Chapter 6

PLAN FOR THE GAP

"Dare to live the life you have dreamed for yourself. Go forward and make your dreams come true."

– Ralph Waldo Emerson

It's time to start building your plan. At the end of the chapter, I'll give you a link and some homework. Before we start the planning process, **I want to introduce you to the Rule of Planning, which suggests that predetermined guidelines can help increase your probability of future success**. Failing to set proper guidelines can cause you to make reactive and possibly emotional decisions that could eventually compromise your retirement. Follow systems, not sentiment.

We know that the markets will either go up, go down, or stay flat next year. We know that taxes, inflation, and other factors will continue to evolve over time. We can't do anything about it. But we can create a plan that puts us in a proactive position that can help increase our probability of success overall. We can focus on growth while the Kedrec Reservoir™ helps protect us during the down turns. Remember, the Kedrec Reservoir™ strategy suggests that when markets are good and you are making money, that you can draw income from any source. However, when markets are down, you draw income from your reservoir until the other accounts have recovered. This allows you to focus on growth overall.

The reality is, you cannot avoid risk. You will experience it in one form or another. Even if you guarantee your income for life through an annuity, you still have inflationary risk, increasing tax risk, healthcare risk, and other risks based on life events (e.g., new car, new roof, medical emergency, etc.) In my opinion, focusing on overall growth while mindfully protecting your lifestyle with the Kedrec Reservoir™ is the key to success. It allows you to run two strategies for two situations at the same time.

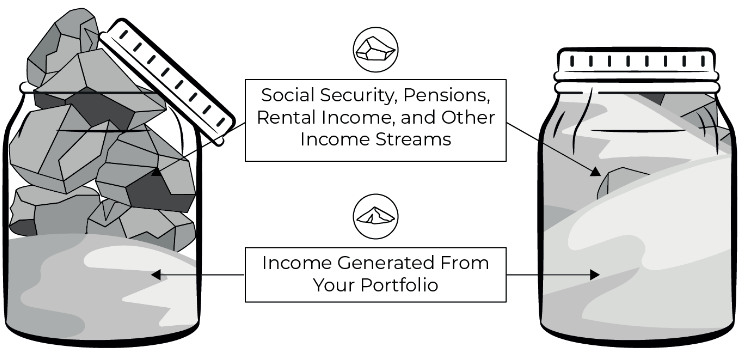
If you can grow your assets faster than what your plan projects, you accomplish two important tasks. First, it means you were able to create a plan with realistic expectations. Well done. Greed did not get the best of you. Second, it means that you may have more resources to help offset other risks or large expenses from life events that may come up. There's a delicate balance between getting the most out of your money and putting too much stress on your plan and portfolio. We want to find that balance. Remember, time is your most precious commodity. Sometimes, taking less risk by funding your reservoir, even though there may be less upside potential, may be the reason you can maintain your lifestyle and legacy goals when times are tough. Retirement means you need to have preservation strategies in place. That said, we can't talk about investments or products until we have clear direction from your plan.

PRELIMINARY PLANNING

The first step when it comes to putting a preliminary plan together is to plan for the gap. To start, you'll need to understand the order in which your retirement plan must be organized. Each adjustment you make within your plan will have a rippling effect on your overall income and projected net worth. In most situations, the objective is to either maximize your income (Lifestyle) or maximize your estate in a tax-efficient manner so that your beneficiaries get as much as possible (Legacy). Either way, even the most subtle adjustments can have significant effects on your plan.

The best way I know how to explain this process is with a simple analogy. Let's say you have a jar that must be filled. All you have to work with is a pile of small rocks and a pile of sand. Your job is to get all of the rocks and sand into the jar.

If you put the sand in first and then all the rocks, the rocks won't fit. The rocks will sit on top of the sand. However, if you put the rocks in first and then the sand, the sand will slowly fill all of the gaps and crevices, filling up 100% of the jar.



When it comes to retirement, you must first fill your "retirement jar" with your "rocks." In other words, line up the different expected income streams based on when you plan to start receiving income. Examples include your Social Security benefit, pension(s), rental real estate income, and so on. Once they are all lined up, the sand represents your portfolio income. Our software will help you fill in all the gaps and crevices so that your retirement income is smooth, year over year with a cost-of-living adjustment to help offset inflation.

Make sure you have the following information readily available:

- The year you want to retire
- The annual net of tax income you want when you retire
- The annual amount in Social Security benefits expected at full retirement age for yourself (and for your spouse if married)
- Total amount of investable assets
- Your effective tax rate
- Pension start date and survivability options, if applicable
- Rental cash flow information, if applicable
- An understanding of family longevity and life expectancy

There may be additional information needed based on your unique situation. Please take a moment and consider anything else that may affect your financial situation.

Now that you've got all your ducks in a row, are you ready to get started?

THE HYPOTHETICAL EXAMPLE

When you start creating a Kedrec Wealth Plan™, it can feel overwhelming. There is no simple way to do it. Let's run through quickly what the results could look like. Here is a hypothetical example of the math behind a Kedrec Wealth Plan™. I'll explain in greater detail further in this chapter how to come up with the numbers to populate this tool, but here's a glance at what the end result might look like:

Year	Age 1	Age 2	SS1	SS2	Income 1	Portfolio	Gross Annual	Est Taxes	Net Annual	Net Monthly	Projected Net Worth
			0.50%	0.50%	0.00%			15%	2.00%		5.00%
2023	61	60				$84,706	$84,706	$12,706	$72,000	$6,000	$698,559
2024	62	61				$86,400	$86,400	$12,960	$73,440	$6,120	$642,767
2025	63	62			$36,000	$52,128	$88,128	$13,219	$74,909	$6,242	$620,171
2026	64	63			$36,000	$53,891	$89,891	$13,484	$76,407	$6,367	$594,594
2027	65	64			$36,000	$55,688	$91,688	$13,753	$77,935	$6,495	$565,851
2028	66	65			$36,000	$57,522	$93,522	$14,028	$79,494	$6,624	$533,745
2029	67	66	$33,000		$36,000	$26,393	$95,393	$14,309	$81,084	$6,757	$532,720
2030	68	67	$33,165	$27,000	$36,000	$1,135	$97,300	$14,595	$82,705	$6,892	$558,164
2031	69	68	$33,331	$27,135	$36,000	$2,781	$99,246	$14,887	$84,359	$7,030	$583,153
2032	70	69	$33,497	$27,271	$36,000	$4,463	$101,231	$15,185	$86,047	$7,171	$607,624
2033	71	70	$33,665	$27,407	$36,000	$6,184	$103,256	$15,488	$87,768	$7,314	$631,512
2034	72	71	$33,833	$27,544	$36,000	$7,944	$105,321	$15,798	$89,523	$7,460	$654,747
2035	73	72	$34,002	$27,682	$36,000	$9,743	$107,428	$16,114	$91,313	$7,609	$677,254
2036	74	73	$34,172	$27,820	$36,000	$11,583	$109,576	$16,436	$93,140	$7,762	$698,954
2037	75	74	$34,343	$27,959	$36,000	$13,465	$111,768	$16,765	$95,002	$7,917	$719,763
2038	76	75	$34,515	$28,099	$36,000	$15,389	$114,003	$17,100	$96,903	$8,075	$739,593
2039	77	76	$34,688	$28,240	$36,000	$17,356	$116,283	$17,442	$98,841	$8,237	$758,349
2040	78	77	$34,861	$28,381	$36,000	$19,367	$118,609	$17,791	$100,817	$8,401	$775,931
2041	79	78	$35,035	$28,523	$36,000	$21,423	$120,981	$18,147	$102,834	$8,569	$792,234
2042	80	79	$35,211	$28,665	$36,000	$23,525	$123,400	$18,510	$104,890	$8,741	$807,145
2043	81	80	$35,387	$28,809	$36,000	$25,673	$125,868	$18,880	$106,988	$8,916	$820,545
2044	82	81	$35,564	$28,953	$36,000	$27,870	$128,386	$19,258	$109,128	$9,094	$832,309
2045	83	82	$35,741	$29,097	$36,000	$30,115	$130,954	$19,643	$111,311	$9,276	$842,304
2046	84	83	$35,920	$29,243	$36,000	$32,410	$133,573	$20,036	$113,537	$9,461	$850,389
2047	85	84	$36,100	$29,389	$36,000	$34,755	$136,244	$20,437	$115,807	$9,651	$856,416
2048	86	85	$36,280	$29,536	$36,000	$37,153	$138,969	$20,845	$118,124	$9,844	$860,226
2049	87	86	$36,462	$29,684	$36,000	$39,603	$141,748	$21,262	$120,486	$10,041	$861,654
2050	88	87	$36,644	$29,832	$36,000	$42,107	$144,583	$21,687	$122,896	$10,241	$860,524
2051	89	88	$36,827	$29,981	$36,000	$44,667	$147,475	$22,121	$125,354	$10,446	$856,650
2052	90	89	$37,011	$30,131	$36,000	$47,282	$150,424	$22,564	$127,861	$10,655	$849,837
2053	91	90	$37,196	$30,282	$36,000	$49,955	$153,433	$23,015	$130,418	$10,868	$839,876
2054	92	91	$37,382	$30,433	$36,000	$52,686	$156,502	$23,475	$133,026	$11,086	$826,550
2055	93	92	$37,569	$30,585	$36,000	$55,477	$159,632	$23,945	$135,687	$11,307	$809,626
2056	94	93	$37,757	$30,738	$36,000	$58,329	$162,824	$24,424	$138,401	$11,533	$788,862
2057	95	94	$37,946	$30,892	$36,000	$61,243	$166,081	$24,912	$141,169	$11,764	$764,000
2058	96	95	$38,136	$31,047	$36,000	$64,220	$169,402	$25,410	$143,992	$11,999	$734,769
2059	97	96	$38,326	$31,202	$36,000	$67,262	$172,790	$25,919	$146,872	$12,239	$700,882
2060	98	97	$38,518	$31,358	$36,000	$70,371	$176,246	$26,437	$149,809	$12,484	$662,037
2061	99	98	$38,710	$31,515	$36,000	$73,546	$179,771	$26,966	$152,806	$12,734	$617,915
2062	100	99	$38,904	$31,672	$36,000	$76,790	$183,367	$27,505	$155,862	$12,988	$568,181

Hypothetical illustration shown for demonstration purposes only. It is not guaranteed and not indicative of your actual plan results.

Looks like a lot, right? Let me break it down step by step starting with the top left.

> By the way, the plan we are about to go through was created with the software that you'll be able to use when you finish the book. It is one of the many bonuses I have included. Please read to the end of the book, though, so you have context and use this tool correctly. Let's keep going.

The first column shows the years. This plan starts in 2023 and continues until 2062.

The second and third columns are the ages of the couple. Based on their family history, they expect to live to their late 80s but wanted to plan until age 100, just in case.

The next column shows current employment income. For our example, this couple is retiring this year, so I left the salary information blank.

Moving on to the right, you'll notice two columns named SS 1 and SS 2. You guessed it, that stands for Social Security 1, as in the Social Security benefit for spouse number 1 and Social Security 2 for spouse number 2.

Next, you will see Income 1, which is a pension. The couple has not elected to take the pension, yet. At this moment, they want to compare their options.

The column labeled "Portfolio" represents the income generated from the portfolio, or in other words, your investable assets, like stocks, mutual funds, CDs, and so on.

Notice how the portfolio amounts each year go up and down. Remember, this is the sand from our earlier analogy. It is designed to bridge the gap between the rocks (in this case, the pension and Social Security benefits) so that you can enjoy a smooth income in retirement.

In 2025, you'll see the portfolio income amount went down from $86,400 to $52,128. This is because in that same year, they would turn on their pension and start receiving $36,000 per year. That means the portfolio will need to provide less income, hence why it went down.

Notice how the same thing happens when Social Security starts. Sometimes, you'll notice the Portfolio goes negative. That means your income streams are producing more than what the target net annual income needs. You can either enjoy the raise and adjust your plan, or invest the excess.

Next, we have Gross Income, Estimated Taxes, and Net Income. The idea with these three columns is to first focus on your net income since that is what you are expected to actually get and be able to spend. Let's start with the net income column.

This couple wanted $6,000 a month, net of tax (after income tax and capital gains taxes were paid). They wanted a relatively simple retirement with very little travel. All of their kids and grandkids lived nearby, which made things convenient. In reality, they only needed around $4,000 per month to live comfortably, based on their desired lifestyle. The additional money is intended to be for random events, trips, and so on.

Please note, that this is just one hypothetical couple's account. I've seen people want to retire with less. I've built plans that gave the couple over $20,000 in income per month. It all depends on what you have and what you want. Okay, now back to the net income column.

Notice how the net income column consistently increases by 2% each year? That's the cost-of-living adjustment (COLA). Some people will want to illustrate a higher COLA while others might want a lower COLA. It all depends on your unique situations and expectations.

As a general rule, there are two phases in retirement. You've got your travel years and your casual years. Your first ten years are typically your travel years. This is typically when you will be the most active. You may want to spend more during those years than in your casual years, and that's okay.

My only word of caution is not to have too much fun at the beginning of retirement. With health care costs on the rise, you don't want to spend so much that you can't afford to support yourself later on. That is why having a healthy cost-of-living adjustment is so important. We'll talk about strategies to frontload a plan later.

Next, let's look at the estimated taxes column. We don't know what future tax brackets will be. We can't anticipate future tax laws that could reshape retirement accounts. Estimated Taxes is a column that offers our best guess projections based on the current tax environment.

Now that we've discussed the net income column and the estimated tax column, let's finish this up with the gross income column. As you can imagine, this column estimates how much gross (pre-tax) income is needed to get the net income you want.

The last column shows the projected net worth. This column represents all of your investable assets, not including your primary residence. It grows at an assumed 5% annual rate. Why 5%? Just like there are over-the-counter drugs and prescription drugs, I set it at 5% so that you could not over-promise yourself future projections. Greed is a powerful emotion, and I want to help bridle it.

> If you want a more advanced version of what your retirement could look like than what is offered online, just schedule a call with my team by going to www.kedrec.com/call. Let my team know that you read the book so you get the book bonus support.

What if you get more than 5% returns for several years? Rerun your plan and enjoy the extra funds. I believe it is better to be conservative with a pleasant surprise than to try and overdo it and have to go back to work in your 70s and 80s.

In the next chapter, once your plan is built, we will talk about strategies, market patterns, and more. Then you can better understand the potential problems you may face and your options to address them.

One of the most common questions I get is, "Should I protect my net worth and only live off of the gains, or can I spend it down?" Like most other answers I've given, it depends.

It depends on your risk tolerance. Are you okay with the thought of spending it down? It depends on your estate and legacy planning. Do you want to leave a significant inheritance to your kids or beneficiaries? Some do and some don't.

Many people want to maximize their income and leave as little as possible to their kids. There is nothing wrong with that mindset. It all depends on what you want.

If you want a recommendation to help you get started, try to adjust your income so that the projected net worth on the year you retire is roughly the same as your life expectancy. That can help you measure how to preserve principal while letting it go down a little after your life expectancy date. Regardless of how things project, just make sure that your projections do not go negative. Take a look at the bottom right of the plan. If those numbers are negative, that means you probably cannot afford to retire and receive the income you are projecting.

Now that we have discussed how to put together your preliminary Kedrec Wealth Plan™, it's time to talk about how to optimize income streams. Since Social Security optimization is the most common request I get, we can start there.

If you've stayed with me up to this point, we've covered a lot in a very short amount of time. If you need anything clarified, if you have questions, or if there's something else, I want to offer my team's support, should you need it.

Please visit www.kedrec.com/call, tell us what you want, and then schedule a 30-minute chat.

We offer multiple services to help you accomplish every single step listed in the book and more.

SOCIAL SECURITY OPTIMIZATION

Your Social Security can help you increase your overall income or help you protect your estate from dwindling down too fast, but usually not both. Here's another way of saying it.

"If you file too early, your income could be hurting.
But if you file too late, you could be hurting your estate."

Let's assume, for example, that you retire at 60 years old. Congratulations, you are now enjoying some of the best years of your life. If you were to wait and file for Social Security at 70 years old, you would need to pull additional income from assets between 60 and 70 years old to bridge the gap.

When you turned 70, you would receive your maximum benefit. You would also be able to lower the amount of income needed from your portfolio when you file for your Social Security benefit. Sounds nice until you realize the cost. "If you filed too late, you may be hurting your estate." That ten-year gap between when you retire at 60 years old and when you file for Social Security at age 70 likely requires you to reduce your portfolio (estate) in order to make it work.

If you were to file at 62 years old, then you would be filing for Social Security at a "discount". Even though you would not need to pull as much income from your portfolio, it can have an overall negative effect on the maximum income you could receive in retirement. Since you have taken an income reduction that lasts a lifetime, you'll feel it for the rest of your life. Therefore, "If you file too early, your income may be hurting."

The easiest way to tell which option is best for you is to run the numbers. On your Social Security benefits statement, you should have estimated monthly benefits amounts for every year between 62 and 70 years old. First, let's enter the numbers into the software and see what happens if both spouses were to file at 62 years old. Remember to adjust the monthly benefit amount and the age. Here's what it would look like.

Year	Age 1	Age 2	SS1	SS2	Income 1	Portfolio	Gross Annual	Est Taxes	Net Annual	Net Monthly	Projected Net Worth
			0.50%	0.50%	0.00%			15%	2.00%		5.00%
2023	61	60				$84,706	$84,706	$12,706	$72,000	$6,000	$698,559
2024	62	61	$21,450			$64,950	$86,400	$12,960	$73,440	$6,120	$665,289
2025	63	62	$21,557	$17,550	$36,000	$13,021	$88,128	$13,219	$74,909	$6,242	$684,882
2026	64	63	$21,665	$17,638	$36,000	$14,588	$89,891	$13,484	$76,407	$6,367	$703,809
2027	65	64	$21,773	$17,726	$36,000	$16,189	$91,688	$13,753	$77,935	$6,495	$722,001
2028	66	65	$21,882	$17,815	$36,000	$17,825	$93,522	$14,028	$79,494	$6,624	$739,384
2029	67	66	$21,992	$17,904	$36,000	$19,497	$95,393	$14,309	$81,084	$6,757	$755,881
2030	68	67	$22,102	$17,993	$36,000	$21,206	$97,300	$14,595	$82,705	$6,892	$771,409
2031	69	68	$22,212	$18,083	$36,000	$22,951	$99,246	$14,887	$84,359	$7,030	$785,881
2032	70	69	$22,323	$18,174	$36,000	$24,735	$101,231	$15,185	$86,047	$7,171	$799,204
2033	71	70	$22,435	$18,264	$36,000	$26,557	$103,256	$15,488	$87,768	$7,314	$811,279
2034	72	71	$22,547	$18,356	$36,000	$28,418	$105,321	$15,798	$89,523	$7,460	$822,004
2035	73	72	$22,660	$18,448	$36,000	$30,320	$107,428	$16,114	$91,313	$7,609	$831,268
2036	74	73	$22,773	$18,540	$36,000	$32,263	$109,576	$16,436	$93,140	$7,762	$838,955
2037	75	74	$22,887	$18,632	$36,000	$34,248	$111,768	$16,765	$95,002	$7,917	$844,942
2038	76	75	$23,001	$18,726	$36,000	$36,276	$114,003	$17,100	$96,903	$8,075	$849,099
2039	77	76	$23,116	$18,819	$36,000	$38,347	$116,283	$17,442	$98,841	$8,237	$851,289
2040	78	77	$23,232	$18,913	$36,000	$40,463	$118,609	$17,791	$100,817	$8,401	$851,367
2041	79	78	$23,348	$19,008	$36,000	$42,625	$120,981	$18,147	$102,834	$8,569	$849,179
2042	80	79	$23,465	$19,103	$36,000	$44,833	$123,400	$18,510	$104,890	$8,741	$844,563
2043	81	80	$23,582	$19,198	$36,000	$47,088	$125,868	$18,880	$106,988	$8,916	$837,349
2044	82	81	$23,700	$19,294	$36,000	$49,391	$128,386	$19,258	$109,128	$9,094	$827,356
2045	83	82	$23,819	$19,391	$36,000	$51,744	$130,954	$19,643	$111,311	$9,276	$814,392
2046	84	83	$23,938	$19,488	$36,000	$54,147	$133,573	$20,036	$113,537	$9,461	$798,257
2047	85	84	$24,057	$19,585	$36,000	$56,601	$136,244	$20,437	$115,807	$9,651	$778,738
2048	86	85	$24,178	$19,683	$36,000	$59,108	$138,969	$20,845	$118,124	$9,844	$755,612
2049	87	86	$24,298	$19,782	$36,000	$61,668	$141,748	$21,262	$120,486	$10,041	$728,641
2050	88	87	$24,420	$19,881	$36,000	$64,283	$144,583	$21,687	$122,896	$10,241	$697,576
2051	89	88	$24,542	$19,980	$36,000	$66,953	$147,475	$22,121	$125,354	$10,446	$662,154
2052	90	89	$24,665	$20,080	$36,000	$69,680	$150,424	$22,564	$127,861	$10,655	$622,098
2053	91	90	$24,788	$20,180	$36,000	$72,465	$153,433	$23,015	$130,418	$10,868	$577,115
2054	92	91	$24,912	$20,281	$36,000	$75,308	$156,502	$23,475	$133,026	$11,086	$526,897
2055	93	92	$25,037	$20,383	$36,000	$78,213	$159,632	$23,945	$135,687	$11,307	$471,119
2056	94	93	$25,162	$20,484	$36,000	$81,178	$162,824	$24,424	$138,401	$11,533	$409,437
2057	95	94	$25,288	$20,587	$36,000	$84,206	$166,081	$24,912	$141,169	$11,764	$341,493
2058	96	95	$25,414	$20,690	$36,000	$87,299	$169,402	$25,410	$143,992	$11,999	$266,904
2059	97	96	$25,541	$20,793	$36,000	$90,456	$172,790	$25,919	$146,872	$12,239	$185,270
2060	98	97	$25,669	$20,897	$36,000	$93,680	$176,246	$26,437	$149,809	$12,484	$96,170
2061	99	98	$25,797	$21,002	$36,000	$96,972	$179,771	$26,966	$152,806	$12,734	-$843
2062	100	99	$25,926	$21,107	$36,000	$100,334	$183,367	$27,505	$155,862	$12,988	-$106,236

Hypothetical illustration shown for demonstration purposes only. It is not guaranteed and not indicative of your actual plan results.

Notice how the left column maintains a higher projected net worth balance for most of the plan. Because there is very little income needed from the portfolio, the portfolio has more growth potential. The total projected net worth doesn't start to dip until the early 80s. If you were to pass before the age of 80, filing for an early benefit could lead to additional funds passed to your heirs.

Now, let's rerun the plan, only this time, you're filing at age 70. Here's what it should look like.

Year	Age 1	Age 2	SS1	SS2	Income 1	Portfolio	Gross Annual	Est Taxes	Net Annual	Net Monthly	Projected Net Worth
			0.50%	0.50%	0.00%			15%	2.00%		5.00%
2023	61	60				$84,706	$84,706	$12,706	$72,000	$6,000	$698,559
2024	62	61				$86,400	$86,400	$12,960	$73,440	$6,120	$642,767
2025	63	62			$36,000	$52,128	$88,128	$13,219	$74,909	$6,242	$620,171
2026	64	63			$36,000	$53,891	$89,891	$13,484	$76,407	$6,367	$594,594
2027	65	64			$36,000	$55,688	$91,688	$13,753	$77,935	$6,495	$565,851
2028	66	65			$36,000	$57,522	$93,522	$14,028	$79,494	$6,624	$533,745
2029	67	66			$36,000	$59,393	$95,393	$14,309	$81,084	$6,757	$498,070
2030	68	67			$36,000	$61,300	$97,300	$14,595	$82,705	$6,892	$458,609
2031	69	68			$36,000	$63,246	$99,246	$14,887	$84,359	$7,030	$415,130
2032	70	69	$40,920		$36,000	$24,311	$101,231	$15,185	$86,047	$7,171	$410,360
2033	71	70	$41,125	$33,480	$36,000	-$7,349	$103,256	$15,488	$87,768	$7,314	$438,594
2034	72	71	$41,330	$33,647	$36,000	-$5,657	$105,321	$15,798	$89,523	$7,460	$466,463
2035	73	72	$41,537	$33,816	$36,000	-$3,925	$107,428	$16,114	$91,313	$7,609	$493,907
2036	74	73	$41,745	$33,985	$36,000	-$2,153	$109,576	$16,436	$93,140	$7,762	$520,863
2037	75	74	$41,953	$34,155	$36,000	-$340	$111,768	$16,765	$95,002	$7,917	$547,264
2038	76	75	$42,163	$34,325	$36,000	$1,515	$114,003	$17,100	$96,903	$8,075	$573,037
2039	77	76	$42,374	$34,497	$36,000	$3,412	$116,283	$17,442	$98,841	$8,237	$598,106
2040	78	77	$42,586	$34,670	$36,000	$5,353	$118,609	$17,791	$100,817	$8,401	$622,390
2041	79	78	$42,799	$34,843	$36,000	$7,339	$120,981	$18,147	$102,834	$8,569	$645,803
2042	80	79	$43,013	$35,017	$36,000	$9,371	$123,400	$18,510	$104,890	$8,741	$668,254
2043	81	80	$43,228	$35,192	$36,000	$11,449	$125,868	$18,880	$106,988	$8,916	$689,646
2044	82	81	$43,444	$35,368	$36,000	$13,574	$128,386	$19,258	$109,128	$9,094	$709,876
2045	83	82	$43,661	$35,545	$36,000	$15,748	$130,954	$19,643	$111,311	$9,276	$728,834
2046	84	83	$43,879	$35,723	$36,000	$17,971	$133,573	$20,036	$113,537	$9,461	$746,407
2047	85	84	$44,099	$35,901	$36,000	$20,244	$136,244	$20,437	$115,807	$9,651	$762,471
2048	86	85	$44,319	$36,081	$36,000	$22,569	$138,969	$20,845	$118,124	$9,844	$776,897
2049	87	86	$44,541	$36,261	$36,000	$24,946	$141,748	$21,262	$120,486	$10,041	$789,549
2050	88	87	$44,764	$36,443	$36,000	$27,377	$144,583	$21,687	$122,896	$10,241	$800,280
2051	89	88	$44,987	$36,625	$36,000	$29,863	$147,475	$22,121	$125,354	$10,446	$808,938
2052	90	89	$45,212	$36,808	$36,000	$32,404	$150,424	$22,564	$127,861	$10,655	$815,361
2053	91	90	$45,438	$36,992	$36,000	$35,003	$153,433	$23,015	$130,418	$10,868	$819,376
2054	92	91	$45,666	$37,177	$36,000	$37,659	$156,502	$23,475	$133,026	$11,086	$820,802
2055	93	92	$45,894	$37,363	$36,000	$40,375	$159,632	$23,945	$135,687	$11,307	$819,449
2056	94	93	$46,123	$37,550	$36,000	$43,151	$162,824	$24,424	$138,401	$11,533	$815,112
2057	95	94	$46,354	$37,737	$36,000	$45,989	$166,081	$24,912	$141,169	$11,764	$807,579
2058	96	95	$46,586	$37,926	$36,000	$48,891	$169,402	$25,410	$143,992	$11,999	$796,623
2059	97	96	$46,819	$38,116	$36,000	$51,856	$172,790	$25,919	$146,872	$12,239	$782,005
2060	98	97	$47,053	$38,306	$36,000	$54,887	$176,246	$26,437	$149,809	$12,484	$763,473
2061	99	98	$47,288	$38,498	$36,000	$57,985	$179,771	$26,966	$152,806	$12,734	$740,762
2062	100	99	$47,524	$38,690	$36,000	$61,152	$183,367	$27,505	$155,862	$12,988	$713,591

Hypothetical illustration shown for demonstration purposes only. It is not guaranteed and not indicative of your actual plan results.

Notice how the projected net worth goes down significantly over the first 10 years of the plan. Once Social Security starts, the overall portfolio then begins to recover. What's important here is the responsibility of the portfolio income column. Notice how it is doing some heavy lifting and providing most of the retirement income until the year 2032.

Those years will be the make-or-break years of this retirement plan. If the markets were to crash and they pulled that much income from their portfolio, it could be devastating. For the first two years, the plan is suggesting pulling over 10% of their income! We'll talk more about this later, but in this version, having a Kedrec Reservoir™ liquid enough to keep income coming in during those first ten years will be incredibly important.

However, notice how once Social Security starts, the portfolio income goes negative. That means there's more income coming in from the income streams than is needed. From that point on, the portfolio becomes a complement to the overall income strategy instead of shouldering the responsibility of providing the majority of the needed income.

For those who have saved less than $250,000 for retirement, I want to be upfront about the strategy you should consider. If you have saved $250,000 in assets or less for retirement, there is a good chance that Social Security will be your main source of retirement income.

If that is true, then let me suggest what you may want to do…

Consider working as long as you can, or until age 70. When you cannot work any longer, retire and file for Social Security. If you are able to work past 70 years old, file for Social Security at that point and keep working as long as you want.

By waiting until 70 or when you retire to file for Social Security, you will not have to pull as much income from your assets, helping preserve your assets while they continue to grow as much as possible. If you plan to work past 70 years old, I suggest you still take your benefits at 70 years old. It won't grow past your 70th birthday.

Pension Income vs. Lump Sum

Let's talk about your pension. At some point, you will need to decide between taking the pension as income (lifetime payments) vs. taking the lump sum (one-time payment that is often rolled over into your Traditional IRA to be managed.)

If you take the lump sum, then they will ask you where it should be sent. Have it rolled over to a retirement plan such as an IRA. From that point on, it will be your responsibility to be a good steward over those assets and make them last longer than you. You, or your advisor, will need to effectively grow those assets while proactively minimizing the tax burdens.

Where there's more responsibility, there's also more opportunity. If you're comfortable with managing your own investments, or having a professional manage them for you, and would prefer to minimize your taxes now under the current tax environment (as opposed to waiting and seeing what happens in the future), then the lump sum option may be better for you. Ultimately, it gives you more control over the future tax situation.

Lastly, if you consider your projected net worth, especially during years one through ten of your retirement, a lump sum can be great for your beneficiaries should you and your spouse pass.

Don't pick the lump sum for your beneficiaries though. You need to pick what is best for you.

If you want less risk, consider taking the pension income. Even though you'll be taxed on it for life and it all goes away when you pass (and when your spouse passes, if applicable), there's comfort in a check showing up every month, regardless of the market. There's no shame in the pension option.

When you're ready to compare the lump sum vs. your pension income stream, the easiest way to see how it affects your retirement is to first put in the pension and run the numbers.

Notice the projected net worth amount at age 100. It is similar to the exercise you did with Social Security. You'll look at age 100 because you want to make sure that your retirement is projected to last longer than you.

Also, make sure to look at your projected net worth during the first ten years. I want you to be able to compare the pension income stream and the lump sum difference should you pass sooner than expected.

Next, take out the pension income and put in the lump sum dollar amount in your total net worth amount. Now, rerun the numbers without changing anything else. Look at your projected net worth in ten years and at age 100. Notice the difference and ask yourself which option you're more comfortable with.

For some employment plans, you can also take half of your lump sum and receive half of your pension for life. Try those numbers as well and see how they look. At the end of the day, there is no perfect solution here. It is based on your preferences and comfort level.

Real Estate and the Landlord's Exit Strategy

Let's talk about your rental portfolio. If you don't have any rental properties, you can skip this section by going to "Wrapping Up Your First Draft."

If you have rental income, the first thing you need to calculate is your return on investment. That number is based on the current home value and the net of taxes and expenses cash flow. Too often, landlords tell me what they make in rent and leave out the costs of repairs and taxes. That's an incomplete calculation.

Once you know your net-of-expense return on investment, based on current market value, then you can have an apples-to-apples conversation. If your rental real estate is making less than the riskless rate, which is something the Fed determines, then it may be time to sell. If you are tired of dealing with tenants, toilets, roofs, and HVAC systems, then it may be time to retire from being a landlord. If that is you, consider reaching out to me and my team so we can have a conversation about 1031 exchanges and Delaware statutory trusts.

Just go to www.kedrec.com/call.

Do not put your properties up for sale until we talk. If they are already up for sale, schedule the call ASAP. There are many tight timelines around 1031 exchanges and exit strategies, based on IRS rules, that must be met. Best practice is to have the conversation first. Then put an exit plan together before the properties go up for sale. If you already sold your property or properties, it is probably too late.

If you are receiving more than the riskless rate, then it is up to you whether or not you want to keep it, sell it and pay the taxes, or do a 1031 exchange and defer the capital gains tax while maintaining cash flow.

If you want to keep the rental income, add the net-of-expenses monthly income to your plan in the same place that you would add a pension. If you increase rent every year, then make sure to consider adding a cost-of-living adjustment to your income stream. Plans depend on reasonable projections. Whatever you put in your plan must be implemented in real life. So, make sure you follow what you project in your plan.

Wrapping Up Your First Draft

Once you have created your plan, you should be able to answer the following questions:

- When can I retire?
- How much income should I expect in retirement?
- Can I afford to retire?

- When should I file for Social Security?
- Should I take the pension or the lump sum?
- What would my retirement look like when a spouse passes?
- And more

Now that we have the preliminary plan together, we can plan for the gaps and start designing the portfolio that can support the plan.

As a quick side note, at the end of the book in the bonus section, I'll give you links and resources to these tools and more so you can create your plan on your own. However, don't skip ahead and go right to the links. I want to make sure you see the entire process, from start to finish, so when it's your turn to create a plan and implement everything we are discussing, you will be able to put your plan together with the end in mind.

Take a breath.

You're doing great.

Let's bring this plan to life.

I'll see you in the next chapter.

P.S. If you are feeling slightly overwhelmed, remember we are here to help. You can always schedule a call with my team. Their job is to help you create a plan that's designed to last longer than you™. Just go to www.kedrec.com/call to schedule a quick call so you can learn more.