SECURE A SHELTER™

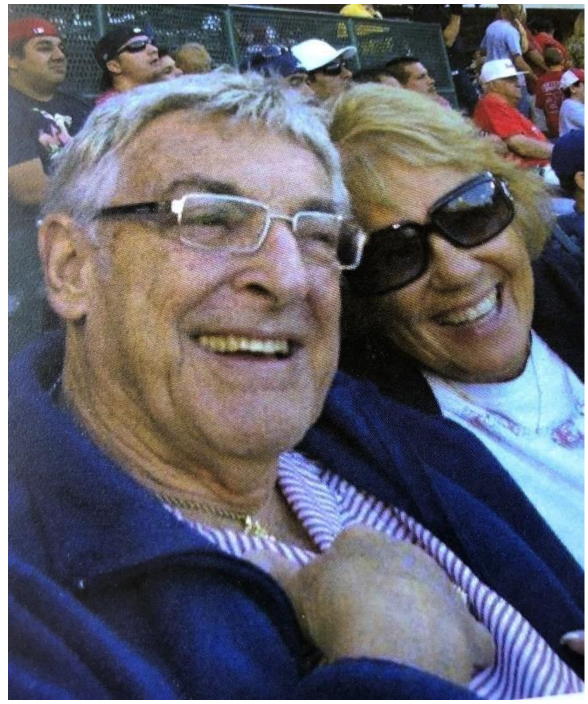
THE FOLLOWING TRUE STORY EXPLAINS WHY A NEW RETIREMENT INCOME STRATEGY IS NEEDED.

An institutional pension idea called Liability Driven Investing ("LDI") is based on simple economics.

Connie and Ziggy were a married couple well into retirement by 2008. Their plan included Ziggy selling his optical business and continuing to work part time.

BOTH OF THEM AGREED AGING IN PLACE WAS A TOP PRIORITY. THIS SEEMS A COMMON GOAL FOR RETIREES IN AMERICA; A 2018 AARP SURVEY FOUND 76 PERCENT OF THOSE AGE 50 AND OLDER SAID THEY PREFERRED TO REMAIN IN THEIR CURRENT RESIDENCE AS THEY AGE.

He could walk to work from their condo – a home that held tremendous sentimental value for their entire family.



Unfortunately, they were not ready for the global financial collapse that would engulf them.

They'd sought help from investment professionals many years earlier. They learned about asset allocation, mutual funds, and the 4% withdrawal strategy. Regrettably, they didn't really understand the fragility behind the advice they were given.

To begin with, the common use of "***risk tolerance questionnaires***" turned their retirement security into a stressful nightmare. While this was a best practice for individual investment advice, they didn't realize how susceptible they were to big declines at any point in time. Their advisors' computer simulations modeled average annual losses within a likely range of "plus x and minus y percent" two thirds of the time. But lurking beneath the surface was the potential for much larger losses of y percent "***or more***" one year out of six. The Global Financial Collapse that began in 2008 was the "***or more***" part of that bargain.

Former Wharton Professor David Babbel described the problem of retirees counting on retirement income from projections based on statistics as like playing Russian roulette with live ammunition: ***"[the risk of running out of money in retirement using systematic withdrawal] may only be 15%... [but] that is roughly equivalent to the 16.7% odds of losing in a game of Russian roulette... and few people are prone to participate in such games!"***

USING STATISTICS TO CREATE ADIVERSIFIED PORTFOLIO WITHOUT REGARD TO MATCHING ASSETS WITH EXPENSES MEANT **THEIR ABILITY TO COVER THEIR ESSENTIAL NEEDS LIKE HOUSING WAS STILL IN QUESTION. THEIR MUST-HAVES WERE LUMPED IN WITH MORE DISCRETIONARY THINGS LIKE ENTERTAINMENT**, AND AVERAGED INTO RISK TOLERANCE SCORES THAT EXPOSED THEIR ENTIRE BUDGET TO FLUCTUATIONS IN STOCK AND BOND MARKETS.

THE OUTCOME WAS TERRIFYING.

WHETHER THIS RESULT WAS PROBABLE OR NOT BASED ON THEIR ADVISOR'S STATISTICS-DRIVEN SIMULATIONS WAS IRRELEVANT.

TO ZIGGY IT SIMPLY FELT LIKE CONNIE'S SAFETY WAS AT RISK.

Their financial plan put them in an unmatched position they did not know how to solve, and the advisors' words ***"just change your spending"*** didn't fix it.

Looking back, Connie found it hard to pinpoint what came first: the onset of Ziggy's failing memory or the financial collapse. However, she knew the bear market was clearly a contributor to the substantial increase in his overall stress levels.

Causes and effects for dementia and Alzheimer's typically highlight psychological factors that include anxiety and depression. Ziggy developed the obsession of watching the price declines of their mutual funds in the paper. He lost sleep and grew more forgetful. It also affected his part-time employment, which in turn contributed to the further progression of his memory loss.

Connie said the biggest concern was that their brokerage account would run out of money. He'd crunched their spending numbers enough to know what would happen if he died first and the investment account failed: Connie would lose one of their two Social Security checks and would struggle financially to remain in the condo alone.

In 2009 signs appeared that Ziggy's forgetfulness was progressing rapidly; their financial adviser lost patience while trying to keep him calm, insisting he look at the return of the whole portfolio instead of individual funds. This was an exercise in futility. Ziggy's diminished capacity kept him from appreciating the logic of a diversified mix of risky assets.

They next tried moving their account to a discount brokerage, where they were guided to invest in a professionally managed active mutual fund program. This approach was nearly identical to that of their prior firm and many of these new funds fared poorly as well.

Then Ziggy lost his job. The new owner of the business couldn't allow him to continue interfacing with customers given his memory loss. It was like a rogue wave to their financial plan.

Sadly, his disease progressed quickly from there, leading to a nursing home, physical decline from things such as urinary tract infections and, tragically, his death a year later.

Connie's physical health deteriorated during this time too, as the stress of watching her beloved suffer and slip away combined with the pressure of assuming sole decision-making responsibility for their financial security.

It was all new to her, and scary.

She wished there could have been a different way they could have budgeted for retirement, well in advance.

Amid all the stress, a family friend proposed a new idea for them:

Their must-have condo HOA fees and property taxes could be matched with guaranteed income from a Single Premium Immediate Annuity.

They agreed and chose a 2% annual increasing cash flow feature. They also selected 100% survivorship rights to ensure Connie would be able to age in place after Ziggy was gone.

She loved her annuity, waking up every morning in her home, and feeling secure.

WHAT IF CONNIE AND ZIGGY HAD PRIORITIZED THEIR RETIREMENT EXPENSES INTO THREE BUCKETS BASED ON WHAT WAS MOST IMPORTANT TO THEM?

THE APPROACH OF SEGMENTING AND FUNDING DIFFERENT EXPENSES WITH MORE ECONOMIC PRECISION WOULD HAVE EASED THEIR OVERALL STRESS AND DOES NOT REQUIRE ROCKET SCIENCE.

IF IMPLEMENTED FROM THE START, IT MAY HAVE HELPED ZIGGY LIVE LONGER.

THE FOLLOWING TABLE ILLUSTRATES A HYPOTHETICAL EXAMPLE.

Example of Categorizing Expenses in a Hypothetical LDI-Like Framework

Expense Item	Most Important	Discretionary	Optional	Funding Match
Food	*			*Social Security
Shelter costs: HOA, Taxes, Maintenance	*			*Annuity W/COLA *Reverse Mortgage
Health Insurance	*			*Medicare *Social Security *LT Care Insurance
Income Taxes	*			*Social Security
Liquidity	*			*Savings *Reverse Mortgage
Transportation		*		*Social Security
Inheritances			*	*Home Equity *Investments *Life Insurance
Travel/Entertainment			*	*Investments
Clothing Other Optional Items			*	*Investments

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