ADDRESSING THE RISKS

Your guide to building a happy retirement

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A HAPPY RETIREMENT

Many people talk about retiring happy. But what does that really mean? Does it mean no more stress? No longer worrying about loved ones? Unfortunately, probably not. Retiring happy has to do with taking away the largest worry of pre-retirees and retirees — having enough money to survive retirement.

According to Senior Living, the three largest fears of retirees are:

1. Not having enough money for retirement
2. High medical bills
3. Identity theft

This guide will address the first two fears. The risk of identity theft can be dramatically lowered by some simple easy activities, both online and in your home.

Stress among retirees will always be present. However, addressing the financial aspect of retirement will reduce that stress immensely.

IN THIS GUIDE

THE RETIREMENT MOUNTAIN

Think of retirement savings as a mountain. You save all your life to build that mountain of wealth. That's the accumulation stage. When you retire, you start utilizing those retirement savings. That is called the decumulation stage. The important question is what is the difference between the left side (accumulation) and the right side (decumulation)?

The answer is both simple and very complex. You can't make a mistake during decumulation. Think about that for a second. What is the biggest risk in climbing an actual mountain? It is not the climb or ascension. It is climbing down or the descension. If you make a mistake in retirement, it can bring financial ruin. Which leads us to the next step.

ADDRESSING THE RISKS

According to the American College, there are 21 risks in retirement. They are, in no particular order:

- Inflation
- Frailty
- Interest rate
- Reemployment
- Timing
- Longevity
- Financial elder abuse
- Liquidity
- Employer insolvency
- Public policy
- Excess withdrawal
- Heath expenses
- Sequence of returns
- Loss of spouse
- Long-term care
- Unexpected financial responsibility
- Market
- Forced retirement
- Cognitive decline
- Estate taxation and distribution
- Use of housing wealth (where to live your final years)

How important each risk is to you is very personal and should be handled on an individual basis. Not all these risks bring financial ruin.

However, to attain a happy retirement, you need to address the four biggest risks.

Four Biggest Risks to Retirement

These are the risks that must be addressed to have a happy retirement.
They are:

1. Market
2. Inflation
3. Longevity
4. Health

You cannot just address two or three of them. All four must be addressed, so let's go through each one.

Market Risk

Market risk also encompasses sequence-of-returns risk. It is the risk of having money in the financial markets. In a nutshell, you can lose principal investing in the market. If this is a major risk, then why have money in the market at all? The reason is that, over the long term, having money in the market tends to return a much higher rate of return compared to other investing vehicles. Having money invested directly or indirectly in the market is also a very effective method for combating inflation. We will get to that next.

Example of Market Risk

Let's say you accumulated exactly $1M during the accumulation stage of your life. You decided that you need $40,000 per year to be happy in retirement. If you take out 4% each year from that $1M, you will have $40,000. Logic would dictate as long as your money grows by 4% each year, you will never touch the original amount of the million dollars. All is great.

However, what happens if the market behaves like it has done in 2022, when some retirees lost 30% of their retirement assets? Are you still going to take the 4%, which now is equal to $28,000? Or are you going to continue to take out the $40,000 (which now equates to a withdrawal rate of 5.7%)? Most retirement experts would agree that a 5.7% withdrawal rate is not sustainable and will, most likely, end in running out of money.

Inflation Risk

Inflation risk is the slow creeping risk that just wears down your retirement accounts. It is the erosion of your purchasing power over time. Just over the last few years, how much has the cost of gas increased? Or the cost of a gallon of milk? This is what inflation is. The amount that $10 buys is going down every year.

Price of	2002	2017	2022
Gallon of Gas	$1.46	$2.41	$3.60
Stamp	$0.37	$0.49	$0.60
Gallon of Milk	$2.72	$3.35	$4.41

There are several paths to address inflation risk. Having money in the financial markets is an effective way. There are also investment vehicles that will adjust for inflation. For example, Social Security payments increase annually for inflation. In 2022, the cost-of-living adjustment (COLA) or inflation increase for Social Security payments was 8.7%.

Longevity Risk

Longevity risk is the big one. In fact, longevity is the greatest miltiplyer of all retirement risks. It's the risk of living too long or outliving one's savings. It is what is called the great multiplier. The longer a person lives, the greater the chance that any of the other major, and not-so-major, risks will come into the equation. This is what keeps retirees up at night. The thought of living too long and outlasting their retirement savings.

The key to addressing longevity risk is to have a stream of income that will last as long as you live. An income stream that is not subject to market downturns but is guaranteed. Let's call it guaranteed income.

Health Risk

Health risk is most likely the easiest of the four major risks to understand. It is the costs that are associated with getting older, such as the ability to afford healthcare or supplemental coverage. Retirees tend to have unexpected and substantial medical and long-term care needs. It would also be prudent to include passing away earlier than expected as part of health risk.

There are several methods that can be utilized to address health risks, and we will go into more detail later in this booklet. Some examples include life insurance, reviewing the most practical path to address long-term care and also Medicare and Medicare supplements.

INCOME FLOOR APPROACH

There are several types of retirement plan strategies available. The income floor approach addresses three of the four main risks for retirees. By utilizing the enclosed worksheets, you should be able to address market, inflation and longevity risk.

The first step is to complete the expense and asset worksheets, included in this guide. From there, just a little bit of math is needed to discover the most optimal path to a happy retirement.

The income floor approach starts with dividing your expenses and categorizing them to be either essential (gotta have) and discretionary (wanna have). Essential expenses are basically the bills that will be with you for your entire life. The discretionary expenses are those that can be reduced when needed. For example, going out to dinner six times per month is discretionary. If needed, that activity can be curtailed to four times per month as needed.

The key is to have the essential expenses covered by guaranteed income. That could be a pension or Social Security, or you can create your own personal guaranteed income (PGI). Using this approach, you address market and longevity risks. You then use the balance of your assets to address inflation risk by having an exposure to the markets. What type of exposure will depend on your risk tolerance.

Once the three risks are addressed, you can turn your sights on health risk.

PERSONAL INFORMATION

Today's Date

Name and Date of Birth

Address:

City: State: Zip:

Name:

Work Phone: Cell Phone:

Name:

Work Phone: Cell Phone:

Planned Retirement Date:

If Retired, Date Retired:

Children ○ Yes ○ No How Many:

Grandchildren ○ Yes ○ No How Many:

Do you have a will? ○ Yes ○ No Last Updated:

Do you have a trust? ○ Yes ○ No Last Updated:

Do you have a financial & health POA? ○ Yes ○ No Last Updated:

EXPENSE WORKSHEET

Monthly Expenses

	Essential Expenses	Discretionary Expenses
Housing		
Mortgage or Rent		
Second Mortgage or Rent		
Condo or Association Fees		
Insurance		
Utilities		
Electricity/Gas		
Water/Sewer		
Waste Removal		
Maintenance/Repairs		
Lawn Care		
Phone/Cell Phone		
Internet		
Cable/Satellite		
Other		
Food and Entertainment		
Groceries		
Dining Out		
Movies/Concerts/Live Events		
Membership Dues		
Other		
Forced Savings		
Taxable		
Tax-Deferred		
Tax-Exempt		
Other		

	Essential Expenses	Discretionary Expenses
Transportation		
Car Payment 1		
Car Payment 2		
Auto Insurance		
Gas		
Parking		
Bus/Taxi Fare		
Maintenance/Repairs		
Personal		
Clothing		
Personal Care		
Child Care		
Elder Care		
Pet Care		
Professional Fees (Legal, Tax)		
Alimony		
Child Support		
Other		
Healthcare & Insurance		
Medical Services		
Dental Services		
Prescriptions & Medication		
Health Insurance		
Long-Term Care Insurance		
Life Insurance		
Other		
Loans & Debt		
Personal		
Student		
Credit Card		

	Essential Expenses	Discretionary Expenses
Gifts & Donations		
Holiday Gifts		
Birthdays		
Charity- Tax Deductible		
Charity- Non-Tax Deductible		
Other		
Monthly Income - (If any)		
Salary 1		
Salary 2		
Yearly Taxes		
Federal		
State		
Local		
Other		
Personal Guaranteed Income (PGI)		
Pensions		
Social Security 1		
Social Security 2		
Annuities		
Other		
Other		
Total Monthly PGI		
Total Income & Expenses		
Essential Expenses - Monthly		
Discretionary Expenses - Monthly		
Essential Expenses - Annually		
Discretionary Expenses - Annually		
Total Annual Guaranteed Income		
Essential Expenses - Total Annual PGI = Income Gap		

ASSET WORKSHEET

Liquid Assets				
Checking	**Savings**	**Money Market**	**CDs**	
Real Estate				
Original Cost	**Approximate Value**	**Debt**	**Taxes**	**Monthly PI**
Life Insurance				
Company	**Insured**	**Type**	**Face Value**	**Cash Value**
IRAs, 401(k), 403(b), TSP, 457 and Retirement Accounts				
Company	**Type**	**Location**	**Approximate Value**	
Stocks/Bonds				
Name of Stock	**Number of Shares**	**Approximate Value**		

Mutual Funds & Brokerage Accounts				
Name of Fund(s)	Number of Shares	Approximate Value		
Deferred Annuity				
Company	Annuitant/ Owner	Type	Approximate Value	Date Purchased
Other Assets				
Type of Asset(s)	Approximate Value			

YOUR OUTPUT

Now that you have completed the worksheets, we will look at the output, and hopefully this will make sense. We take a look at your total essential expenses and subtract the guaranteed income. Guaranteed income examples are pensions and Social Security as well as any annuities that generate income for life.

Essential Expenses – Guaranteed Income = Income Gap

The income gap is what needs to be covered by creating your personal guaranteed income (PGI). This is done by using a vehicle that will create income that will not go down during market loss and will last as long as you are alive. This is done by using annuities. Annuities are the only product that can produce personal guaranteed income. Your advisor can assist you finding the best annuity for your situation. The key is to create enough PGI to cover the income gap. Once that is accomplished, you have addressed both market risk as well as longevity risk.

The second part is to address your discretionary expenses. These expenses are those that can be reduced when needed. Going back to the example of eating out, if you go out to dinner 10 times per month, you can reduce that to six times per month. These are the assets that address inflation risk. The cleanest path is to have some sort of exposure to the market. Where you put these funds would really depend on your risk tolerance.

If you can handle unlimited losses with unlimited gains, other vehicles, especially those that carry more investment risk, are worth reviewing.

If you can handle some loss but with a floor, then a registered index linked annuity (RILA) should be looked at. A RILA has significant upside, and its downside is protected. For example, the loss cannot be more than 10% in any given year. Or there may be a buffer where the first 10% or 20% is not recognized.

If you cannot handle any type of loss but would like some upside, then the fixed index annuity (FIA) could be appropriate. It captures a portion of the upside of an index that is linked to the market. It does NOT have any downside. You cannot lose principal.

Again, it all comes down to your risk tolerance and how you feel about upside versus loss. While these are not the only products that can address the risks, they tend to be the most effective.

If you follow this path, you will have addressed three of the four largest risks to a happy retirement. Congratulations! You now have all your bills (essential expenses) covered for the rest of your life. If the market crashes, it will not affect your personal guaranteed income. You also have funds that are exposed to the market in some form. You are now addressing inflation and you can cut back on your discretionary expenses, if needed.

The next step is to address health risk.

Health risk can mean many things to many people. The important point to understand is that if you don't address health risk and something happens to your health, it may be a financial burden that you cannot come back from. So, do not forget to address health risk. You can address it by having a conversation with an insurance agent and/or a Medicare supplement agent. Your financial advisor can help you get started.

The last subject that needs to be touched on is Social Security. Social Security is a critical decision for a retiree. It can be the difference of hundreds of thousands of dollars depending on your choices. Make sure your trusted financial advisor either utilizes a Social Security software or, more importantly, is a Social Security expert with a designation like the RSSA (Registered Social Security Analyst).

The US Government has a very helpful and robust website on Social Security. It is located at www.ssa.gov.

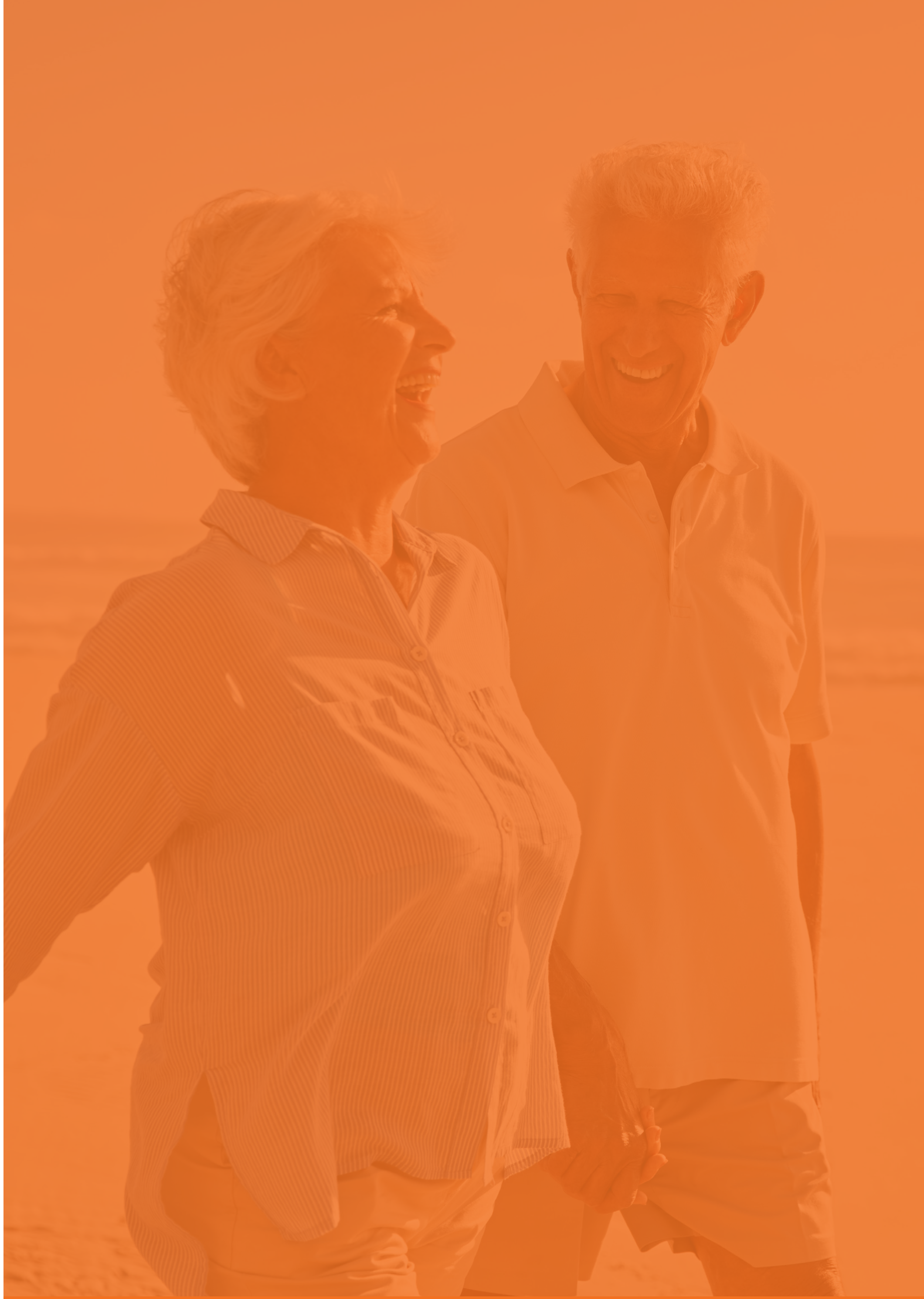
The goal of this booklet is to take an extremely complicated subject like retirement planning and break it down in a way that is understandable and gives you the confidence and ability to move forward with an action plan that works specifically for you.

As a sidenote, we only discussed retirement planning for one individual. These concepts work just as well for a couple. The next step is to complete the worksheets and review them with your trusted financial advisor to create a game plan for you to enjoy retirement and not have to worry about the four main risks that can detour your goals and aspirations.

Health Insurance			
Do you have personal health insurance?	Yes ○	No ○	Not Sure ○
Do you have Medicare?	Yes ○	No ○	Not Sure ○
Do you have Medicare Advantage?	Yes ○	No ○	Not Sure ○
Do you have Medicare Supplement?	Yes ○	No ○	Not Sure ○

Long-Term Care			
Do you have long-term care insurance?	Yes ○	No ○	Not Sure ○
If not, have you looked at long-term care insurance?	Yes ○	No ○	Not Sure ○
Do you have a hybrid life insurance/LTC policy?	Yes ○	No ○	Not Sure ○
If not, have you looked at one?	Yes ○	No ○	Not Sure ○
Do you have a hybrid annuity/LTC policy?	Yes ○	No ○	Not Sure ○
If not, have you looked at one?	Yes ○	No ○	Not Sure ○

NOTES



ASH ANSWERS

Life comes with questions. We bring answers. Life insurance, retirement income, longevity planning, disability insurance and Medicare solutions – no matter the need, we provide the tools and, more importantly, the people financial professionals need to get the job done. And done right.

Most brokerages show up with a product and a payout. We show up with solutions, turning obstacles into opportunities. Any partner can process quotes and applications – we help you anticipate challenges, discover new opportunities, innovate and grow.

Trust is your business, and trust is our business. It's what we do. We do it because we care – deeply – about your business, your clients, your future.

For more than 50 years, we've strived to do what's best and what's right.

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