THE FOUR LEGGED STOOL
Guaranteed income, liquidity, and a rising income to combat inflation. It has always been the gold standard of a safe comfortable retirement. If you’re over 50 with $500,000, or more saved, you may be “effectively retired” and just don’t know it. Schedule an Appointment today!

THE 9 QUESTIONS THAT EVERY RETIREMENT SAVING BABY BOOMER SHOULD ASK THEIR FINANCIAL ADVISOR

SCOTT E. MANN
REGISTERED FINANCIAL ADVISOR, AND FIDUCIARY

Scott Mann has been featured on:

Safe Money with Scott Mann runs
740am Houston, Tx. Sundays @ 10am
There is a new word on the financial scene, you may have heard it: “FIDUCIARY”

To those of us, in the financial services industry, with years of experience, who actually help our trusted clients manage money in the market, reaching their goals of a safe, comfortable retirement, this has always been our level of care.

Let me dive even deeper into this concept—I would argue, in addition to this highest standard of care, you also need **two more things** from your ideal financial advisor.

- A talented financial advisor with several years of experience—one who has seen the dot com bubble of 2000, and 2008. (Remember, if you lose 40% again like in 2000/2008, or the next one sure soon to come, due to the real like mathematics of “the arithmetic of loss” you must make about 80% just to get back to even.)

- A financial advisor who is aligned with you, and your spouse, in terms of philosophy, and most importantly, The Four Key Factors. These will determine your retirement success or failure: (R.T.I.P.)

**R.T.I.P**

A safe comfortable retirement are always based on Four Key Factors:

1. **Risk Tolerance:** If you are 2-10 years from retirement, you need to be realistic, and assume a much more defensive position. It’s never what you “make on paper, it’s what you keep”, and as the old wall street axiom goes, “Hogs get fed, pigs get slaughtered” (see “arithmetic of loss”)

2. **Time Horizons:** At 50-65, you are no longer “long term”. Your time horizon is compressed, and you don’t have the time to recover from a big loss. (see “sequence risk”)

3. **Income Needs:** All retirement planning is “retirement income planning”. Income is the end game, replacing the check you will no longer receive from your employer.

4. **Proper Tools:** what mix of Cash: minimum of 6 months of expenses; Guaranteed income: social security, pensions and/or fixed index annuities with a guaranteed income rider (a pension replacement) securities (stocks and/or “The Four Asset Portfolio for Growth and Income in Retirement”.

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2. WHAT IS YOUR OVERALL PHILOSOPHY OF RETIREMENT PLANNING?

DO YOU BELIEVE THAT MONEY INVESTED IN THE STOCK MARKET ALONE IS THE ONLY SOLUTION? OR ARE YOU A PRAGMATIST, AND A STUDENT OF FINANCIAL PLANNING HISTORY?

Regulatory rule 405 the “Know Your Customer rule”, from the securities act of 1933, was established after the abuses of the market vs the consumer in the crash of 1928. Here the US government created the securities and exchange commission(SEC). The first pivotal piece of legislation has come to be called the “know your customer rule”.

I’m talking about your risk tolerance. So here, to the letter of the law, is really how to determine how much you should have in this, likely frothy and overvalued stock market that has gone up for about 9 +years now. Many of you, that we work with in our practice, are “baby boomers”, 50ish to 60ish, With approximately $500,00 saved in your 401k or old IRA, and no longer have a pension.

Ask yourself, what if you had:

<table>
<thead>
<tr>
<th>High Risk, High Level of Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you are approximately 60 with $500,000 saved &amp; take another 40% loss = -$200,000</td>
</tr>
<tr>
<td>$300,000 left</td>
</tr>
</tbody>
</table>

This would require about an 80% gain to get back to even due to the “arithmetic of loss”

<table>
<thead>
<tr>
<th>Moderate Risk, Moderate Level of Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you are approximately 60 with $500,000 saved &amp; take another 20% loss = -$100,000</td>
</tr>
<tr>
<td>$400,000 left</td>
</tr>
</tbody>
</table>

This would require about an 40% gain to get back to even due to the “arithmetic of loss”

<table>
<thead>
<tr>
<th>Lower Risk, Lower Level of Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you are approximately 60 with $500,000 saved &amp; take another 10% loss = -$50,000</td>
</tr>
<tr>
<td>$450,000 left</td>
</tr>
</tbody>
</table>

This would require about an 20% gain to get back to even due to the “arithmetic of loss”

What type of emotional reaction would this create?
- Fear, Anger, Shock, Depression?
- Can you stomach this?
- Would you sell?
- Lose sleep, etc.?

A portfolio this aggressive, with such a high level of risk, is generally unsuitable since 60 year olds cannot stomach this level of loss, it does not fit their risk tolerance.

A portfolio this aggressive, with a moderate level of risk, is generally unsuitable for most 60 year olds since cannot stomach this level of loss, it does not fit their risk tolerance.

A portfolio with this fairly low level of risk may or may not be suitable for a 60-year-old.
Many “Baby Booming Retirement Savers” fail to reach their retirement income goals (run out of money in retirement or suffer a lower standard of living) not because their “FA” is trying to hurt them (even well intentioned, ivy league educated, fiduciaries will cause clients to fail) but because of three factors.

1. **The FA’s Philosophy of Investing**
   Their retirement solution is always “put all of your savings into the stock market, Mr. Client, since the market always goes up, long term”

2. **The FA’s Business. Compensation Model**
   Here their compensation is not aligned with solving your four key factors (RTIP: Risk Tolerance, Time Horizon, Income Needs, Leveraging the Proper Tools, in the proper amounts)
   - These Financial Advisors, frankly, are far too concerned about charging you 1-2% in fees on your assets every year.
   - “100 Million of assets under management at 1%” is their mantra.

3. **Being your hero** playing economist, guessing the direction of the market.

My point is, many fiduciaries will still cause you to fail. It’s not my job to guess the direction of the market, or make you rich. My job is to make you comfortable in retirement (guaranteed income and increasing income) so you can do more great stuff with those you love. Time may make you rich.

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3 HOW MUCH COULD I LOOSE IN THE NEXT MAJOR STOCK MARKET MELTDOWN?

Here is some historical perspective—look at a graph of the DOW JONES AVERAGE the past century.

95% of the returns of the past 117 years have come in the past 35 years, and with the inception of your 401k and the abolition of your pension plan, between the late 1980s’ – 2001, just after the .com bubble. Here this acceleration away from pensions to 401k plans really kicked into overdrive with large corps exiting the pension business.

Volatile stock markets, low interest rates, and ever-expanding life expectancies where the catalysts from pension to defined contribution plans(401k’). Just Google search “graph of the Dow Jones since the turn of the century” and you will see what I mean.

Think about it. Your safe comfortable guaranteed retirement income has been replaced by “phantom stock market” income. We’ve now had TWO huge bubbles, two huge market meltdowns of 40% and with a market that has now run for 9 years, you know you are in bubble number three, but this time you don’t have the time to recover.

Furthermore, each time we’ve had a major market run up for over a decade, as in the 1980s-1990’s, or in 2000-2008, we’ve had higher highs and even lower lows: “Regression to the Mean”. Look, again, at that graph of the Dow. The NASDAQ just recently passed the high water mark from the dot com bubble. This was nearly two decades ago, pre-google, think about it?
HERE ARE SOME APPROXIMATE AVERAGE MARKET RETURNS ON THE S AND P 500 INDEX

1900-1998, approximately 4% average returns, not including fees, which for the average investor, probably averages about 2%, most of which are hidden.

1998- today, still only about 4% average return due to two huge 40% pull backs in 2000 and 2008.

Plug in what many of you at 50ish to 60ish have saved: approximately $500,000 +/- on a financial calculator, or an on line calculator like bank rate.com, as a time value of money equation.

For example, we know that $500,000 invested in the s and p 500 in 1998 is about $1,200,000 as of today, $1,200,000 on paper, monopoly money. Monopoly money produces A “phantom retirement income”, a phantom sense of security, you see my point. So, what has been your average rate of return on your retirement savings? Let’s run the numbers.

If we set up the equation as follows:

N: NUMBER OF YEARS: 19
PV: PRESENT VALUE: $500,000 invested in 1998
FV: FUTURE VALUE (TODAY'S VALUE): approximately $1,200,000
I: INTEREST RATE: (SOLVE FOR THIS): =@4% Average Annual Return

Sure, you’ve had years with huge returns, in the late 1990’s and the past few years, but these have been followed by 40% shellackings. Nowhere in these numbers is there a 7% average annual return, for you, the average retirement saver, as is constantly floated by the financial media, as a fact.

NOTE: My numbers are not exact, and are for illustrative purposes only. Your returns may be better or worse. Past performance in no guarantee of future performance, nor is this not an offer to purchase a security.

Based upon the history of the stock market, in the near future, it is likely we see a 10% pullback. Furthermore, as valuations levels get more and more stretched. It is more and more likely we see a 20% loss in the not too distant future. Finally, another 40% loss is not at all implausible soon, and certainly will happen again at least once in your lifetime.

The upshot of this is that your $500,00 saved, may well be back to $300,000 or where you were 10 years ago, and maybe at the worst time, when you need income, with no time to recover, due to your compressed time horizon.

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4. WHAT ARE YOU DOING TO PROTECT ME FROM THE NEXT BIG MARKET MELTDOWN?

Here is the grim reality – if you don’t base your retirement planning on the four keys: RTIP:

- **Risk Tolerance**
- **Time Horizon**
- **Income Needs**
- **Leveraging the Proper Tools**, no financial advisor can do anything to save you

You will fall back into the trap of the following constantly repeated phrases which you heard in 2000 and 2008 from the talking heads on the financial channels and likely from fee ONLY based “FA’s.”

Here are my favorites, then my responses. The last one is a true classic.

- “Its long term money” (...when you are 50 ish to 60 ish, it’s no longer long term money)
- “Its never a loss till you sell it” (...If you are 30 or 40, this is the case, since, hopefully, things recover
- “Buy more, average down, things are cheaper” (...things may stay cheap for a very, very long time)

One caveat: Japan’s stock and real estate markets got creamed in 1989 and have never fully recovered.

They are the third largest economy in the world.

My favorite:

- “Don’t open your statement, it will only upset you”- from the archives of 2000, and the dot.com meltdown

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5. **WHAT DOES “TRUE DIVERSIFICATION” REALLY MEAN TO YOU, AND HOW DO YOU PLAN TO HELP ME ACCOMPLISH THIS??**

Here is the grim reality - A port of 15 mutual funds, or 20 individual, even blue chip stocks are not true diversification; not decoupled from the risks of the market.

In 1952 an academic named Harry Markowitz won a Nobel Prize for his paper on diversification.

Here was his theory, and the different components, that together, made up the paper:

- **Add in bonds to soften the blow, to your losses, in a falling market**

- **All of us have a pressure point, or a tipping point at which we, as rational creatures, decide as to whether we’d rather choose a guaranteed rate of return, a bond or cd interest rate, our “risk free alternative”, or take more risk, due to a higher “expected rate of return”**.

- **This mental calculus of safety, vs potential gains, coaxes us towards more, or less risk based upon our options, and our mental outlook. It is like why most of us do not rob banks. Too much risk for too little return, since we don’t want to do the time**.

So, this was about it. He created formulas, as academics do, and put together a paper, calling it “revolutionary”.

The past 20+ years, as your pension went away, this “diversification” has morphed into what wall street has called “asset allocation”.

Here is the problem with the theory, the math, and the real numbers:

- “Diversification” was never intended to solve your retirement income problem. Your pension did this and now it’s gone.

- Your 401k/IRA was never intended to be the vehicle to carry you. It was always just the little brother add on the “big kahuna” the defined benefit pension plan, which is now gone.

- There is really no “risk free alternative” that offers protection of principal and pays any discernible guaranteed interest rate today- cd’s, bonds, etc.

- Retirement savers, who’s pensions (guaranteed income) have now been replaced by 401k plans (phantom income) have now been forced to throw caution to the wind, taking them well out of their comfort level with risk tolerance, and chase stock market returns, praying the market keeps going up, saving their retirement.

- The recommended withdrawal rate off money in the market has gone from a 6% spend rate in the 1990’s to a 4% withdrawal rate (the 4% withdrawal rule) 2000-2008, to now maybe 2%, unless an asset allocation known as “The Four Asset Portfolio for Growth and Income” in Retirement, is utilized and most prudently, as an add on to a pension or a fixed annuity with a guaranteed income feature.

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6. HOW MUCH DO I NEED SAVED TO MAINTAIN MY CURRENT LIFESTYLE IN RETIREMENT??

You need enough saved to generate, maybe, 80% of your working income based upon your debt, and how much fun you want to have in retirement.

In addition to a volatile, and likely overvalued stock market, chronically low interest rates, and a low growth world economy, a condition respected economists have called “THE NEW NORMAL”, another major concern is the increasing life expectancies. Retirees must plan to live till 100 to be safe.

Given improvements in life expectancies, the money set aside for retirement may need to last a long time—potentially 20 to 30 years or more. An additional challenge is that individuals don’t know how long their money needs to last, given the unpredictable nature of individual lifespans.

Figure 2.3 shows that for a 65-year-old man, there’s a:
- 50% chance he’ll live to age 85,
- 30% chance he’ll live to age 90 (almost one out of three), and
- 12% chance he’ll live to age 95 (greater than one out of ten).

Similarly, for a 65-year-old woman, there’s a:
- 50% chance she’ll live to age 87,
- 41% chance she’ll live to age 90 (greater than one out of three), and
- 21% chance she’ll live to age 95 (greater than one out of five).

For a male and female couple, both age 65, there’s a:
- 50% chance at least one will live until age 91, and
- 31% chance at least one will live to age 95 (almost one out of three).

Many retirees are drawing down or planning to draw down their savings at rates that have a high chance of savings depletion. (In other words, many retirees may outlive their money.) One survey from Wells Fargo shows the median annual rate that retirees plan to withdraw from their invested savings is 10% of assets; at this rate, retirees have a very high chance of outliving their savings, as shown in Figure 2.5.

The sustainable withdrawal rate—one that offers retirees a high probability of making their savings last for life — has been the subject of considerable analysis and debate, but no credible analyst would ever suggest a withdrawal rate as high as 10%.
This is evident in Figure 2.5, which shows the chances of depleting assets over various periods for different withdrawal rates. A 10% withdrawal rate has more than a 90% chance of failure after 15 years of retirement. (The withdrawal amounts shown below are real; the dollar amounts of retirement income are adjusted for inflation during retirement.)

Information and graphs borrowed from *The Next Evolution in Defined Contribution Retirement Plan Design* By Steve Vernon, FSA, and can be found at longevity.stanford.edu/financial.security

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7. COULD I RUN OUT OF MONEY BEFORE I RUN OUT OF LIFE?

Another important issue in a retirement portfolio is the sequence of returns/sequence of losses, that is, the order in which returns occur has a dramatic impact on the longevity of a retirement portfolio. Market-based losses (or very low returns) in the early years (just after the person has retired) can be disastrous to the longevity of the portfolio. Thus, a retirement portfolio needs to be sufficiently diversified to minimize “timing-of-returns” risk. Building a retirement portfolio that has a very large allocation in any one asset class is simply asking for trouble because of the lack of diversification.

In fact, based upon “sequence risk”, the sequence of when you incur losses, extensive research from the Stanford Center on the Study on Longevity, indicates that, if you incur significant losses in the four years just prior to retirement, and/or the first four years into retirement, odds are quite high that you run out of money before you run of life.

Considering the ever expanding life expectancies,(about 84 for a man and 87 for a woman), this could be in your late 70’s or late 80’s. At a minimum, you may suffer a lower standard of living, or worse yet, “run out of money before you run out of life” in your late 70’s, 80’s, or even 90’s, not a good time to be looking for work, or moving in with your 65 year old children. To be safe, in today’s world, you must plan to live to 100, and a rising cost world of 3% inflation.

Note: If you had retired Jan. 1, 2000, with an initial 4% withdrawal rate and a portfolio of 55% stocks and 45% bonds rebalanced each month, with the first year’s withdrawal amount increased by 3% a year for inflation, your portfolio would have fallen by a third through 2010, according to investment firm T. Rowe Price Group. And you would be left with only a 29% chance of making it through three decades, the firm estimates.

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WHAT IF YOUR FIRST TEN YEARS INTO RETIREMENT LOOK LIKE THIS??

What if you are currently retirement age and the next ten years look like these 10 years?

This table is designed to show the devastating effect of “sequence risk” on a retirees portfolio, due to a lack of proper diversification.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PORTFOLIO VALUE</th>
<th>INITIAL WITHDRAWAL RATE: (4% + INCREASE FOR INFLATION)</th>
<th>MARKET RETURN</th>
<th>GAIN/LOSS</th>
<th>REMAINING PORTFOLIO VALUE</th>
<th>NEW WITHDRAWAL RATE REQUIRED</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$1,000,000.00</td>
<td>$40,000.00</td>
<td>-9.10%</td>
<td>$(91,000.00)</td>
<td>$859,000.00</td>
<td>4.00%</td>
</tr>
<tr>
<td>2001</td>
<td>$859,000.00</td>
<td>$41,200.00</td>
<td>-11.89%</td>
<td>$(102,135.10)</td>
<td>$707,074.90</td>
<td>4.80%</td>
</tr>
<tr>
<td>2002</td>
<td>$707,074.90</td>
<td>$42,436.00</td>
<td>-22.10%</td>
<td>$(156,263.55)</td>
<td>$501,304.60</td>
<td>6.00%</td>
</tr>
<tr>
<td>2003</td>
<td>$501,304.60</td>
<td>$43,709.08</td>
<td>28.68%</td>
<td>$143,774.16</td>
<td>$596,356.63</td>
<td>8.72%</td>
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<tr>
<td>2004</td>
<td>$596,356.63</td>
<td>$45,020.35</td>
<td>10.88%</td>
<td>$64,883.60</td>
<td>$610,256.31</td>
<td>7.55%</td>
</tr>
<tr>
<td>2005</td>
<td>$610,256.31</td>
<td>$46,370.96</td>
<td>4.91%</td>
<td>$29,963.58</td>
<td>$587,746.37</td>
<td>7.60%</td>
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<tr>
<td>2006</td>
<td>$587,746.37</td>
<td>$47,762.09</td>
<td>15.79%</td>
<td>$92,805.15</td>
<td>$626,911.97</td>
<td>8.13%</td>
</tr>
<tr>
<td>2007</td>
<td>$626,911.97</td>
<td>$49,194.95</td>
<td>5.49%</td>
<td>$34,417.47</td>
<td>$605,865.36</td>
<td>7.85%</td>
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<tr>
<td>2008</td>
<td>$605,865.36</td>
<td>$50,670.80</td>
<td>-37.00%</td>
<td>$(224,170.18)</td>
<td>$324,965.72</td>
<td>8.36%</td>
</tr>
<tr>
<td>2009</td>
<td>$324,965.72</td>
<td>$52,190.93</td>
<td>26.46%</td>
<td>$85,985.93</td>
<td>$355,511.07</td>
<td>16.06%</td>
</tr>
<tr>
<td>2010</td>
<td>$355,511.07</td>
<td>$53,756.66</td>
<td>15.06%</td>
<td>$53,539.97</td>
<td>$351,739.27</td>
<td>15.12%</td>
</tr>
</tbody>
</table>

Disclaimers:

- Assumes 100% investment in S and P 500 index
- Does not account for institutional fees or advisor fees which typically average approx. 2% in total annually
- Table for illustrative purposes only, your returns could be more or less.
- Past performance is no guarantee of future returns
- This is not an offer to purchase securities.
- Consult your financial advisor before investing

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8 HOW MUCH INCOME WILL I HAVE FOR CERTAIN IN RETIREMENT?

NO MATTER WHAT THIS STOCK MARKET DOES.

NO MATTER HOW LONG ME, AND/OR MY SPOUSE LIVE.

**Hypothetical Example**: Jim and June

Jim: 59.5, $500,000 in his 401K at a major Oil & Gas Company. The problem is that he lost 40% in 2000, 40% in 2008. If this happens again, he will not be able to retire or do all of the wonderful things with his family, kids, and grandkids that comes with retirement.

**INVENTORY OF ASSETS**

**Leg One**

Very Powerful: **in-service 401K rollover**, since Jim is over 59.5, still working and plans to do so until the age 65.

*Note:* This will not invalidate future contributions to his 401K.

Roll $500,000 401K into an IRA he controls. Attach a feature to it that says every year he leaves it, for income purposes, it will grow by 6%. $500,000 in 5 years (age 65) will be at approximately $750,000. Guaranteed income value. It will pay a guaranteed lifetime income of about $40,000 for life. $40,000/$500,000=@ Delayed Yield/Effective Distribution Rate of about 8%

If he lives to age 90, 25 years X $40,000 income per year = $1,000,000 in lifetime income.

*Remember:* Likely still cash/death benefit they control.

**Leg Two**

Social Security at $50,000 Total Annual Income between Jim and June.

**Leg Three**

- Cash in the bank = $50,000, For emergency purposes.

**Leg Four**

Securities: (re-refund the 401K bucket from age 59.95 until age 65) **The Four Asset Portfolio For Growth And Income In Retirement** Allocation.

Total approximate guaranteed and rising annual income =$100,000

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9. WHAT ABOUT A RISING INCOME TO COMBAT INFLATION AND STILL NOT RUN OUT OF MONEY BEFORE YOU RUN OUT OF LIFE?

Let’s go back to Jim and June’s illustration. Four Legs: “The Four Legged Stool”

1. Fixed index annuity @$40,000/yr. in guaranteed lifetime income (from $500,000 1st service total income)
2. Social Security 2x payments =@ $50,000/yr. in guaranteed lifetime income
3. Cash in bank for emergency purposes : $50,000
4. The “Four Asset Portfolio”- For Growth And Income In Retirement—Approximately $10,00 income annually + 4% increase annually for inflation.

Leg Four

Let’s say you are now 65—bucket number four is for a rising income to combat inflation

Jim “re-funded” his 401k the past 5 years, it’s now worth approximately $250,000

Here is the best math we have, from Lipper Analytics inc.:

We’ll use something, loosely, called a “Four Asset Portfolio”- For Growth And Income In Retirement, by the academics at the University Of Chicago, who seem to be the smartest guys in the room right now In studying lifetime income distribution rates off money invested In the stock market.

If you looked back the past approximately 100 years, a portfolio of:

- 25% S and P 500 Index
- 25% Small/Mid/International - index funds/ mutual funds
- 25% Short term bond index funds/mutual funds
- 25% Cash/money market mutual funds

Researchers were able to make a 4% withdrawal rate work to a 98.2% probability of not running out of money for a

A 65 year or who lives to age 100, and increase the income by 3% annually to combat inflation.
Generally, retirees approach funding their retirement income needs in one of six ways. There may be thought to be Six index-based retirement portfolios.

- **Portfolio 1:** 100% Cash—90-day U.S. Treasury bills from 1926 through 2014.


- **Portfolio 3:** “Age-in-Bonds”— U.S. bonds in a percentage equal to the age of the investor from age 65 to age 99, with the remaining balance allocated to the S&P 500 index. For example, an 80 year old would have, 80% U.S. bonds and 20% large-cap U.S. stocks.

- **Portfolio 4:** 40% Stocks/60% Bonds—a 60% U.S. Intermediate Government Bond index from 1926 through 1975 and A Bond index from 1976 through 2014 and a 40% allocation to the S&P 500 index from 1926–2014. This portfolio was rebalanced annually to maintain the 40/60 weighting.

- **Portfolio 5:** 60% Stocks/40% Bonds—a 40% allocation to U.S. Intermediate Government Bonds index from 1926 through 1975 and the A Bond index from 1976 through 2014, as well as a 60% allocation to the S&P 500 index from 1926 through 2014. This portfolio was rebalanced annually.

- **Portfolio 6:** Four-Asset Portfolio— for growth and income in retirement —an allocation of 25% to the S&P 500 index, 25% to small-cap U.S. stocks(Small-Company Stock index from 1926 through 1978 and the Russell 2000 index from 1979 through 2014), 25% to U.S. bonds (as described in 2. and 25% to 90-day U.S. Treasury bills, rebalanced annually.

The time frame of this analysis of retirement portfolio durability was 1926 to 2014, over which there were 55 rolling 35-year periods. The start of each 35-year retirement period was assumed to begin at age 65. Each portfolio was analyzed over all of the 55 rolling periods. A starting balance of $250,000 at age 65 was assumed. Five different initial rates of withdrawal were employed, ranging from 3% up to 7%. The initial withdrawal rate specified the amount of the first year's withdrawal from the portfolio. Thus, using an initial withdrawal rate of 3%, the first year's withdrawal was $7,500. The next year's withdrawal was determined by the cost-of-living adjustment (COLA), which was assumed to be 3% in this study. The COLA is the equivalent of an inflation factor. Based on the 3% COLA, the withdrawal in the second year was $7,725, in the third year $7,957, and so on. The annual withdrawals occurred at the end of each year.

**RETIREMENT DURABILITY**

The “survival” analysis of all six retirement portfolios is reported in the table below, this reports the percentage of time each portfolio remained solvent until age 100.

**Table 1. Likelihood of a Retirement Portfolio Lasting 35 Years**

The data below shows the frequency at which each portfolio lasted until a person retiring at age 65 lived to age 100, given a specified withdrawal rate. The withdrawal rate was the initial distribution taken from a starting balance of $250,000. Subsequent withdrawals were taken annually and were increased each year by 3% to account for increases in the cost of living. The data is based on analysis of 55 rolling 35-year periods between 1926 and 2014. Values below 100% indicate the portfolio ran out of money during at least some of the rolling 35-year periods.
### % LIKELIHOOD OF PORTFOLIO LASTING 35 YEARS

<table>
<thead>
<tr>
<th>WITHDRAWAL RATE</th>
<th>3%</th>
<th>4%</th>
<th>5%</th>
<th>6%</th>
<th>7%</th>
</tr>
</thead>
<tbody>
<tr>
<td>100% CASH PORTFOLIO</td>
<td>56.4</td>
<td>41.8</td>
<td>29.1</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>100% BOND PORTFOLIO</td>
<td>69.1</td>
<td>43.6</td>
<td>30.9</td>
<td>23.6</td>
<td>9.1</td>
</tr>
<tr>
<td>AGE-IN-BONDS PORTFOLIO</td>
<td>100.0</td>
<td>81.8</td>
<td>54.5</td>
<td>25.5</td>
<td>12.7</td>
</tr>
<tr>
<td>40% STOCK/60% BOND PORTFOLIO</td>
<td>100.0</td>
<td>96.4</td>
<td>81.8</td>
<td>34.5</td>
<td>16.4</td>
</tr>
<tr>
<td>60% STOCK/40% BOND PORTFOLIO</td>
<td>100.0</td>
<td>.4</td>
<td>89.1</td>
<td>69.1</td>
<td>43.6</td>
</tr>
<tr>
<td>&quot;FOUR-ASSET PORTFOLIO FOR GROWTH &amp; INCOME IN RETIREMENT&quot;</td>
<td>100.0</td>
<td><strong>98.2</strong></td>
<td>89.1</td>
<td>83.6</td>
<td>50.9</td>
</tr>
</tbody>
</table>

*25% large stock, 25% small stock, 25% bonds, 25% cash.

Data source: Lipper, author calculations.

All of the portfolios with high amounts of cash or bonds had very low survival rates, indicating that a higher allocation to stocks (and therefore a correspondingly lower allocation to bonds) was needed to withstand a higher withdrawal rate.

* The overall winner was the diversified four-asset portfolio, for growth and income in retirement, which had the highest survival rate across all five withdrawal rates.

* You will notice it may also allow for a potentially higher withdrawal rate, 5% or 6%, retirement income flexibility? If the retiree needs more income. Although no more than a 4% withdrawal rate with a 3% increase for COLA is recommended, some individuals may simply need more income. Near the end of one’s likely life expectancy, depending upon the current value of the account, the market conditions(performance) and the interest rate(inflation) a higher distribution rate (spend rate) MAY thus be sustainable.

Information borrowed from *The Importance of Diversification in Retirement Portfolios* by Craig Israelsen and can be found at www.aaii.com/conference. Chart replicated for this document.
ROLLING 35-YEAR PERIODS

The viability of retirement portfolios is highly time-frame-dependent—meaning that the specific 35-year period being studied can make a big difference in the outcome. Figure 1 shows the years the 100% U.S. Bonds Portfolio, the Age-in-Bonds Portfolio and the Four-Asset Portfolio succeeded and failed assuming a 4% rate. The success rates and the average ending balance are also shown.

Figure 1. When Each Retirement Portfolio Survived or Failed
DIVERSIFICATION FOR LIFE

The importance of building a diversified portfolio for retirement has been clearly illustrated—particularly at higher initial rates of withdrawal.

For those retirees seeking an initial withdrawal rate of 5% or higher, it will be essential to build a diversified portfolio that has growth potential combined with prudent downside protection—the hallmarks of what diversification is able to achieve. An all-bond portfolio or an age-in-bonds approach ignores the virtues of diversification when it is arguably needed the most—during the retirement years.

There is no perfect retirement portfolio because every investment faces some type of risk, whether it’s volatility risk, interest rate risk, inflation risk, currency risk, etc. The key is to build a portfolio that is assembled in such a way that it contains asset classes that address each unique risk while maintaining adequate exposure to needed portfolio growth.

Information borrowed from The Importance of Diversification in Retirement Portfolios by Craig Israelsen and can be found at www.aaii.com/conference.

Diversification across a variety of asset classes is one such way. While it is not perfect, a lack of diversification is likely to be far less perfect. In Selecting lifetime income solutions. A lifetime income solution is intended to provide a stream of income that lasts for the remainder of a retiree’s life. While there are a variety of products or services that are designed to achieve this objective, only those offered by insurance companies can guarantee this result. (source: Stanford center on the study on Longevity: The Next Evolution in Defined Contribution Retirement Plan Design: A guide for DC Plan Sponsors to Implementing Retirement Income Programs)

Conclusion:

It is the financial advisors job, to ONE: function as part psychologist, to help the individual retirement saver to remember the four “big picture” keys to a safe, comfortable retirement. As previously mentioned, the four steps to a safe comfortable retirement for baby boomers, (RTIP) TWO: operate as a Financial quarterback to help the individual to execute on a safe comfortable retirement plan, building the “Four-Legged Stool” the gold standard of a safe, comfortable retirement.

Through this process of support, guidance and execution, the individual baby boomer retirement saver can have a guaranteed lifetime income (ss, pensions, annuities), and a rising income to combat inflation (***note: securities, not guaranteed, may lose value, past returns is no guarantee of future performance).

For the risk adverse baby boomer, with a short time horizon till retirement, and income needs, the mix of the “Four Asset Portfolio”, For Growth and Income in Retirement, along with a guaranteed lifetime income vehicle, like a pension, or a fixed index annuity, with a guaranteed lifetime income feature, is empirically, based upon the research, considering all factors, maybe, best mix of guaranteed income in retirement along with the potential for a rising income to combat the rising costs inherent in a retirement life that may span 30+ years, plug the potential to leave assets to ones heirs. Note, each individual’s risk tolerance and income needs are different.

Information and borrowed from The Next Evolution in Defined Contribution Retirement Plan Design By Steve Vernon, FSA, and can be found at longevity.stanford.edu/financial.security

THE FOUR LEGGED STOOL. Guaranteed income, liquidity, and a rising income to combat inflation. It has always been the gold standard of a safe comfortable retirement.

If you’re over 50 with $500,000, or more saved, you made be “effectively retired” and just don’t know it. Schedule an Appointment today!
SCOTT E. MANN  
Mann Financial Group  
9/1/2017  

ABOUT THE AUTHOR:  

In addition to holding a State of Texas Life Insurance License, Scott has also received the following Financial Planning Training, and completed, through The College for Financial Planning and Texas A and M University:

CERTIFIED FINANCIAL PLANNING I: Financial Planning and Insurance  
CERTIFIED FINANCIAL PLANNING II: Investment Planning  
CERTIFIED FINANCIAL PLANNING III: Income Tax Planning  
CERTIFIED FINANCIAL PLANNING IV: Retirement Planning and Employee Benefits  
CERTIFIED FINANCIAL PLANNING V: Estate Planning  
CERTIFIED FINANCIAL PLANNING VI: Plan Presentation  

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