Episode #248: 3 Steps to Protect, Save, and Grow Your Retirement Portfolio

Video Transcription

Hi. Welcome back to this week's episode of "Money Script Monday." My name is Laurence Williams and I want to thank you so much for joining us today.

Today, we're going to talk about the three steps to protect, save, and grow your retirement portfolio. But before we begin, I want you to fill in the blank.

Retirement to me is like ______. Is retirement to you like a death sentence, or perhaps retirement to you is like winning the lottery?

Regardless of how you answer that question, imagine the impact that that response will have on somebody who's considering retirement.

Let's take a look at that first group, those who view retirement as a death sentence. They more than likely are concerned about many of the risks that plague pre-retirees.

Those risks are longevity risk, outliving your money, inflation, cost of goods and services becoming more expensive each day, stock market volatility, they're afraid of losing their money, and they're also afraid of sequence of return risk.

Now, let's look at the folks that believe that retirement is like winning the lottery. They're excited and they more likely than not had those same concerns, however, they had something that the other group probably didn't have, which is a plan. And that's what we're going to go over today.

And before we do, I want you guys to think of retirement as building your dream home. You know, before you build that dream home, you've gotta do what first? You've gotta identify where is it that you want to build it.

Do you want to build it in the city? Do you want to build it near the water? Regardless of where you want to build it, you've gotta make that decision first. And retirement is oftentimes just like that. We've gotta know where is it that you want to go. And what do you want your retirement to look like?

But more times than not, most people simply want to be able to spend comfortably in retirement without running out of money. So, in order to do that, we've got to take these three steps that we're going to go over today.

Now, again, keep in mind that when we're building that home, the first step is to lay down the foundation. And in our retirement plan, we call that the protect stage. And as you can see here, we have some of these risks that are affecting the home that we're about to build.

But as we look at the protect phase, we really are concerned, not about the amount of assets that we have, but more so, how can we generate the most amount of income, again, for the rest of our lives?

There are really four characteristics that protected income covers. It's got to be backed by an insurance company or the government. It's got to also create a lifetime stream of income. It's got to account for inflation each and every year. And last but not least, every year you defer income, it should increase as well.

So, with those four characteristics, now let's take a look at, well, what vehicles allow us to take advantage of those characteristics? And there are really only three.

First is going to be pensions, which are backed by your employer. Unfortunately, we're seeing less and less pensions out there.

Next, we have social security. And social security, we all are familiar with. We've been paying into it since we've worked. But very few people know that on that social security statement that you have, it indicates that social security is only going to account for about 40% of the income that you'll actually need in retirement, which means that there's a 60% shortfall there.

Last but not least, we certainly have annuities. And annuities are a social security-like stream of income in which a client can contribute either lump sum or contribute money over time and is guaranteed, in turn, to get a lifetime stream of income.

So, those are going to be the three ways that we can generate, again, the most amount of income, and really protect our portfolio. And this is going to cover really those essential needs.

So, now that we've laid the foundation for our home, it's now time to build the walls of our home. And the second stage here is going to be saving and mitigating taxes.

So, on this one, we know that going into retirement, taxes are going to be a huge impact on your portfolio. And we want to do everything we can to minimize those.

There are different strategies out there like Roth conversions, for instance. But let's say you want to contribute to a tax-free vehicle. Some of these have pros and cons.

The first one's going to be the 529 plan. These are great if you start early. However, some of the limitations are there are penalties, some of them have high fees, and if you use the money for anything other than college, then you're going to pay a really big penalty.

The second is going to be Roth IRAs. A lot of people are familiar with these. However, there are a lot of limitations on this, unfortunately. You can only contribute $6,000 a year. If you're 50 and older, you can do what's called catch-up contributions to contribute $7,000 a year.

But if you make over $206,000 a year, you can't even contribute to this vehicle. So, those people that need tax help the most aren't even able to take advantage of some of these tax-free vehicles.

The last but not least, we have IUL. An IUL is simply indexed universal life, which is a life insurance policy that has all of the Roth characteristics that you want.

The contributions that you contribute grow tax-deferred. If you wanted to take out policy loans, those are tax-free. And then, of course, you have that tax-free death benefit. However, a properly structured IUL has no government restrictions.

So, we've gone over now in our dream home, the protect phase, laid down the foundation, we've now built up the walls on that home, and we're saving and mitigating taxes.

Last but not least, we've got to secure the roof. And this is going to be the grow phase. And here we want to really take and invest any surplus amount of assets that we have, whether that's in the market, mutual funds, or perhaps real estate.

We also want to take and review our portfolio either on a bi-annual or an annual basis. And we also want to make sure that we keep the plan on track. And as you can see here in this graphic, we have no more of these risks and just bright, sunny skies.

And I'll leave you with this. This is going to be the six Ps, “proper prior planning prevents poor performance.” And really that's why we're here today.

If you sit down with your financial advisor and work together to develop a plan to build that dream home of yours, to fortify your retirement portfolio, you're more likely than not going to be able to retire comfortably without running out of money.

I want to thank you so much again for watching and joining us today. We'll see you next time.