Motley Fool Wealth Management

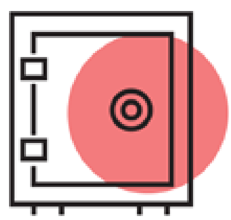
Winning in Retirement

A *Foolish* APPROACH TO HEALTH, HAPPINESS & INVESTING

Contents

Have you ever wondered...

Have I saved enough?



How do I make sure I won't run out of funds?

Do I have a good retirement plan?

We know that the future is not set in stone, even – and perhaps especially – during retirement.

In this report we are going to talk you through some elements we believe are keys to finding a deeply satisfying retirement, regardless of the specific dollar amount you've saved.

We'll also talk you through what we believe makes for a good financial retirement plan. We will give you the basics of turning your nest egg into a paycheck, setting up a strategy so you don't run out of money, and the 101 of planning for healthcare expenses.

We'll show you how it can all work even as your goals and circumstances change over time.

We believe this report can serve as a guide to strengthen your financial plan and experience a retirement worth writing home about.

PART ONE:

The Prosperity Trifecta

Having enough money for retirement is only part of the equation. We believe identifying your Prosperity Trifecta, and crafting your financial plan around it, can potentially enable you to live the retirement of your dreams.

What's the key to enjoying a deeply satisfying retirement?

We believe the questions should not stop at how much money you have saved. They should continue into how you intend to use it.

The definition of retirement is evolving. It has become about more than just "not working." And many have goals beyond the financial.

For some, it might mean living in Latin America half of the year. For others, it's moving across the country to be near their grandchildren. Or maybe it revolves around an adrenaline-fueled hobby like rocket-paragliding! You need to figure out what retiring on your terms means for you.

How do you intend to spend your time? The simple fact is, the answer to this question informs the answer to the next:

Is my retirement plan a good one?

We believe a good retirement plan will structure your finances in a way that enables you to live the life you want.

An emerging body of research tells us there are commonalities shared by those who have found themselves living a deeply satisfying retirement.

First, determining who you are spending your time with (Relationships); second, what activities you are pursuing (Core Pursuits); and third, how you're taking care of your mind and body (Health). Our name for these key elements: **The Prosperity Trifecta.**

We believe knitting together the clarity the Prosperity Trifecta offers with a smart investment strategy can offer you peace of mind in the short-term, and the potential for ongoing growth in the long-term. It can take some of the stress out of short-term volatility and allow you to focus on the goals, relationships, and activities that are most important to you!

So, let's get into it...

01 RELATIONSHIPS

The best predictor of lifelong happiness

The most fascinating study in human well-being had humble beginnings. It was 1938; Harvard researchers carefully selected 268 male sophomores. All of them showed enormous professional promise. (Side note: JFK was among those selected.) The goal: follow them over the intervening 20 years and see what happened.

But the study morphed. Instead of 20 years, it is now in its 82nd year. Instead of privileged Harvard men, the group expanded to include 456 men of similar age from inner-city Boston neighborhoods. And instead of just studying markers of success, this investigation now answers the deepest age-old question: ***What's the key to a good life?***

Given the difference between the two cohorts – the Harvard men and their inner-city counterparts – you might think the former had distinct advantages over the latter. In some respects, you'd be right: The Harvard men have lived about nine years longer.

But on the deeper questions, their differences melt away entirely. Income and career success – it turns out – couldn't predict life satisfaction at all. As George Valliant – who led the study for decades – had to say: “The only thing that really matters in life are your relationships to other people… Happiness equals love—full stop."

That might sound like touchy-feely, subjective stuff. But the numbers back it up. In 2017, the *Harvard Gazette* – summarizing this study's data – wrote,

“Close relationships, more than money or fame… are better predictors of long and happy lives than social class, IQ, or even genes. That finding proved true across the board among both the Harvard men and the inner-city participants.”

On paper, such an assertion seems jarring. But applied to our personal lives, it shouldn't be. **How would you feel if you woke up tomorrow to find out those you love and care about most were no longer here?** The pit you get in your stomach alone is proof that these people matter... a lot. Chances are, no amount of money could make you feel better about losing them. Because some things really are priceless.

When constructing your retirement plan, don't underestimate the centrality of such relationships.

It can seem like a squishy variable since it's not as quantifiable as, say, the tax-advantages of one strategy over another. But don't be fooled: relationships might be far more important in the long run – by a longshot.

So here is what we want you to do *(it may feel a bit ridiculous, but stick with us):*

- **Create a new tab on your finances spreadsheet and title it "Relationships."**
- **Then, list all the names of people who matter to you. It could be two names or twenty or two-hundred.**
- **Next, start brainstorming ways you'll tend to these connections in retirement. The results will help guide you in the next section.**

02
MEANING, PURPOSE, & CORE PURSUITS

Many of the "happiest" countries in the world – Finland, Sweden, or Belgium, for example – also had some of the highest rates of suicide. *How could this be?*

While doing research for her book, *The Power of Meaning*, Emily Esfahani Smith came upon an odd finding.

The data told Smith that pursuing happiness – instead of meaning and purpose – was in fact counterproductive; it literally makes people less happy. Any parent who remembers when they had newborns – running on too much coffee, desperate for a full night's sleep – understands the difference between happiness and meaning. One can be fleeting, while the other is far more enduring.

So Smith tried a different approach: she correlated reported levels of meaning and purpose (instead of "happiness") with suicide. The results mapped almost perfectly: countries with the highest rates of suicide were also the ones with the lowest rates of purpose and meaning – and vice versa.

All of this sounds good on paper, but how can you actually bring it into your own life? For that, we turn to the work of Wes Moss, author of *You Can Retire Sooner Than You Think* and host of the Money Matters radio show.

Moss' research on retirement satisfaction has surprised many. For our purposes, the cornerstone of his findings center on "core pursuits." In his own words:

"Core pursuits are like hobbies but bigger – they're the activities you're really passionate about, and that bring you excitement and a sense of fulfillment while you're doing them… Whether it's volunteering or singing in the choir, painting or taking college courses, playing tennis or playing golf, all of these activities are core pursuits if they bring you happiness."

Here's the key finding: those who enjoyed retirement the most had an average of 3.6 core pursuits. Those who were the most miserable, about half that number (1.9). That's a stark difference. You could have modest financial resources, but a laundry list of core pursuits would lead to a deeply satisfying retirement. Conversely, a multi-billionaire with few core pursuits won't be able to buy his/her way to contentment – at least not sustainably.

Simply put, activities that connect us with something larger than ourselves, and that give us purpose and meaning, are like oxygen to our souls. Without them, we simply cannot thrive.

But Moss' research comes with a warning: develop those core pursuits now. The core pursuits Moss measured existed when retirees entered retirement. They had been present long before participants logged their last day of work.

Among those that were surveyed, the four most popular core pursuits (in order) were: volunteering, travel, time with grandkids/family, and golf.

But the list is endless – from hiking the Appalachian Trail to starting a book club. If you're unsure of what yours are, start taking a personal inventory. A few simple questions can help get you started:

- **What strengths do I have? How can I use those strengths to help others?**
- **What activities do I participate in that leave me with a sense of accomplishment or well-being?**
- **What bucket-list adventures (like traveling internationally or learning a new skill) have I always wanted to try, but never got around to?**

The list of potential questions and corresponding answers is endless, but these three can help get you started down the path to developing your three or four core pursuits in retirement.

How can you add meaning and purpose to your own life – especially in retirement?

Smith points towards four approaches:

1 Belonging

As we saw with the Harvard study earlier, the sense of bonds with family, friends, and community gives meaning to our lives.

2 Purpose

"The key to purpose is using your strengths to serve others."

3 Transcendence

Moments when you feel connected to a higher reality. This shares many characteristics with "flow" – a state in which you lose yourself in an activity.

4 Story-Telling

Those with deep contentment tell stories about their lives that focus on redemption, growth, and love.

03 HEALTH

Did you know that life satisfaction actually increases after age 50?

There's an interesting – and promising – psychological phenomenon regarding life satisfaction as we age. After bottoming out in the late 40s and early 50s, people generally become much more satisfied with life as they age. You read that right: like a fine wine, life gets better with age.

Of course, we all share the same terminal fate. But that's no reason to hasten our demise – especially when we're enjoying the benefits of deeply satisfying relationships and core pursuits.

That's why health is rightly front and center for many retirees. A 2014 study by Age Wave and Merrill Lynch found that 81% of retirees said that having good health was "the most important ingredient for a happy retirement."

Not surprisingly, there's overlap with finances as well: in the same survey, retirees' greatest money-related worry was "healthcare expenses." Indeed, when you combine costs for routine medical care with prescription medication and long-term care, the numbers can quickly balloon. Alzheimer's and dementia in particular are the most concerning of all maladies, as they lead many retirees to believe they'll be a burden on their families.

As the old saw goes, "an ounce of prevention is worth a pound of cure." In that vein, the authors of the Age Wave study provided five common-sense behavioral habits that can make a world of difference:

- **Exercising regularly.**
- **Eating a nutritious diet.**
- **Maintaining a healthy body weight.**
- **Staying socially connected. (Do you notice a pattern here?)**
- **Maintaining healthy lifestyle habits, like not smoking, drinking in moderation, and getting enough sleep.**

Using these habits as a proxy, the authors were able to break retirees down into four different groups based on their approach to health in retirement:

32% Challenged & Concerned

Unfortunately, the largest group – **32% of respondents** – were in more dire straits. A combination of chronic conditions, unhealthy behavioral habits, stress, and financial strain combine to create a subgroup that feels overwhelmed by both their own health and the financial costs related to it.

29% Healthy & Proactive

Representing 29% of those surveyed, these retirees practice healthy habits, but have also researched the costs associated with medical care in their later years. If you can, this is the group you want to find yourself in.

10% Lax but Lucky

This group is small (**just 10% of respondents**) – and that's probably a good thing. Respondents don't practice many healthy habits, and haven't researched what kind of costs they need to prepare for. But – thanks to Fate, Luck, or good genes – they have yet to encounter a major health setback.

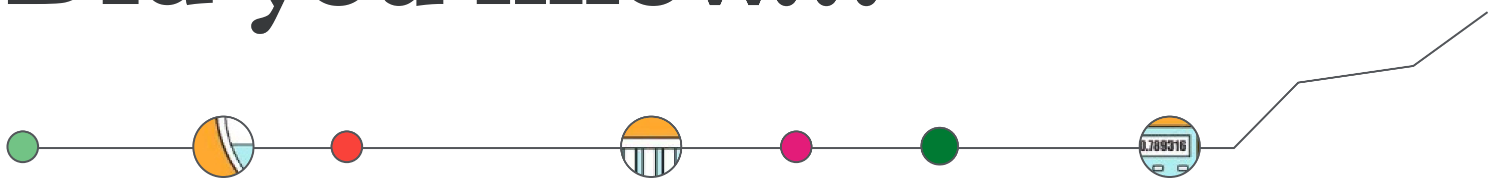
29% Course-Correcting & Motivated

Representing another 29%, this cohort found themselves in difficult health situations, but made the necessary changes. For most, a chronic condition served as a wake-up call that motivated them to take health matters into their own hands.

It's never too late to start adopting healthy habits. But the earlier you start, the better. And luckily, you can combine the first two parts of the Prosperity Trifecta with the third to kill several birds with one stone.

Playing tennis, golf, hiking or swimming can all double as both health-related activities and core pursuits. Do them with friends and family (relationships) and you've created a trifecta!

Did you know...



The very notion of retirement is still a baby.

Let yourself off the hook if you're feeling uneasy. According to a 2014 article in *The Atlantic*, the idea of retirement didn't gain currency until as recently as the 1880s. That might sound like long ago – but it means only a handful of generations have even tested these waters. So congrats on being on the cutting edge!

It's not hard to see why retirement became so popular so quickly. In the 1850s, the average American was working almost 70 hours per week. Much of that work was – quite literally – back-breaking. Viewed through this lens, the rest that retirement provided was a godsend.

But while the concept of retirement is still relatively new, we live very different lives than those of our grandparents. Times have changed dramatically. There seems to be a collective realization that retirement is shifting from a passive, restful time of life to a more active, purpose-driven time of life.

Whether it is traveling the world, pursuing new hobbies, spending time with family and friends, or getting involved in charity work, from our point of view, **retirement looks more Motley than ever.**

PART TWO:

Creating a Financial Plan to Enable, Protect & Enrich Your Life

Most people put the cart before the horse – they plan out their finances for retirement first, and focus on relationships, core pursuits, and their health later. If you truly want a fulfilling retirement, these studies suggest that all four areas should be developed in tandem.

What could get in the way of doing this? Our financial anxieties: we're worried the next bear market could wipe us out, or that spending on enjoyment now means we'll let our heirs down by not providing for them.

We can't give ourselves permission to dream big until we have some type of peace of mind. Giving ourselves permission to "live now" doesn't necessarily mean there's another shoe that's going to drop in the future.

We believe that your finances should both (1) protect you from the unexpected, and (2) enable you to maximize your **Prosperity Trifecta.**

Of course, everyone's personal financial situation and goals are different, but here are some general observations regarding retirement planning and investing.

Planning for short-term needs

How much cash should you have designated for your short-term needs?

Many advisors will simply tell you to go with a 60/40 split of stocks-to-bonds by the time you're 65. It is a rule of thumb but a one-size-fits-all approach has its limits.

Your goal is to identify what you need, at the right time, so you are not a victim to the market, AND so your long-term savings can continue to grow.

We also believe there are several layers to a sustainable financial strategy. This is likely true regardless of the amount of money you have or the retirement you want. The first layer is the plan for short-term needs.

Introducing the Cash Carve-Out Strategy:

You can develop a plan to help you rest easy even during the most volatile times. Dubbed the "cash carve-out strategy," this plan will have you keep 3-5 years worth of living expenses in a mixture of cash and fixed income (including money market funds) while keeping the remainder largely invested in stocks.

2 Major Benefits of the Cash Carve-Out:

1 **Experience stability during volatility.** By holding at least three years worth of living expenses in cash or fixed-income investments, short-term market volatility should have little effect on your own lifestyle choices. This reduces the chances of wanting to sell based on short-term fear.

2 **Don't be forced to sell stocks when you don't want to.** Since the Great Depression, the longest bear market in the U.S. has been roughly 21 months. Extra cash gives you flexibility: you can pause your conversion to cash for a few years to avoid selling at market bottoms, or even get aggressive and reinvest some of that cash at lower valuations in pursuit of additional gains as the market recovers over time.

Calculate your cash-carve out.

Even if the cash carve-out strategy is new to you, you're likely familiar with the concept of an "emergency fund."

As grandma always used to say, "Save some money for a rainy day." The cash carve-out is similar. It is a bucket of cash that's not invested in the market, from which you can draw money for day-to-day living. It's like the paycheck you once received every two weeks, but that money you need to live on will come from your portfolio rather than your employer.

Calculating your "cash carve-out" takes a little work, but here's a way to arrive at a number that may be appropriate for your needs and goals.

Take your **current level of annual spending** right now.

Subtract any spending that will cease - like savings contributions or commuting to work - once you retire.

Add in any additional spending vital to serving your Retirement Trifecta. (Travel would be a common example.)

Once you have that number, **multiply it** by as little as three (or as many as five) and you have the amount you'd keep in a cash-carve out.

Setting aside that chunk of cash assures you that for at least the next few years, your short-term needs will be met.

That's because you have a cash balance on hand that doesn't fluctuate with the market. So you don't need to worry about selling at a low point just to pay the bills or other expenses. This is how you can have more certainty that your short-term needs will be met, and make it less nerve-wracking to invest for the future, as we describe in the next step.

Keep in mind that while the number you need to set aside may seem daunting at first, this simple, initial calculation does not take into account retirement cash flows like Social Security, pensions, rental properties, or other sources of retirement income. The precise amount you'll need to set aside will vary according to these factors, but the calculation above is aimed at keeping things simple for the time being.

Investing for the medium-to-long-term

Just because you are retired doesn't mean you have to stop winning!

Once you've set aside your cash and fixed income for the next few years, the rest of your money needs to keep growing, ideally outpacing inflation along the way. The key here is that you can rest easy knowing different accounts can serve different purposes. Because of the conservative nature of the cash carve-out strategy, you can continue being aggressive with other parts of your portfolio in order to continue potentially building additional wealth.

Stock Investing as Part of the Equation?

A common misconception, in our view, is that your days of stock investing should end around the same time as your working career. You've built up your nest egg, and determined that it's "enough to retire on." Now it's time to convert it all to cash and bonds and hope the pile of money lasts longer than we do! Right?

Where's the fun in that?

In our view, the cash carve-out strategy offers a better approach. If we hold to the thesis that stock investing offers superior returns over the long term (despite volatility over short periods), why sacrifice years or even decades of potential growth?

Many folks' retirements can span two, three, or even more decades. By carving out the cash you'll need for your short-term needs, you give the remainder of your money the opportunity to continue growing.

How to invest those long-term funds specifically is up to your discretion. And how aggressively your portfolio is positioned depends on your own specific goals, needs, and appetite for risk. But we believe stocks – whether large, mid, or small, value, dividend, or aggressive growth – can continue to play an important role in almost any portfolio long after you retire, and have the potential to improve the quality of your retirement over time.

Like all investments, of course, positive returns are never a guarantee. But depending on your returns over time, and your Retirement Trifecta goals, you can adjust your asset allocation annually and/or as necessary along the way.

Consider the Case for an Actively Managed Portfolio

At Motley Fool Wealth Management, we consider ourselves a "stock shop." That's because we believe making long-term, buy-and-hold investments in individual companies is a proven method for building wealth over time.

Yes, this is a form of "active management" – a term that's become a four-letter word in some retirement investing circles. We understand why: All too often, "active management" has historically meant trading in and out of stocks, charging high fees, and lowering overall returns for clients.

If that has been your experience, passive management – via low-cost exchange-traded funds (ETFs) – feels like a great alternative. And for many folks, it can be.

"We live and die by our stock picking."

Bryan Hinmon, CFA
Chief Investment Officer

But we also believe that a focused yet reasonably diversified portfolio founded on individual stock picks has the potential to outperform various ETFs or market indexes over the long term. By "focused," we mean holding relatively large positions in our highest conviction stocks (individual holdings can regularly hover between 7% and 15% of a particular strategy). By "diversified," we are referring to the importance of spreading your portfolio across various asset classes and strategies (AKA "asset allocation"), such as large, mid, or small cap stocks, international and fixed-income investments, and alternative strategies. We strive to strike the appropriate balance for each of our clients in this regard, while pursuing market-beating returns.

And when this investment strategy is employed within the cash carve-out approach we're discussing, we believe it can help you potentially realize strong gains over time while still offering peace of mind in the short term.

We believe in buying great businesses and holding them for years or even decades. When done correctly, we believe smart, patient, active management has the best chance to provide strong returns. We believe that this is the key to providing the returns that can help you meet your long-term financial needs.

Our Portfolio Managers offer a written trade rationale for each and every buying or selling decision they make, which provides our clients with full transparency and, hopefully, peace of mind.

Just as important, when you feel confident that these longer-term needs are met, you can breathe easy spending money to live your life right now!

What about healthcare costs and insurance needs?

In our experience, the most common concern people have when planning for retirement are their long-term health needs and medical costs. We all know we'll need it someday. The question is how much and for what?

The fear and uncertainty surrounding healthcare needs often leads nervous savers toward a strategy that could crudely be described as "sock away and pray."

But the cash carve-out strategy takes a less defensive, more proactive approach.

When you set aside cash in 3-5 year chunks, you can stay more fluid with your future plans.

Whether an unexpected medical expense should arise, or the cost of your insurance changes, you can adjust the amount of your "carve-out" to account for it as it arrives, rather than taking a more defensive posture in trying to anticipate a cost you can't possibly know ahead of time.

As you look at your **Prosperity Trifecta**, the way in which you experience it may need to be adjusted.

While healthcare costs can vary greatly, the average couple retiring at age 65 today can expect to spend about $295,000 on healthcare expenses.

Whether you'll need more or less, sooner or later, is impossible to know. But by setting aside cash for our short-term living expenses and letting the rest of your savings continue to work in the market, you can make the necessary adjustments as you go, checking in on an annual or other regularly determined basis to assess how our present circumstances or anticipated costs have changed. Then, we can adjust accordingly.

Here are a few other options you may have when it comes to covering your healthcare costs.

Health Savings Accounts (HSAs) can play an important role in providing some portion of your retirement medical fund. This may be the case if you are still working and are part of a high-deductible health insurance plan.

However, you'll need to be aware of certain rules around qualified tax-free distributions, the timing of contributions, and other provisions. Ask your employer or financial planner if you might be eligible for a Health Savings Account.

Additionally, if you have one, your Roth IRA can be used to cover unexpected healthcare expenses. Generally speaking, a Roth IRA might be earmarked for legacy purposes because of its tax benefits to heirs. However, assuming your Roth IRA is qualified, it allows you to take tax-free withdrawals that can be very helpful when it comes to covering an unexpected medical expense.

Just like we can never know what the stock market will throw our way from day to day or year to year, we can never know what we'll face in time when it comes to our health.

That's just the way life is, unfortunately. But if you've identified your Prosperity Trifecta, your important relationships, core pursuits, and proactive health choices can remain consistent goalposts, even as you navigate uncertain times or changing circumstances.

Bringing it all Together

For easy reference, let's sum up the steps we've covered thus far.

1

Identify your Retirement Trifecta

Determine what relationships and core pursuits bring you joy, and how you'll prioritize them in retirement, along with habits and activities aimed at improving your long-term physical health.

2

Plan for your short-term needs

Calculate your current and anticipated expenses and carve out enough cash to meet them for the next 3-5 years. Set that money aside.

3

Invest for long-term growth

Continue investing the remainder of your assets in individual stocks or other investments aimed at potentially increasing your nest egg even as you enjoy your retirement.

4

Check in regularly to adjust both aspects

Your Retirement Trifecta may not stay fixed. Your circumstances, healthcare needs, and risk tolerance may also change with time. New goals, new ideas, new challenges, and even new relationships are always a possibility! That's why we recommend regular check-ins to keep your strategy flexible, even while working within a cash carve-out structure.

So, how are you feeling?

We hope you feel some optimism. Retirement can be overwhelming but with a little planning and an intentional approach, it can be everything you want it to be.

And we are here to help!

We offer asset-allocation guidance and a selection of individual stock-based portfolios. And for clients with over $1 million with us, we include comprehensive financial planning.

If you would like to learn more about our stock strategies and how to get invested, visit **learnmore.foolwealth.com**.

We are also happy to chat! To schedule an appointment with one of our financial planning experts, visit **learnmore.foolwealth.com**.

Here's to you and a life that is smart, happy, and rich!

"There is no professional reward higher than being rightly trusted with a client's financial life."

Nick Crow, CFA
President of Fool Wealth

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