Pre-Retiree Introduction Presentation

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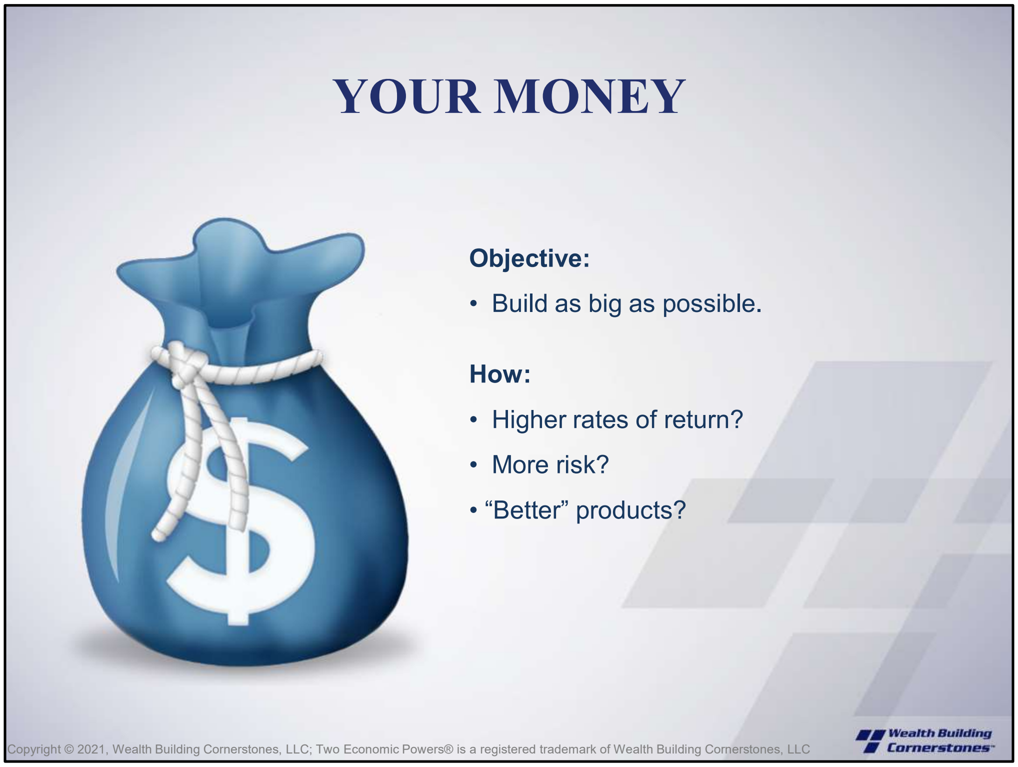
Wealth Building Cornerstones

Read slide.

Let’s start this discussion off with a question and that question is, “why does anybody spend time thinking about their finances? Why do they spend time trying to figure out how much money they
should be saving and if it’s properly allocated? The answer is because everybody has wealth.

And the objective is to try to build that wealth is big as possible.



When most people think about doing this, what do they think of? Trying to get a higher rate of return? Taking more risk? Or the classic: is there a better product out there?

None of this really matters if we don't have efficient overall strategies in place to begin with.

Think of it like this, would you rather have the skill and technique of a professional mountain climber or their equipment and tools? Which one is harder to come by? It is the skill and technique, because we can get the equipment and tools pretty much anywhere.

This is similar to the financial world. The products we all use are just the equipment and tools, and they all have different attributes and different purposes. The key is having a process that combines those different products together to create an efficient overall strategy.

Why is Your Strategy so Important?

We all only have a finite amount of money…we have to be efficient with it in the short time we have.

Inefficiencies can cause major losses to occur.

These losses can be reflected in:

- *lower current lifestyle*
- *lower retirement income*
- *inadequate protection*
- *loss of financial control*
- *financial vulnerability*
- *higher taxes and fees*
- *fewer benefits*

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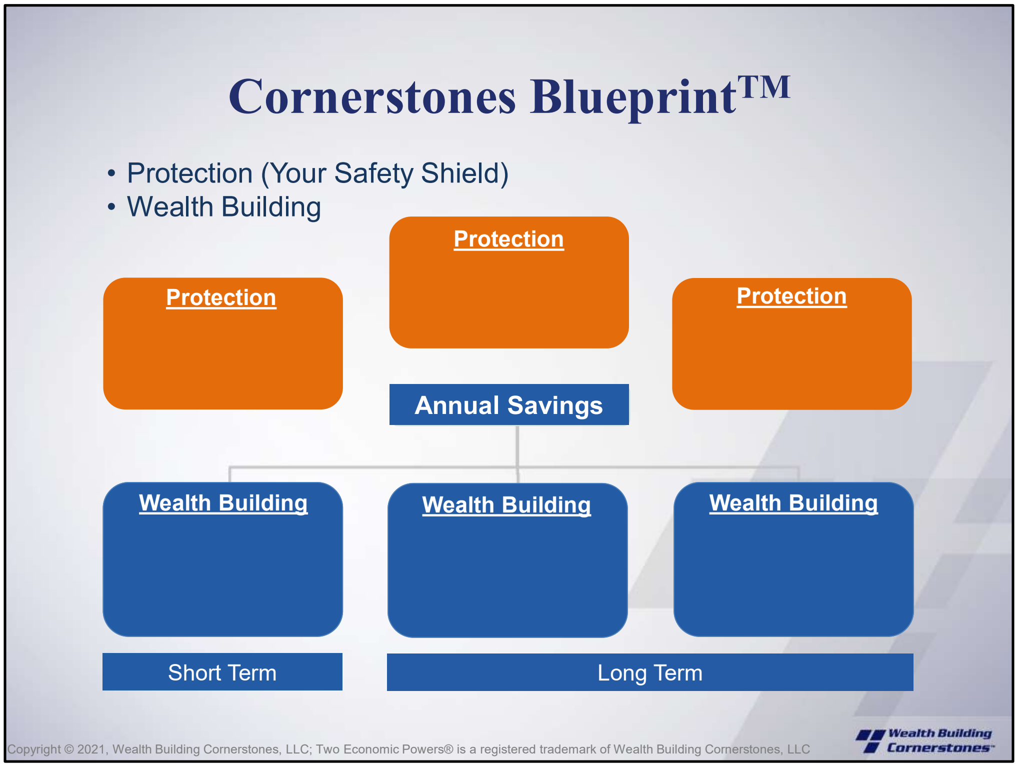
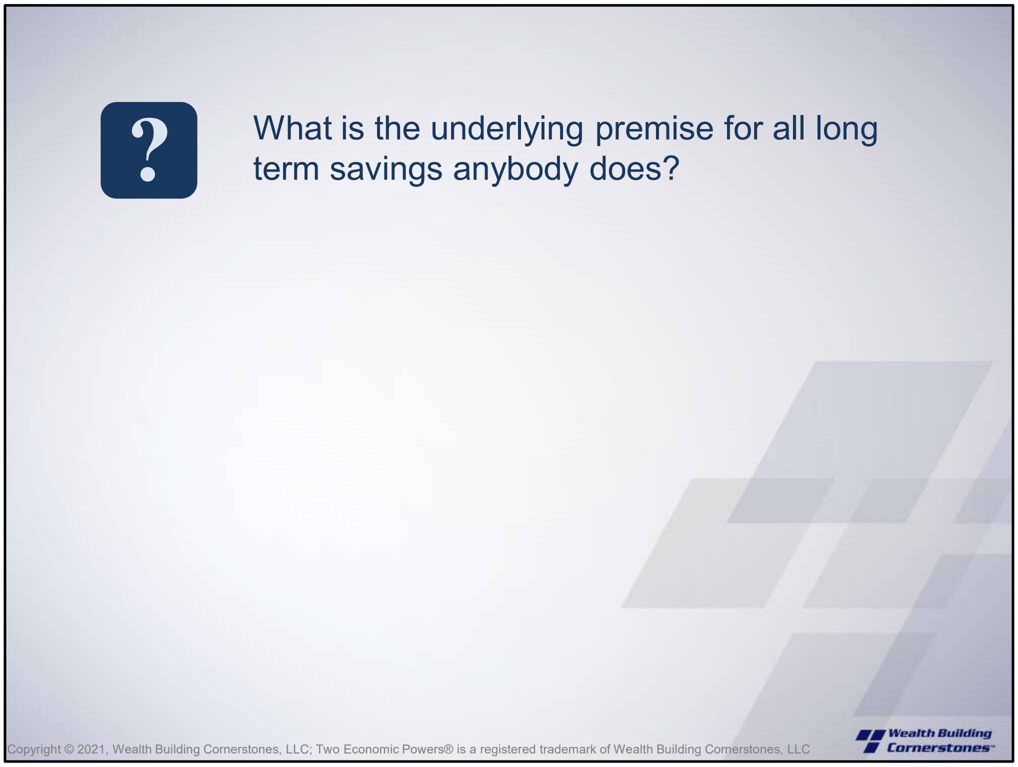
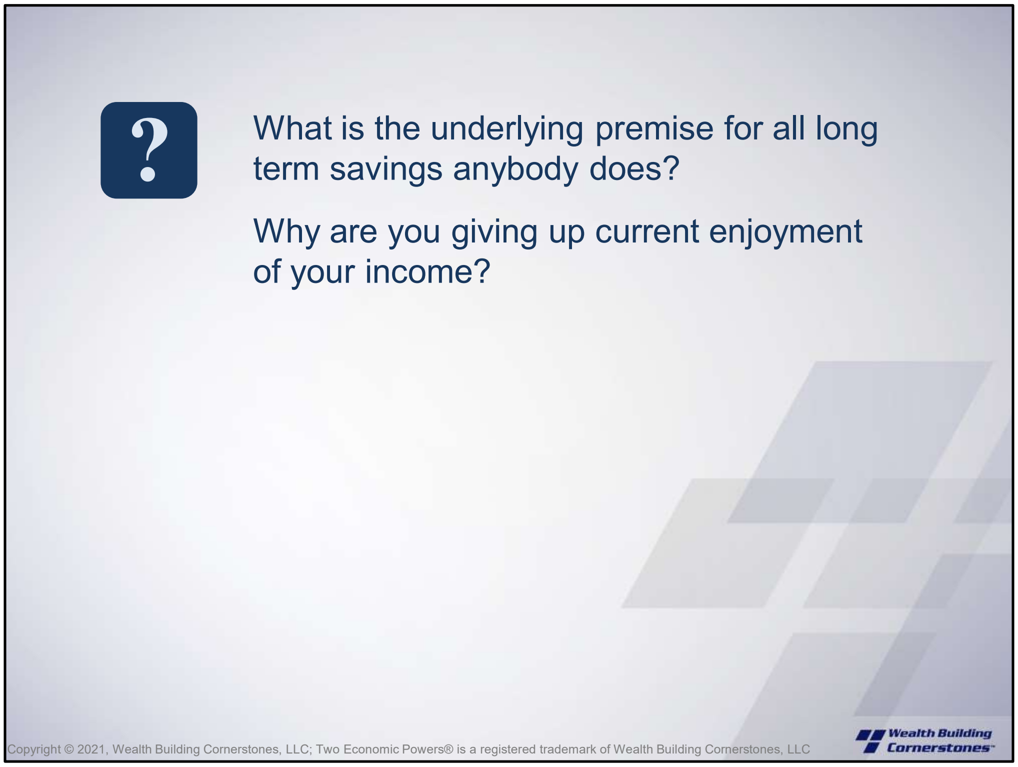
Efficiency is important because we all have a finite amount of money to work with. Inefficiencies can cause major losses to occur in the different areas we see listed here.



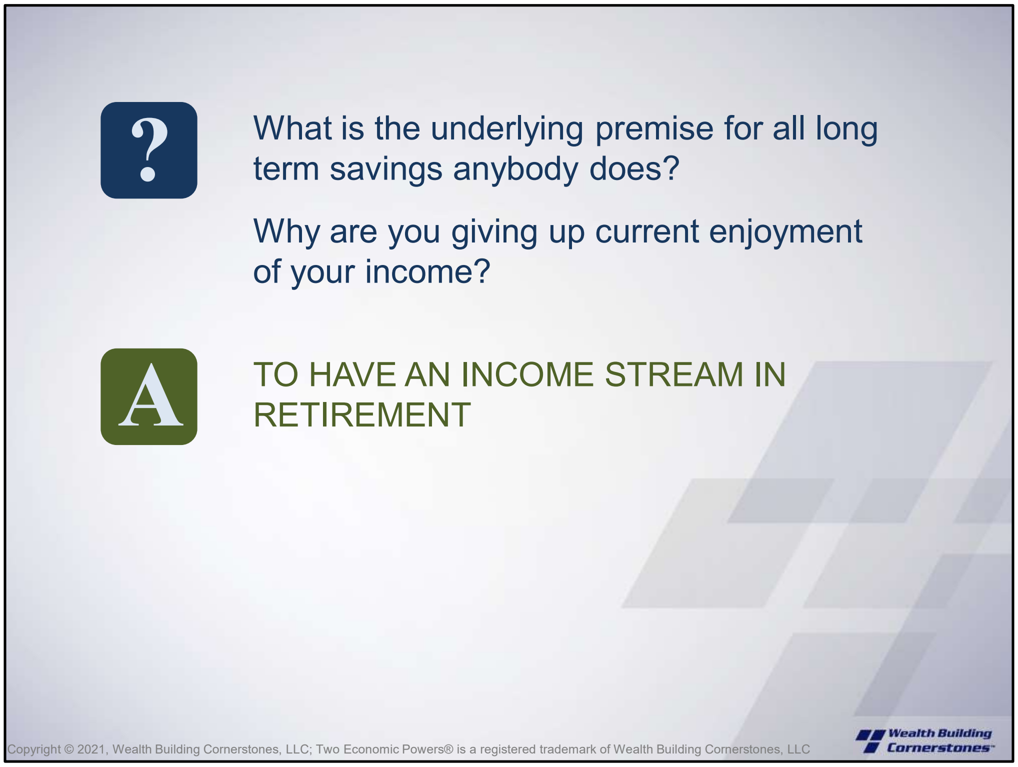
There are two areas to our finances. Protection and Wealth Building. These are both equally important. And whether we are talking about one or the other it is important to take a "begin with the purpose in mind" approach. We have to understand the purpose of why we are doing certain things, and then apply that understanding to the actions we take today. For example, if we are talking about long term wealth building, how would someone economically define these two areas we see here?



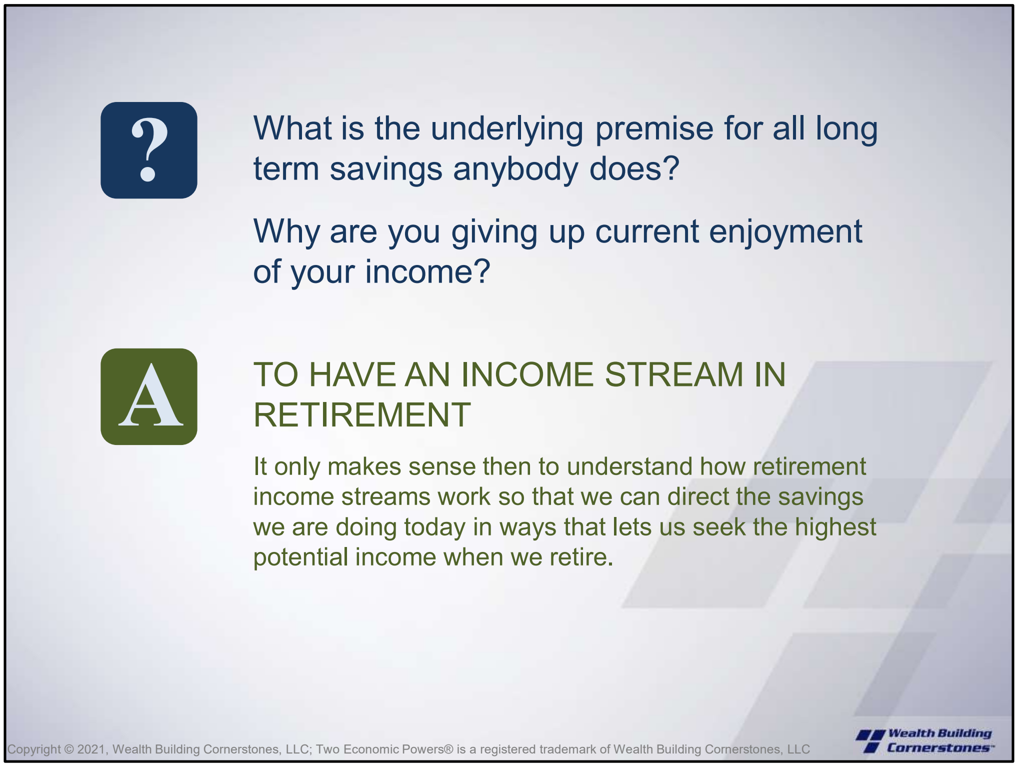
We have to ask the question “What is the underlying premise for all long term savings anybody does?



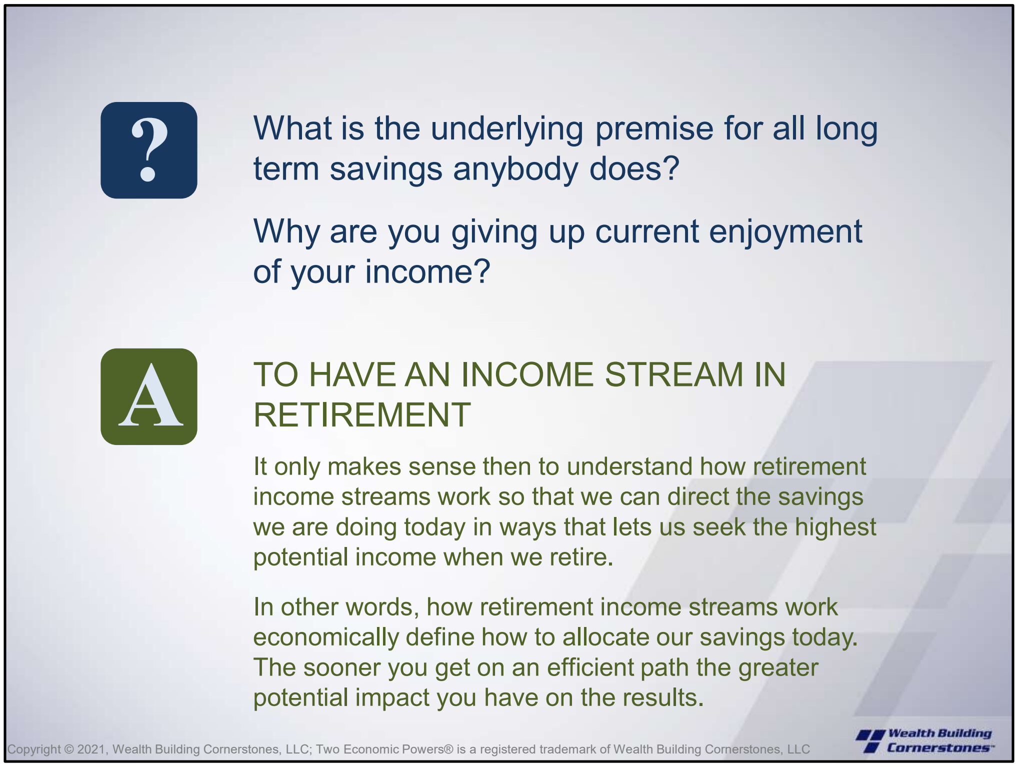
Why are you giving up current enjoyment of your income?



The answer for many would be to have an income stream in retirement.



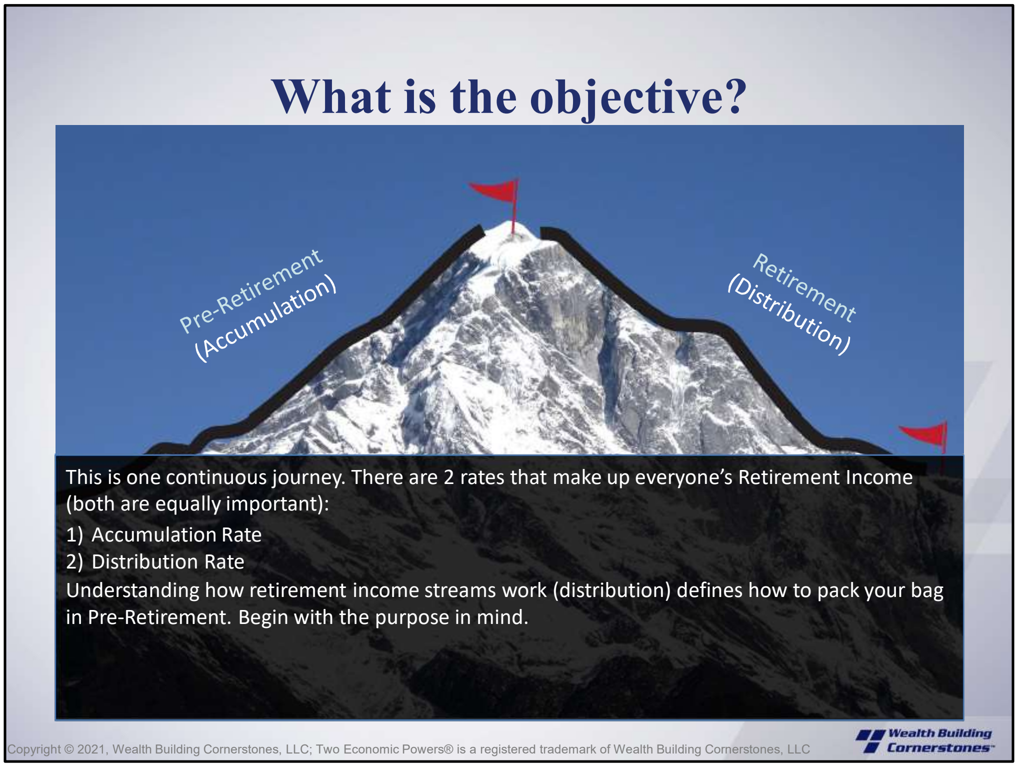
It only makes sense then to understand how retirement income streams work so that we can direct the savings we are doing today in ways that lets us seek the highest potential income when we retire.



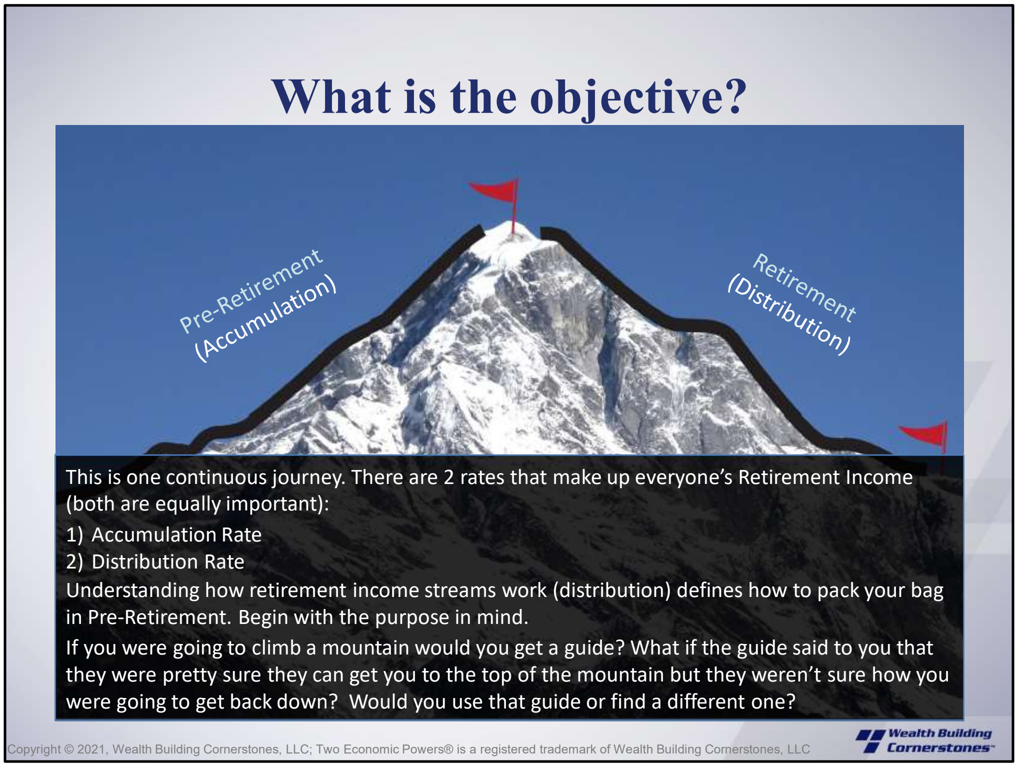
In other words, how retirement income streams work economically define how to allocate our savings today, and the sooner we get on an efficient path, the greater potential impact we can have on the results.

Think of it like climbing a mountain. If you're going to climb a mountain, what's the objective? Is getting to the top the objective?

Or is really getting to the top then making it back down safely the ultimate objective? This is a simile for our financial lives. Getting up the mountain is our Pre-Retirement Accumulation phase and getting back down the mountain is our retirement/distribution phase.

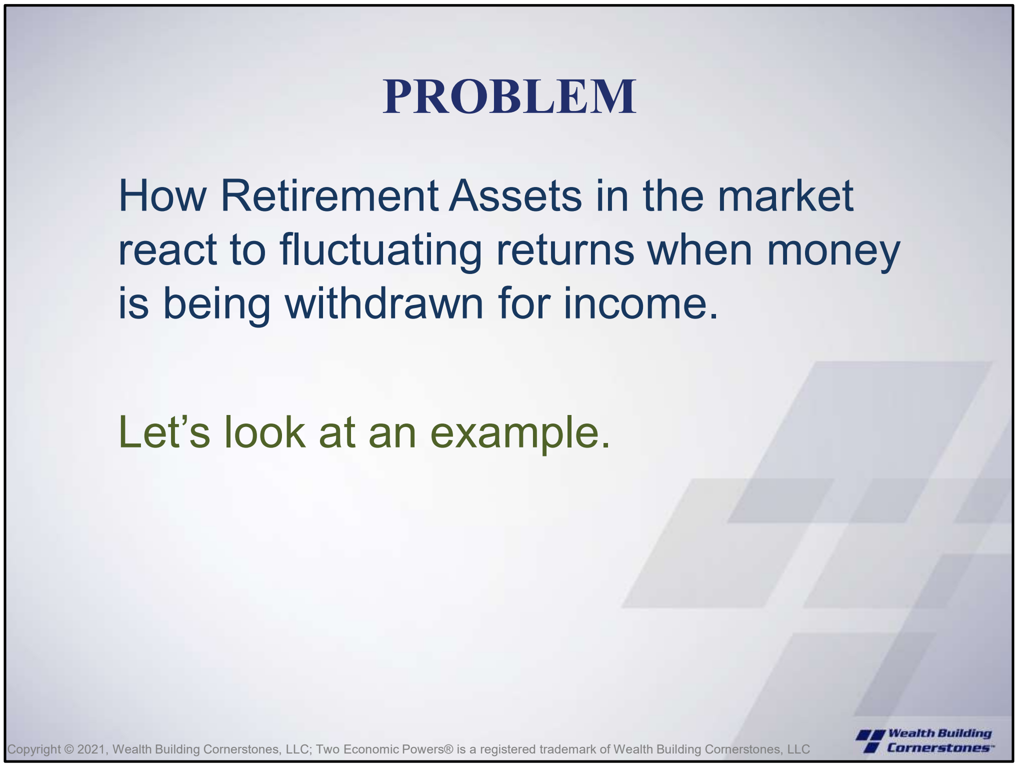


The key is that this is one continuous journey. When we are talking about long-term wealth building, we have to understand how both sides of the mountain work. In other words, how retirement income streams work, getting down the mountain, economically defines how to be packing our bags in pre-retirement. Without understanding how retirement income streams work it is very difficult to get any sense of what we should be doing with our money in pre-retirement since there are two rates that make up everybody's retirement income. Their accumulation rate: getting up the mountain and the other is the distribution rate, getting back down.



If you were going to climb a mountain would you get a guide? What if the guide said to you that they were pretty sure they can get you to the top of the mountain but they weren't sure how you were going

to get back down? Would you use that guide or find a different one? We're going to go through a short exercise and transport you to the top of the mountain. You're a retiree entering retirement. There are typically two questions that go through people's minds at this point: 1. How much money do I need to live on? 2. How much can I withdraw without running out of money? At the top of the mountain, it is critical to observe some rule changes that exist. In pre-retirement we were putting money into our assets and in retirement we are now pulling money out of our assets, so we're changing the dynamics of our money one-hundred and eighty degrees. For assets subject to market fluctuation this creates a risk which is…



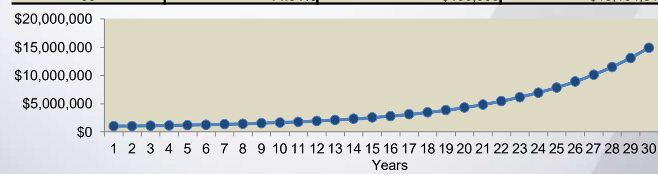
How retirement assets in the market react to fluctuating interest rates when money is being withdrawn for income. Let's take a look at an example.

Constant vs. Fluctuating Returns

Beginning retirement asset value = $1,000,000 | 10% of Beginning Value = ($100,000)
Number of years = 30 | Average return = 14.84%

Constant Returns

Retirement Year	Annual Return	Annual Income	Account Value
1	14.84%	-$100,000	$1,033,290
2	14.84%	-$100,000	$1,072,100
3	14.84%	-$100,000	$1,116,360
4	14.84%	-$100,000	$1,167,188
5	14.84%	-$100,000	$1,225,558
6	14.84%	-$100,000	$1,292,591
7	14.84%	-$100,000	$1,369,572
8	14.84%	-$100,000	$1,457,976
9	14.84%	-$100,000	$1,559,500
10	14.84%	-$100,000	$1,676,090
11	14.84%	-$100,000	$1,809,982
12	14.84%	-$100,000	$1,963,743
13	14.84%	-$100,000	$2,140,322
14	14.84%	-$100,000	$2,343,106
15	14.84%	-$100,000	$2,575,983
20	14.84%	-$100,000	$4,373,434
25	14.84%	-$100,000	$7,963,668
30	14.84%	-$100,000	$15,134,818



Historical Data Source: S&P 500 Total Return Index (w/GFD Extension) (1970-1999); Global Financial Data, Inc., All Rights Reserved, Used with Permission. GFD Extension denotes the extension of data back through time for a data series from its point of origin, potentially even before said index was in existence. Hypothetical illustration may not be used to predict or project investment results. Past performance is no guarantee of future results.

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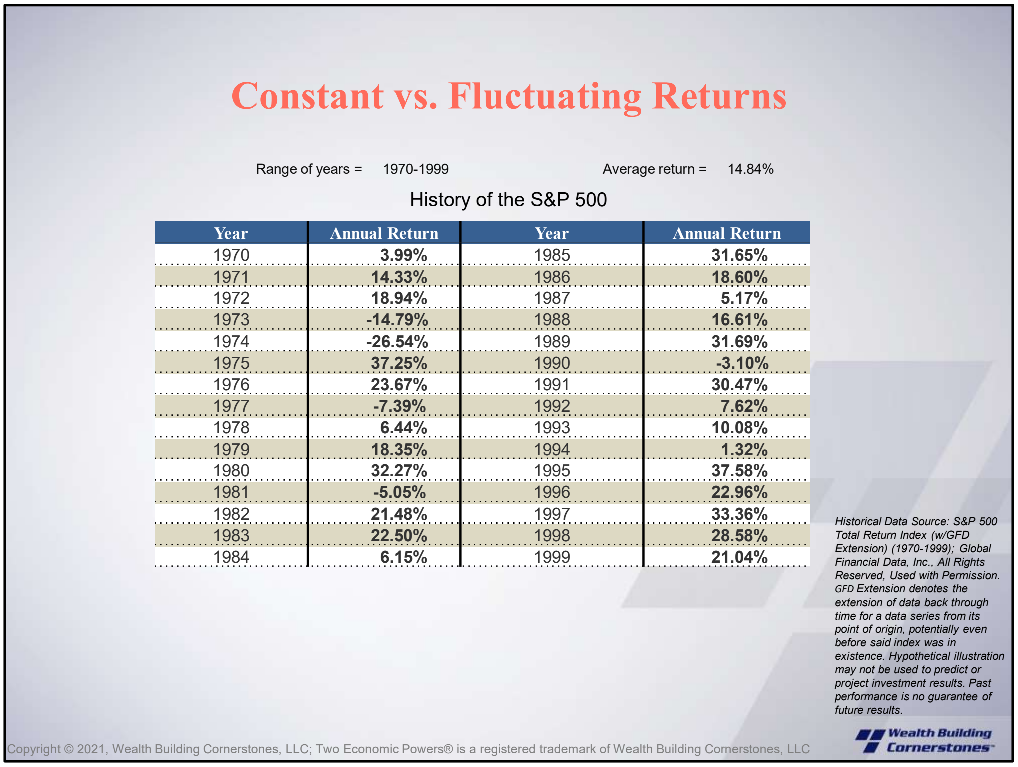
What we have here is a person entering retirement with a million dollars, wanting to pull one hundred thousand dollars per year of retirement income to live on, which is ten percent of the initial value. The way they might justify being able to do this is by thinking they could earn a return on average, equal to or greater than, the 10% they are pulling out which in this case is 14.84%. And if they earn this 14.84% constantly every single year, you can see their account grows even as they pull income out, to the point where it's close to fifteen million dollars thirty years into retirement. But, are we going to be able to earn that average return constantly, every single year or are we going to get all of the ups and downs along the way? We're going to get all of the ups and downs. So, where does this 14.84% come from?



Constant vs. Fluctuating Returns

Range of years = 1970-1999 Average return = 14.84%

History of the S&P 500

Year	Annual Return	Year	Annual Return
1970	**3.99%**	1985	**31.65%**
1971	**14.33%**	1986	**18.60%**
1972	**18.94%**	1987	**5.17%**
1973	**-14.79%**	1988	**16.61%**
1974	**-26.54%**	1989	**31.69%**
1975	**37.25%**	1990	**-3.10%**
1976	**23.67%**	1991	**30.47%**
1977	**-7.39%**	1992	**7.62%**
1978	**6.44%**	1993	**10.08%**
1979	**18.35%**	1994	**1.32%**
1980	**32.27%**	1995	**37.58%**
1981	**-5.05%**	1996	**22.96%**
1982	**21.48%**	1997	**33.36%**
1983	**22.50%**	1998	**28.58%**
1984	**6.15%**	1999	**21.04%**

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It comes from the history of the market, and in this case the history of S&P 500 hundred from 1970 through 1999. So we see each year, all the annual positive and negative returns during that thirty year period. We add them all up and divide by thirty and we get the average return of 14.84%. So what we are going to do now is take the fluctuating positive and negative annual returns we see here and put them into the same table we were just looking at, paying attention to what happens to our account value as we do this.

Constant vs. Fluctuating Returns

Beginning retirement asset value = $1,000,000
Number of years = 30
10% of Beginning Value = ($100,000)
Average return = 14.84%

Fluctuating Returns

Retirement Year	Annual Return	Annual Income	Account Value
1	3.99%	-$100,000	$935,910
2	14.33%	-$100,000	$955,696
3	18.94%	-$100,000	$1,017,765
4	-14.79%	-$100,000	$782,027
5	-26.54%	-$100,000	$501,017
6	37.25%	-$100,000	$550,396
7	23.67%	-$100,000	$557,005
8	-7.39%	-$100,000	$423,232
9	6.44%	-$100,000	$344,048
10	18.35%	-$100,000	$288,831
11	32.27%	-$100,000	$249,767
12	-5.05%	-$100,000	$142,204
13	21.48%	-$100,000	$51,269
14	22.50%	-$51,269	$0
15	6.15%	$0	$0

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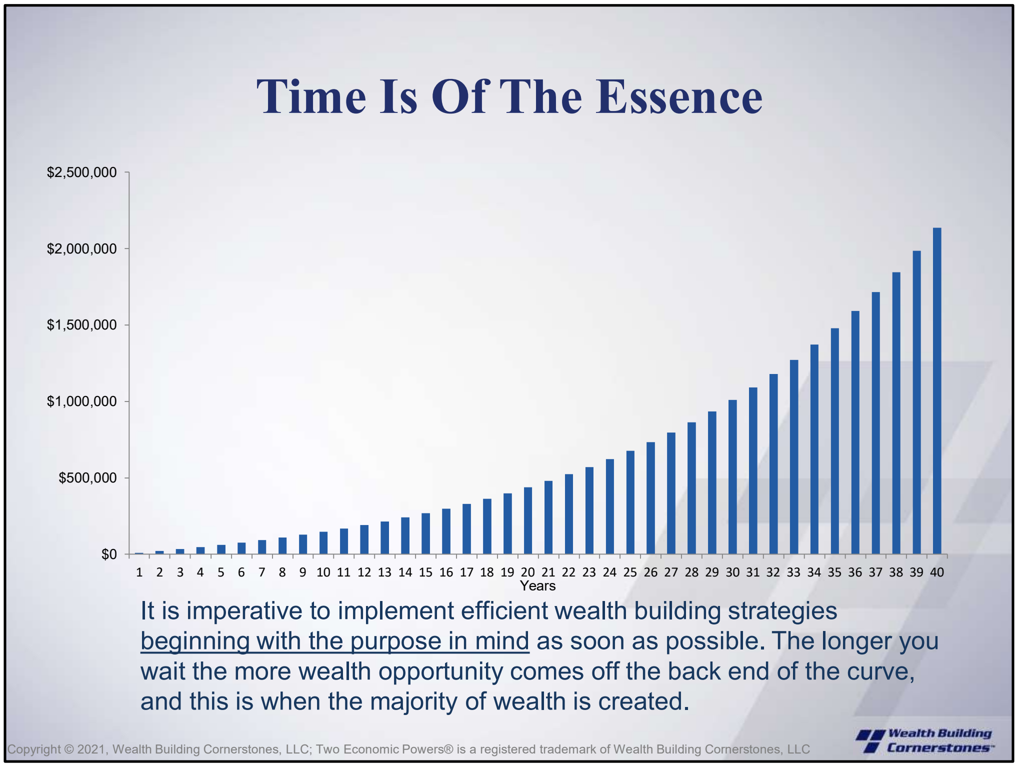
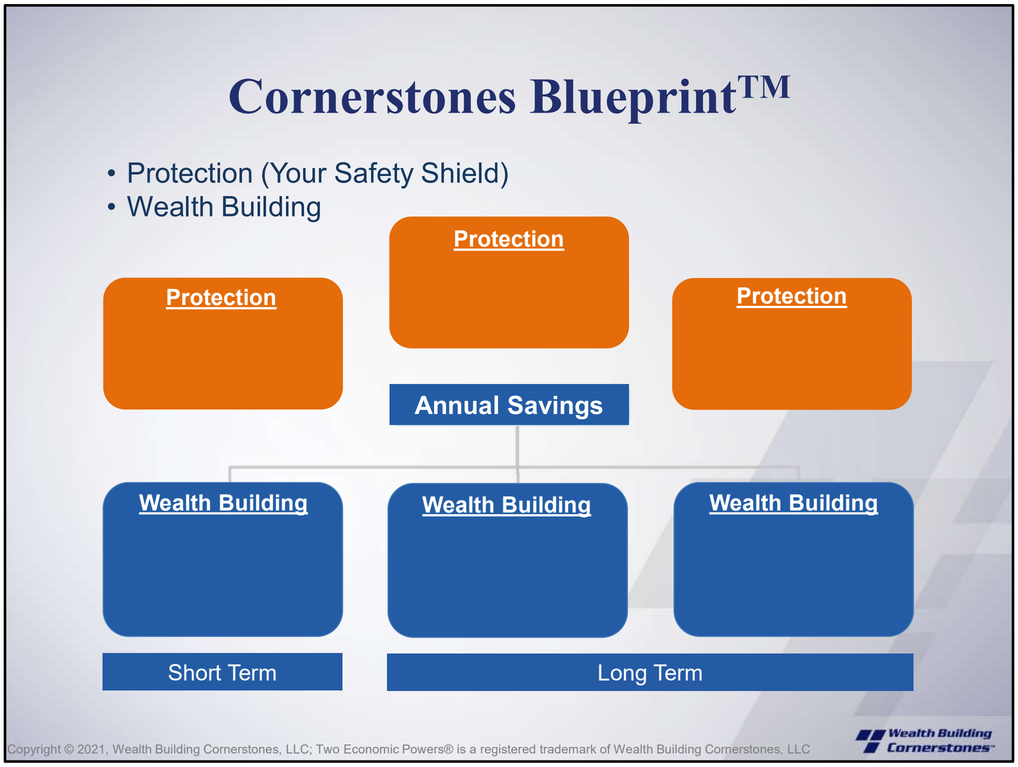
When we put the annual fluctuating returns into our table, we still have the same average return over thirty years. But now instead of having close to fifteen million dollars at the end of thirty years, we are down to zero dollars between years thirteen and fourteen. “Why does this happen,”? It’s because of the rule change at the top of the mountain, which states that any year you earn less than you pulled out, you just killed off the dollars that are supposed to be earning the returns for you the next year. For example, a great return year is this 37.25% in year six, but the issue is that you’re not earning this on the million dollars you started with, you’re earning that on the account value of the year prior, which is substantially less, and you still have to pull your retirement income that year.

We’ve used this one 30 year time frame as a simple example to demonstrate the difference between constant and fluctuating returns during distribution, but it’s not conclusive by itself. The question is, if we are at the top of the mountain trying to use fluctuating return assets to provide us retirement income, how would we go about determining what a safe withdrawal rate might be when we can’t predict the future returns we will receive? This is something we will go through later and define with you as we get into the planning phases more with you. And one of the things we’ll be doing in this area is talking through the different retirement income building strategies you could implement to set up your retirement income down the road. This will help to give you frame of reference to answer the two questions people ask which is 1) How much to save? And 2) Where to put it for wealth building and retirement income building.



As part of your financial process, time is of the essence. It's imperative to implement efficient wealth building strategies as soon as possible. The longer you wait, the more the opportunity for wealth building comes off the back end of the curve and this is when the majority of wealth is created.



As part of this efficient process, we take a look at both the protection and wealth building to make sure they are working properly together, taking that "begin with the purpose in mind" approach, when we are discussing both pieces of this financial process.

I am compensated in two ways. One is by helping you implement the products necessary to complete your process. All I ask is that, as I take you through this process, if you decide to implement products that I handle, that you put those products through me. Does that sound fair?

And the second way is through personal introductions. I wouldn't expect this if you didn't find a lot of value in this process and I would hope that at the end of this I could ask you for your help in sitting down
with me and I can take you through our very professional way of meeting new clientele through personal introductions. Does that sound good to you? Do you have any questions for me?

Next Step

Complete Financial Information

Let’s get as much done as we can today.

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So the next step is to complete some financial information, and I think we can probably get a lot of this done today, and then we can send you home and if we are missing something, we will know exactly
what we need you to get for our next meeting.