

5 Big Threats To A Secure Retirement

Make your wealth last a lifetime



WalkerGroup[™]
FINANCIAL SERVICES

5 Big Threats To A Secure Retirement

Make your wealth last a lifetime

As you approach retirement, consider an advisor who can help you shift from asset accumulation and growth to wealth preservation and guaranteed income.

The Dilemma

The days of the gold watch and generous company pension are gone. Today, most private companies no longer provide traditional retirement plans and instead offer 401(k) or similar plans funded largely by the employee. As the costs associated with employer-provided retirement plans have gone through the roof, even government pensions are being called into question as budgets are strapped for resources. Not even Social Security is immune from this trend since the ratio of contributing workers to claiming beneficiaries is decreasing with Baby Boomers retiring in record numbers. Many question whether Social Security benefits can remain at current levels.

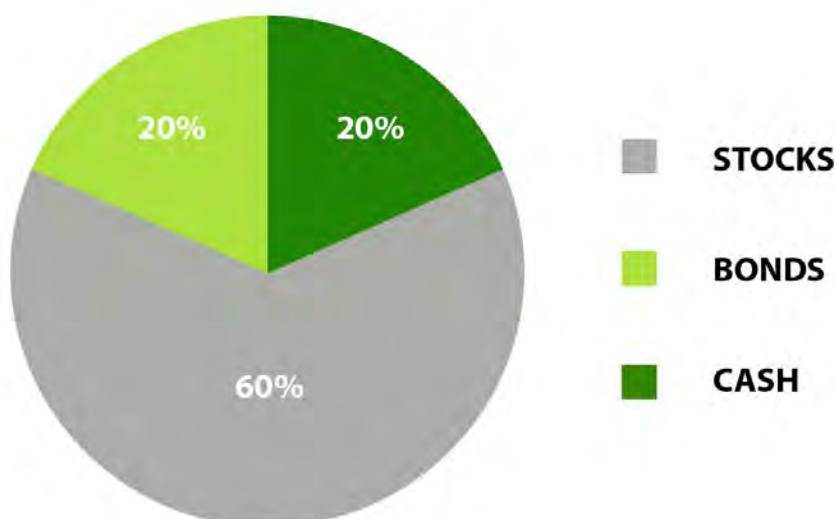
What does all this mean if you are recently retired or approaching retirement? It means you will need to rely more on your own efforts and assume responsibility for the management of your financial future. You must find ways to preserve the assets you have accumulated and identify opportunities to generate guaranteed lifetime income, so you do not run out of money too soon.¹

Traditional Approaches to Investing – Not Useful As You Approach Retirement

There are many ways to invest your retirement assets. The most common asset accumulation and growth strategies involve a combination of stocks, bonds, and cash, as shown in Figure 1. Your retirement portfolio most likely contains some combination of these types of assets.

While the traditional asset allocation models may be appropriate during your working years, they do not solve the wealth preservation problem or guarantee consistent monthly income in retirement.² Here are several risk factors that threaten the effectiveness of traditional strategies for your personal retirement plan.

Figure 1: A Typical Example of Traditional Asset Allocation Model



This model is hypothetical and does not reflect any particular investment portfolio. Asset Allocation is a method used to help manage investment risk. It does not ensure a profit and does not protect against losses in a declining market

1. Guarantees are subject to the claims paying ability of the issuing insurance company.

2. Asset Allocation is a method used to help manage investment risk. It does not ensure a profit nor protect against losses in a declining market.

Beware of the bear... MARKET

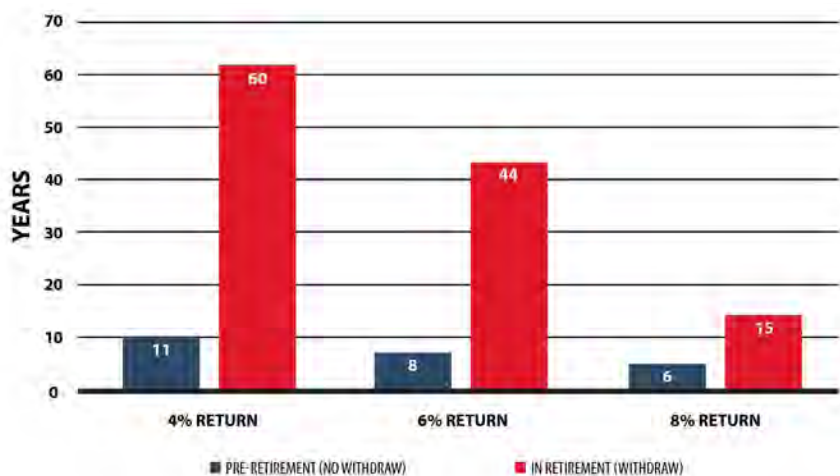
One risk with traditional asset allocation is a “bear market,” defined as a period of time where the market frequently drops 20% or more from peak to trough.² Bear markets eat away at the stock and bond portion of your retirement portfolio. According to research by Ativa Interactive, in the last 113 years (from 1900-2013), there have been 32 bear markets, or about one every 3.5 years.¹ It takes an average of 24 months for the stock market to recover from a bear market. It could take much longer, depending on how your assets are invested. Suppose your portfolio declined 35% from \$100,000 to \$65,000. At a 4% annual return, it would take 11 years for your portfolio to recover to your initial value of \$100,000.² At 6% annual return, it will take 8 years to recover; at 8%, it will take 6 years before you are back to the point where you started.

One risk with traditional asset allocation is a “bear market,” defined as a period of time where the market frequently drops 20% or more from peak to trough.² Bear markets eat away at the stock and bond portion of your retirement portfolio. According to research by Ativa Interactive, in the last 113 years (from 1900-2013), there have been 32 bear markets, or about one every 3.5 years.¹ It takes an average of 24 months for the stock market to recover from a bear market. It could take much longer, depending on how your assets are invested. Suppose your portfolio declined 35% from \$100,000 to \$65,000. At a 4% annual return, it would take 11 years for your portfolio to recover to your initial value of \$100,000.² At 6% annual return, it will take 8 years to recover; at 8%, it will take 6 years before you are back to the point where you started.

Figure 2 compares two sets of data: the average number of years it takes to recover from bear markets during your working years while you are still accumulating assets, and the number of years it takes during retirement, when you are withdrawing money at 5% per year. As you can see, it is much easier to recover from a bear market when you are working and accumulating money than when you are retired and taking money out of your retirement savings.

Figure 2: Years to recover from Bear Market with Initial Value of \$100,000.

Assumes 35% decline in retirement savings from bear market and 5% annual withdrawal.



Note: These results are based on calculations from Ativa Interactive, available at <http://www.ativa.com/time-to-recover-from-a-bear-market/>

Volatility

Riding the Market Rollercoaster

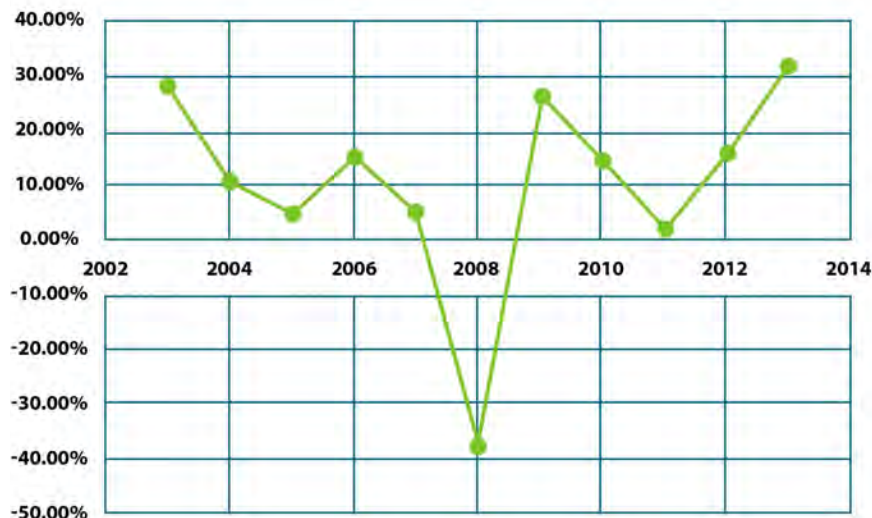
Even if you are not bitten by a bear market when you put your money in stocks or stock mutual funds, your income will depend on stock performance, which tends to be volatile. Figure 3 shows the returns for S&P 5001 from 2003 to 2013. Referencing the graph, you can see that although the broader market is recovering from the 2008 financial crisis, stock returns are still unpredictable because of market fluctuations and other variable economic factors. This

1. See “Time to Recover from a Bear Market”, available at <http://www.ativa.com/time-to-recover-from-a-bear-market/>

2. Historically, average stock market returns are not that low. However, there have been extended periods where growth has been flat.

will put your income at risk. These fluctuations may not be of much concern while you are working and accumulating money, but can keep you awake at night when you are retired and distributing money. Since stock prices are inherently changeable, achieving a consistent flow of income is almost impossible. More importantly, you don't want to spend your days obsessing on the stock ticker. You want to be enjoying your friends and family.²

Figure 3: Stock Returns for S&P 500 (2003 -2013)

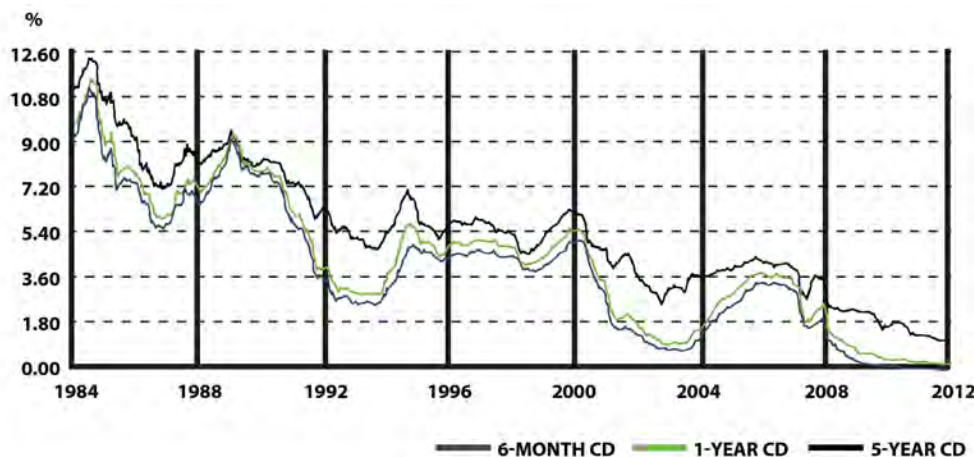


Source: Google Finance. "Standard & Poor's", "S&P 500", and "Standard & Poor's 500" are trademarks of the McGraw-Hill Companies, Inc.

Low Interest Rates

That Sinking Feeling

From the previous section, you can see that if you invest in the stock market, your income will fluctuate, and if we enter a bear market it can eat away your portfolio in a short period. In such a situation, you may think that the easiest way to get guaranteed income is to put your money in a bank CD.³ However, Figure 4 shows the CD rates from 1984 to 2012. As you can see, CD rates have decreased precipitously in the past 20 years. You probably noticed that in your bank or money market statements. Saving assets in a bank CD may have been a good idea before 1990, since they were paying out at around 7% per year. Now, with CD rates lower than 1.8%, it would be a bad idea to count on a bank CD for retirement income. You would need over \$500,000 in the bank to generate just \$9,000 per year in income!⁴ Figure 4: CD Rates in United States (1984-2012)



Source: Bankrate.com

1. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading industries of the U.S. economy.

2. An index is a composite of securities that provides a performance benchmark. Indexes are unmanaged, do not incur management fees, costs and expenses, and cannot be invested in directly. Past performance is not a guarantee of future results.

3. Certificates of Deposit (CDs) are time deposit accounts that entitle the CD owner to a specified annual interest rate over a specified period of time. CDs are FDIC Insured up to \$250,000. Conditions and restrictions apply.

Longevity

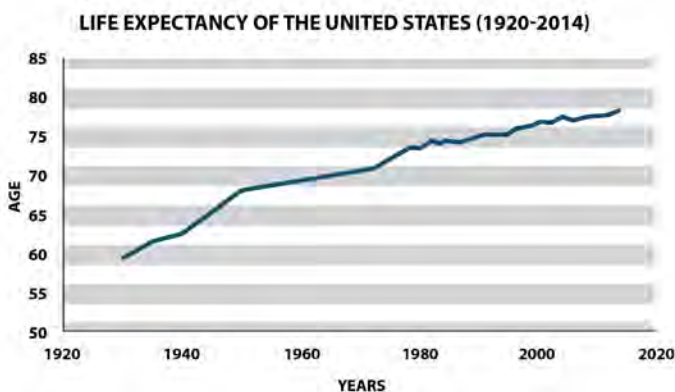
The Longer you live, the more money you will need

One hundred years ago, it was unusual to know someone who was older than age 80. Today, the average life expectancy for most Americans is age 80, or even older. According to MarketWatch, for a married couple both aged 65, there is a 1 in 4 chance that one spouse will live for another 30 years. You want to make sure your retirement savings will support your lifestyle for that long of a period of time once you start taking distributions. Running out of money too soon has become a legitimate concern, as projected life expectancy is extended.

Living longer is a blessing. While you are working and accumulating assets, time is your ally. However, once you are retired, from a financial standpoint, it can be a risk and a challenge: you may need steady retirement income for 30 years or more. Longevity increases the likelihood that you could outlive your money. Figure 5(a) shows the life expectancy for individuals living in the United States. Notice the steady increase. By contrast, Figure 5(b) shows the value of a hypothetical retirement portfolio. This illustration assumes you have \$250,000 at the beginning of retirement and you will withdraw \$20,000 per year. It also assumes an average return of 2.5% per year from a bank CD or similar low risk investment. Unfortunately, in this typical scenario you will run out of savings in just 15 years. So, if you live longer than 81 years old, which is quite possible, you will have nothing left to cover your daily living expenses.

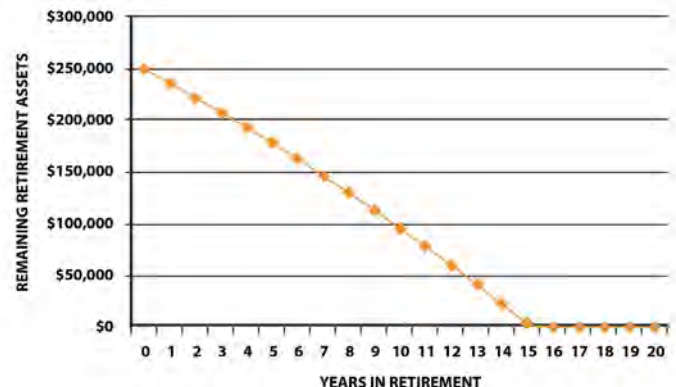
Traditional investment vehicles (stocks, bonds, mutual funds, or bank CDs) do not guarantee lifetime income.¹ You risk running out of money with these investments.²

Figure 5(a): Life Expectancy of United States (1920-2014)



Source: Centers for Disease Control and Prevention

Figure 5(b): Depleting Savings in Retirement



ASSUMPTIONS:

At the beginning of retirement: \$250,000

Withdraw: \$20,000 per year Average return from a CD1 or low risk investment: 2.5% Per Year Annual Rate of Return

This example is intended for illustrative purposes only and is hypothetical in nature.

It is not intended to illustrate any specific individual's financial situation. Your actual circumstances could vary significantly from the illustrated example.

Inflation Rate

Prices go up, but will your income?

Another important risk factor that may impact your financial picture after retirement is the inflation rate. Inflation is the gradual increase in the cost of goods and services over time. During the last two decades, the inflation rate has increased almost 3% each year.² Many of the items affected by inflation are things you cannot live without, such as fuel costs, medical care, and food. According to the Massachusetts Department of Energy Resources, in 1999, the price of the gasoline was \$1.31 per gallon, but in the May 2014, the price is \$3.71 per gallon. From Figure 6, you can see how inflation can be devastating to your ability to meet your basic living requirements. Even if the inflation rate is only 3%, it will erode your purchasing power from \$15,000 to \$6,179, in 30 years. When you are working and

1. Guarantees are subject to the claims paying ability of the issuing Insurance company.

2. Unlike a CD, which is an FDIC-insured bank product, an annuity's guarantee of principal and interest are only as strong as its financial position. Consult an Insurance company's ratings for its financial strength.

3. Certificates of Deposit (CDs) are time deposit accounts that entitle the CD owner to a specified annual interest rate over a specified period of time. CDs are FDIC

4. Available at www.usinflationcalculator.com/inflation/historical-inflation-rates/

accumulating retirement savings, inflation may not be a huge problem if your salary goes up and you can boost your retirement contributions. In retirement, however, you are already taking money out and inflation can deplete what you have even faster.

Traditional investment strategies may not offer a secure hedge against inflation. Stocks expose you to market volatility, and less risky investments such as bank CDs may not keep up with inflation.



Figure 6: How Inflation Erodes Purchasing Power

Finding the Right Financial Advisor Whose Approach is In Line With Your Objectives: Accumulating vs. Distributing Assets

Traditional planning strategies may not be structured to generate lifetime income and preserve assets. Stocks and mutual funds can be very useful during your working years. While you are accumulating assets, you still have plenty of time to recover from a downturn in the market or a period of low return. The key to retirement security is to find an advisor who focuses on retirement income planning, rather than just growing an asset base through investments.

There are several different types of financial advisors who are trained to accomplish specific objectives in helping you manage your finances. Some advisors are focused primarily on managing investments, and they will help you make stock and bond purchases or invest in mutual funds that are appropriate for your objectives and your station in life. Other advisors take a different approach and are trained to help you create a stable source of income during your retirement years to make sure that you do not run out of money too soon. Finding the best advisor for the type of planning you need enables you to have a comfortable retirement. After all, when you have a heart condition, you need the right specialist, so you go see a cardiologist, not a neurologist!

If you are approaching retirement, it is likely that you are in need of an advisor who is focused on retirement income planning. This is the advisor who will help you put a strategy in place that may provide income guarantees so you will have enough money to meet your daily living expenses for the rest of your life.¹

Strategies for Retirement Income – Now for the Good News!

Getting paid to live longer

What if we told you there are specific solutions that actually pay you more the longer you live? Solutions that can provide you with guaranteed income for life, without subjecting you to the risks of the markets? This is what the right advisor does—an advisor focused on retirement income and distribution planning.²

Your advisor can identify strategies where you receive guaranteed income for life that does not involve investing in the stock market. This approach eliminates the risk of living too long and running out of money. In fact, the longer you live, the more money you will receive! It also protects you from the risk of a bear market and allows you to sleep at night, even when the stock market has a bad day, month, or year.

There are many planning options your advisor can utilize, depending on your retirement income needs. You can begin receiving income right away or you can defer receiving income until a later date, depending on your financial situation. Deferral, for example, is a good option if you are near retirement but still want to work for a few more years. These income payments can be designed for a single life or joint lives to take care of you and your spouse while adjusting with inflation to protect you against rising prices.³

^{1/2}. Guarantees are subject to the claims paying ability of the issuing Insurance company.

³. Annuities are long-term retirement savings insurance products. The examples presented herein are for informational purposes only. They are not representative of any specific annuity and do not constitute investment advice. Withdrawal of earnings will be subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal tax penalty. Additional fees apply for living-benefits options. Violating the terms and conditions of the annuity contract may void guarantees.

Another challenge is generating adequate income given today's low interest rates. As noted earlier, CDs and similar investments are paying historically low rates. Simply depending on the bank will not provide you with much income. However, if you choose the right alternative, you can actually get a higher rate of return. Your advisor can help you identify income strategies that typically pay out at a higher rate than bank CDs³ and guarantee the payments for life.²

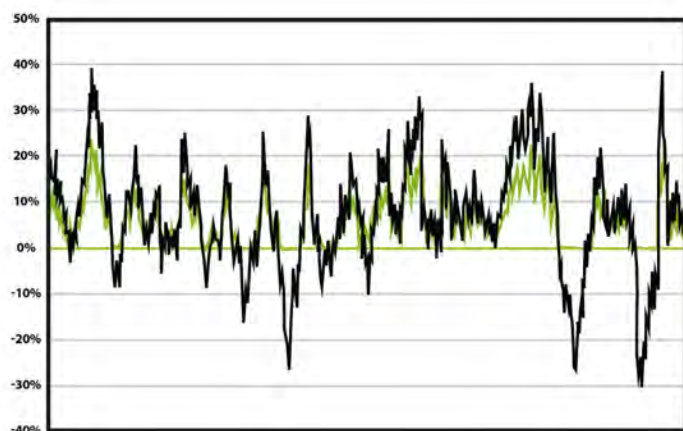
Eliminating Market Risk

Your retirement income advisor can help you in other situations by identifying solutions that traditional investment advisors do not focus on. Suppose you are in your late-50s and do not plan to retire for six or seven years. Or, suppose you are retired and in your late-60s. In either case, you may want a portion of your retirement savings tied to one of the major market indices such as the S&P 500 given the recent gains.⁴

A traditional advisor will likely put you in a mutual fund. However, you would be subject to market volatility and the possibility of a bear market, which could wipe out your investment. Your retirement income advisor, on the other hand, can offer you products and strategies that solve this problem.

The right advisor can provide you with alternatives that will protect your principal, while enabling you to enjoy gains in the stock market. Figure 7 is an example of a product that ties increases in your account to a percentage of the gains in the S&P 500. However, if the S&P 500 declines like it did during the 2008 financial crisis, then your account will not lose any value (zero loss). The worst you can do is break even!

Figure 7: S&P 500 vs. S&P 500 with Zero Loss and Percentage of Gains



BLACK Line: S&P 500 returns BLUE Line: Example of S&P 500 with zero loss

Tax-deferred growth so you do not have to pay income tax until you take money out of the account.¹

Flexible withdrawals that allow you to get money when you need it.¹

The option to turn the account into guaranteed income payments for life.²

As you can see, a retirement income advisor can help you with solutions to today's retirement challenges. But the choice is yours. Take responsibility for your retirement and talk to the right advisor today.

You have nothing to fear...

As you approach retirement, you need to be able to manage the five risks we discussed:

- Bear markets, which may reduce your savings
- Market volatility, which may keep you up at night
- Longevity, which may cause you to run out of money
- Inflation, which may reduce your purchasing power
- Low interest rates

While these risks may appear daunting, you should have nothing to fear. By sitting down with your financial advisor, who specializes in retirement income planning, you can devise a strategy using the right financial products to overcome these risks and provide you guaranteed income for life.²

1. Unlike a CD, which is an FDIC-insured bank product, an annuity's guarantee of principal and interest are only as strong as its financial position. Consult an Insurance company's ratings for its financial strength.

2. An index is a composite of securities that provides a performance benchmark. Indexes are unmanaged, do not incur management fees, costs and expenses, and cannot be invested in directly. Past performance is not a guarantee of future results.

3. Annuities are long-term retirement savings insurance products. The examples presented herein are for informational purposes only. They are not representative of any specific annuity and do not constitute investment advice. Withdrawal of earnings will be subject to ordinary income tax and, if taken prior to age 59 1/2, may be subject to a 10% federal tax penalty. Additional fees apply for living-benefits options. Violating the terms and conditions of the annuity contract may void guarantees

4. Guarantees are subject to the claims paying ability of the issuing Insurance company.



Call Scott today at:
1.316.267.3138
www.wgifs.com



It may contain information that is privileged and confidential. If you are not the intended recipient, please reply to the sender as soon as possible and delete the message from your computer. Any dissemination, distribution, copying, or other use of this message or any of its content by a person other than the intended recipient is strictly prohibited.

IRS Circular 230 Disclaimer: To ensure compliance with IRS Circular 230, any U.S. Federal Tax Advice Provided in this communication is not intended or written to be used, and it cannot be used by the recipient or any other taxpayer (I) for the purpose of avoiding tax penalties that may be imposed on the recipient or any other taxpayer, or (II) in promoting, marketing or recommending to another party, a partnership or other entity, investment plan, arrangement or other transaction addressed herein.

Investment Advisory Services offered through Virtue Capital Management, LLC; A SEC Registered Investment Advisor. Virtue Capital Management Advisors is independent of Walker Group, Inc.

445 North Waco Street • Wichita, Kansas 67202