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Maslow's Hierarchy and Your Retirement Income Plan

A big factor in investing is ensure that your money will keep you safe in the future. How can you ensure financial security?

RETIREMENT DAILY GUEST CONTRIBUTOR

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If you had the chance to go back to junior high school, would you do it? If not junior high, how about high school? Just think about it, you would get to go back to a time in life when there was no such thing as “working 8-5.” Even though many of you probably remember your junior high and high school years as something you’d rather not return to, when compared to the world of work and the reality of adulthood, it really wasn’t that bad.

In fact, it was in junior high and high school when we learned something that is critically important to financial planning today. Do you remember something called Maslow's Hierarchy? In 1954, psychologist Abraham Maslow created the hierarchy of human needs, and his famous triangular chart has been taught in school rooms for decades.

Do you remember what our number one, most basic physiological need is? Money? Fame? Do you think it's having an incredible portfolio of stocks and bonds? Do you think it's owning real estate? How about gold, silver, or bitcoin?

While there are a lot of things we find ourselves chasing day after day, if you go back and look at Maslow's Hierarchy, you will find the most basic physiological needs are things like breathing, food, water, shelter, and sleep.

The second step on the hierarchy scale is SAFETY. People want to know they have a good job, a safe place to live, and plenty of money and security for their family. Before a person can function at their ultimate potential, their physiological and safety needs must be met first.

I recently attended a conference for financial advisors and the keynote speaker, Ed Slott, president of Ed Slott and Company, LLC, said, "Today's retiree is not looking for the next hot stock or the next trendy investment idea. The average retiree's number one purpose is to PROTECT what they have spent their entire life earning." This falls in line with Warren Buffet's first two rules for investing: Rule #1 is "Don't Lose Money." Rule #2 is "Don't forget Rule #1."

Retired Lieutenant Colonel and best-selling author, Tom Hegna, has worked in the retirement planning community for more than 30 years. In his book, "Don't Worry, Retire Happy," he talks about the seven steps to retirement security, saying, "Retirees don't live on assets, they live on income! Your

assets can be lost, they can be stolen, swindled, sued, divorced, or decimated in a market crash. The ultimate success of your retirement is not about assets. It's about income and risk management.”

Annuities Can Provide Security

Annuities? Isn't that a bad word when it comes to retirement planning? Like many things, it depends on who you talk to.

I am 50 years old, and I love annuities. I personally own six of them. All six annuities are protected against principal loss.

I purchased my first annuity (a fixed indexed annuity, or FIA) in 2008. What a great time to move part of my personal portfolio into something that protected my principal and reduced my exposure to market volatility.

I rolled over a 403(b) to a qualified fixed indexed annuity. I then converted that to a Roth annuity. I opened the account with \$37,651.86 on May 2, 2008. From 2008 to 2015, that annuity grew from \$37,651.86 to \$73,642.08. When the annuity hit the end of the surrender period, I transferred it into another FIA, received a new bonus, and continued the growth process. That annuity is now worth \$139,714.80, and the income account value has grown to \$162,504.22.

Because I paid the tax due on this account back in 2008 when I converted it to a Roth, this is REAL money. Real money is when you get to use 100% of your account value. When I trigger my LIBR (Lifetime Income Benefit Rider) on any Roth annuity, I won't owe Uncle Sam one penny in tax. I have spent the past decade converting as much of my tax-deferred retirement accounts to Roth accounts as quickly as I possibly can. And I encourage my clients to do the same. Why?

Planning for taxes is critically important when you are trying to set up your ideal retirement income plan. Remember, it's not what you MAKE, it's what you KEEP that counts. If your money has been saved in a tax-deferred account, like a 401(k), 403(b), 457, or TSP, you will owe tax on your distributions and Uncle Sam will be 100% in control of how much you will owe.

This can make it extremely difficult to plan for your future income needs. Why? Because none of us have any idea what the tax rates will be when we retire. And there is a long list of rules that come with taking distributions from tax-deferred accounts, including 10% penalties for distributions taken before age 59 ½ and required minimum distributions (RMDs) beginning at age 72.

Safety First

If you're under the age of 50, you might feel like you have all the time in the world to try any and every investment option under the sun. And if you can stomach the risk involved, go for it. But if you are within five years of your retirement, it's time to think back to what Abraham Maslow had to say about our basic physiological needs. In order to make sure you reach your full-potential, your basic needs must be met first.

Studies have shown that the years just before and just after you begin retirement are critically important to the success of your lifetime income plan. This is because of sequence of return risk. Safety becomes an integral part of your retirement income plan and products like pensions, guaranteed lifetime income annuities, and tax-free vehicles like Roth IRAs and specialized types of life insurance, really shine.

Wade Pfau, Ph.D., director of the Retirement Income Certified Professional (RICP) designation program at The American College, talks about "safety first" income planning for retirement. He suggests replacing a portion of your bond portfolio with income annuities.

Once you're retired, you won't be worried about the "next hot stock" or the "next trendy investment idea." You will want to know you are never going to run out of food, water, shelter and clothing. Your focus will be on providing lifetime income to you and your spouse, no matter how long you live. And don't forget, tax-free beats taxable every day of the week. Secure your guaranteed tax-free lifetime income now. You'll be glad you did!

About the author: Brad Pistole, CFF®, CAS®

Brad Pistole, a Certified Financial Fiduciary® and a Certified Annuity Specialist®, president of Trinity Insurance & Financial Services, Inc., specializes in several aspects of financial planning including retirement income planning, 401(k) and IRA rollovers, Roth IRA conversions, and tax-free retirement through special types of life insurance.

Brad has been recognized nationally as a member of Ed Slott Master Elite IRA Advisor Group since 2010. His professional affiliations include the National Ethics Association and he is a lifetime-qualifying member of the Million Dollar Round Table's Top of the Table.

A gifted writer and speaker, Brad has shared his financial expertise through books, articles and speaking engagements. He was recognized as the 2018 Safe Money Radio National Advisor of the Year, and, in 2019, Brad was recognized with the Missouri House of Representatives Resolution from State Representative Lynn Morris for outstanding achievements in the financial industry.

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