Retiree – Income/Liquidity/Legacy

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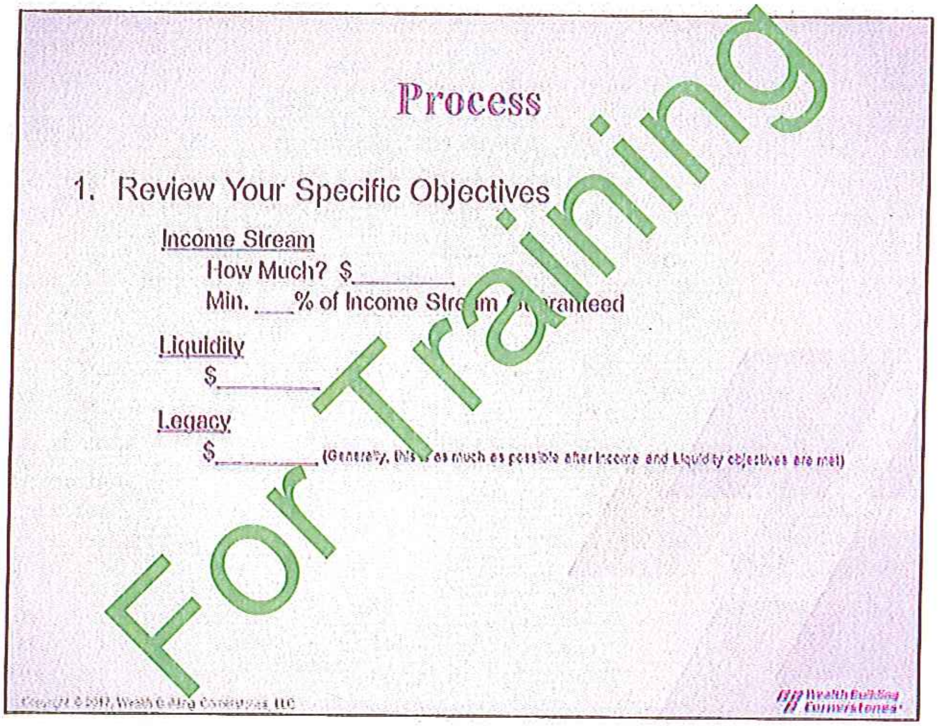
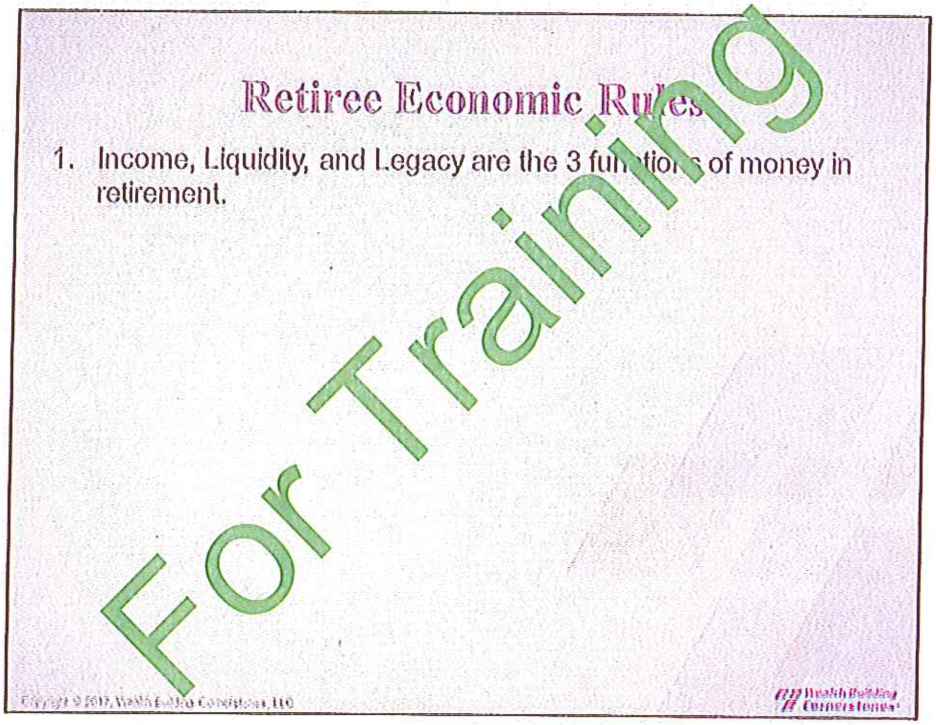
Welcome to the Retiree – Income, Liquidity, Legacy Presentation.



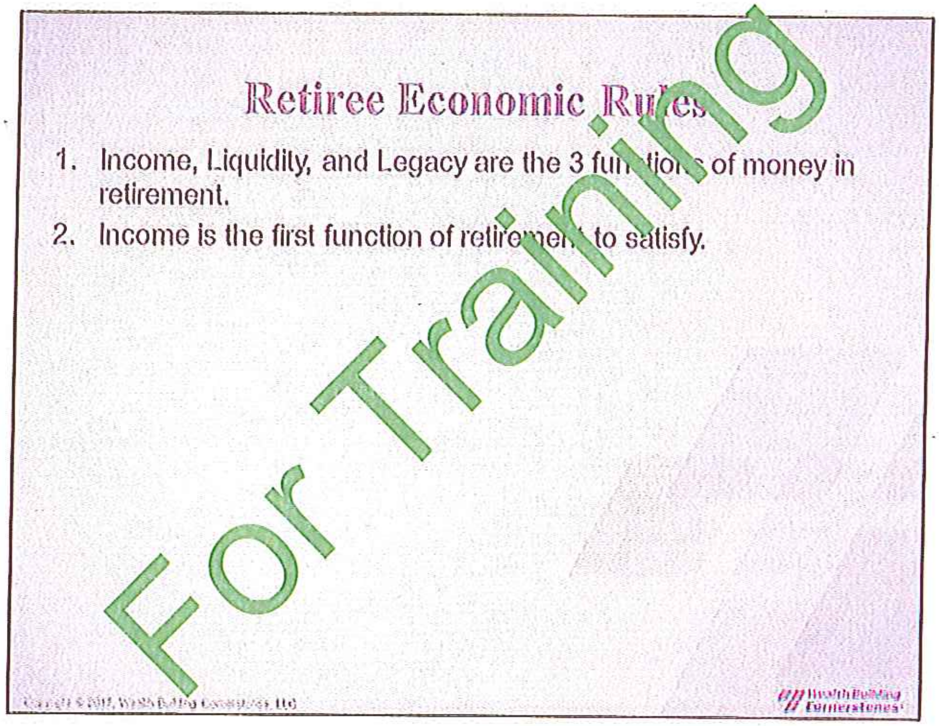
We've defined Income, Liquidity, and Legacy as the three functions of money in retirement. Let's take a moment to review what your specific objectives are for these three functions.

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

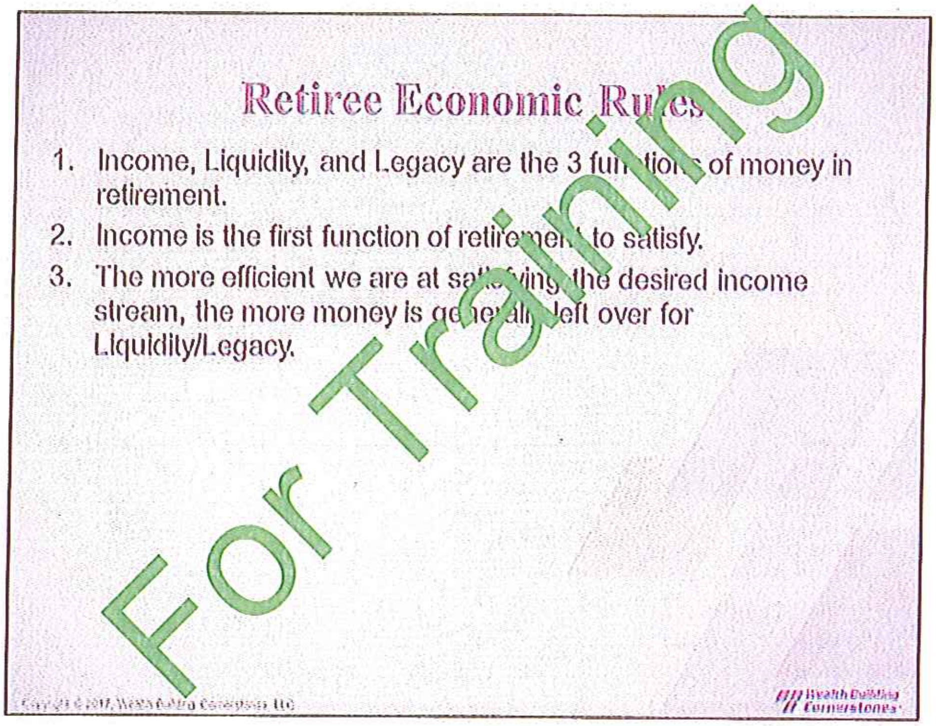
Then the next time we meet we will compare different Income, Liquidity, Legacy package options using the products we've discussed today and your own financial numbers.



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.



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



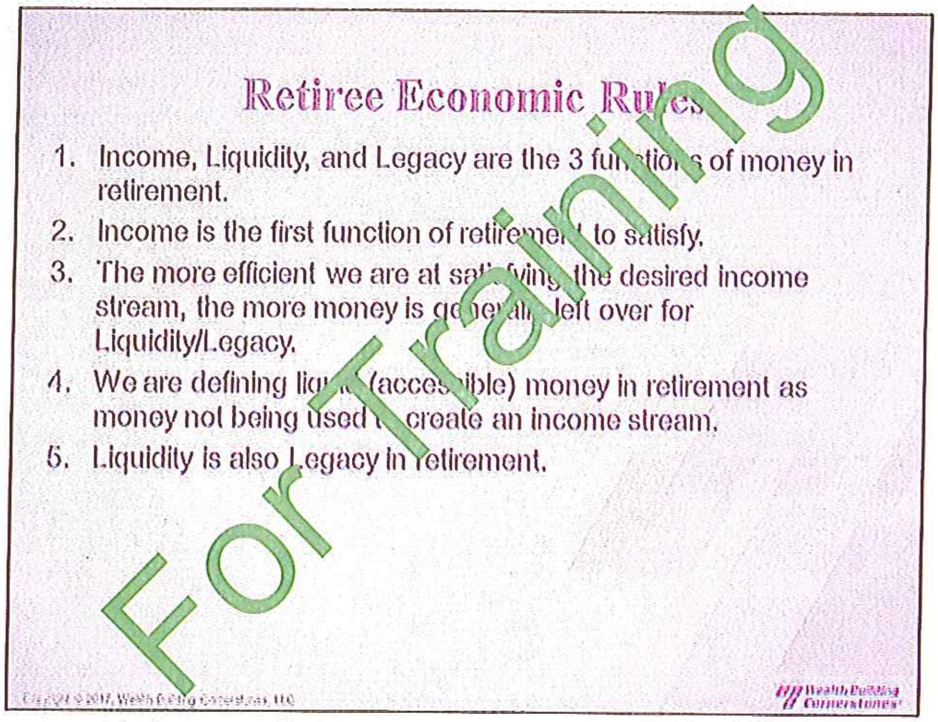
Rule number 3 is the more efficient we are at satisfying the desired income stream, the more money is generally left over for Liquidity, Legacy.

Retiree Economic Rules

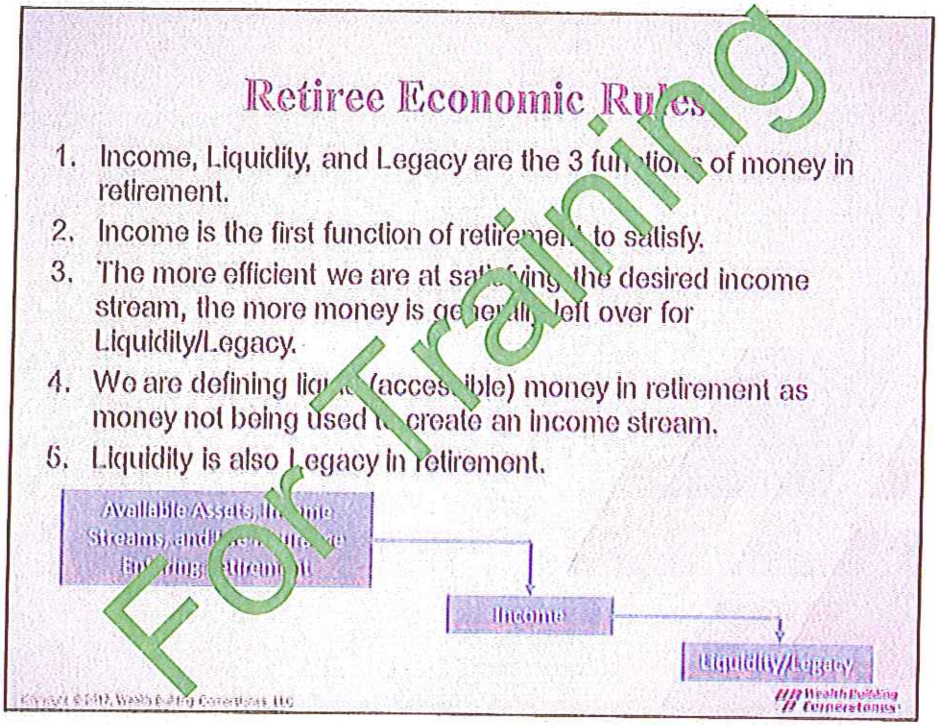
1. Income, Liquidity, and Legacy are the 3 functions of money in retirement.
2. Income is the first function of retirement to satisfy.
3. The more efficient we are at satisfying the desired income stream, the more money is generally left over for Liquidity/Legacy.
4. We are defining liquid (accessible)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

Wealth Building Cornerstones

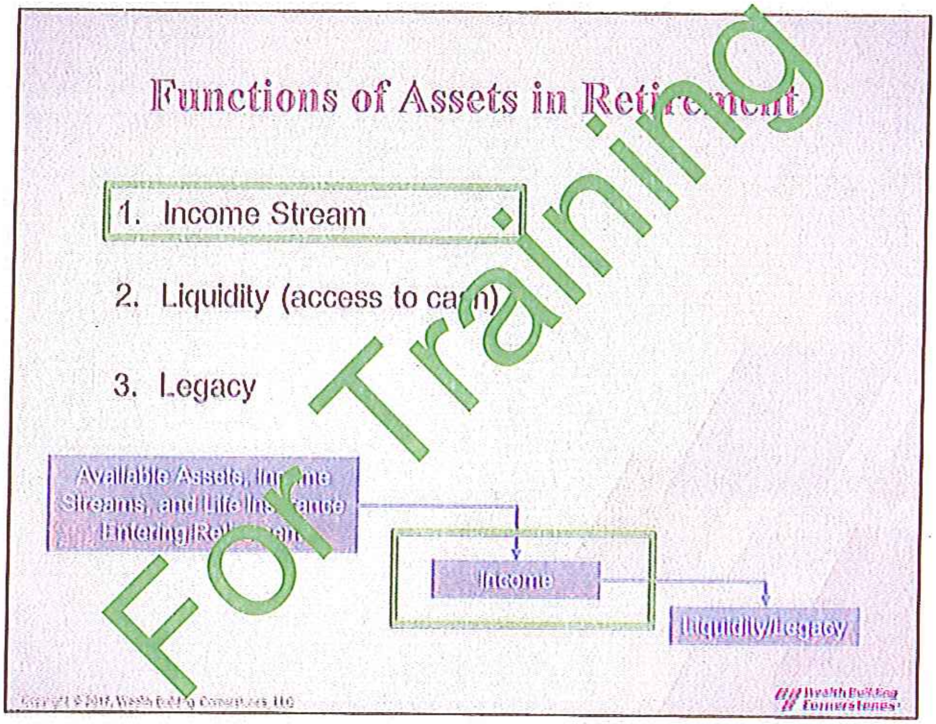
Rule number 4 is we are defining liquid, accessible, money in retirement as money not being used to create an income stream.



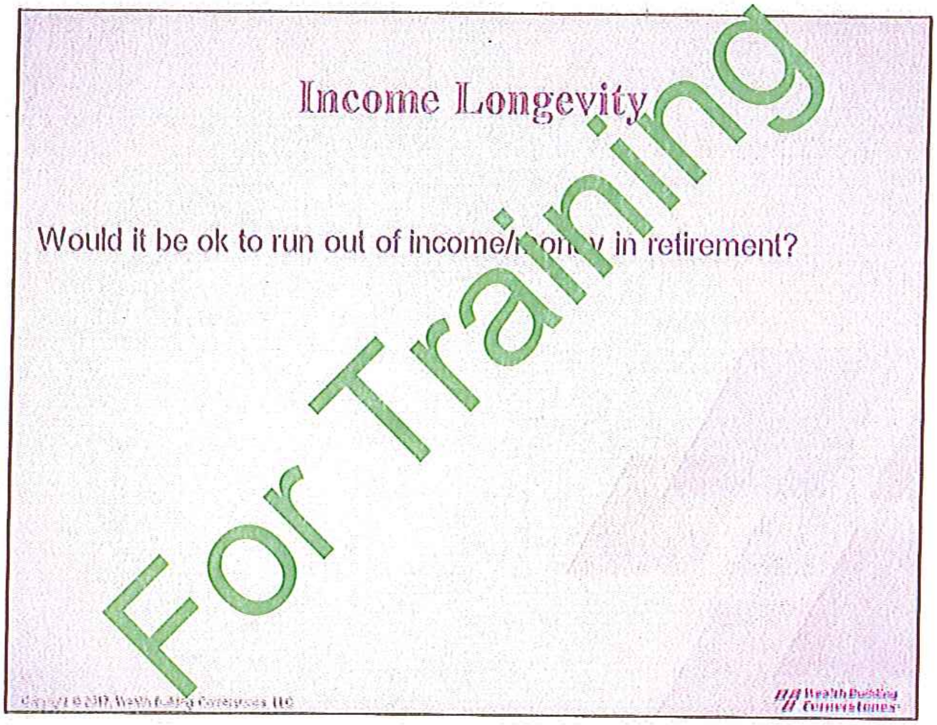
Rule number 5 is liquidity is also legacy in retirement.



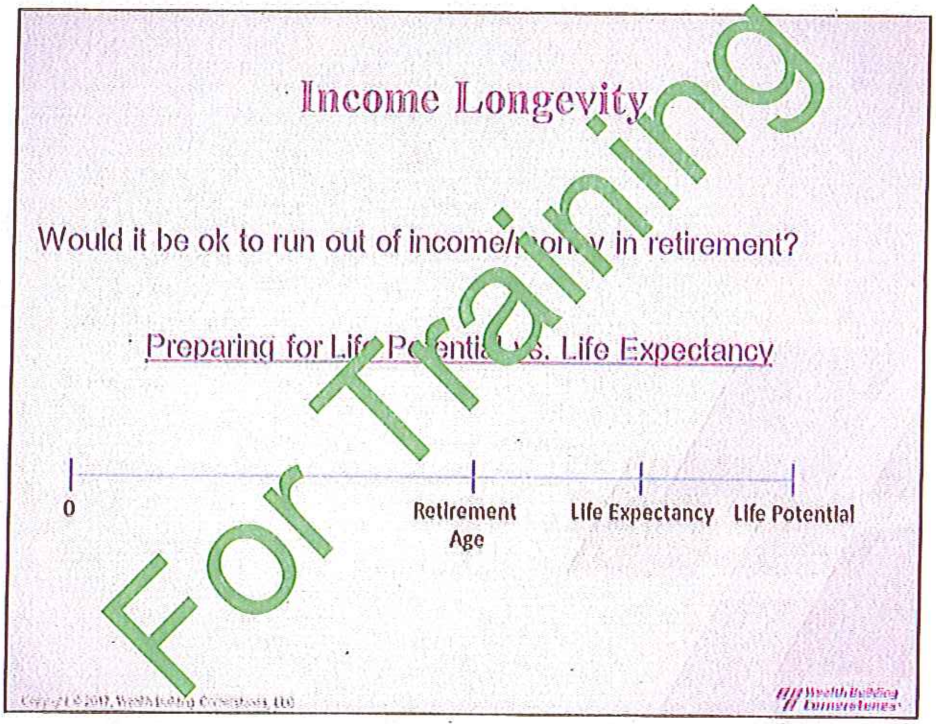
So, from a visual perspective think of this like a waterfall effect. We first need to use the available resources you have to satisfy your income objective, then the remaining resources you have by definition waterfall down into your liquidity, legacy functions.



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



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.

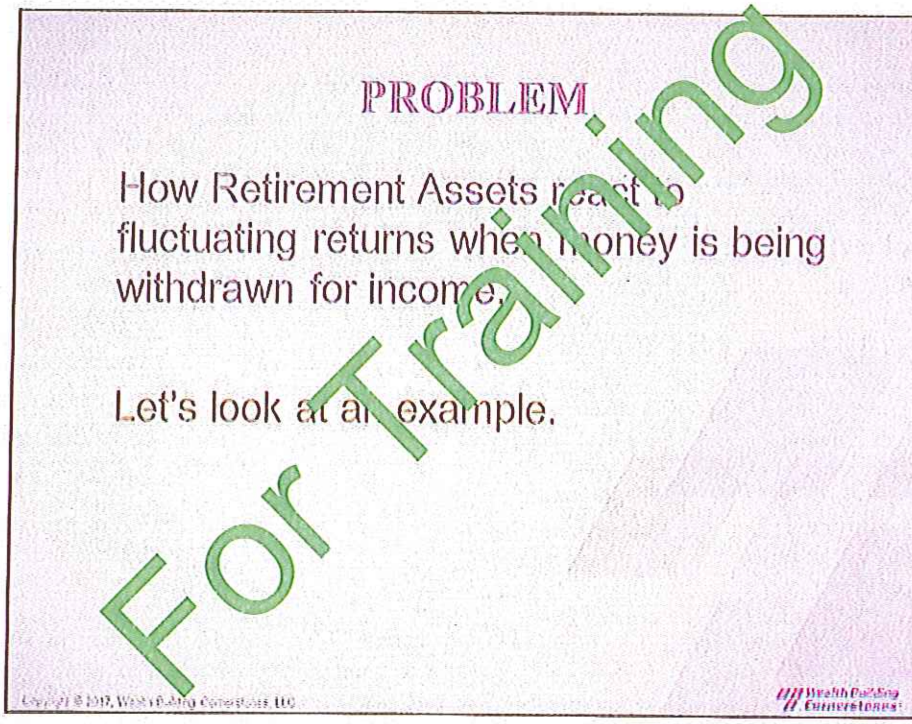


For your income function it is important to be preparing for it to last closer to life potential than just to life expectancy, because many people will live past life expectancy.

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

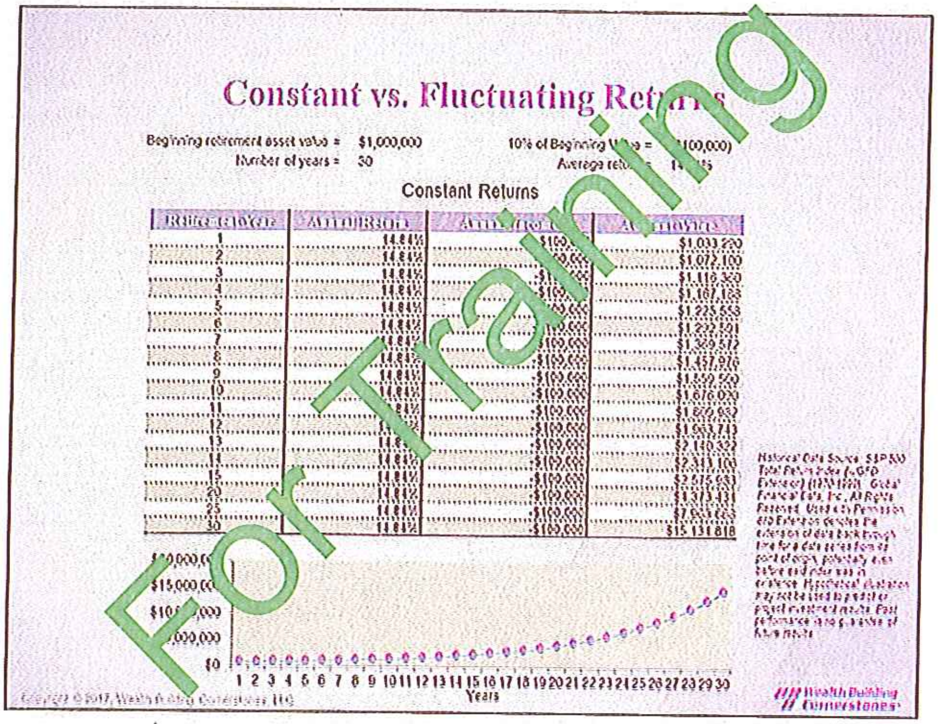
Take time now to review and talk through the customized retirement income tool options worksheet.

(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).)



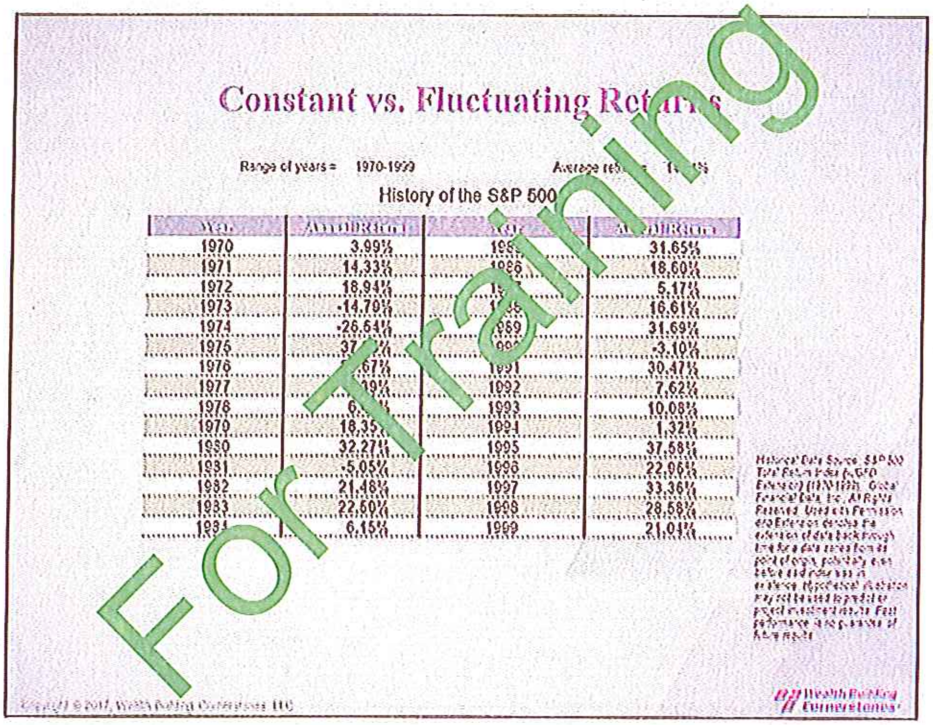
(Note: As appropriate, use this slide and the following five slides to conceptually discuss how income from fluctuating return investments can work in your client conversations as you discuss their Customized Retirement Income Options worksheet on the prior slide. Use the following three Constant vs. 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 investments with fluctuating returns.)

Let's investigate how income from fluctuating return assets or investments can work in retirement. There is a potential problem we encounter here, and that is how retirement assets react to fluctuating interest rates when money is being withdrawn for income. Let's look at an example of this.



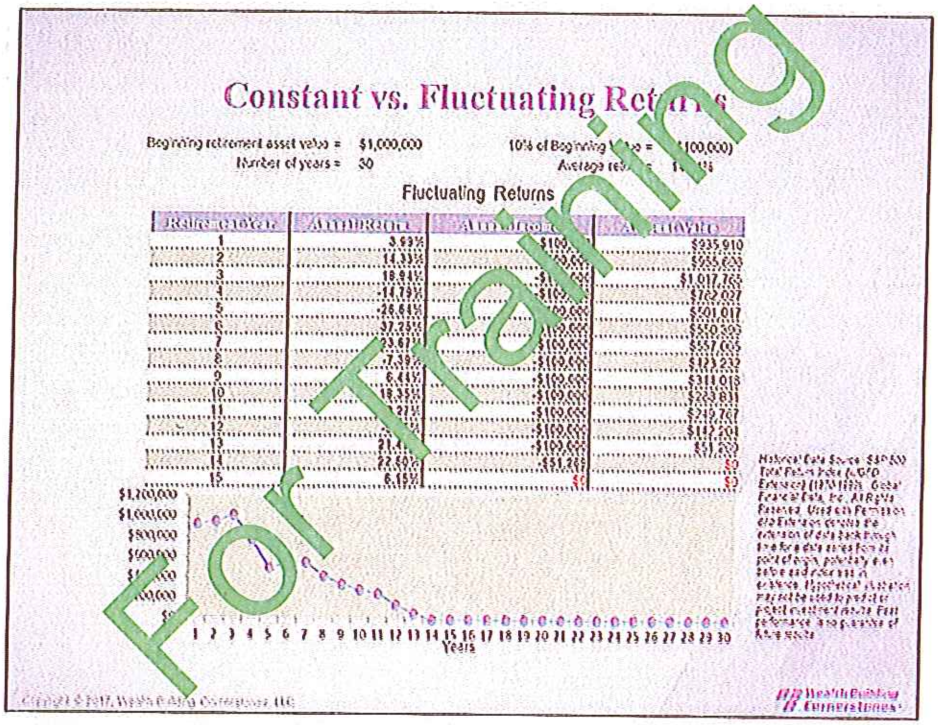
For Training

What we have here is a person entering retirement with a million dollars, think of this as 1 unit, 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 ten percent they are pulling out which in this example is fourteen point eight four percent. And if they earn this fourteen point eight four percent constantly every single year, you can see their account grows even as they pull income out, to the point where it is close to fifteen million dollars thirty years into retirement. But, are we going to be able to earn that average yield 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?

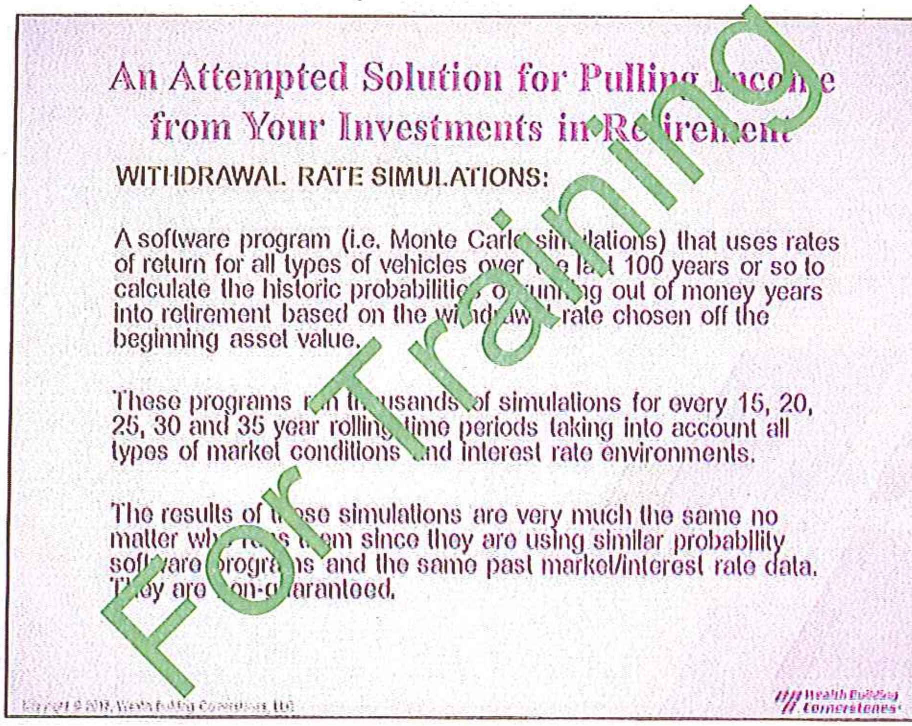


1970	3.99%	[illegible]	31.65%
1971	14.33%	1986	18.60%
1972	18.94%	[illegible]	5.17%
1973	-14.70%	[illegible]	16.61%
1974	-26.54%	[illegible]	31.69%
1975	[illegible]	[illegible]	-3.10%
1976	[illegible]	1991	30.47%
1977	[illegible]	1992	7.62%
1978	[illegible]	1993	10.08%
1979	[illegible]	1994	1.32%
1980	32.27%	1995	37.58%
1981	-5.05%	1996	22.96%
1982	21.48%	1997	33.36%
1983	22.50%	1998	28.58%
[illegible]	6.15%	1999	21.04%

It comes from the history of the market, and in this case the history of S & P five hundred from 1970 through 1999. So we see each year, all the annual positive and negative yields during that thirty year period. We add them all up and divide by thirty and we get the average yield of fourteen point eight four percent. So what we are going to do now is take the fluctuating positive and negative annual yields 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.

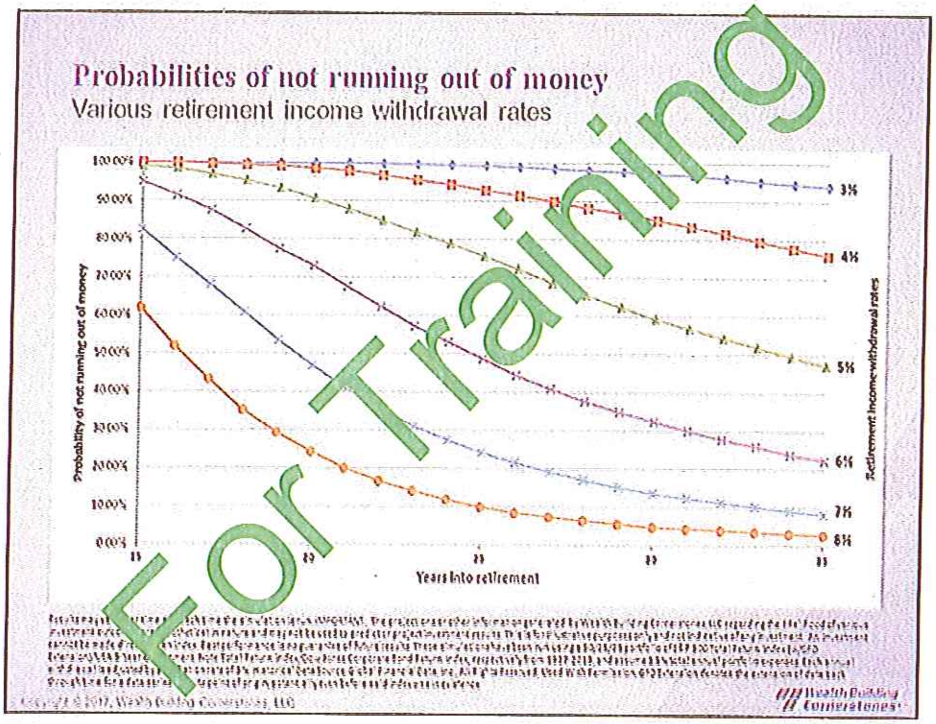


When we put the annual fluctuating returns into our table, we still have the same average yield over thirty years. But now instead of having close to fifteen million dollars at the end of thirty years, we are down to zero dollars between years thirteen and fourteen. “Why does this happen,”? It’s because of the rule change that occurs in distribution, 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 thirty-seven percent in year six, but the issue is that you’re not earning this on that million dollars you started with, you’re earning that on the account value at that time, which is substantially less. So, if we are going to try to use fluctuating return assets to provide retirement income the question becomes how would we go about determining what a safe withdrawal rate might be if we can’t really use a constant rate of return theory, because we’ve only demonstrated one thirty year time frame here which isn’t conclusive. What you’d have to do is run thousands of simulations throughout history to determine probabilities of not running out of money at various withdrawal rates.

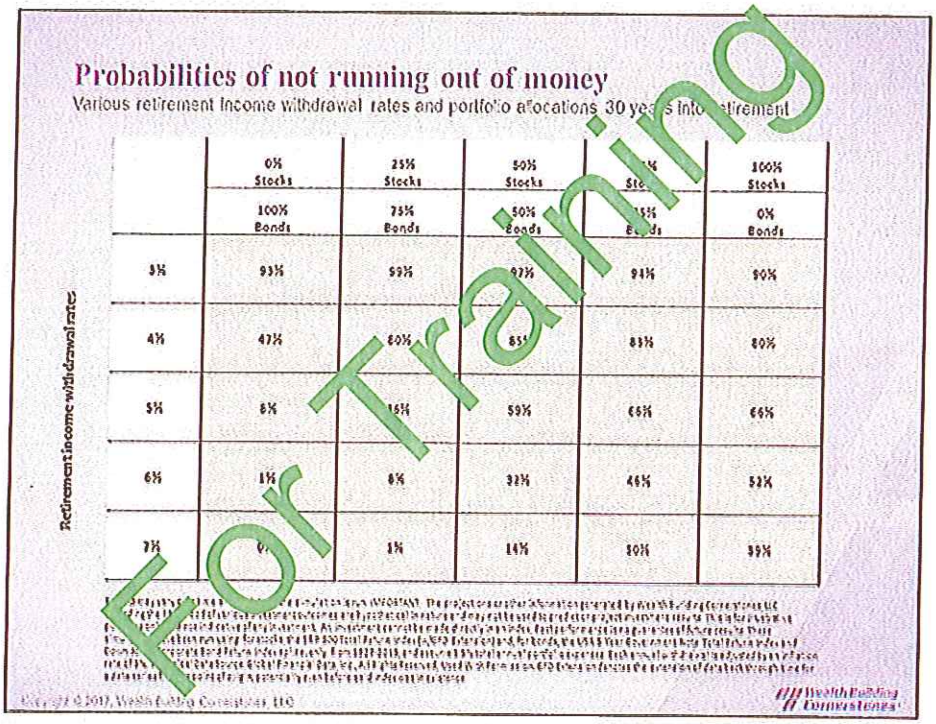


(Ask client(s) to read this slide or read it to them.)

The industry has attempted to solve this problem for us to give us some sort of a scientific look at what is possible and they do this through Withdrawal Rate Simulations. Withdrawal Rate Simulations are software programs that use rates of returns for all types of vehicles over the last hundred years 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 fifteen, twenty, twenty-five, thirty, and thirty-five 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.



Let's take a look at the results of these simulations conceptually. This chart shows the historic probabilities of not running out of money years into retirement based on the withdrawal rate chosen off the beginning asset base. It is important to understand that these are withdrawal rates 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. As an example, let's say you chose an eight percent withdrawal rate off your beginning retirement asset balance. This would put you on the orange line on the bottom probability wise. What this is saying is thirty years into retirement, historically there is about a five percent chance of not running out of money and around a ninety-five percent 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. 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.

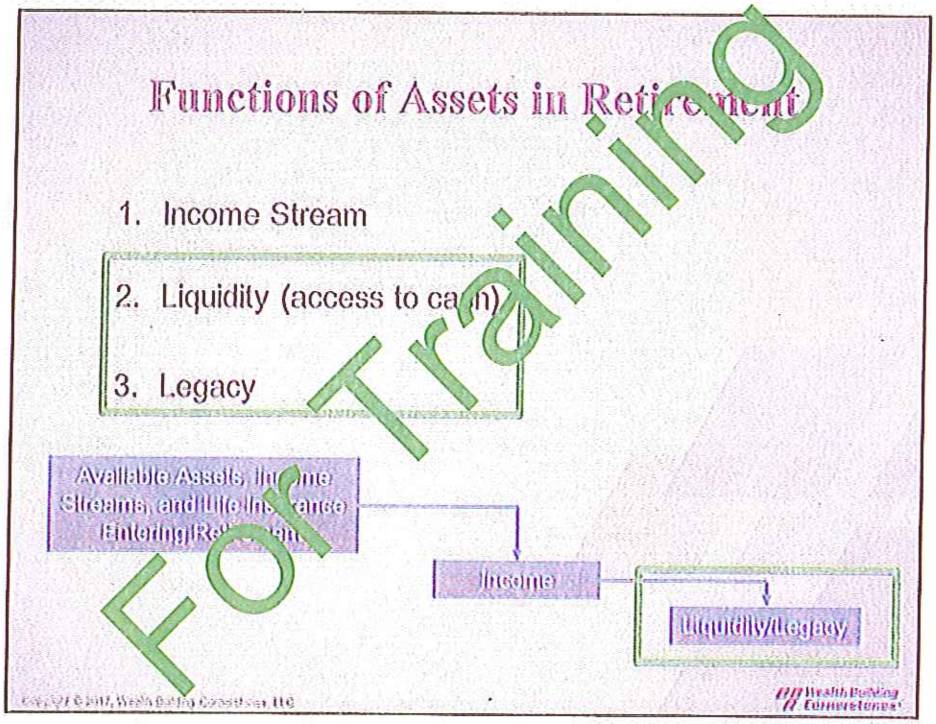


Probabilities of not running out of money

Various retirement income withdrawal rates and portfolio allocations 30 ye[illegible] into [illegible]tirement

Retirement income withdrawal rates	0% Stocks / 100% Bonds	25% Stocks / 75% Bonds	50% Stocks / 50% Bonds	[illegible]	100% Stocks / 0% Bonds
3%	93%	99%	97%	94%	90%
4%	47%	80%	85[illegible]	83%	80%
5%	8%	16%	59%	66%	66%
6%	1%	8%	32%	46%	52%
7%	[illegible]	1%	14%	30%	39%

The previous chart was based on a 50/50 stock/bond allocation mix because historically it is generally one of the better performing mixtures throughout history, but one could choose a different allocation mix as well when running these types of simulations.
(Pause here and review this chart as needed with client(s).)



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.

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.

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.

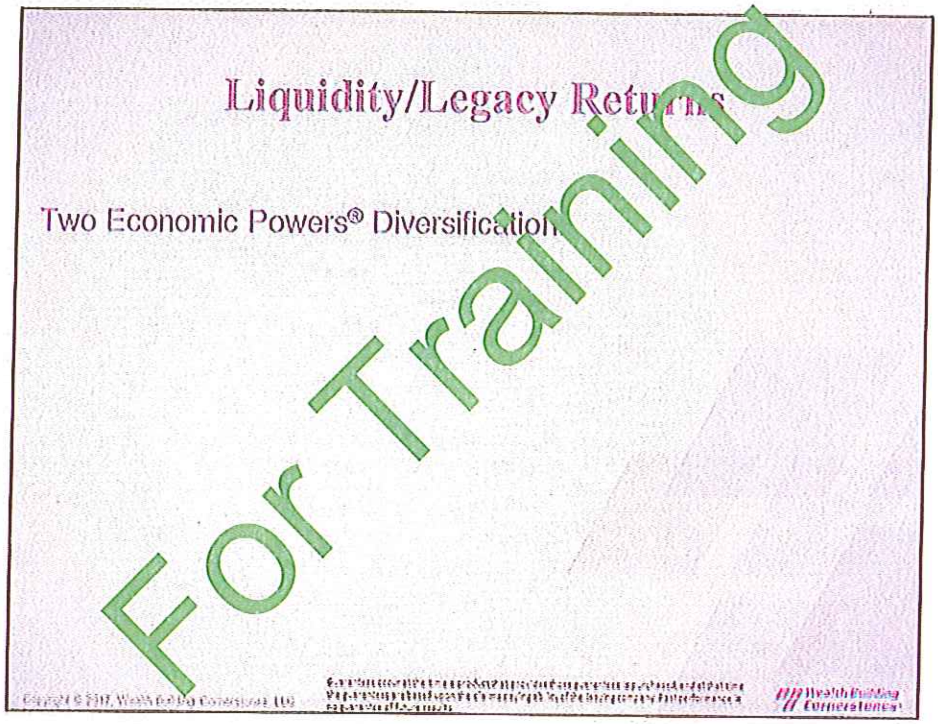
Liquidity/Legacy Levels

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.

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.

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.



We call this Two Economic Powers® Diversification.

One power you can utilize to earn returns is the short term fluctuating interest rate power 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.

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 returns over time that don't fluctuate as much and can be guaranteed. The returns generated by this power generally don't have as much downside or upside potential as the fluctuating interest rate power provided by investment related vehicles.

Liquidity/Legacy Returns

Two Economic Powers® Diversification

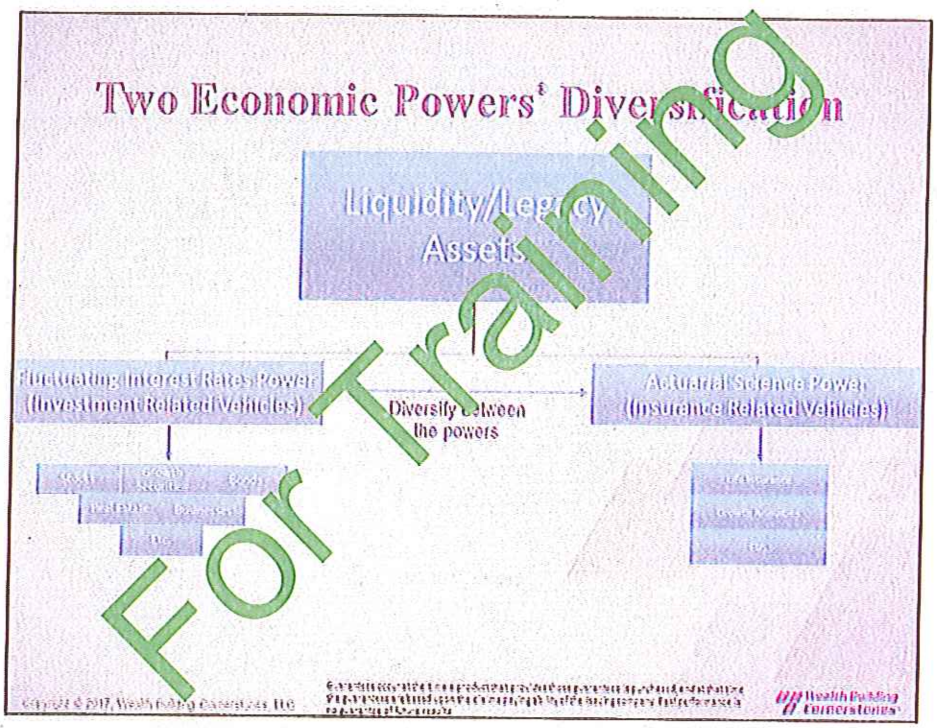
1) Fluctuating Interest Rates (Investment Related Vehicles)
   - Risk/Reward based
   - Can earn money or lose money

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.

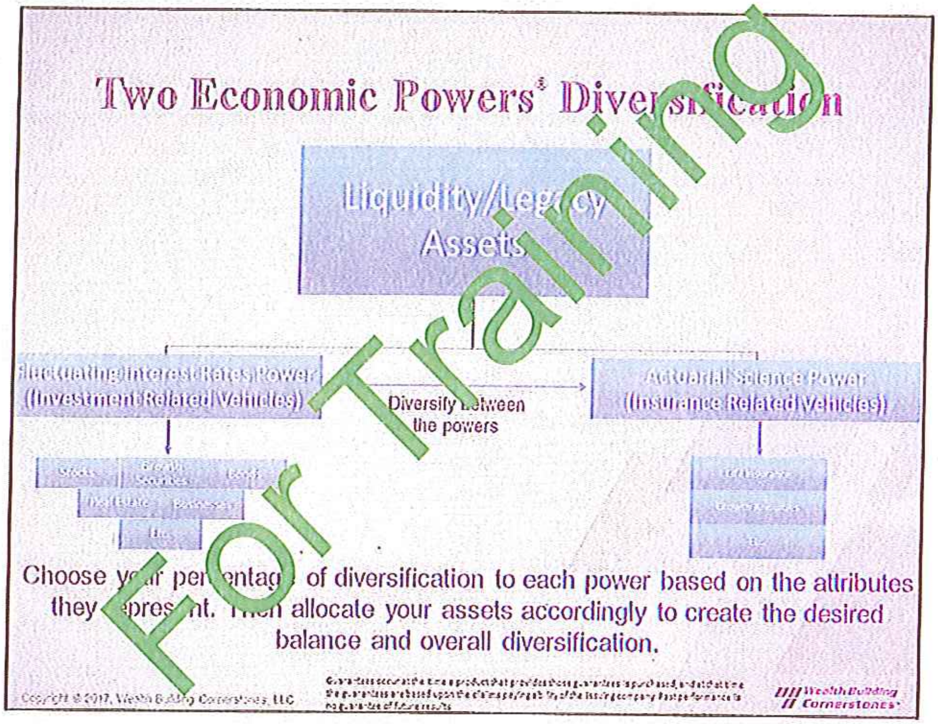
Wealth Building Cornerstones

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 need to 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 package options. Once the underwriting comes back we can then tell the company how much, up to the face amount you've been approved for, and what type of life insurance we want to have issued for implementation as desired as part of your overall package. Does getting an application going sound good to you?)



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Process

1. Review Your Specific Objectives

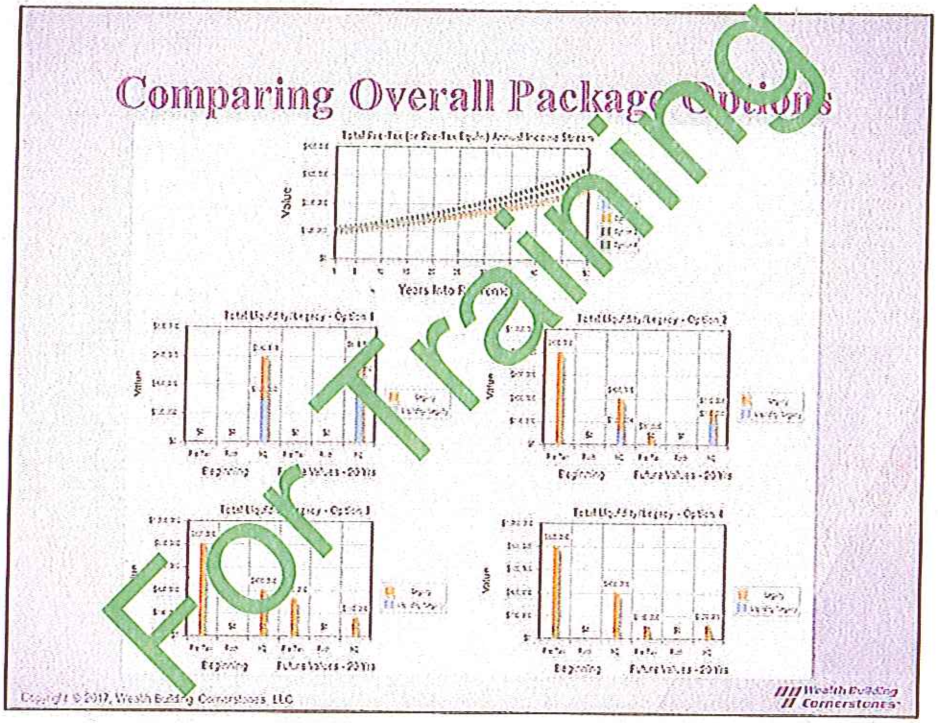
   Income Stream
   How Much? $________
   Min. ___% of Income Stream Guaranteed

   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 package options
4. Implementation of desired Income/Liquidity/Legacy Package

Next time we get together we will use your own numbers to compare the different package 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 package 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 package option you want we will work on implementation of the different pieces with you.



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