WHAT WE DON'T DO

Designing SEPP plans is part science (as well as application of all the attendant rules) and part artistry (making the whole revenue picture complete and occasionally elegant). However, the SEPP plan is ultimately a tool to implement a desired goal or conclusion. We will plan, re-plan and re-re-plan until it's right; however, most of the ingredients to this cake are outside of our control. So what is it that we don't do and more importantly, if we don't do it, WHO DOES?

THE SAVINGS LECTURE

Implicit in all versions of retirement is the concept of savings; simply put, for some usually longer time period, it is the conscious process of treating yourself (and your family) the same as IBM. You are an economic engine. Every quarter and every year you have gross revenue, operating expenses and net income. Net income equals savings. No savings—No SEPP plan. We can not make you save, only you can make you save. So:

(1) We will never lecture you about savings. It's not necessary. You were already a saver before you go here. Further, we think most of these instincts and lessons were delivered before adulthood.

(2) We will never lecture you about how much to save. Various stages of our lives place different financial pressures on all of us resulting in lesser and greater abilities to save.

TIME VALUE OF MONEY

Albert Einstein once described compound interest as the "eighth wonder of the world," saying, "he who understands it, earns it; he who doesn't, pays for it." With that said, there is little we can add of value but for just one little short-cut. The rule of 72[1] says that your investment will double every N years at I percent using the formula: N = 72 / I. As an example, you are offered an investment designed to yield 12%; it will therefore double in value every six years.

SAFE WITHDRAWAL RATES

Who cares? In the 20th century almost no one. In the 21st century just about everyone. In the 20th century, the defined benefit plan (think of a periodic monthly pension check) your parents received was king. In this context, a "safe" withdrawal rate was irrelevant; the smart guys

[1] The fact that we are even discussing the Rule of 72 in context of IRC §72 is absolutely coincidence.

who run the pension trust[2] will just keep doing what they are supposed to do and I will get my monthly pension check every month until I die.

Come the 21st century and these words are no longer true. Almost all readers will not have a defined benefit plan (other than Social Security); instead you will have one or more defined contribution accounts (IRAs, §401(k)'s, §403(b)'s, etc.). Here is the good news: 100% of the contents of your defined contribution accounts are yours; and, under most circumstances, absolutely no one can take it away from you. The bad news: In order to avoid being vertical and broke you just received two new job assignments for which you may be ill equipped to perform:

(1) How do I calculate and periodically re-calculate annual distribution amounts in order to live? Further, how do I do it correctly, one definition being; how do I go from vertical to horizontal at some unknown future date with at least $1 left?

(2) How do I invest the corpus of my defined contribution accounts to support my decision-making in (1) above?

So you thought early retirement meant international travel and pina coladas on the beach! Maybe, but only after you re-train, re-think and re-invest your time to handle the above. All of a sudden, you are the "smart guys".

There is a ton of literature out there on safe withdrawal rates, we think most of it fairly good. This is in contrast to the 20th century where there was virtually no literature outside the closet actuaries live in.

We will not advise on SWR's, we are not smart enough. We will however offer a free opinion (just so you know what it is worth). Use any integer between 20 and 25 and divide your total defined contribution account balances; the result is what you can distribute and spend each year. Same math, multiply your account balances by 4% (for the low end) and 5% (for the high end) to get annual distribution amounts.

INVESTING

You have arrived here because you were at least diligent if not good at whatever it was you used to do and are now going to stop doing. This coupled with your "saver" mentality has provided a beginning nest egg to at least consider a SEPP plan. As hinted above, you have now received a new job assignment you mostly did not expect — how to invest the contents of your defined contribution accounts to get the job done? Again, we have some free opinions for your consideration:

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[2] Social Security is nothing more than a big defined benefit plan with a COLA (cost of living adjustment). Who are the "the smart guys who run the pension trust?" Unfortunately, it's a bunch of highly paid administrators working for Social Security. No wonder we seem to be in a race to see if Social Security or Medicare runs out of money first.

(1) We can not and will not provide investment advice. If we were to do so FINRA would put us in jail as we hold none of the correct financial licenses to do so.

(2) Your financial nest egg might easily be 2 to 10 times or more the value of your home. Think about how many hours per year you invest in the care taking of your home. Did you think your financial nest egg was going to be less demanding?

(3) Care taking of your financial nest egg is going to require time as well as a likely new skill set. In terms of a water front, we suggest you might have three choices: (a) go get smart (no time like the present to launch a new career) and do it yourself; (b) hire some one else to do it for you (and there are lots of folk out there who are ready — remember the AUM sweepstakes); (c) ignore this issue in which case get to work on a new resume.

(4) Prior to now, your financial nest egg had a single objective — GROWTH. Tomorrow your financial nest egg will likely take on some mixed set of new objectives: some growth, absolute capital preservation and cash distributions. New objectives suggest new investment strategies.

(5) Good luck.

PROGNOSTICATIONS

With respect to: changes in SEPP plan rules, interest rates, financial markets, democracy and world peace. When we were younger (as in last century) we had thoughts on all of these issues. Virtually all of those opinions turned out to be wrong. We got old (not necessarily wiser) and arrived at a new answer: NONE.