is that there are limits to the amount you can contribute to your retirement account each year.

For example, in 2019, the maximum contribution to a 401(k) account is $19,000. Fortunately, the government realized a large majority of its citizens are horrible savers, so they created a loophole, raising the

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[1]https://www.stlouisfed.org/open-vault/2018/august/ready-retirement-question-nags-america

maximum contribution to $25,000 for those over age 50.

This is a well-known loophole, which should be taken advantage of as much as possible. However, there is another lesser-known loophole available for business owners.

It's called a cash balance plan, and it can allow you to contribute over $300,000 per year to your retirement savings (depending on your age). This can have huge tax benefits for high earners who got a late start to saving for retirement. After all, these retirement contributions bring down your taxable income on a dollar by dollar level. That means that any income you put into a cash balance plan will not be taxed in that year.

To determine if a cash balance plan (or other tax-minimizing strategies) is right for you, it's best to consult with a financial advisor.

This one might seem obvious, but it's an important step that's often forgotten. You need to determine what your "safe withdrawal rate" is once you enter retirement. In other words, how much can you withdraw each month so that you don't outlive your money?

While this isn't an exact science (after all, nobody can predict the future), you can easily estimate your safe withdrawal rate using the 4% Rule. The 4% Rule basically states that if you are invested in a 60% equity/40% fixed income mix, you can safely withdraw 4% of your portfolio value each year (adjusting for inflation).

So, if you have a $1 million nest egg, you can safely withdraw $40,000 in your first year of retirement (and increase for inflation from there). Depending on your lifestyle, where you live, and what other income you'll have—this may or may not be enough to live on.

With the 4% Rule in mind, you can determine if your current portfolio, planned savings, and expected growth rates will be enough to support your current lifestyle. If you annually spend $100,000, and expect $20,000 in social security payments, we know you'll need $80,000 annually from your portfolio. Using the 4% rule and working backward, we also know that your retirement portfolio target should be around $2,000,000.

Now the big question, are you on track to have this much saved in ten years? The answer to this should play a big role in your savings and investment behavior during the last ten years of your career.

Ten years before retirement, it is very common for investors to get "cold feet" and abandon much of the long-term investment philosophy that helped them accumulate wealth over their career. There is a natural urge to become very defensive with your portfolio as retirement nears, trading in historically higher-earning but riskier equities for cash and bonds.

This type of defensive strategy is likely not the best approach, however, for the simple reason that you are not merely investing for the next ten years of your career, you are investing for the next ten years of your career *plus* the many decades you'll be living off your portfolio in retirement!

Pre-retirees should remember that while their retirement time horizon may be ten years, their investment time horizon can still be thirty or more. For this reason, the best strategy is to continue aligning your investments with your risk tolerance, not to set some hypothetical target of what a ten-year outlook should be.

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So, what is your risk tolerance? The question we need to answer is: "how far can my portfolio fall before I capitulate and make an emotionally-charged poor decision?" This is the scenario we want to avoid, and it tells us how much risk you can handle in your portfolio. Understand this, and we can set your investment expectations accordingly.

We offer an online risk tool that can help you identify your risk tolerance, review your current investments, and align your portfolio to match. You can take the first step today by using our online quiz to discover your personal tolerance for risk and set your investments accordingly. This 5-minute exercise is an easy first step in learning if there is in fact too much risk in your portfolio.

https://www.windgatewealth.com/is-there-too-much-risk-in-your-portfolio/

You are investing for the next ten years of your career *plus* the many decades you'll be living off your portfolio in retirement!

4. Enjoy Your Pre-Retirement Years

It's easy to get so caught up planning for, stressing out about, and looking forward to retirement that you forget to enjoy the present moment.

Retirement is great, but so are your working years. If you're like most people, you'll end up missing work—the interactions, the challenges, the growth, the purpose. Don't take it for granted.

Yes, you must think about the future. Yes, you may need to put in extra work. Yes, you may need to make some sacrifices and lifestyle changes.

But whatever you need to do, enjoy the journey.

WINDGATE for Charity

WINDGATE WEALTH PROUDLY SUPPORTS THE LEUKEMIA & LYMPHOMA SOCIETY AND THE SCENIC SHORE 150 BIKE TOUR

Windgate team member Sean Condon, CFP rode with team Chemo-Sabe during a very special weekend in Wisconsin for the Scenic Shore 150 bike tour. The 150-mile bike tour along the Lake Michigan coast is one of the largest fund-raising events for the Leukemia & Lymphoma Society (LLS). Currently, the event has raised $1.5 million towards its $2 million goal.

“It was an amazing event for a great cause,” said Sean. “I made several new friends and was moved by the whole experience dedicated to celebrating and commemorating lives touched by cancer.”

Nearly 40% of all FDA approved cancer drugs in the past decade were first approved for a blood cancer. Many are now being tested for other cancers and other illnesses. LLS is the single largest nonprofit contributor to blood cancer research – more than $1 billion has been invested in life-saving research.

Blood cancers are the number three killer in the U.S. behind lung and gastrointestinal. LLS invests funds to accelerate innovative, life-saving treatments and patients aren’t just surviving, they’re living. Since the 1960’s, the five-year survival rate for many blood cancer patients in North America has doubled, tripled, or even quadrupled.

LLS provides complimentary information and support to patients and their caregivers. Additionally, to help patients during this time of crisis, LLS's financial aid and co-pay programs are critically important.

Anyone interested in learning more about The Leukemia & Lymphoma Society and the Scenic Shore 150 event, please go to: https://events.lls.org/pages/wi/2019ScenicShore150/

$1 MILLION ISN'T WHAT IT USED TO BE

Don't let inflation erode the value of your retirement portfolio with these simple strategies.

It used to be that $1 million sounded like a dream. When we were young, most of us probably imagined how wonderful life would be if only we were millionaires. And while $1 million is still a considerable amount of money, it's important to realize that $1 million is no longer the gold standard for financial security and success. Why? It all comes down to inflation.

The Inflation Factor

Put simply, inflation erodes your money's value. Inflation has often been nicknamed the silent retirement killer because so many people forget to account for it in their income planning. Unfortunately, inflation is one of the few certainties in life. Over the last 50 years, the cost of goods and services has increased an average of 3.7% per year. Let's say inflation continues to average 3% a year. In 40 years, $1 million will be worth $306,000 in today's dollars, and that's not enough to buy you a comfortable 30-year retirement.

To put these numbers in perspective, let's look at history. If you wanted to have the same purchasing power as a millionaire from 1914, you would have needed $3 million in 1980. But here's the shocking number: in 2019, you would need $25 million to match the $1 million of 1914.

Rising inflation tends to happen so gradually that it's difficult to see the effects of it on your wallet year to year. When saving for retirement, you need to calculate that effect forward anywhere from 10-50 years in the future. So, if a new car costs around $5,000 in 1980 and $34,000 in 2019, you could find yourself spending over $65,000 to upgrade your vehicle in 2041.

How To Protect Your Retirement From Inflation

We can't predict the future, but we can prepare well based on historical data. Since you need your retirement savings to last many decades, consider implementing these potential solutions in your financial plan.

Conservative Withdrawal Rates

Since you know that stocks have historically earned an average of 7-8% a year, you might assume that you can afford to withdraw 7-8% of the initial portfolio value (plus a little more for inflation each year). But in reality, to protect against the uncertainty of the market, you may want to limit your withdrawals to around 4%. Because there is no simple, one-size-fits-all plan, you need to figure out what will work for you and your unique situation, taking various factors into account, such as time horizon, risk tolerance, asset allocation, and unexpected living expenses.

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Set Up Contingencies

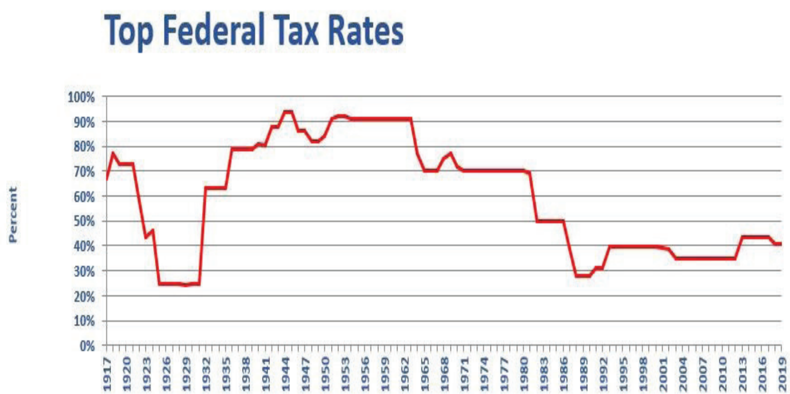
A competent and trust worthy planner can factor in inflation and calculate how long your money will last based on where you live, which withdrawal rate you choose, and what the markets may do. But there are some things that can't be predicted, such as your health.

According to the Employee Benefits Research Institute, the average couple at age 65 will require anywhere from $151,000 to $255,000 just to cover their healthcare costs in retirement. Build contingency funds over and above your regular retirement account to give yourself a bit of a savings buffer. There will always be unexpected expenses in life, whether it's needing a new car, home repairs, or unexpected long-term care expenses. Proper planning will give you peace of mind.

Make a Strategy to Reduce Future Taxes

Cost of living expenses aren't the only cost that rises with inflation. It's certainly possible, perhaps even probable given the poor fiscal state of our government, that future tax rates will be higher than they are today. Future tax rates are especially consequential to retiree's because any money taken from an IRA or 401(k) will be taxed at ordinary income rates.

The table below gives some historical perspective on the Top Federal Tax Rates. As you can see, there is certainly historical precedent for higher tax rates in the future.



Source: IRS.gov

Investors have several opportunities to protect their nest egg from the chance of future tax hikes. Knowing which accounts to draw from in retirement and when can help reduce a future tax bill. For example, the first places you should generally withdraw from are your taxable brokerage accounts—your least tax-efficient accounts subject to capital gains and dividend taxes. By using these first, you give your tax-advantaged accounts (IRA, Roth IRA) more time to grow and compound throughout your retirement.

For those still working and saving, having the foresight to make Roth contributions when available can reduce future taxes due. The Roth IRA is perhaps the most attractive retirement savings vehicle for investors. Unlike traditional IRAs which provide tax-deferred growth (you pay the tax eventually), Roth IRA assets grow tax-free. The Roth IRA protects you from paying future income taxes, and this protection also continues for your heirs.

A third tax-efficient strategy is to ensure that you receive the maximum benefit for your charitable intentions. Gifting appreciated stock to charities instead of gifting cash will increase both the amount of money you can give an organization and the size of your tax savings. This is because anyone who donates stock that has appreciated in value (and held at least 12 months) is able to deduct the full value of the investment without being forced to recognize the capital gain in the process. By donating appreciated stock, your capital gain disappears entirely, allowing you to permanently avoid any long-term capital gains tax liability that you would otherwise owe in the future.

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Adjust Your Mindset

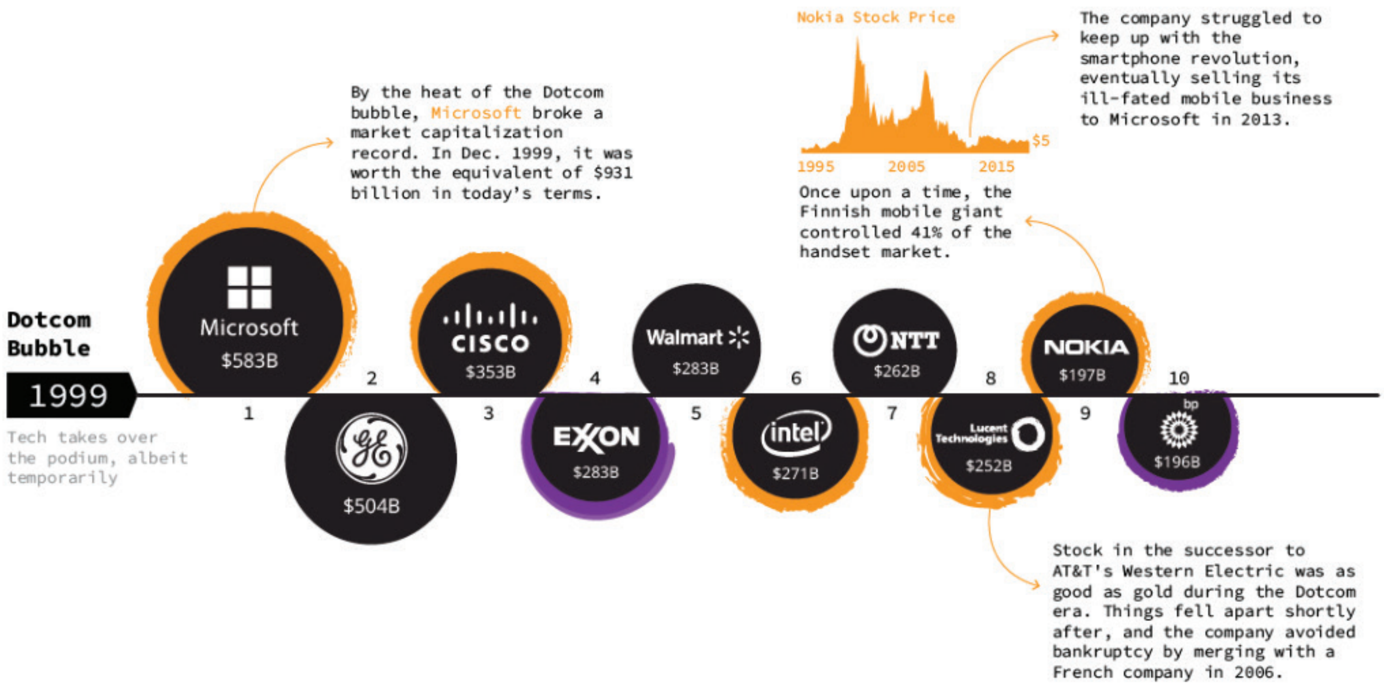
Retirement often means major lifestyle changes. As a result, your expectations may need to change as well. If you want a comfortable retirement, you may have to rethink how much you will be able to give your children as a down payment on a house or an inheritance.

You may even need to downsize your home or relocate to a more affordable area. Cost of living varies drastically across the U.S. When you are determining how much money you need for retirement, location can make all the difference. For example, if you live in Illinois, $1 million (in today's dollars) will only last 22 years and 7 months. But if you live in Mississippi, it's estimated that $1 million will last almost 26 years because of affordable living expenses that fall below the national average cost.

Secure Your Retirement

It can be disheartening to look at the numbers and realize that what you were aiming for is not enough. But by making small changes now and planning, you can set yourself up to experience the retirement you dreamed of. Use these pivotal years to implement strategies to protect, grow, and transfer your wealth. If you want a customized financial plan to get you from point A to point B, Windgate Wealth Management is here to help. Reach out to us now at (844) 377-4963 or email windgate@windgatewealth.com.

A VISUAL HISTORY OF THE LARGEST COMPANIES BY MARKET CAP (1999-TODAY)

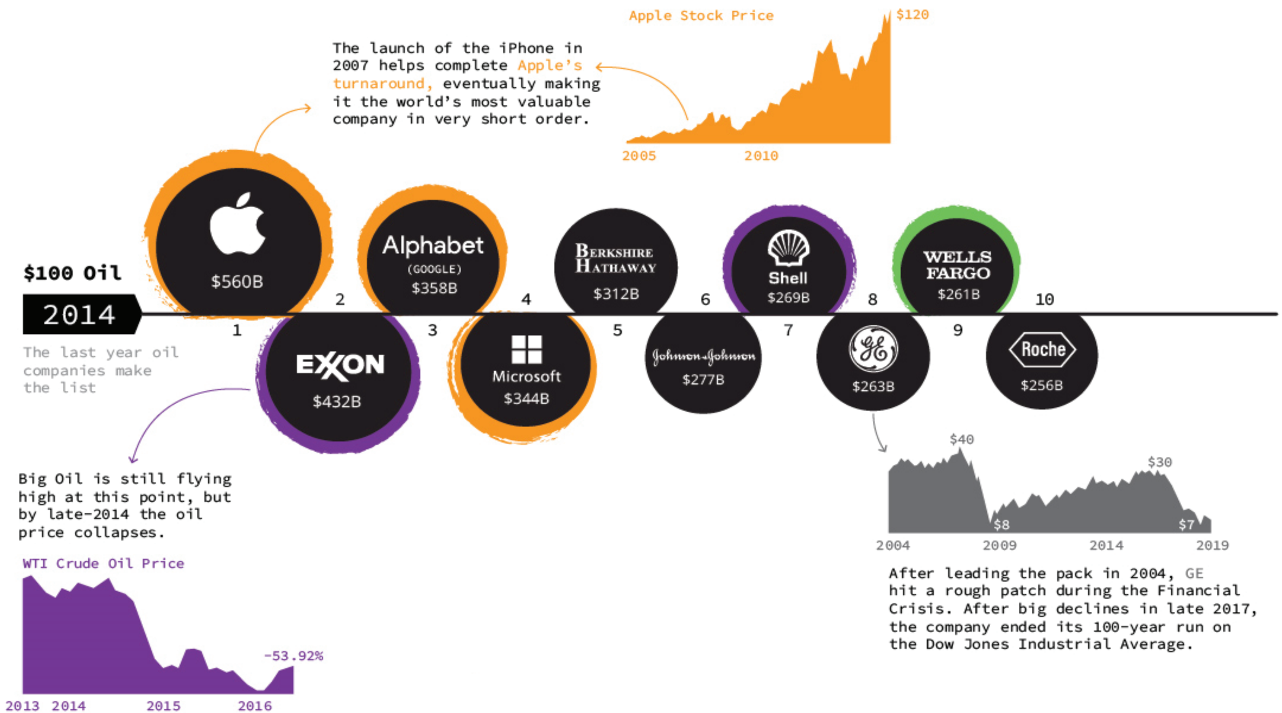


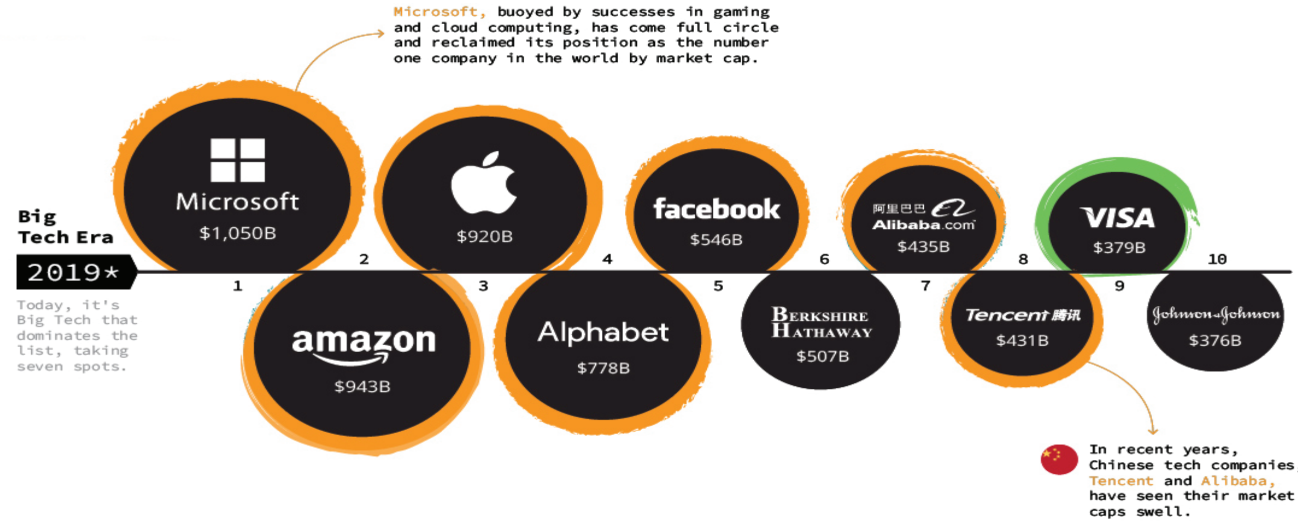
Riding the wave of a red-hot economic growth, a number of Chinese companies leapt into the top 10 in the wake of the Financial Crisis. PetroChina, the country's largest oil producer, was at the crest of the wave. The company even briefly surpassed the $1 trillion market cap threshold in 2007, shortly after its IPO.

Financial Crisis

2009

U.S. companies slide, while Chinese companies take over


Apple Stock Price
$120
2005
2010
The launch of the iPhone in 2007 helps complete Apple's turnaround, eventually making it the world's most valuable company in very short order.
$100 Oil
2014
The last year oil companies make the list
$560B
1
EXXON
$432B
2
Alphabet
(GOOGLE)
$358B
3
Microsoft
$344B
4
BERKSHIRE HATHAWAY
$312B
5
Johnson & Johnson
$277B
6
Shell
$269B
7
GE
$263B
8
WELLS FARGO
$261B
9
Roche
$256B
10
Big Oil is still flying high at this point, but by late-2014 the oil price collapses.
WTI Crude Oil Price
-53.92%
2013
2014
2015
2016
$40
$30
$8
$7
2004
2009
2014
2019
After leading the pack in 2004, GE hit a rough patch during the Financial Crisis. After big declines in late 2017, the company ended its 100-year run on the Dow Jones Industrial Average.



Source: The Financial Times, Google Finance. https://www.visualcapitalist.com/a-visual-history-of-the-largest-companies-by-market-cap-1999-today/

Any opinions expressed in this newsletter are general in nature and cannot be guaranteed to be suitable for every individual. Individual needs and situations vary. Talk to your financial advisor to help you consider what options might be right for you.

Data here is obtained from what are considered reliable sources: however, its accuracy, completeness, or reliability cannot be guaranteed.

All investments carry some level of risk, including the potential loss of principal invested.

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