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A Simple Formula for Calculating "Safe" Retirement Spending

It's the age-old question: how much can I spend of my savings during retirement? While there is not – and never will be – a a black-and-white answer, there are varying strategies and formulas you can use to help you asses your situation. One of these formulas is called the "feel free" spending level. The formula is simply a person's age divided by 20. The resulting number is the percentage of savings a person can spend over and above any Social Security, pension or annuity-type income. For example, a person who is age 70 can safely spend 3.5% of his or her savings (70 ÷ 20 = 3.5). A 60-year-old would be limited to 3% (60 ÷ 20 = 3.0), while an 80-year-old can spend 4% (80 ÷ 20 = 4.0), and so on.

The term "feel free" refers to the fact that a person spending at this level should have little worry about depleting their savings. This rule not only provides enough money but also allows a retiree's portfolio to grow should historical returns be repeated. If returns are lower in the future, then the level of spending should still be enough to last a lifetime.

A modified version of the formula calculates the upper limit of what can be spent. Dividing one's age by 10 gives the "no more" level of spending. Spending close to this level (e.g., 7% for someone who is age 70) will cause savings to almost certainly drop significantly over the years, especially after inflation is considered. You should typically not plan to spend at that level, with the exception of a special circumstance such as a large medical expense.

Of course, common sense needs to be applied based on individual circumstances. Having a long-term care insurance policy can allow for a slightly higher spending rate. The potential loss of annuity income, such as a spouse's pension or Social Security, will alter spending. If interest rates rise significantly, sticking with the divide-by-20 rule would make sense.

Don't Be Held Ransom by this Computer Infection

Ransomware infects your computers, encrypts your patient files, and then **hackers demand you pay a ransom to get your own files back**. And in most cases, you probably wouldn't even realize it's happening until it's too late. One innocent click on an email that's infected with ransomware, and your ability to see patient data can grind to a halt. To make it worse, the recently released HIPAA Phase 2 rules would consider your patient data files compromised, which leaves you subject to significant penalties and fines.

Generally, victims get infected with ransomware through phishing attacks that carry a malicious attachment or instruct recipients to click on a URL that downloads malware to their computer. But victims can also get infected through "mal-vertising" if they visit a web site that is serving up compromised ads. Organizations often discover they've been infected with malware only after workers start ***—Continued on Page 2—***

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complaining that they can't access files on a shared server. Then, not only can attackers lock out all workers who need access; they could also use those shared files as a means of infecting anyone who accesses them, in order to spread malware to more machines.

The best defense against a ransomware attack is prevention. It is vital to have a "weapon grade" backup system in place. Ongoing security training for your employees is essential. Make sure they are aware of what phishing emails look like, and set protocols in place for what types of links can be clicked on. You can also configure your mail server to block zip or other files that are likely to be malicious. If possible, restrict access to areas of the network so that if one computer gets infected it won't spread ransomware to everyone.

If you do get attacked, you should immediately shut down your computer systems, especially the infected system(s), from the network. You may need to revert to paper records in the meantime. You should also disable Wi-Fi and Bluetooth, and remove any USB sticks or external hard drives connected to an infected computer to prevent the malware from spreading.

Seven Bad Investing Habits

1. Get in on That New Hot Deal: Though initial public offerings (IPOs) have averaged an 18.6% gain during the first day of trading, those profits are only available to investors who were able to actually participate in the IPO. Buying shares on a stock's first day of trading is very risky. The odds of buying into "the next (fill in the blank)" are even worse.

2. Combine Your Money and Your Morals: Sinful stocks (e.g., tobacco and alcohol) have bested the S&P 500 index both over the long term and between 2000 and 2015. Investors who are morally opposed to such companies can consider donating some of their investment profits to charities such as the American Lung Association.

3. Buy What's Fashionable: The market constantly votes on which companies are "most likely" and "least likely" to succeed and adjusts valuations accordingly. Shares of the most-admired companies trade at premium valuations and, as a result, tend to lag shares of the least-admired companies.

4. Reach for Yield: Plenty of income investments with high yields have risks that aren't apparent to unsophisticated investors. Focusing on the yield instead of how exactly the dividend or distributions are being paid can lead to very large losses and other risks.

5. Use Exotic Products to Enhance Your Returns: Funds that use leverage or invest in commodities have realized actual returns that are far different from the underlying assets and indexes they are designed to track (either in the same direction or inversely) resulting in large, long-term losses. Even principal protected notes are highly risky, despite their name.

6. Trade Frequently: Frequent trading is a loser's game any way you slice it. Studies of traders found those who traded most frequently incurred the worst returns; those who traded the least had the best performance. Furthermore, stocks that were sold by individual investors fared worse than the stocks those same investors bought in exchange.

7. Use a System: A system that turns risky strategies into consistent gains simply does not exist. Those who tout "profitable" trading systems often charge a high price for them. Add in the additional cost from frequent trading and the resulting combination is hazardous to your financial health.

Source: Jakab, Spencer. *Heads I Win, Tails I Win: Why Smart Investors Fail and How to Tilt the Odds in Your Favor*. N.p.: Portfolio/Penguin, 2016. Print.