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**MENTOR**
C A P I T A L

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Mentor Monthly Missive

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How much can you safely withdraw during retirement?

In the “old days,” when life spans were shorter, people oftentimes retired only a few years before dying – if they retired at all. Many employers provided their employees with pensions that paid monthly income until their death. As a result, many of these retirees did not have the financial worries that current or future retirees will have. Their pensions provided income as long as they lived, and shorter life spans meant that their savings did not have to last many years.

Things are vastly different today. Many employers have discontinued their pension plans and put the retirement savings responsibility on their employees’ shoulders via 401(k) and other such plans. On top of that, life spans are becoming longer and longer. It’s not uncommon for people to live into their 90s, meaning that they might live 30 years or more after retiring.

This poses a potential problem for many current and future retirees. If receiving little or no pension income, and Social Security income that doesn’t come close to covering all expenses, how can retirees make sure that their savings last 20, 30, even 40 years in retirement?

Many Americans are sorely mistaken on how much they can withdraw from their retirement savings each year once they stop working. Think you can retire with, say, \$400,000 in savings? If you anticipate that your withdrawals during your first year of retirement will be \$40,000, that’s a 10% “initial withdrawal rate” (IWR, or the first year’s withdrawal divided by the initial portfolio value).

You might be very disappointed, and alarmed, to learn that withdrawing 10% of your retirement savings in the first year – and then increasing your withdrawals each year as your expenses increase due to inflation – puts you at significant risk of running out of money should you live at least several years beyond that.

Fortunately, significant distribution planning research has been done over the past several years by academics and financial planners. Initial research performed in 1994 showed that an IWR of between 4.1% and 4.6%, then increasing withdrawals each year by the inflation rate, resulted in an excellent chance of never running out of money over a 30-year distribution period.

Think about that. If you must withdraw \$50,000 from your savings during your first year of retirement, you’d need an initial portfolio balance of almost \$1.1 million to keep your initial withdrawal rate at 4.6%.

A 2004 study determined the maximum withdrawal rates that result in a high probability of success – while also maintaining purchasing power as inflation rises – for a 40-year time period beginning in 1973. Why 1973? It might have been the worst year ever for someone to retire and begin withdrawing from their savings because of huge stock market losses over the following two years coupled with very high inflation for several years.

That study showed that withdrawal rates during retirement can be maximized by (1) diversifying the retirement portfolio among a variety of asset classes and (2) implementing standardized “decision rules”. The study concluded that the IWR could be between 4.8% and 6.2%, depending on how a portfolio is allocated between stocks, bonds, and cash, while providing a very high likelihood of maintaining purchasing power and not running out of money.

What does this all mean for people who are recently retired or hope to retire in the next few years?

- Lack of a formalized retirement distribution plan could be very harmful to their financial health during retirement.
- They might need to save far more than previously anticipated.
- They should pay close attention to how much they withdraw each year from their savings.
- They can maximize their withdrawal rates – without the likelihood of undesired changes to their spending – by implementing certain portfolio management and withdrawal rules.

This could be a daunting task for many people who don't have the foggiest idea of whether they've saved enough for retirement or how much they can safely withdraw each year during retirement. It might be a good idea for many of these folks to seek the advice of a qualified financial planner, especially before deciding whether or not they can retire. We've advised hundreds of clients on this crucial issue and would be glad to help you or someone you know with retirement planning and other financial concerns.



Own appreciated stocks? Consider selling them this year

If you own stocks with unrealized long-term capital gains, 2009 might be a good time to consider selling.

There are several reasons you might consider selling stocks this year:

1. For those whose taxable income (including long-term capital gains) places them in the two lowest federal tax brackets (10% and 15%), the long-term gains **are not taxed this year**. This also applies to 2010...but consider the next two reasons before deciding to wait until next year to sell any of your stocks.
2. Long-term capital gains tax rates (normally 5% for taxpayers in the two lowest brackets and 15% for other taxpayers) are at historical lows, and it would not be surprising if Congress increases those rates in the near future to help reduce budget deficits.
3. Illinois Governor Patrick Quinn has discussed the possibility of increasing Illinois' income tax rate. Illinois currently taxes capital gains at a flat 3%; any increase in state tax rates would apply to capital gains, as well.

Here are some other reasons you might want to sell stocks you own:

- To diversify your investment portfolio. Owning only a few stocks, especially if they are concentrated in very few asset classes or business segments, exposes you to significant risk of a single company, segment, or asset class going through an economic slump or other financial problems that cause significant stock price declines.
- Raise cash for other financial goals – for example, establishing an emergency fund, replacing your old car, or raising cash to live on if you're retired.
- To reduce income taxes by paying long-term capital gains tax instead of ordinary income tax.

If you think that your 2009 taxable income might end up in one of the two lowest brackets, you could save significant income taxes by taking advantage of this unique opportunity. However, many factors – not only taxes – should be considered before making such a decision. Call one of our advisors if you'd like help.



Are your vaccinations up to date?

The Centers for Disease Control & Prevention (CDC) says that while vaccine-preventable disease levels are at or near record lows, many children, adolescents, and adults are under-immunized. It can be very confusing to know what vaccinations you, your children, and your elderly parents should have, and which vaccinations should be repeated periodically.

On top of that, we're constantly barraged with news about the H1N1 virus (otherwise known as the "swine flu"). It's likely that many Americans are confused about whether or not they should receive that vaccination and the benefits and risks of doing so.

The CDC's website has a wealth of information at www.cdc.gov/vaccines/ about vaccines and immunizations, including:

- Immunization schedules
- Recommendations and guidelines
- Vaccine side effects and safety
- Forms for maintaining vaccination records

Regarding the swine flu, the CDC's website states that while enough vaccine will eventually be available for anyone who wishes to get it, vaccination efforts should focus first on people in five target groups:

- Pregnant women
- People who live with or provide care for infants younger than 6 months
- Health care and emergency medical services personnel
- People 6 months through 24 years of age, and
- People 25 years through 64 years of age who have certain medical conditions that put them at higher risk for influenza-related complications.

Go to www.cdc.gov/h1n1flu/ for more information.



Now is the time to select 2010 Medicare drug plan

Enrollment for participants in the 2010 Medicare prescription drug plan opens Nov. 15 and runs until Dec. 31.

While it may be convenient to keep your existing drug plan from year to year, it's a good idea to compare your existing plan to all other available plans during each annual election period. You might find, for example, that your existing plan will cost noticeably more than some other plans next year or that it will no longer cover one of the drugs you take.

The process of comparing plans can be daunting because many factors should be considered and because you might have more than 50 plans to choose from. The Medicare Web site at <http://www.medicare.gov> provides a tool to compare all available drug plans. You can enter your data, including the prescription drugs you take, and sort plans by total cost.

Besides costs, other factors to consider include whether the drugs you take are covered, the local and mail-order pharmacy network, and the provider's financial strength and quality of service.

If you decide to keep your current plan, you do not have to do anything. Your current plan provider will assume that you are continuing with your existing plan unless notified otherwise.



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