"A Guaranteed Income-for-Life Planning Analysis"

Prepared For

Joe Client and Mrs. Joe Client

Presented By

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Income-for-Life Planning

Do you know the day, month, or even the year you are going to die?

If not, then the following information should facilitate a needed discussion about whether or not you are making the right decisions about how to grow and protect your wealth for retirement.

Accumulation vs. Income

Is it more important to accumulate the **maximum amount of money** (a bucket) for retirement?

Or

Is it more important to create the maximum amount of **guaranteed income every year in retirement**?

To many, the previous questions might not make a lot of sense. Most people think that, if they accumulate the maximum amount of money for retirement, this will translate into the maximum amount of income in retirement. Unfortunately, that is not the case for most.

Let's look at the typical American investor, and you'll see the distinction.

Assume Mr. Smith is 55 years old and has $250,000 in an IRA. Let's assume the goal is to take Mr. Smith's $250,000 and create the maximum amount of income in retirement at age 65.

The typical financial planner would tell Mr. Smith to grow his wealth by using a "mix of stocks, mutual funds, and bonds."

For argument's sake, let's make the very big assumption that Mr. Smith is able to earn an **8% gross rate of return** from ages 55-65 (this is unrealistic as you will read in the following pages).

What is Mr. Smith going to do when he turns 65? Should he keep his money in a mix of stocks, mutual funds, and bonds?

There are **NO guarantees** with stocks, mutual funds, and bonds. If that's the case, shouldn't he move his money into fixed-return investments (CDs, money markets, fixed annuities)? If that's true, what rate of return could he earn "guaranteed" for life? 1%? 3%? 5%? In today's environment, he would be lucky to find a return above 3% guaranteed.

Mr. Smith's **8%** gross rate of return needs to be reduced by real-world expenses. For this example, assume there is a 1.2% mutual fund expense, a 20% capital gains rate on the gains every year, and NO money management fee (a low expense example to say the least). Assume his money grew until age 65 and then that he repositioned that money into fixed investments earning **3%** (net) for the rest of his life. How much money could he remove from his IRA (pre-tax) from ages 66-85 leaving an account value of **zero**?

$29,217 (each year from 66-85)

Accumulation vs. Income

People who are focused on accumulation do so because they like the idea of a big bucket of money waiting for them when they hit retirement.

In the previous example, if the IRA actually earned an 8% net return, the accumulated value when Mr. Smith turns 66 would be **$447,713**.

That sounds great, but again, what does Mr. Smith do when he tries to turn his lump sum IRA asset into income he'll **need to live on for the rest of his life**?

Most financial planners do not deal with this vitally important question, and their clients are the ones who will mostly likely **suffer the consequences** when in retirement.

Would Mr. Smith be happier trying to achieve a **non-guaranteed** value of **$447,713** at age 66 or would he be happier knowing today that he could turn his $250,000 IRA balance into a **guaranteed income every year for a life payment of $28,050** when he turns 66?

If you answer the question to yourself quickly without thinking carefully, you may opt for the lump sum value because the assumed annual income from ages 66-85 equaled **$28,050**.

Let's get back to the first question on the previous page: Do you know the day, month, or even the year you are going to die?

Remember, there is **no guarantee** that the $250,000 current balance will grow at an 8% net rate of return. Remember, the withdrawals from the IRA did NOT include any **stock market crashes**. Remember, the **$29,217** withdrawal amount was based on the **assumption** that Mr. Smith would **die at his assumed age of death** (age 85) and that the account value at age 85 would be **zero**.

If any one of the three huge assumptions doesn't come to fruition for Mr. Smith, he will NOT have the needed money to live on for the rest of his life.

What happens if Mr. Smith doesn't die at age 85? What if he lives until age 88, 92, or even 95+?

Are these risks you want to take with your money?

What will his financial planner tell him about using an **accumulation model** for retirement instead of a **guaranteed income based model**? Most likely the financial planner will be nowhere to be found, and Mr. Smith will look back in hindsight and regret the decisions he made to grow his wealth for retirement.

The DALBAR Study
Real-World Wealth Accumulation

Most advisors are unfamiliar with one of the most powerful and real-world studies that comes out every year. The DALBAR study is a "Quantitative Analysis of Investor Behavior." In layman's terms, the DALBAR study calculates what the "average investor" actually earned over the last 20 years.

What did you earn as an average rate of return on your investments over the last 20 years?

See if you are like the average investor who earned returns as you'll see in the following chart (a chart that compares the average investor to what the S&P 500 stock index returned from 1991-2011).

	Average Equity Investor	S&P 500	Difference
20-Year	3.49%	7.81%	**-4.32%**
10-Year	2.39%	2.92%	**-0.53%**
5-year	-2.21%	-0.25%	**-1.96%**
3-Year	12.56%	14.11%	**-1.55%**
12-Months	-5.73%	2.12%	**-7.85%**

These numbers are truly stunning. The average equity investor underperformed the S&P 500 by **4.32%** for the past 20 years.

Let's put this into context—if the average investor started with $100,000 in an investment account 20 years ago and earned what the S&P returned (**7.81%**), the account value would have been **$1,043,427** (this assumes no taxes or fees).

What would the average investor earning only **3.49%** have in an account after 20 years? **$479,744** (this assumes no taxes or fees).

Why does the average investor generate returns that are so much less than just leaving money in the S&P 500 index? One statement that sums up the problematic tendencies of the average investor is that they are professionals in "**buying high and selling low**."

The psychology behind why our society has this tendency is fascinating and is covered in detail in the DALBAR study. If you would like a copy of that study, please contact our office.

Problems with indexing

After reading the above, you might get the opinion that the best way to grow your wealth is to simply position your money in the S&P 500 or other stock index and let it sit there for 5, 10, 20+ years? Mathematically, you would have a much better chance at success than the average investor who uses an actively traded account; but what's the problem with indexing?

Stock market crashes

2000-2002 crash—the S&P 500 stock index lost from the highest point to the lowest point **46%** of its value.

2007-2009 crash—the S&P 500 stock index lost from the highest point in October of 2007 to the lowest point in March of 2009 **59%** of its value.

Do you know when you will retire? Many people do, which means that a decision can be made at some point close to retirement to transition invested assets into less risky positions to make sure their retirement dollars don't get depleted in the event of a stock market crash.

Do you know when the next stock market crash will happen? While it's great that many people know when they are going to retire, no one knows when the next stock market crash will take place.

Let's look at how this can affect your ability to retire. If you accumulated $500,000 at age 65 (the year you intend to retire), how much would you have left if you retired the year **after** each of the two latest stock market crashes?

	-46%	**-59%**
Losses in crash	**($230,000)**	**($295,000)**
Remaining balance	$270,000	$205,000

Would you rather retire with $500,000 or $270,000 or $205,000? To ask the question is to answer it.

Accumulation vs. Income

Let's get back to the main question this summary is meant to deal with. Is it better to reach for the **largest accumulated assets** in retirement, or is it best to design a retirement plan that creates the **maximum guaranteed income for life**?

That's a question everyone has to answer for themselves, but think about the following: If there were wealth-building tools you could use that could **guarantee you a 6-8% rate of return** (depending on the product) for 10-20+ years that used the accumulated value (which is not a walk-away value) for income purposes, would that interest you?

Would your interest improve if you knew the day you funded the tool that the **guaranteed retirement income would be based on a 5%-6.5% pay rate** (depending on the product) when you turned age 65? (The products can turn income on any time after age 40 with varying pay rates.)

Personalized numbers—the following information will illustrate specific numbers for your situation using a **guaranteed return/guaranteed income** product. The goal is to make sure you understand the power of a guaranteed retirement income tool so you can make the decision about how you want to grow and protect your wealth for retirement. The options are simple—you can allow the money to grow like you always have with **100% risk of loss at any time**, or you can **guarantee yourself a specific retirement income** that you can never outlive.

The Power of Certainty with Guaranteed Income

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Assets used for calculation of a guaranteed income for life: $500,000

Years until retirement or the expected date a guaranteed income would be activated: 10

Assumed age at death: 89

Explanation of the Charts to Follow

The following chart is both simple and powerful.

Four left-hand columns—in these columns are the numbers for the guaranteed income rider annuity. The left column is the year, the next column over is your age, the next column is the income base (the value used to calculate your guaranteed income-for-life payment), and the right-hand column is the guaranteed income in the year illustrated (keep in mind that you can turn your income on with most products any time after twelve months).

Two center columns—these columns titled "alternate account" represent what would happen with your money if you placed that money in CDs, money market accounts, stocks, bonds, etc., using a certain assumed rate of return.

The key question this analysis is designed to answer is whether you are going to **run out of money in retirement** should you live past a certain age if you do NOT use a guaranteed income product. The software allows for a different accumulation growth rate on the money in the left column until you reach retirement (where you might assume a more aggressive rate of return) and then a lower rate of return when in retirement (when you should have your money in safe return investments that will have lower yields).

The right-hand column has the same amount being withdrawn in your retirement years as the guaranteed income from the annuity which is illustrated in the left three columns.

As you look at the analysis, if you see a **bright yellow line** and a **zero** in the right-hand column of the center two columns, you know that based on the assumptions used, you would **run out of money** in retirement in the year and at the age where you see the yellow line.

Right two columns—these columns are under the title "annuity value." The goal with these columns is to illustrate what the death benefit (the amount passed to your beneficiaries) would be in any given year. As you can see, the right-hand column shows the same guaranteed income being withdrawn annually from the annuity's actual account value.

What's most important to note is that, when the account value goes to zero, the annuity keeps on paying the annual guaranteed income payment (although at that time the amount passed to the heirs would be zero).

Red-lines/boxes—as you can imagine, red in any kind of retirement-planning printout is not good (and that is the case if you see red on the following chart).

Red in the following chart has two meanings. First, if you see a red line across the page, that's the age you told your advisor you most likely thought you were going to die.

Second, if you see a number of red boxes in consecutive years, those signify the years you would be without income while living and before you think you are going to die.

The reason people buy annuities with guaranteed income riders—the fact that an annuity continues to pay a guaranteed income even when the account value goes to zero is the main reason people buy these types of annuities. Guaranteed income annuities protect against huge variables that, for the most part, are out of a person's control. Those variables are: 1) what the returns are on invested money over a period of years (which includes accumulation and income phases) and 2) when are you going to die.

If you know what you are going to earn on your money until the year you die and in the income phase and if you know the year you are going to die, you most likely will not need to buy an annuity with a guaranteed income rider.

However, if you are like most people, you have no idea what you can earn on your money over the next many years (or when the next stock market crash is coming); and you do not know when you are going to die. If that is the case, creating financial certainty in your life through a guaranteed income annuity may be a prudent course of action.

Assumptions

The following are the assumptions for the main chart on the next page (age, dollars used, years until income is activated, years of deferral before turning on income, payment rate on the accumulated value in the year income is turned on, contractual roll-up rate on the accumulation value of the FIA, fee for the income rider, premium bonus, if any, years of income (capped at age 100 for illustrative purposes), when a typical non-guaranteed account would have a zero balance) and the net assumed rate of return on a non-guaranteed income product.

Age Now:	55
Deposit	$ 250,000
Deferral years	10
Withdrawal rate	5.50%
Roll up Rate	7%
Rider Fee	0.85%
Years of income	29
Zero Balance Age:	84
Assumed net return	4.00%

		Annuity Rider Values		Alternative Account		Annuity Values	
Age	End of Year:	Income Base	Guaranteed Withdrawal	Account Value	Non-Guaranteed Withdrawal	Annuity Value Less Fees	
55	0	$ 250,000	$ -	$ 250,000	$ -	$ 250,000	$ -
56	1	$ 268,474	$ -	$ 260,000	$ -	$ 257,627	$ -
57	2	$ 288,314	$ -	$ 270,400	$ -	$ 265,383	$ -
58	3	$ 309,620	$ -	$ 281,216	$ -	$ 273,261	$ -
59	4	$ 332,500	$ -	$ 292,465	$ -	$ 281,252	$ -
60	5	$ 357,071	$ -	$ 304,163	$ -	$ 289,346	$ -
61	6	$ 383,458	$ -	$ 316,330	$ -	$ 297,530	$ -
62	7	$ 411,795	$ -	$ 328,983	$ -	$ 305,791	$ -
63	8	$ 442,226	$ -	$ 342,142	$ -	$ 314,113	$ -
64	9	$ 474,905	$ -	$ 355,828	$ -	$ 322,480	$ -
65	10	$ 510,000	$ 28,050	$ 370,061	$ 28,050	$ 330,871	$ 28,050
66	11	N/A	$ 28,050	$ 355,692	$ 28,050	$ 310,425	$ 28,050
67	12	N/A	$ 28,050	$ 340,747	$ 28,050	$ 289,162	$ 28,050
68	13	N/A	$ 28,050	$ 325,205	$ 28,050	$ 267,048	$ 28,050
69	14	N/A	$ 28,050	$ 309,041	$ 28,050	$ 244,049	$ 28,050
70	15	N/A	$ 28,050	$ 292,231	$ 28,050	$ 220,131	$ 28,050
71	16	N/A	$ 28,050	$ 274,748	$ 28,050	$ 195,256	$ 28,050
72	17	N/A	$ 28,050	$ 256,566	$ 28,050	$ 169,385	$ 28,050
73	18	N/A	$ 28,050	$ 237,657	$ 28,050	$ 142,480	$ 28,050
74	19	N/A	$ 28,050	$ 217,991	$ 28,050	$ 114,499	$ 28,050
75	20	N/A	$ 28,050	$ 197,539	$ 28,050	$ 85,399	$ 28,050
76	21	N/A	$ 28,050	$ 176,268	$ 28,050	$ 55,134	$ 28,050
77	22	N/A	$ 28,050	$ 154,147	$ 28,050	$ 23,659	$ 28,050
78	23	N/A	$ 28,050	$ 131,141	$ 28,050	$ -	$ 28,050
79	24	N/A	$ 28,050	$ 107,214	$ 28,050	$ -	$ 28,050
80	25	N/A	$ 28,050	$ 82,331	$ 28,050	$ -	$ 28,050
81	26	N/A	$ 28,050	$ 56,452	$ 28,050	$ -	$ 28,050
82	27	N/A	$ 28,050	$ 29,538	$ 28,050	$ -	$ 28,050
83	28	N/A	$ 28,050	$ 1,548	$ 1,548	$ -	$ 28,050
84	29	N/A	$ 28,050	$0	$0	$ -	$ 28,050
85	30	N/A	$ 28,050	$0	$0	$ -	$ 28,050
86	31	N/A	$ 28,050	$0	$0	$ -	$ 28,050
87	32	N/A	$ 28,050	$0	$0	$ -	$ 28,050
88	33	N/A	$ 28,050	$0	$0	$ -	$ 28,050
89	34	N/A	$ 28,050	$0	$0	$ -	$ 28,050
90	35	N/A	$ 28,050	$0	$0	$ -	$ 28,050
91	36	N/A	$ 28,050	$0	$0	$ -	$ 28,050
92	37	N/A	$ 28,050	$0	$0	$ -	$ 28,050
93	38	N/A	$ 28,050	$0	$0	$ -	$ 28,050
94	39	N/A	$ 28,050	$0	$0	$ -	$ 28,050
95	40	N/A	$ 28,050	$0	$0	$ -	$ 28,050

Summary

While some people will be able to time the stock market in the growth phase to earn a better rate of return than the guaranteed roll-up rate on a guaranteed income annuity, that will be the exception rather than the norm.

Additionally, it's one thing to accumulate assets for retirement, it's another to turn those assets into an income stream that can never be reduced or outlived.

Guaranteed income annuities are not for everyone. However, for people who want to sleep well at night because they know exactly what their retirement income will be for as long as they live (which means they don't have to worry about what the stock and bond markets are doing on a daily, weekly, and yearly basis), guaranteed income annuities can be a vital part of your overall retirement plan.

If you are ready to move forward to pick out an annuity with the best guaranteed income rider for your situation, please feel free to contact our office.

Disclaimer

The previous information is for example purposes only. The information in this summary is subject to change at any time due to the fact that companies that offer guaranteed income products can change their initial terms at any time.

"Final" numbers indicating how much guaranteed income could be generated cannot be locked in until such time as an application is signed, submitted, and accepted by the insurance company of choice.