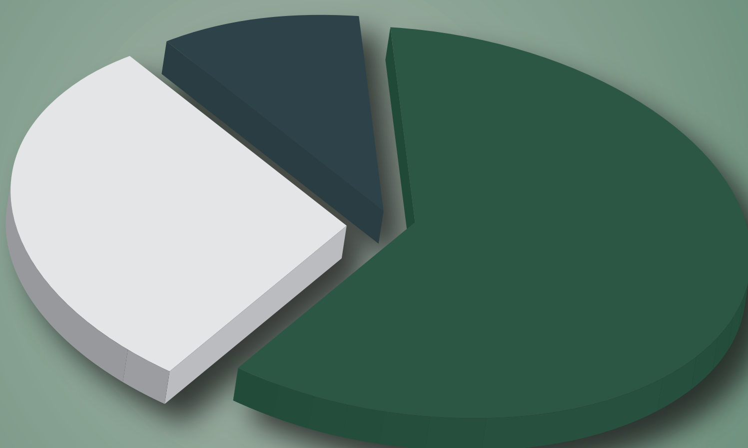
INCOME ~~ASSET~~ ALLOCATION



Enhance Your Retirement Security

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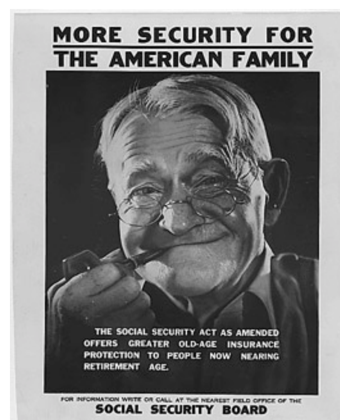
INTRODUCTION

SURVIVING YOUR RESOURCES

On the day I sit down to write the beginning pages of this book, statistically[1] 10,000 baby boomers are turning age 66: full retirement age now, for Social Security benefits. On the day you read the opening pages of this book, another 10,000 or so are turning retirement age. It really doesn't matter when you're reading these pages as long as it's before the year 2031, because that's the year the last of the baby boomers, those born in 1964, will reach full retirement age (then 67) and will be able to claim their full Social Security benefits. I'm one of those people—I was born in 1964—so what I'm writing about in this book is of extreme importance to me, my friends and my family members.



As thousands of boomers become retirees, a question comes to mind. No, not the politically charged, "How will the federal government and the Social Security Administration (SSA) address the long-term solvency issues of Social Security," when according to the 2015 Social Security Board of Trustees' Report.[2]

[1] United States of America. Census Bureau, Department of Commerce. By Sandra Colby and Jennifer Ortman. The Baby Boom Cohort in the United States: 2012 to 2060. U.S. Census Bureau, May 2014. Web. 19 Dec. 2014.

[2] United States of America. The Social Security Administration. The 2015 Annual Report of the Board of Trustees of the Federal Old---Age and Survivors Insurance and Federal Disability Insurance Trust Funds. The 2015 OASDI Trustees Report. The Social Security Administration, 22 July 2015. Web. 3 Feb. 2015. https://www.ssa.gov/oact/TR/2015/tr2015.pdf

"Under current law, the projected cost of Social Security increases faster than projected income through 2037 primarily because of the aging of the baby boom generation and relatively low fertility since the baby-boom period. Cost will continue to grow faster than income after 2037, but to a lesser degree, due to increasing life expectancy. Based on the Trustees' intermediate assumptions, program cost exceeds non-interest income for 2015, as it has since 2010, and remains higher than non-interest income throughout the remainder of the 75-year projection period."

The answer to that question would require another book and a different author. However, it is a genuine social issue and one that must be addressed. It is certain to be among the top debated issues during the next several elections.

No, the question on my mind this Saturday night is this: "How many of those people are facing the likelihood of living beyond the exhaustion of their retirement resources?"

Have you ever heard anyone say, "I anticipate a retirement that endures long after the resources I've worked my entire adult life to accumulate have been exhausted?" Not one person has ever said that to me, and I suspect that no one reading this book has ever heard anything like this either. I have heard many goals for retirement over the years as an investment advisor: traveling the world, reinvention of self, starting an entirely different career, spending time as a volunteer for the causes that are close to my heart, playing golf seven days a week, enjoying a second home in a different place, going back to college and learning something new,

spending the winters somewhere warm, spending the summers somewhere cool, you name it, I've heard it. Yet no one has ever indicated to me that they are anticipating depletion of savings before the end of their days. If that's not the case, then why are so many facing this same scenario during retirement?

As a United States citizen, a financial advisor, a fiduciary, and as a human being, I am highly concerned about the possibility that millions of people retiring over the next 20 to 30 years will face making lifestyle adjustments, versus enjoying their long-planned and diligently worked-for retirement.

WHY THE WELLS RUN DRY

When I ask myself why it is that many retirees are facing the possibility of outliving their resources, many answers came to mind. Thanks to advances in medicine, people today are living longer, much longer in fact than their parents and grandparents.[3] Lifetime pensions have seen a steep decline within the last 20 to 30 years, and their numbers dwindle each year.[4] Yields on traditional savings vehicles are negligible in the low interest rate environment we have been in for some time now. Already in this century, we have endured two substantial bear markets that have devastated many portfolios and even compelled some to exit the market entirely or in part, essentially forgoing participation in the subsequent recoveries. Those answers are all true, and you probably can think of many more.

To me, though, one of the biggest if not the biggest factors contributing to the portfolio depletion issue, is that so many people have been given erroneous guidance. Retirement income planning guidance has been given with

[3] "Are You Ready? What You Need to Know about Ageing." World Health Organization. The United Nations, n.d. Web. 19 Dec. 2014. http://www.who.int/world--- health--- day/2012/toolkit/background/en/

[4] The United States. The Social Security Administration. The Office of Retirement and Disability Policy & The Office of Research, Evaluation, and Statistics. The Disappearing Defined Benefit Pension and Its Potential Impact on the Retirement Incomes of Baby Boomers. By Howard M. Iams, Barbara A. Butrica, Karen E. Smith, and Eric J. Toder. 3rd ed. Vol. 69. Washington: Social Security Administration, 2009. Print. 13--- 11700.

good intentions, but unbeknownst to the one providing the direction, was based on retirement planning theory that would later be shown to have an inherent flaw, specifically for those with the misfortune of starting retirement during certain periods in the economic cycle. The flaw I speak of is that these retirement planning doctrines fail to account for the very real hazard known as "Sequence Risk.[5]"

> Sequence Risk is defined as:
> *The risk of receiving lower or negative returns early in a period when withdrawals are made from the underlying investments. The order or the sequence of investment returns is a primary concern for those individuals who are retired and living off the income and capital of their investments.*

It's all about timing. Asset Allocation and the 4% Rule, the prevalent retirement income planning methodologies of recent history, do not account for one very important variable, *the order (or timing)* of returns. These models are based solely on long-term *average returns*. We now know that failing to account for this variable can carry significant consequences, particularly for those who experience severe, multiple, and/or prolonged recessionary market cycles in the earlier years of their retirement. William Bengen, the financial planner who developed *the 4% Rule*[6] in 1994, has refuted the practicality of his own theory. In a May 2012 article in Financial Advisor magazine,[7] Bengen states, "Research has confirmed that the 'sequence of investment returns' is crucial for portfolio longevity; a retiree with low returns early in retirement will probably have trouble later in retirement."

Some would say that Mr. Bengen's partial repudiation still downplays (or at least underestimates) the potential for some considerable shortfalls.

[5] "Sequence Risk Definition | Investopedia." Investopedia. Investopedia, LLC, 13 May 2008. Web. 15 Dec. 2014.

[6] Bengen, William P. "Determining Withdrawal Rates Using Historical Data." Journal of Financial Planning (1994): 171---80. Print.

[7] Bengen, William P. "How Much Is Enough?" Financial Advisor 1 May 2012. Financial Advisor. Web. 18 Dec. 2014. <http://www.fa--mag.com/news/how---much---is--- enough--- 10496. html>.

Regardless, think about that for a moment. Two identically constructed portfolios, designed for the same purpose of generating retirement income and experiencing both the same exact yearly and average returns, might have life cycles that differ significantly, depending on the timing and severity of losses that are realized early in retirement. Potentially, one portfolio falls several years short of reaching its primary goal of generating income for a 30 year retirement, while the other not only accomplishes this goal, but actually leaves an *appreciated* value for beneficiaries.

In other words, Asset Allocation and The 4% Rule may well have worked as prescribed for many, those fortunate enough to retire and then experience economic growth in the early years, but as I said before, it's all about timing. Personally I am constitutionally incapable of leaving that much to chance, not for myself, not for my family, and certainly not for those who have entrusted me as their fiduciary, with the honor of guiding them as they prepare financially for the final stage of their journey.

SET FOR LIFE

The good news, though, is that retirement at or below the poverty level is not a forgone conclusion. Many retirees live comfortably for decades after their paychecks stop, and rarely is it because they've managed to accumulate or inherit a small fortune, or had the vision to buy Apple's common stock at less than a buck-fifty, back in 1982.

Let me introduce you to a married couple who are clients of mine. Let's call them "Adam and Beth Walker.[8]" They are 61 and 59 years old, respectively. 'Adam' is planning to retire in five years, while 'Beth' is slightly more than six years from her planned workforce exit.

[8] Fictitious names have been used for privacy purposes. The experiences of these individuals is not intended to be representative of what your experience might be and is no guarantee of future success.

The Walkers calculate that in addition to their Social Security benefits, they will need approximately $40,000 per year in order to support the retirement that they have planned. Their accumulated retirement savings total $1 million. I introduced the Walkers to a strategy that I've implemented for many of my clients, one that utilizes fixed index annuities (FIAs) from some very well-known, established, and financially sound U.S. insurance companies.

The consideration that the Walkers will receive for placing only half of those liquid assets, or $500,000, is a guarantee backed by the financial strength and claims paying ability of the insurance company issuing the contract. Under this guarantee, not only is their principal and credited interest protected, but once they retire they will receive approximately $40,000 per year, as long as either is alive.

Fixed index annuities are designed for this very purpose. They are intended to meet long-term needs for retirement income and they also provide guarantees against loss of principal and credited interest. They also offer the reassurance of a death benefit for the owner(s)' beneficiaries.

So now the Walkers have established an income stream for life equal to their projected needs, and they did so by utilizing only half of their retirement savings. The other half, $500,000, can now be used for any purpose they want: travel, discretionary purchases, a vacation home, investing in potentially high-return ventures.

Indeed, with savvy investing that $500,000 could become $1 million again someday. Meanwhile, the Walkers will still have the annual income stream needed to cover their living expenses from the first part of their savings, each and every year of retirement.

The primary concession that the Walkers agree to comes in the form of a commitment to what is known as a "surrender schedule." This concession means that in the

earliest years of the contract (typically the first 5 to 10 years), should any of the committed funds be accessed prior to the end of that surrender schedule, the amount withdrawn in excess of the yearly allowable or "free withdrawal" amount (currently averaging 10%), would incur a surrender fee that is calculated as a percentage of (and only on) the excess amount.

A current seven year surrender schedule on a typical product today might look a lot like this:

Year One:	8%
Year Two:	7%
Year Three:	6%
Year Four:	5%
Year Five:	4%
Year Six:	3%
Year Seven:	2%

Now, let's take a wild turn and for the sake of this demonstration, flash forward in time three and a half years. We will pretend that the Walkers somehow managed to part ways with their first $500,000 already. Remember, $500,000 of the $1 million that they had accumulated for retirement was essentially made accessible to them to use as they wish, just by way of employing this strategy in the first place. It is now three and a half years since the Walkers agreed to and executed this plan and now they need to access, say, $60,000.

This particular contract, and many like it today, carries a 10% per year (after the first year) free-withdrawal allowance. Thus, after the first year $50,000 is off the table, leaving $10,000 of the $60,000 withdrawal in our example to be assessed for the early surrender charge. The schedule calls for a 6% charge in the third year, so this unplanned emergency need to access $60,000 in cash would only cost $600 ($10,000 x .06= $600) in surrender charges. I doubt there would be lower transaction costs involved in any other alternative format, venue, or vehicle established or utilized for the same purpose, had the Walkers gone a different route in their retirement planning.

In Chapter Two I'll go into more detail about this plan that I employed with the Walkers, which I call "Income Allocation." For now, keep in mind that it is possible to get the reliable, steady income you require to meet your needs over an extended retirement, and without having to employ 100% of your life savings in order to generate this income. It is my hope that you will see the wisdom in a plan such as this.

I'm going to show you that people of average (even above average) means who intend to fund an entire 30 year retirement's income needs by using the more customary methods will generally need to utilize their entire retirement savings in order to have a more favorable chance of doing so. Either that, or they will need to realize some amazing investment returns in the future.

Want to make a major purchase? If you do, you'll be depleting your income base! Spend too much early on in retirement, or suffer a multi-year market correction while doing so, and you could face a significant increase in the risk of outliving your resources.

ADVISOR AGENDAS

The question I have for you and for everyone else currently in, or planning for, retirement is this: with such a strategy available, one that can provide a predictable stream of retirement income and doesn't require 100% of your life savings, why aren't more people directed to this strategy? This strategy that could potentially free up part of your savings for those special things--the trip of a lifetime, that beach condo or motor home or dream car—without depleting your income base. I'll explain this strategy to you in the pages of this book.

In my opinion, the answer to why many people aren't advised of this strategy is apparent: the advisors and brokers with whom they are working are still practicing the aforementioned doctrines, even though these doctrines are now widely considered to be inherently flawed. Those advisors may try to discredit this book and the underlying theory but ask yourself, "Why they would do that?" Why would they cling to a model that has the potential to elevate one's risk of outliving their retirement resources?

Most likely, the answer lies in where they work. The unfortunate reality is that many if not most financial services firms dictate the products that their advisors can access and thus are able to offer to their clients, because of their contractual relationships.

This creates a dilemma, whereby advisors with the intention to honor their fiduciary responsibility to act in the best interest of their clients simply do not have access to certain products. That's because their firm does not have the requisite selling agreement(s) in place with the product sponsor, even though the advisors consider a particular product to be better suited to meet the objectives of certain clients, more so than what they currently can access within the firm where they are registered.

Here's a quick preview into the power of my favored strategy, which will be thoroughly explained later on.

If I invest $500,000 in a "typical" portfolio, in 10 years how much income can I take from it without violating basic financial planning fundamentals and therefore increasing my risk of eventually depleting my resources? The answer is, I have no idea!

Past performance isn't going to guarantee some future value. I work with some outstanding private wealth managers who invest my clients' growth money, so I'm not against using financial markets, and I do not have a bias in favor of a particular product. In fact, I love the financial markets and the way my own money and my clients' money is managed!

Nevertheless, I am uncertain about how the markets will perform over the next 10 years. If clients double their money, that $500,000 will become $1,000,000. Current fundamentals show that if a client retires at age 66, he or she can prudently withdraw about $30,000 in the first year. With the strategy I'm going to explain to you, some of today's favored products in particular would allow a married couple to utilize $500,000 at age 56 to create an income stream of over $38,000, starting at age 66 and guaranteed for life. That's assuming that over the intervening 10 years the money in this product doesn't earn one bit of growth.

COMPARATIVE ADVANTAGE

Think about that for a moment: 100% growth over an entire decade in the average portfolio constructed using the standard asset allocation model, from $500,000 to $1 million, would provide less income, fundamentally speaking, than one vehicle could-- *and* this vehicle carries contractual guarantees. Once again, the preceding assumes a growth rate of zero but has the potential to be a number north of there (but *never* negative).

With that in mind, where do you think you might have the greater likelihood of securing your retirement income needs? The average portfolio constructed via the traditional asset allocation model and mobilized for income by way of employing the 4% Rule, would need to appreciate to $950,000, which equates to 90% growth in just ten years in order to generate the same income stream that one of the products described above could provide when an income rider is added.[9]

[9] Income benefit riders are generally optional and available at an additional cost.

There are some products available as of the writing of this book that offer contractual guarantees plus an opportunity for growth that correlates to (but does participate directly in) appreciation in the values of the investment market indexes selected.[10]

In those products, even if we assume a modest indexed interest rate of 3%, this married couple would receive $50,000 in the first year of their retirement. Under the 4% Rule, they'd need a portfolio valued at over $1,250,000 to provide that same level of cash flow, and under a more conservative 3% application, the portfolio would need to hold assets valued at nearly $1,700,000.

So I pose the question once more: "Where do you think you might have the greater likelihood to secure the income you'll need in retirement?"

Keep in mind, products change over time and the versions described here may be quite different by the time you are reading this book. The basics however are likely to remain the same, which is why I intend to present to you an alternative approach to retirement income planning which I truly believe to have real potential to enhance both your retirement and general well-being.

[10] With the purchase of an additional-cost riders, the contract's value will be reduced by the cost of the rider. This may result in a loss of principal and interest in any year in which the contract does not earn interest or earns interest in an amount less than the rider charge. This illustration does not take into account surrender charges which may apply to early withdrawals.

About the Author

David Gaylor is a 25-year veteran of the financial services industry and has spent his career helping boomers and retirees save and invest for their financial goals and retirement destinations. David founded Tradewinds Financial Group, Inc., in 2002 specifically to serve the wealth management and retirement planning needs of residents of the Miami [Ohio] Valley.

David takes pride in having protected his clients from the two worst market corrections since the Great Depression, and makes it his goal to ease the financial concerns his clients face on the journey to their retirement destination. He knows how important it is to find the right blend of growth and protection that is unique to each client, and therefore focuses on two main goals; making sure clients know the importance of protecting their principal purchase, and utilizing a unique three step process to plan, protect and preserve retirement assets.

David came from humble beginnings and has a passion for serving the needs of the retired and those near retirement. Through family members, he witnessed firsthand the devastation that a loss of income can mean to the surviving spouse, and the difficulties associated with loss due to excessive risk, taxes and fees during retirement. He began his financial services career in the late 1980s, and in 1990 began to pursue his goal of helping retirees protect their life savings. David has been helping Ohio residents on their retirement journey ever since.

David is a member of the Million Dollar Round Table, the National Association of Insurance and Financial Advisors and the Ed Slot Master Elite IRA Advisor Group. Tradewinds Financial Group is accredited by the Better Business Bureau.

Going from the professional to the personal, David is a lifelong resident of Sidney, Ohio, and is married to his high school sweetheart, Mitzi. Together they have three children, Aubrey, Abigail and Brady, and one grandchild, Leia. His oldest daughter works for the family business and his son is planning to join the firm after studying finance and marketing at Wright State University.

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Reduce The Financial Stress From Your Retirement

When you stop working and the paychecks no longer arrive regularly, how will you replace them? In *Income Allocation: Enhance Your Retirement Security*, you'll discover how to keep the cash flowing in retirement like you did during your working years. Financial advisor David Gaylor reveals how you can assure yourself of regular, reliable income, regardless of how financial markets perform or how long your retirement lasts.

In this book, you'll learn why:

- Social Security alone may not be adequate to support your lifestyle;
- The traditional pensions that worked so well for your parents and grandparents are becoming less common and very well may not be there for you;
- Investment interest and dividends often times struggle to provide enough income in these low-yield times;
- Traditional annuities also will come up short; and
- Recent analysis of familiar drawdown formulas such as the 4% Rule are flawed, and even their creator won't use them in today's low yield environment.

The twin perils of Longevity Risk (the chance you'll outlive your resources) and Sequence Risk (the likelihood of a bear market occurring just before or after you retire) put these conventional retirement strategies to the test and may not hold up.

Fortunately, financial product innovation and new thinking create the opportunity for Income Allocation. Properly-chosen vehicles provide guarantees of lifelong income that you cannot outlive and effectively reduce the negative effects of Longevity Risk and Sequence Risk. You probably can allocate a portion of your portfolio to locking in certain cash flow, leaving the remainder for ongoing investing and spending for an enjoyable retirement.

David Gaylor takes you through the process, step-by-step, and shows you how to find the best options while avoiding the questionable offerings that can tarnish your Golden Years.

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