Retiree – Income/Liquidity/Legacy

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Read slides.

Process

1. Review Your Specific Objectives

<u>Income Stream</u>
How Much? $________
Min. ___% of Income Stream Guaranteed

<u>Liquidity</u>
$________

<u>Legacy</u>
$_________ (Generally, this is as much as possible after Income and Liquidity objectives are met)

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We've defined Income, Liquidity, and Legacy as the three functions of money in retirement. Let's take a moment to review what your specific objectives are for these three functions.

Process

1. Review Your Specific Objectives

   Income Stream
   How Much? $________
   Min. ___% of Income Stream Guaranteed

   Liquidity
   $________

   Legacy
   $________ (Generally, this is as much as possible after Income and Liquidity objectives are met)

2. Identify Tools Available (and how they work)

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So, today we will be identifying the different tools or products that we could utilize to facilitate each function, and how these products work.

Process

1. Review Your Specific Objectives

   Income Stream
   How Much? $________
   Min. ___% of Income Stream Guaranteed

   Liquidity
   $________

   Legacy
   $________ (Generally, this is as much as possible after Income and Liquidity objectives are met)

2. Identify Tools Available (and how they work)
3. Compare different strategy options

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Then the next time we meet we will compare different Income, Liquidity, Legacy strategy options using the products we've discussed today and your own financial numbers.

Retiree Economic Rules

1. Income, Liquidity, and Legacy are the 3 functions of money in retirement.

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Let’s go through the economic rules we’ll use to guide us. Rule number 1 is Income, Liquidity, and Legacy are the 3 functions of money in retirement.

Retiree Economic Rules

1. Income, Liquidity, and Legacy are the 3 functions of money in retirement.
2. Income is the first function of retirement to satisfy.

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Rule number 2 is income is the first function of retirement to satisfy as this is what creates your lifestyle in retirement.

Retiree Economic Rules

1. Income, Liquidity, and Legacy are the 3 functions of money in retirement.
2. Income is the first function of retirement to satisfy.
3. The more efficient we are at satisfying the desired income stream, the more money is generally left over for Liquidity/Legacy.

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Rule number 3 is the more efficient we are at satisfying the desired income stream, the more money is generally left over for Liquidity, Legacy.

Retiree Economic Rules

1. Income, Liquidity, and Legacy are the 3 functions of money in retirement.
2. Income is the first function of retirement to satisfy.
3. The more efficient we are at satisfying the desired income stream, the more money is generally left over for Liquidity/Legacy.
4. We are defining liquid (accessible) money in retirement as money not being used to create an income stream.

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Rule number 4 is we are defining liquid, accessible, money in retirement as money not being used to create an income stream.

Retiree Economic Rules

1. Income, Liquidity, and Legacy are the 3 functions of money in retirement.
2. Income is the first function of retirement to satisfy.
3. The more efficient we are at satisfying the desired income stream, the more money is generally left over for Liquidity/Legacy.
4. We are defining liquid (accessible) money in retirement as money not being used to create an income stream.
5. Liquidity is also Legacy in retirement.

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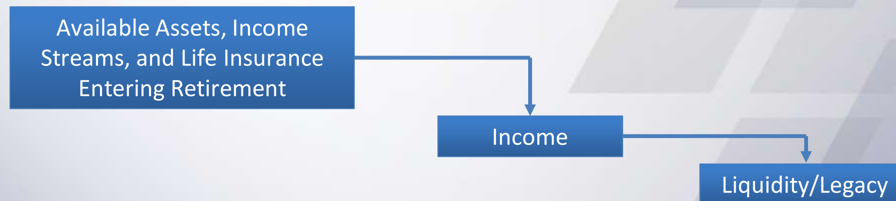
Rule number 5 is liquidity is also legacy in retirement.

Retiree Economic Rules

1. Income, Liquidity, and Legacy are the 3 functions of money in retirement.
2. Income is the first function of retirement to satisfy.
3. The more efficient we are at satisfying the desired income stream, the more money is generally left over for Liquidity/Legacy.
4. We are defining liquid (accessible) money in retirement as money not being used to create an income stream.
5. Liquidity is also Legacy in retirement.



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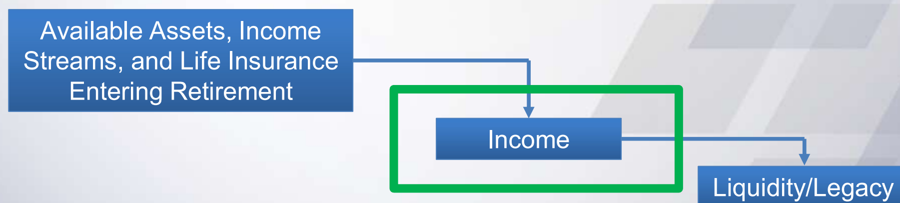
So, from a visual perspective think of this like a waterfall effect. We first need to use the available resources you have to satisfy your income objective, then the remaining resources you have by definition waterfall down into your liquidity, legacy functions.

Functions of Assets in Retirement

1. Income Stream
2. Liquidity (access to cash)
3. Legacy



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Let's start with discussing the income function which is what provides your lifestyle in retirement.

Income Longevity

Would it be ok to run out of income/money in retirement?

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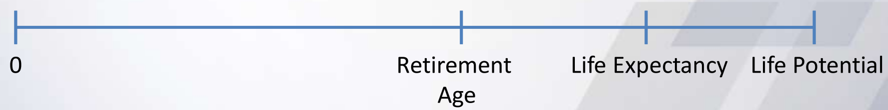
One of the questions we have to ask ourselves when discussing this income function is "Would it be ok for you to run out of income/money in retirement?". Assuming the answer is "No" then one of the key things we have to consider is how long your income/money may need to last as this will be important when discussing the products and methods available to provide income for your ongoing lifestyle in retirement.

Income Longevity

Would it be ok to run out of income/money in retirement?

Preparing for Life Potential vs. Life Expectancy



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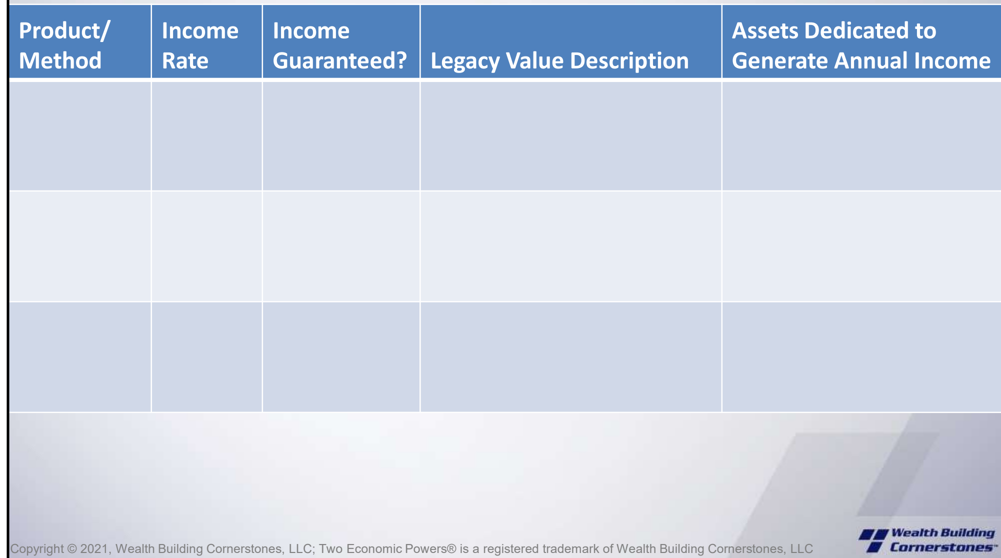
For your income function it is important to be preparing for it to last closer to life potential than just to life expectancy, because many people will live past life expectancy.

Keeping this in mind, let’s now identify the products or methods available to utilize for your income function and discuss how they work.



Take time now to review and talk through the customized retirement income tool options worksheet.

(Note: This worksheet is found on the WBC website in the "Retirement Cornerstones Blueprint™ and Calculator" section of the website. To locate this worksheet, from the WBC homepage click on the link to the "Retirement Cornerstones Blueprint™ and Calculator" and you will see the link to this worksheet underneath the button you would click to enter the blueprint. This worksheet is blank initially for you to build out based on products/methods that are available at that time. Have this customized worksheet completed before this meeting using current rates and descriptions for products/methods you've identified, or complete this worksheet at the meeting with your client. Use this worksheet to list out and discuss the income products/methods up for consideration and how they work with your client(s).)

One Economic Power™ Approach – Investments Only
(Default Path)

Using the accumulation power of investments only to try to distribute retirement income.

Problem: How retirement assets react to fluctuating returns when money is being withdrawn for income.

Let's look at an example.

This is a general discussion of market principles for information only and should not be construed as investment advice.

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(Note: As appropriate, use this slide and the following five slides to conceptually discuss how income from fluctuating return investments can work in your client conversations as you discuss their Customized Retirement Income Options worksheet on the prior slide. Use the following three Constant vs. Fluctuating Return slides as the setup for why withdrawal rate simulations are used in the industry to define probabilities for not running out of income and money in retirement when using assets subject to market risk with fluctuating returns.)

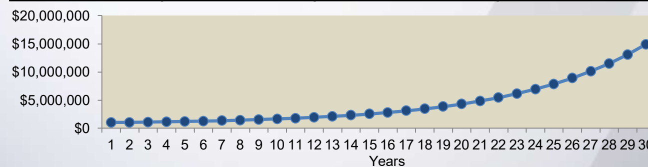
The One Economic Power™ Approach attempts to use the accumulation power of investments to try to distribute retirement income. This approach encounters the problem of how retirement assets react to fluctuating returns when money is being withdrawn for income. Let's look at an example.

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



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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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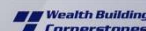


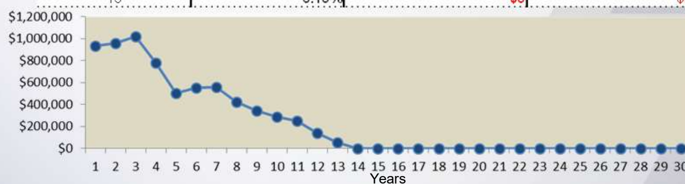
It comes from the history of the market, and in this case the history of S&P 500 hundred from 1970 through 1999. So we see each year, all the annual positive and negative returns during that thirty year period. We add them all up and divide by thirty and we get the average return of 14.84%. So what we 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   10% of Beginning Value = ($100,000)
Number of years = 30   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? The industry has attempted to solve this problem for this type of strategy using what are called “withdrawal rate simulations”.

An Attempted Solution for Pulling Income from Your Investments in Retirement

WITHDRAWAL RATE SIMULATIONS:

A software program (i.e. Monte Carlo simulations) that uses rates of return for all types of vehicles over the last 100 years or so to calculate the historic probabilities of running out of money years into retirement based on the withdrawal rate chosen off the beginning asset value.

These programs run thousands of simulations for every 15, 20, 25, 30 and 35 year rolling time periods taking into account all types of market conditions and interest rate environments.

The results of these simulations are very much the same no matter who runs them since they are using similar probability software programs and the same past market/interest rate data. They are non-guaranteed.

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Ask client(s) to read this slide to themselves and let them know when you are done. Just say "Instead of me reciting this page to you would you mind reading this page to yourselves and just letting me know when you are done?")

What are withdrawal rate simulations? It's a software program (i.e. Monte Carlo simulations) that uses rates of return for all types of vehicles over the last 100 years or so to calculate the historic probabilities of running out of money years into retirement based on the withdrawal rate chosen off the beginning asset value.

These programs run thousands of simulations for every 15, 20, 25, 30 and 35 year rolling time periods taking into account all types of market conditions and interest rate environments.

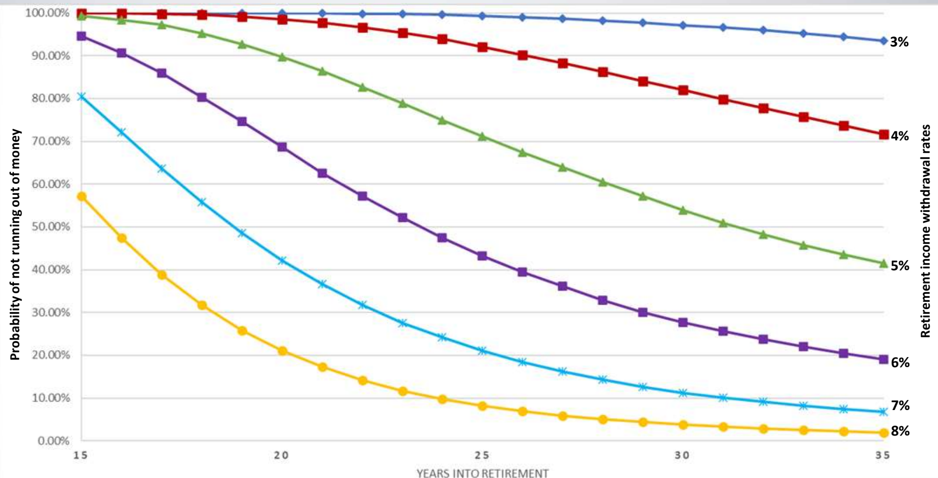
The results of these simulations are very much the same no matter who runs them since they are using similar probability software programs and the same past market/interest rate data. They are non-guaranteed.

One Economic Power™ Approach – Investments Only

(Default Path)

Probabilities of not running out of money

Various retirement income withdrawal rates



Results may vary over time and each time the simulation is run. IMPORTANT: The projections or other information generated by Wealth Building Cornerstones, LLC regarding the likelihood of various investment outcomes are hypothetical in nature and may not be used to predict or project investment results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Past performance is no guarantee of future results. These simulations have been run by Dr. Wade Pfau of the American College using a 50/50 portfolio of S&P 500 Total Return Index (w/GFD Extension)/10-Year U.S. Government Bond Total Return respectively from 1927-2020; and assume 1.59% total annual portfolio expenses. Each annual withdrawal is adjusted by an inflation rate of 3%. Historical Data Source: 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.

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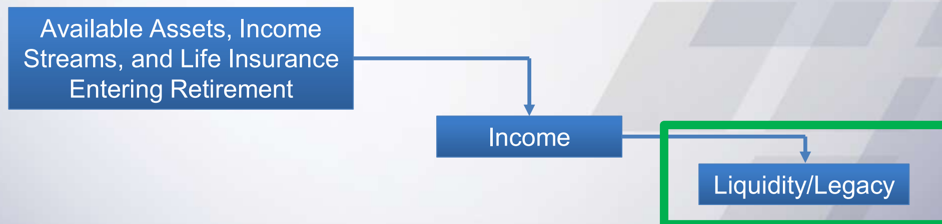
Let's take a look at the results of these simulations. This chart shows the historic probabilities of not running out of money years into retirement based on the withdrawal rate someone chose off the beginning asset base. **It is important to understand that these are withdrawal rates on the right side and not interest rates on your money in retirement. These simulations and curves exist because we are acknowledging that we have to establish our income withdrawal rate before knowing the fluctuating returns we will earn on our money into the future.** As an example, let's say you chose an 8% withdrawal rate, which would be $80,000/yr from a starting asset value of $1,000,000. This would put us on the orange line on the bottom. What this is saying is 25 years into retirement, historically I've had about a 10% chance of not running out of money and around a 90% chance of running out of money. So it doesn't take a rocket scientist to tell us that by lowering our withdrawal rate we'll have a better chance of not running out of money. The financial industry has generally settled on somewhere between a 2.5%-4.5% withdrawal rate as being a quote "safe withdrawal rate" depending on the chance of failure you are willing to accept. So, that would be $25,000-$45,000/yr of retirement income per $1,000,000 that you would have accumulated by retirement age. But at a 4% withdrawal rate, you would have to be willing to accept around a 30% chance of running out of money long term with this strategy. With this income method, the income withdrawal rate you would choose would be based on the probability of running out of income and money that you find acceptable in retirement. It's also important to note that these types of simulations generally indicate that the majority of people's assets are reducing over time as they pull the desired income from their assets.

Functions of Assets in Retirement

1. Income Stream
2. Liquidity (access to cash)
3. Legacy



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Now let's discuss Liquidity and Legacy. Once your income function has been satisfied, the remaining assets and resources you have waterfall down into the liquidity, legacy functions. Let's keep in mind that the definition of liquid money in retirement is money not being used to create an income stream, and that any liquid assets remaining when we pass away become legacy assets when that happens.

Liquidity/Legacy Levels

Liquidity Level	Accessibility	Description	Tools
1	Short Term	Assets you want/need accessible on an immediate basis.	Checking Accounts, Savings Accounts, etc. as appropriate.

Guarantees occur at the time a product that provides those guarantees is purchased, and at that time the guarantees are based upon the claims paying ability of the issuing company. Past performance is no guarantee of future results.

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For the Liquidity and Legacy functions it is helpful to define levels of liquidity or accessibility based on the purpose of assets over time and this will in turn help us identify products appropriate for the assets in each level. Level 1 assets would be characterized as assets you would want to have immediately accessible on a short term basis for emergencies, opportunities, etc.; and assets in this level would generally be put into cash type accounts such as checking accounts, savings accounts, etc..

Liquidity/Legacy Levels

Liquidity Level	Accessibility	Description	Tools
1	Short Term	Assets you want/need accessible on an immediate basis.	Checking Accounts, Savings Accounts, etc. as appropriate.
2	Mid-Long Term	Assets that need to remain accessible for you that you may or may not want/need to use during your lifetime.	Investment and Insurance related vehicles as appropriate.

Guarantees occur at the time a product that provides those guarantees is purchased, and at that time the guarantees are based upon the claims paying ability of the issuing company. Past performance is no guarantee of future results.

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Level 2 assets would be characterized as assets that you may or may not need to use during your lifetime so accessibility is important for these assets but likely more on a mid to long term basis; and assets in this level would generally be put into investment or insurance related vehicles as appropriate.

Liquidity/Legacy Levels

Liquidity Level	Accessibility	Description	Tools
1	Short Term	Assets you want/need accessible on an immediate basis.	Checking Accounts, Savings Accounts, etc. as appropriate.
2	Mid-Long Term	Assets that need to remain accessible for you that you may or may not want/need to use during your lifetime.	Investment and Insurance related vehicles as appropriate.
3	Pure Legacy	Assets/Money you are certain you will not want/need to use during your lifetime.	Investment and Insurance related vehicles as appropriate.

Guarantees occur at the time a product that provides those guarantees is purchased, and at that time the guarantees are based upon the claims paying ability of the issuing company. Past performance is no guarantee of future results.

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Level 3 assets would be characterized as assets that you consider definitely not wanting or needing during your lifetime and are pure legacy assets. Assets in this level would generally also be put into investment or insurance related vehicles as appropriate with more of a pure legacy planning disposition. Estate planning and legal documents can be used throughout the levels as appropriate. What we need to do is start to define the amount of assets you would want at each level. Let’s have a brief discussion about this now. What are your thoughts? (Pause)

Now let’s talk about the options available for earning returns in the investment and insurance related vehicles of Levels 2 and 3.

Liquidity/Legacy Returns

Guarantees occur at the time a product that provides those guarantees is purchased, and at that time the guarantees are based upon the claims paying ability of the issuing company. Past performance is no guarantee of future results.

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When discussing earning returns over time in levels 2 and 3 we need to start off with a high level discussion about how you want to diversify between the two major category choices being investments and insurance related vehicles, based on the attributes they generally provide.

Liquidity/Legacy Returns

Two Economic Powers® Diversification:

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We call this Two Economic Powers® Diversification.

Liquidity/Legacy Returns

Two Economic Powers® Diversification:

1) Fluctuating Markets (Investment Related Vehicles)
   - Risk/Reward based
   - Can earn money or lose money

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One power you can utilize to earn returns is the fluctuating markets provided by investment related vehicles. This power is generally characterized by fluctuating returns on a risk/reward based mentality, where you can earn money and/or lose money over time.

Liquidity/Legacy Returns

Two Economic Powers® Diversification:

1) Fluctuating Markets (Investment Related Vehicles)
   - Risk/Reward based
   - Can earn money or lose money

2) Actuarial Science (Insurance Related Vehicles)
   - Steadier earnings rate
   - Can be guaranteed

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The second power you can utilize to earn returns is the power of actuarial science provided by insurance related vehicles. This power is generally characterized by steadier interest crediting over time that doesn't fluctuate as much and can be guaranteed. The earnings generated by this power generally don't have as much downside or upside potential as that provided by investment related vehicles.

Liquidity/Legacy Returns

Two Economic Powers® Diversification:

1) Fluctuating Markets (Investment Related Vehicles)
   - Risk/Reward based
   - Can earn money or lose money

2) Actuarial Science (Insurance Related Vehicles)
   - Steadier earnings rate
   - Can be guaranteed

These powers can be a good compliment to one another used together in a balanced approach or can be used separate of one another.

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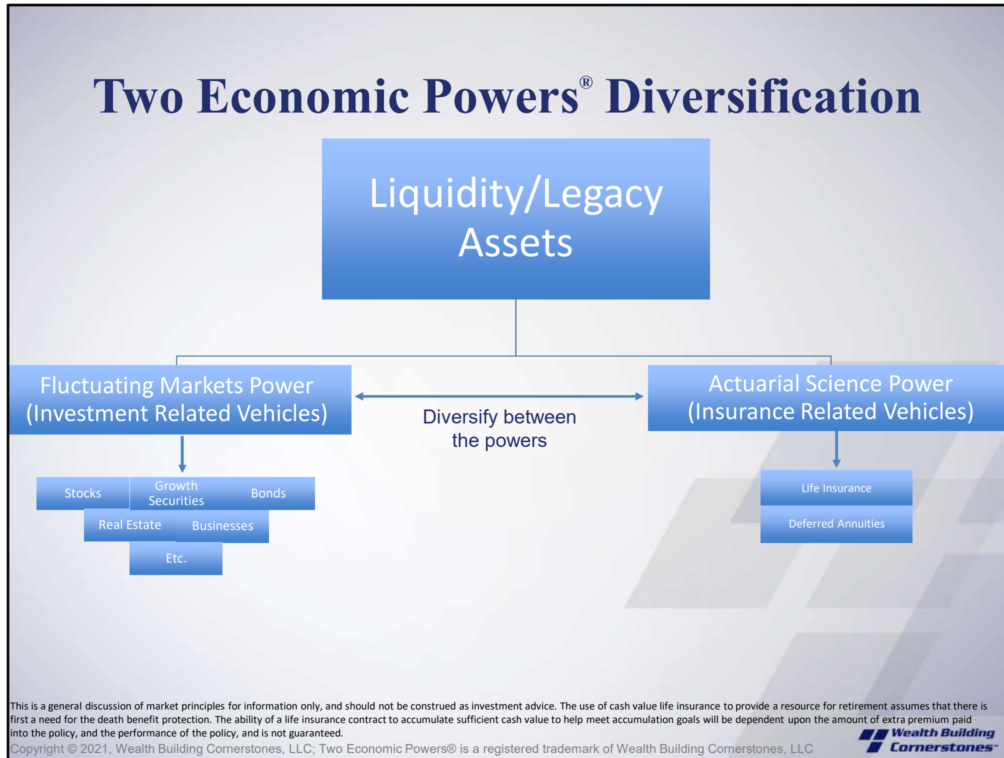
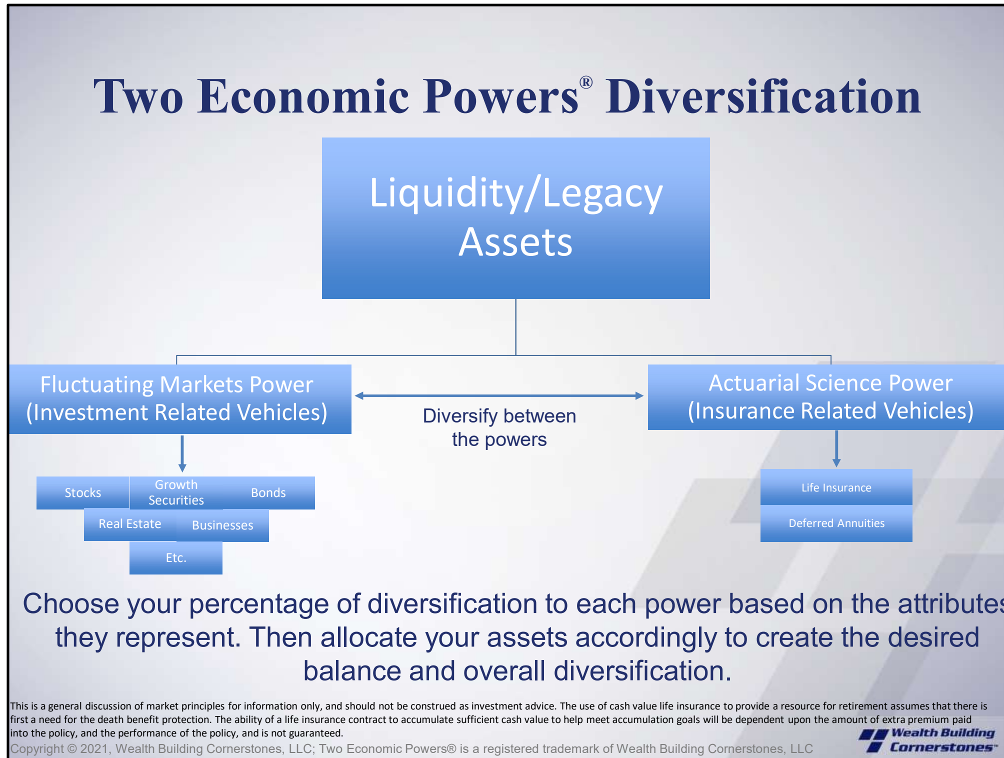
These powers can be a good compliment to one another when used together in a balanced approach or they can be used separate of one another.



Here is a visual of the allocation choice you have for the Two Economic Powers® Diversification in your Liquidity, Legacy functions. Some of the products that could be utilized for each power are listed here for reference as well.



What you want to do is choose your percentage of diversification to each power based on the attributes the powers represent, and then allocate your assets accordingly between them to create the desired overall balance and diversification over time. Let's take a moment to discuss from a big picture perspective what percentage of your level 2 and 3 Liquidity, Legacy assets you would want allocated to each power?
You could do a balance between the powers or all of it to just one power. What are your thoughts? *(Pause here and discuss with client.)*

(If client(s) indicates that they desire a portion of their liquidity, legacy assets to be allocated to the actuarial science power then you can say the following as appropriate: "One of the main products you see listed under the actuarial science power is life insurance as it can provide both liquidity in its cash values and legacy in its death benefit. This can be a very good tool to utilize in this area. To utilize life insurance you have to have a need for the death benefit. You would first apply and be underwritten for it by an insurance company. Underwriting generally takes 3-6 weeks and can be going on behind the scenes while we put together and discuss your strategy options. Once the underwriting comes back we can then know whether this is an option for you. Does getting an application going sound good to you?)

Process

1. Review Your Specific Objectives

   Income Stream
   How Much? $________
   Min. ___% of Income Stream Guaranteed

   Liquidity
   $________

   Legacy
   $_________ (Generally, this is as much as possible after Income and Liquidity objectives are met)
2. Identify Tools Available (and how they work)
3. Compare different strategy options
4. Implementation of desired Income/Liquidity/Legacy Strategy

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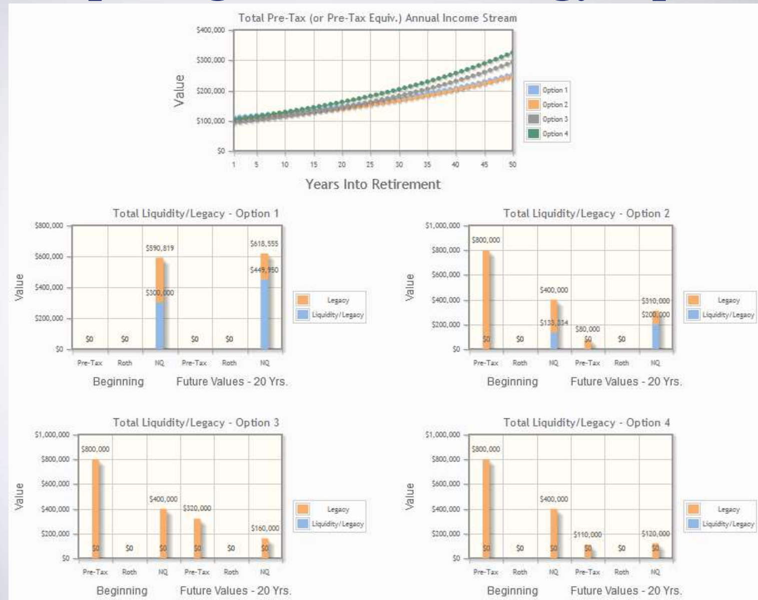
Next time we get together we will use your own numbers to compare the different strategy options available to choose from to accomplish your retirement objectives using combinations of the products we've discussed here today. As we go through the different Income, Liquidity, Legacy strategy options we will also have the opportunity to customize or tweak different aspects of them as desired. Then once we've honed in on the strategy option you want we will work on implementation of the different pieces with you.

Comparing Overall Strategy Options



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This is an example summary output page we can use to compare between the different strategy options next time. Thank you for watching this Retiree – Income, Liquidity, Legacy presentation.