INSIGHTS

A QUARTERLY WEALTH MANAGEMENT PUBLICATION *of* FERGUSON WELLMAN, OCTAVIA GROUP *and* WEST BEARING

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IN THIS PUBLICATION

Founded in 1975, Ferguson Wellman is a privately owned registered investment adviser, established in the Pacific Northwest. The firm manages more than $7.1 billion for 943 clients include individuals and families; Taft-Hartley and corporate retirement plans; and foundations and endowments with portfolios of $4 million or more (updated annually as of January 1, 2023).

West Bearing Investments, a division of Ferguson Wellman, serves clients with assets starting at $1 million.

Octavia Group, Ferguson Wellman's private family office, provides fee-based services for clients with $10 million managed by our firm.

INVESTMENT EXCELLENCE
LIFELONG RELATIONSHIPS

AN EMPOWERED AND SECURE RETIREMENT

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Principal
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ACCORDING TO A 2022 GALLUP SURVEY, the average age of retirement for American workers is 61. Quick math indicates that our working careers average around 40 years, depending on our level of education. Regardless of the particular life expectancy number, economics and our personal health histories may suggest, we work hard to get to retirement and want to be prepared to make the most of this phase of life.

There is no shortage of headlines highlighting looming issues that could interfere with our plans, but focusing on what we can control is far more productive. Here are a few simple tips to prepare for an empowered and secure retirement:

- Establish a written retirement savings and retirement spending plan. If applicable, this plan should be jointly developed with your partner to reduce conflicts over current and future spending priorities.
- Model and test your plan with realistic earnings, inflation and other capital market assumptions based on your risk appetite. Projected returns and volatility will vary greatly based on your investment strategy and it can be helpful to understand the impact of your allocation among risk-averse and more growth-oriented assets throughout the decades.
- Protect your assets from unanticipated medical, liability and other events with proper insurance coverage, legal entities and marital agreements.
- Review your plan every three-to-five years and when significant events occur to identify new opportunities and make necessary adjustments. Not only do tax laws and the regulatory environment establishing retirement savings and withdrawal rules change, but employer opportunities, personal goals and other financial resources will likely evolve in ways we can't predict.
- Invest in your health and well-being along the way. For some, this may include specialists such as a personal trainer, life coach or concierge physician.
- Enhance your peace of mind by documenting your health care preferences and estate plan.

We could write books on each of these topics, but the 80/20 rule of getting 80% of the value with 20% of the effort likely applies. Spend an evening considering how each of these applies to you. Then, reach out to your portfolio manager for support in modeling, testing and reviewing your plan and identifying other professional resources.

Our Ferguson Wellman logo is based on a bronze coin of Marcus Aurelius Antoninus, emperor of Rome from A.D. 161 to 180. According to historian Edward Gibbon, he was the only person in history in which, "the happiness of a great people was the sole object of government." Marcus Aurelius was the author of a series of personal writings and meditations that revealed a mind of great humanity, natural humility and wisdom.

DEBUNKING COMMON RETIREMENT PLANNING MYTHS

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THOSE WHO HAVE SPENT TIME RESEARCHING how to plan for an empowered and secure retirement will likely have come across some well-known tips for success. In reality, those tips are more akin to myths as they often fail to account for the nuances and complications of a realistic and robust retirement plan. While they may serve useful as rules of thumb early in the planning process, they should not be relied upon when making important decisions. The optimal asset allocation, retirement income and withdrawal strategy are different for each individual and family and therefore should be customized to fit their specific goals.

THE FOUR PERCENT RULE

One of the most well-known retirement planning myths is what is known as "The 4% Rule." The concept was derived by a financial planner in the mid-1990s named William Bergen. His research suggested that a withdrawal strategy of 4% of the initial portfolio value, adjusted annually for inflation, was sustainable over a 30-year period. Rather than a rule, this should be viewed as a guideline as there are other factors that could have significant impact on a retiree's ability to meet their retirement spending goals including taxes, inflation and asset allocation changes. The reality is that retirement spending is not always steady nor predictable. There will be years with lower expenses and years with much higher expenses like a new car, home improvement project or health care event, so a prudent withdrawal strategy should account for, and be able to accommodate, dynamic spending.

INCOME REPLACEMENT OF 80 PERCENT

Another common myth relates to how much income you need in retirement. The idea being that retirees should aim to replace a certain percentage of their pre-retirement income to maintain a similar standard of living during retirement. Eighty percent is commonly cited as the appropriate percentage but is not suitable for everyone. The appropriate amount of income in retirement should be customized for the individual or couple. Some expenses, such as payroll taxes, retirement contributions and commuting costs are eliminated in retirement. However, there are often new or increased expenses, particularly early in retirement when many people find themselves traveling and spending on activities or experiences they were unable to participate in while working full-time. Varying expenses in retirement are unique to each person. Using a rule of thumb may be helpful in earlier years, but as retirement approaches, a more personalized appropriate estimate should be used.

Four Common Retirement Planning Myths

Four Percent Rule

A withdrawal strategy of 4% of the initial portfolio value, adjusted annually for inflation

Income Replacement of 80 Percent

Retirees should aim to replace a certain percentage of their pre-retirement income to maintain a similar standard of living during retirement

Delay IRA Distributions until Required Minimum Distributions Start

Retirees should defer taxable distributions from their traditional IRA and 401ks until required by RMD rules

Age-Based Asset Allocation

Your asset allocation should adjust according to an age-based formula

The laurel is part of our Octavia Group branding. Octavia the Younger was one of the most prominent women in Roman history. She was respected for her nobility and humility. Octavia was hailed as a "marvel of womanhood" and was a political advisor between her brother and husband. She was immune from the "tutela," which placed in her the unique position of managing her own finances.

DELAY IRA DISTRIBUTIONS UNTIL REQUIRED MINIMUM DISTRIBUTIONS START

Many retirees contributed diligently during their working years to tax-deferred retirement accounts like 401(k)s and traditional IRAs and assume they will delay distributions from those accounts until they face required minimum distributions (RMDs) in their 70s. While this does maximize the tax-deferral on those funds, it may not be the right strategy to maximize their after-tax value, as those delayed RMDs might push them into higher income-tax brackets. This may be especially true as RMD ages are pushed back after the passing of the SECURE Act 2.0 in 2022. For a variety of tax-planning and legacy reasons, it may be advisable to take strategic, early distributions from tax-deferred accounts to create income in low tax years, convert tax-deferred dollars to tax-free Roth IRAs, or for philanthropic purposes.

"The reality is that retirement spending is not steady or predictable."

AGE-BASED ASSET ALLOCATION

The final commonly cited retirement myth is that your asset allocation should adjust according to an age-based formula. This guideline states that your portfolio should have an equity allocation equal to 100 minus your age. The logic is that increasing the allocation to fixed income as the investor nears retirement will reduce volatility and reduce the likelihood that the portfolio experiences a significant decline in value when the investor has a shorter time horizon to recover. Although an asset allocation determined using the investor's age would appear to take into consideration their time horizon, it ignores other important factors. This formula would suggest that a 70-year-old should have a portfolio comprised of 30% equity and 70% fixed income; however, that individual may not have sufficient income from social security and other sources to cover the majority of their living expenses. In that case, an allocation of 30% equity may not yield sufficient growth to meet their income needs. That allocation may also be inappropriate if the individual has sufficient income to cover their living expenses and intends to leave a sizeable inheritance to their heirs. The ideal asset allocation for each investor should not be driven exclusively by their investment time horizon, but rather account for their spending goals, other income, liquidity needs and ability to withstand volatility.

While many of these myths serve their purpose for establishing a baseline for further analysis, over time they have been proven to be useful mainly as guidelines. Contact your portfolio manager to initiate or update your *Wealth Horizon* plan for prudent and tailored retirement planning advice catered to the unique circumstances of your life and goals.

Our West Bearing logo is inspired by the American bison, an iconic creature symbolizing resilience, grace and the western path to growth and opportunity. Most animals attempt to outrun inclement weather, prolonging their exposure to the elements and, in doing so, weaken their conditions. Only bison instinctively turn to face the storm, often bearing west, to find the quickest path to clear skies.

COVERAGE FOR LIFE'S UNEXPECTED EVENTS

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JUST LIKE AN UMBRELLA SHIELDS you from rain, umbrella insurance shields you from financial losses that exceed the limits of your other insurance policies. Sometimes referred to as excess liability or personal liability insurance, umbrella policies are a type of insurance that provides additional coverage beyond what is already provided by your homeowners and auto insurance policies. It is designed to pick up where those policies leave off, both in terms of higher limits and broader coverage.

Umbrella policies typically cover claims related to injuring someone else, damaging someone else's property and other personal liability such as slander and defamation. These policies not only cover the homeowner but may also extend to members of the family. It is important to note these policies exclude business-related liabilities; however, commercial umbrella policies are available.

An example of how an umbrella policy works is as follows. You have $500,000 in liability coverage on your auto insurance policy. You are in an automobile accident and a lawsuit finds you liable for $1 million in damages. After your auto policy has been exhausted, your umbrella policy would be relied upon to cover the remaining $500,000 therefore protecting other assets that may have otherwise been needed to settle the lawsuit against you.

"The affordable coverage of umbrella insurance is well worth the cost and peace of mind."

There is no requirement to obtain umbrella insurance, however, if you have a high-net worth or other risk factors, the added coverage is highly recommended. Common risk factors include owning a swimming pool, trampoline, certain breeds of dogs or having a teenage driver. Being a landlord or a public figure also increases your risk.

As a general rule of thumb, you want the limit on your umbrella policy to cover your net worth, up to $10 million. Depending on your circumstances, your insurance agent may also advise coverage to protect future income. Your policy limit should also be reviewed periodically as your wealth evolves over time.

Umbrella insurance is relatively affordable. The price for $1 million in coverage averages a few hundred dollars per year. Most insurers offer umbrella insurance, and often provide discounts for bundling the policy with your underlying home and auto insurance. For this reason, reaching out to your homeowner's insurance agent is a good place to start

Umbrella insurance plays a key role in protecting your assets, and the affordable coverage is well worth the cost. Working with your portfolio manager, in collaboration with an insurance professional, can help you determine the coverage most appropriate for your circumstances.