

AHWATUKEE FOOTHILLS NEWS

There Are Some Steps to Protecting Your Retirement



March 11, 2020 by Dr. Harold Wong

I'm submitting this article on morning, March 6, 2020 and the last 2 weeks have seen the U.S. stock market gyrate up and down with extreme volatility due to fear about the impact of the Coronavirus.

At the close of the March 5, 2020 stock market, the Dow Jones Industrial Average lost 969.24 points, or 3.58%, to close at 26,121.62. Compared to the all-time highs of 29,551.42 at the close of February 12, 2020, the Dow-Jones has dropped 11.61%. The S&P500 and the Nasdaq Composite also closed in correction territory, down more than 10% from their recent highs on February 19, 2020.

At 7:50 am, March 6, 2020, the 10-year Treasury note fell to an all-time low of 0.660% due to the coronavirus fears causing huge demand for "safe" U.S. Treasury bonds. This will impact the famous "4% withdrawal rule", which states that if one has \$1 million of financial assets, one can withdraw only \$40,000 the first year one retires and still have a 90% chance that you will not run out of money while retired. Each year, one can increase the withdrawal amount by the rate of inflation.

However, years ago, T. Rowe Price lowered the number to the "2.8%" rule and if these new historically low interest rates continue, I'm sure it will be the "2%" rule. No one ever thought that saving \$1 million meant they could only safely withdraw \$20,000

their first year of retirement. There are ways to substantially increase your retirement income without the risk of Wall Street stocks or ridiculously low interest rates:

Maximize Social Security (SS): Last year, I met an Ahwatukee couple who became a new client. They learned that there are only 2 factors that determine one's Social Security Retirement Benefit income: the top 35 years one paid into SS and when one starts SS benefits. They both have high incomes and by waiting until age 70 to take SS, they will have a combined \$72,000/year of SS income. Note that only 3% wait until age 70 to take SS.

Create a Private Pension: I met an engineer, age 56, last year that became a new client. He looked at the research and for the last 20 years, starting on January 1, 2000, the average S&P 500 stock dividends were 2.02% and the compound average growth rate (CAGR) of these stocks was 3.99%. If one added the two items together, it's a total of 6.01%. However, if one adjusts by inflation, it becomes a CAGR of 3.79%. Source: www.Money-Chimp.com. When one subtracts the typical 3% annual fee that all full-service brokerage firms want to earn on your account, you are left with very little.

Instead, he was willing to deposit \$200,000 into a private pension. By waiting until 70, he would receive \$21,688, or a 10.63% rate of cash flow,

every year that he's alive. In comparison, a \$200,000, 10-year Treasury bond purchased early March 6, 2020, would only generate \$1,320 of annual income, which is a 0.660% interest rate.

Be open to Alternative (to Wall Street) Investments: There are options to earn a 7-9% tax-adjusted rate of return from lending to real estate fix and flippers or doing equipment leasing. In contrast, the 3 largest banks in Phoenix will pay 0.01%, 0.05%, or 0.15% on a 1-year CD. This means that \$100,000 deposited will pay you \$10, \$50, or \$150 of annual interest, instead of \$7,000-9,000 in alternative investments.

Free Seminar: "Maximize Your Social Security & Other Retirement Income" will be held on Saturday 3/28/2020 10:15 am – 12:15 pm and Tues. 3/31/2020 6:15-8:15 pm at the Golden Corral, 1318 N. Cooper Road Gilbert, AZ 85233. After each presentation will be a free buffet meal.

**Contact Dr. Harold Wong at
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Dr. Harold Wong earned his Ph.D. in Economics at the University of California/Berkeley and has appeared on over 400 TV/Radio programs.