

Do You Have a Minimum Wage Retirement Plan?

If so, Why?

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1969 US Minimum Wage in Today's Dollars

Year	Amount	Inflation
1969	\$1.60	6.20%
1979	\$3.05	13.29%
1989	\$5.43	4.65%
1999	\$7.35	2.68%
2009	\$9.48	2.72%
2019	\$11.32	

Do you remember your first job and first paycheck?

If you are like most people, your first job paid the minimum wage. And more than likely, the US Minimum Wage Chart above will bring back memories of summer jobs, what you earned, and a reminder of staring at your check stub and asking – what is FICA and all these other deductions?

Today, how many people are living on minimum wage? My guess is a lot higher than the government records indicate.

How can that be you ask?

Your Million Dollar Dream?

Let's assume you have saved a million dollars to provide for your retirement income for the rest of your life. Well, based on the old rules, and what many retirees are being told, you can take 4% out per year as the Safe Withdrawal Rate (SWR).

This means your SWR this year will be \$40,000.

Hold on! Most people ask me a simple question. At this rate, will I run out of money?

My answer is simple, let's make sure you are not going to run out of money.

Well, let's start by looking at the old 4% withdrawal rate. In October 1994, William Bengen originated this rate in "Determining Withdrawal Rates Using Historical Data" that was published in the Journal of Financial Planning pages 171 - 180.

Nice idea, but unfortunately there have been three additional research articles written since Bengen's article. They reveal very different safe withdrawal rates. In January 2013, Morningstar Investment Management wrote in "Low Bond Yields and Safe Withdrawal Rates" that the SWR was down to 2.8%.

Back to your \$1,000,000. At a Safe Withdrawal Rate of 2.8%, your nest egg would only provide you \$28,000 per year.

In March 2013, just two months later, the Wall Street Journal published an article that was entitled "Say Goodbye to the 4% Rule."

They reported that only 2% was now your Safe Withdrawal Rate.

It doesn't take long to do the math. \$1,000,000 at 2% equals \$20,000 per year.

Now the purpose of my article.

Do You Have a Minimum Wage Retirement Plan?

Let's do a little more math. If you divide \$20,000 by 52 weeks per year, you find that it equals \$384.62 per week. Now divide your weekly income by 40 hours per week.

You now get \$9.62 per hour.

Yes, you are correct. I bet you never realized your million-dollar portfolio would only be able to provide you the minimum wage paid to people in 2009 or \$9.48. Not exactly what you planned for in your retirement?

More bad news. Let's look at the most recent research in August 2015 by Wade Pfau and Wade Dokken, "Rethinking Retirement – Sustainable Withdrawal Rates for New Retirees in 2015". What was their conclusion? The new assumed Safe Withdrawal Rate is now 1.5%.

Using our same math above for 1.5% in 2019, your minimum wage is now \$7.21 per hour. This is almost exactly the minimum wage in 1999 – \$7.35.

Shocking isn't it, but true. Now that you better understand the research on safe withdrawal rates, how should you be handling your retirement income needs to make sure you don't run out of money?

Income Allocation vs. Asset Allocation

Most people today only know about Asset Allocation. This is what the investment industry wants them knowing because Asset Allocation is an investment strategy.

What if there was a different strategy? One for retirement? The good news is that there is – and it is called Income Allocation.

When you combine these two strategies, Income Allocation and Asset Allocation, you truly have a complete retirement income plan.

Concluding Thought

My goal is to help everyone understand the difference between a minimum wage and living wage retirement plan. As Benjamin Franklin understood,

"If you fail to plan, you are planning to fail!"

If you would like more information, please email me at rfh@hoffmanwm.com. I will send you at no obligation my article, "Income Allocation Plus Asset Allocation – A Winning Combination and Why Both are Needed." Just call me on my direct line (805) 648-5306.

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Ross F. Hoffman, President/CEO

Hoffman & Associates, Financial & Estate Advisors, Inc.

Ross F. Hoffman is President and Chief Executive Officer of Hoffman & Associates, Estate & Financial Advisors, Inc. He has over 40 years of professional experience in financial, estate, and investment advising. Ross believes everyone should have the opportunity, the freedom and the best information to decide what estate, retirement, and business transition plans work best for them.

Ross has earned the most respected professional designations, including Accredited Wealth Management Advisor (AWMA), Accredited Investment Fiduciary (AIF®), Certified Financial Planner (CFP), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He earned his undergraduate degree from UCLA, attended the U.S. Army School of Finance, and works with the Center of Fiduciary Studies based at the University of Pittsburgh.

Ross is an accomplished speaker. He has lectured on Family Wealth Counseling, Evidence Based Investing, Exit Planning, creative uses of life insurance, charitable estate planning to professional groups including the Ventura County Bar Association and the Santa Barbara CPA/Law Society; and has taught estate and gift tax planning. He is a former co-host of the weekly internet radio show entitled "Conscious Investing".

Ross coaches his clients through a proprietary process designed to help investors financially, intellectually, and emotionally manage and understand their wealth. Ross was in "Navigating the Fog of Investing", a documentary film on the investment industry.

Ross is a prior member of Vistage (formerly TEC), an organization for CEOs, for over 25 years. They presented him the "Widest Range of Knowledge Award" as a Vistage member.

His community involvement has included Vice Chairman and Cabinet member of the Ventura County United Way, Technical Advisory Committee member for the Ventura County Community Foundation, Deferred Giving Board member for the Ventura County Medical Center, board member of the American Lung Association, Board member of the Ventura County Planned Giving Council, Deferred Giving Committee member for the Boy Scouts of America and a past member of the Estate Planning Council. Ross was on the Board of Segue, a nonprofit, dedicated to keeping kids in school and helping them develop career paths.

Ross's outside interests include golf, daily workouts and time with his family. He also authored Back And Better, 37 Rapid Recovery Exercises I Use When Injured or Bedridden.

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