THE FOUR ASSET PORTFOLIO
FOR GROWTH AND INCOME IN RETIREMENT

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Scott Mann has been featured on:

Safe Money with Scott Mann runs
740am Houston, Tx. Sundays @ 10am
So you and your spouse are “50 ish to 60 ish”, in the “retirement red zone” of 2-10 years from “touchdown on retirement island”, and doing many great things with those you love, kids, grandkids, and friends.

Like tens of millions of baby boomers, here is, likely, your problem, you lost 40% in the .com bubble of 2000/2001, and 40% in the credit crisis crash of 2008. You know if you incur a large loss again, you simply will not be able to recover (NOTE: due to the “arithmetic of loss” a 40% loss requires nearly an 80% gain, just to get back to even) due to your shortened time horizon.

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”. Your late 70’s, 80’s, or even 90’s, is 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.

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)
**Retirees are planning to spend assets at an unsustainable rate.**

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 Fargo8 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.)

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**Figure 2.5 Probability of Savings Depletion for Various Withdrawal Rates**

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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**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!*
So, good news and bad news. We’re living longer, but we must plan for a much longer and more expensive retirement. With continued volatility in the stock market, DOW 20,000+, a nine-year bull run without so much as a 5% pullback, and several international crises on the horizon, what do you do? This is only the second time in the past 100 years we’ve seen this happen (the 1990’s), and you know how the last bull run like this ended in 2000/2001, nearly a full decade’ gains were wiped out in 18 months, along with a lot of American’s retirement dreams.

What do you do if you’re afraid of this market, yet still want to participate in whatever upside it still may have, diversify as best you can versus another huge market loss, and generate a lifetime income, a rising one.

**FIRST THE BASICS:** A safe comfortable retirement are always based upon **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 axion 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.

Based upon extensive research on various retirement portfolios (Israelson, Craig “diversification strategies in retirement” aii 2015; Lipper Analytics) and how long these assets lasted, over 55 rolling 35-year periods from 1926 through 2014, the assortment of retirement portfolios were tested under several different withdrawal rates.

**NOTE:** Regardless of the mix of stocks and bonds, when the initial withdrawal rate exceeds 5% of the portfolio’s value, at retirement, and is adjusted upward annually in response to inflation, all of the portfolios experience a significant increase in the failure rate: IE : the retirees’ funds running out before the end of their life expectancy. The research indicates that no greater than a 4% withdrawal (spending rate) with small increases for cost of living(inflation) is prudent.

The most favorable odds of one’s retirement savings outlasting ones’ life expectancy, (98.2% probability, 4% spending with 3% increase for inflation annually, 65 year old who lives to 100, Lipper Analytics) was only accomplished with: “The Four Asset Portfolio” for Growth and Income in Retirement.

**There are four core asset classes** that we can measure back to 1926:

- U.S. bonds
- U.S. large-cap stock
- U.S. small-cap stock
- cash

These asset classes represent the “ building blocks” of a retirement portfolio.

U.S. bonds have done a good job avoiding losses (in nominal terms) over the last eight-plus decades. However, bonds have also experienced protracted periods of very low returns, which creates a distinct challenge in a retirement portfolio if the returns are below the withdrawal rate. For instance,
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U.S. bonds experienced a 29-year period (from 1941 through 1969) where the average annualized return was a mere 2.2%.

Large-cap U.S. stocks (as measured by the S&P 500 index) produced an average annualized return of 10.1% from 1926 through 2014, but with a standard deviation (variation) of return of 20.1%. Large-cap stocks endured 24 negative years, or 27% of the time since 1926. The largest loss was 43.3% in 1931. The average loss was 13.6%.

Small-cap U.S. stocks (as measured by Ibbotson’s Small-Company Stock index from 1926 through 1978 and the Russell 2000 index from 1979 through 2014) have an even more colorful past. Over the past 89 years, small U.S. stocks have produced an average annualized return of 11.4% and a standard deviation of 31.8% (variation). The biggest one-year loss was 58.0%, which occurred in 1937. Small U.S. stocks have experienced a one-year loss 28 times since 1926, or nearly 32% of the time. The average loss during those 28 years was 16.8%.

Finally, there is the performance of cash (as measured by the 90-day U.S. Treasury bills). From 1926 through 2014, cash had an average annualized return of 3.6% and a standard deviation of return of 3.3%. Its worst one-year return was a decline of 0.02%, which occurred in 1938. This was the only year with a nominal loss (in nominal terms, not in inflation-adjusted terms) for cash.

BUILDING A RETIREMENT PORTFOLIO

Which asset class is the best choice for a retirement portfolio? Or, more correctly, what combinations of these assets are best suited to carry a retiree through the retirement years without running out of money?

A dated, but well-known, notion is to build a retirement portfolio that has a bond allocation equal to your current age—often referred to as the “age-in-bonds” approach. This is “the old 60/40 portfolio”, a one size fits all wall street solution. For example, a 60 year old should, thus, hold 60% bonds, and 40% stocks. Bonds certainly present less volatility than stocks, but that is not the only consideration when building a retirement portfolio. There is also a need for growth in a retirement portfolio. A retirement portfolio needs to serve two goals: control downside risk and achieve a reasonable rate of growth, and the ability for growth of income, in a rising cost world.

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.

Information borrowed from The Importance of Diversification in Retirement Portfolios by Craig Israelsen and can be found at www.aaii.com/conference
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>$596,356.36</td>
<td>8.72%</td>
</tr>
<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>
</tr>
<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>
</tr>
<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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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!
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>
<thead>
<tr>
<th>Table 1. Likelihood of a Retirement Portfolio Lasting 35 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
</tr>
</tbody>
</table>
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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(performane) and the interest rate(inflation) a higher distribution rate (spend rate) MAY thus be sustainable.

% 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>“FOUR-ASSET PORTFOLIO” FOR GROWTH &amp; INCOME IN RETIREMENT</td>
<td>100.0</td>
<td>98.2</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.

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

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DIVERSIFICATION FOR LIFE

The importance of a 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.

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)

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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.

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THE FOUR-LEGGED STOOL

The “Four-Legged Stool” refers to the, “textbook”, and tried and true, means by which Americans have historically saved for, and funded their retirements. Each “leg” represents a different bucket, or cash flow. The combination of all, each with different characteristics, forms a guaranteed lifetime income, liquidity, and a rising income, to guard against purchasing power risk (inflation).

1. Pensions
2. Social security
3. Cash in bank (emergency fund)
4. Securities (stocks or mutual funds) in a conservative asset allocation, to build a rising income to guard against erosion to purchasing power risk (inflation)

The reason why “FLS” has always been the gold standard of a successful retirement plan is that the whole is far greater than just the sum of its parts, since no financial vehicle has all the necessary characteristics to solve all problems inherent in a retired life, that currently, may be if 40 years, equaling or exceeding ones working career. The new life expectancy for a male being approximately 84, with a woman being nearly 90. To plan for, and build a solid plan to live well in retirement, savers must now target age 100 as life expectancy.

HOW WE GOT WHERE WE ARE TODAY: A TWO-LEGGED STOOL

Although the pivot away from pensions (defined benefit plans: guaranteed income plans) began with the introduction of the 401k plan (defined contribution plans: theoretical, stock market based income) in the late 1970s and early 1980’s, corporate America expedited this move away from lifetime income plans in the wake of the dot-com crash, in 2000. The result is that defined contribution plans (401k plans) have transferred all the investment risk from the company to the employee.

Defined contribution plans were once just an add on, the little brother to the big alpha, the pension plan. Now, the ubiquitous 401(k) plans, which have become an abject failure for millions of Americans, have become the main vehicles for private retirement saving. This was never intended to be the scenario for retirement savers to face.

The most dangerous effect of this new asset based, rather than lifetime income based mindset, is the shift in focus away from retirement income to return on investment that has come with the introduction of 401k type plans: Investment decisions are now focused on the value of the individuals account on a day, the returns on investment they deliver. It’s the wrong thing. The one thing that will never change: The primary concern of the saver remains what it always has been threefold:

“Will I have sufficient income in retirement to live comfortably?”
“Will I suffer a lower standard of living?”
Or worse yet,
“Will I run out of money before I run out of life?”
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Fixing your Retirement Income Problem

Building a four-legged stool, one you can live with, so you never run out of money before you run out of life, and do all the great stuff planned, with those you love: kids, grandkids and friends.

Determine Your “R.T.I.P.” - The four key factors towards baby boomer success in retirement

R - Risk Tolerance

How much should you have in the stock market? The crux of any individuals’ retirement portfolio is risk tolerance. It is an emotional pain threshold and tied into other factors such as time horizon, until income is needed, and liquidity.

The Risk Tolerance Test:

High Risk, High Level of Loss

If you are approximately 60 with $500,000 saved & take another 40% loss = -$200,000 = $300,000 left

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

Moderate Risk, Moderate Level of Loss

If you are approximately 60 with $500,000 saved & take another 20% loss = -$100,000 = $400,000 left

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

Lower Risk, Lower Level of Loss

If you are approximately 60 with $500,000 saved & take another 10% loss = -$50,000 = $450,000 left

This would require about a 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.

Each individual is different. Its depends the individual’s, age, years till retirement, and the amount of assets they have saved for retirement, but most importantly, number 2.

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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!
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T - Time Horizon

“Boomers”, individuals within 2-10 years of retirement, or currently in it, do not have the time to recover from huge stock market losses, nor let the long term upward trend of the capital markets benefit them. Simply put, with their real money (retirement savings) baby boomers are no longer ‘long term investors” relative to their income needs. Their time horizon is compressed.

The risk tolerance quiz above is tied directly to time horizon. They are two sides of the same coin and form the foundation of the advisor client relationship. This has been the case since the creation of the SEC in the 1930’s and regulations placed upon financial advisors to protect the public.

Special Note:

Stocks move in the direction of yet to be announced earnings (cash flows). The “frothy” 8+ year old bull market of the early part of 2017, the so called “Trump Bump” is all policy based, and not based in fundamentals. It’s all “if come.”. The market has all these potentially great, factors, like lower taxes, oil and gas pipelines, more jobs, etc., already baked into the cake. All factors to be known about the market are already known and this is factored into a stocks’ and a markets’ price. This is how an efficient market works. However, when policy does not deliver, earning suffer, and a market pull back occurs. In the face of a bull market run that is very long in the tooth, a 105+ year record of less than a 5% pullback, since 2008, This is not an if proposition, but a when.

I - Income Needs

How much income do you need, and when do you need it? This is simple math if you are using investments that that contain the proper characteristics: Real numbers vs. totally theoretical, stock market based solutions. All asset types have different characteristics, and uses. What mix is suitable and correct for you and your family?

Examples of income producing vehicles

- Cash
- Social security
- Pensions
- Fixed and fixed index annuities with a guaranteed income rider (a pension replacement)
- Securities (see “Four Asset Portfolio”)

P - Proper tools

Leverage them. How much goes into each bucket of investments to fit your needs and goals. Guaranteed income investments, cash, maximizing social security, pension accounts, and possibly, securities (not guaranteed, may lose value), to the extent the overall mix is suitable and correct for you, the individual investor, and your risk tolerance, time horizon, income needs and goals.

For more info: “Why are stocks so risky” Center for Retirement research at Boston College
BUILDING YOUR FOUR-LEGGED STOOL FOR RETIREMENT SECURITY

**Hypothetical Example:** Jim 59.5, eligible to perform an, in-service 401k rollover, not invalidating future contributions. $500,000 in his 401k at a major oil and gas company in Houston, TX. He lost approximately 40% in 2000, 40% in 2008, and knows he cannot incur another big loss like this again if he hopes to retire at approximately 66. He may, never be able to retire, or suffer a lower standard of living in retirement. A 40% loss like that which was sustained by most investors in 2000 and 2008, requires nearly an 80% gain just to get back to even, due to the “arithmetic of loss”.

**INVENTORY OF ASSETS**

**Leg One**
- Jim Social Security at age 66 @ 33,600
- Joan Social Security at age 65 @ 17,000

**Leg Two**
- Cash in the bank $50,000

**Leg Three**
- “Build own pension”: In Service 401K Rollover: 500K
- Utilized a fixed index annuity with a guaranteed lifetime income rider
- “Filled the retirement income gap” between the two social security payments and what is needed to cover living expenses

**Leg Four**
- “4 Asset Port” For a rising income in retirement to combat inflation and cost of living increases
- Approximately 25% s and p 500 index, 25% small cap fund, 25% bond fund, 25% money market fund
- $250K invested from additional retirement savings (old ira)
- $170,000, (estimated). additional funds rolled over at retirement (current 401K funding from age 59.5 till age 66(retirement) @25,000/yr. 401k funding, assuming 4.5% avg. annual return
- $421,000 total investment in “Four Asset Portfolio” by age 66 4% annual income with 3% increase for cost of living 98.2% chance of portfolio lasting 35 years at 4% withdrawal rate, increased by 3% each year for inflation
- note: securities, not guaranteed, may lose value, past returns is no guarantee of future performance

**CONCLUSION:**

It is the financial advisors job, to ONE: function as part psychologist, to help 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 (social security, pensions, annuities), and a rising income to combat inflation (***note: securities, not guaranteed, may lose value, past returns is no guarantee of future performance). Maybe the two greatest intangibles a client can attain from a relationship with a financial advisor, is “sleep equity” and the ability to do all the great things planned with those you love in retirement, priceless!!

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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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