The Biggest Wealth Transfer

Guided by Income Planning Advisors

It has arrived, the money's in motion. The money tsunami of over 20 trillion dollars. The age of the Baby Boomers, of 10,000 people turning age 65 years old for the next 19 years in the U.S. since January, 2011.

As Boomers pull the plug with employment and head into retirement, there is an extremely important need for new ways to preserve retirement savings and obtain income with guarantees that last a lifetime, for themselves and for future generations.

The key element of understanding the macro picture for planning is that there comes a time in our working years where we have fulfilled our personal objective within what we call the accumulation of our working years. Now it's time to plan for wealth decumulation years, such as we know retirement income for years to come. In the era that we're living in, we have to plan out our retirement for 25 to 30 years. More and more people these days are living to age 90 and beyond. In order to properly guide our clients, there must be awareness of the retirement game – the full retirement game; both the first and second halves; the first half representing the accumulation phase and the second half representing wealth decumulation. We must help our clients be winners at both halves of the game during the first half, the accumulation phase of their working years.

Unfortunately, most people don't plan correctly for retirement. They should be creating a foundation known as a retirement income benchmark. If we were to take a time machine back to the 2008 meltdown and see what the average losses were, most 401(k)s lost an average of 24% during that time span. In today's uncertain market, retirees and investors are still recovering from the financial and emotional trauma.

The most current economist's view of decumulation is in full agreement and endorsed by the most prominent economists in the world, including Nobel prize winners. The Wharton Business School report that reviles the significance of annuitization of a substantial portion of retirement wealth is the best way to go.

Additional studies within the report showed the aspects of annuitization in retirement wealth. They compared mutual funds, stocks, money market or a combination that are subject to greater risk and possible higher expenses. They are unlikely to keep pace with annuity returns, when risk is taken into account.

The Rule of 100 is an effective way to measure the risk assessment for appropriate allocation of the retirement and investment assets. The Rule of 100 uses age as a baseline in the calculation and exposes risk. This calculation takes the number 100 and subtracts the average age of a husband and wife from 100. This produces the appropriate ratio of risk to safe assets. The impact to market risk can dramatically impact the longevity of retirement savings due to how long it takes to make back the losses. The aftermath of the 2008 meltdown, as stated earlier where accounts lost anywhere from 24 to 70%, is still being felt today.

Here's an example. If you were to lose 30%, what kind of return would you have to get to recover? A 42% return. Wall Street doesn't want you to know this. So, if you lost 30% and if you had 3% net return, it would take 12 years to fully recover.

The dreaded Triple Top Chart is alarming to investors and traders due to the current stock market patterns and clearly shows that the S&P 500 is in a third major peak right now. The Triple Top chart has proven that market patterns go through three common tops. The first peak was in 1999, followed by a 60% market loss. The second peak was in 2007 and followed by another 60% market loss. Now the third peak has formed. Could another stock market plunge be on its way? Could it hit retirees at any time?

Does history repeat itself? Most boomers are still operating on the investment and accumulation mind-set of the 1982—2000 stock market rallies, which have grown their six and seven figure portfolios. We are currently on a 5 year Bull market run that was manufactured by government quantitative easing. This feeds into the Bull run frenzy, which puts the markets on life support, waiting to pull the plug at anytime. Most folks are navigating forward with the rear view mirror!

What did Warren Buffet say about investing? The first rule to investing is to never lose money. The second rule is to never forget rule number one. An Allianz Life survey, "Reclaiming the Future" clearly stated that consumers want safety over returns. During this study, 76% of consumers agreed to a 4% return, guaranteed not to lose value. The other 24% chose an 8% return with the possibility of losing value and remaining vulnerable to market volatility.

Boomers these days have another risk in addition to market and principle risk; longevity. Longevity risk these days is paramount and there is a paradigm shift that is taking place with consumers to have guaranteed income for life. The challenge is to turn assets into income and make that income last a lifetime. The current mortality and longevity risk for a 65 year old female is a 56% chance of living to age 85 and 35% chance of living to age 90. A 65 year old male has a 46% chance of living to age 85 and 25% chance of making it to age 90.

We must plan for 25 years or more of taking income. America has a greater number of centenarians than any other nation. Hallmark recently revealed that they sold 85,000 100th birthday cards.

What is the formula to a successful income plan when it comes to your retirement years? The process begins with identifying retirement savings assets such as 401(k)s, IRAs and non-qualified savings and totaling their values. The next step is to identify sources of retirement income that are not savings dependent, such as Social Security benefits. Be cautious with claiming Social Security income at age 62 as this will reduce your monthly income by 25% versus waiting to retire until age 66 or 32% more by retiring at 70 vs. 66.

Next on the identification process is to include any pensions, rental, business or any other income sources and their duration. Now, determine the client's retirement income needs and desires. The total retirement income solve consists of two components: Required Income and Lifestyle Income Combined, they provide the full income picture.

Required income is the actual amount needed to maintain a comfortable but not elaborate lifestyle for the remainder of the client's lifetime. The required income is specifically for housing, food, transportation and medical, totaled and prioritized for our calculation. Lifestyle income includes the expenses of travel, hobbies, gifts and family. Combine the two for the amount used in the solve.

Next you will determine the income gap, or deficiency, by finding the difference between the non-savings dependant income (Social Security) and the required income. Now you have the total income gap amount that is generated by retirement savings assets from the first solve (401(k), IRA and non-qualified savings).

Typically we use Personal Retirement Fact Finders to identify the biggest income deficiency in retirement. The majority of Boomers have a retirement income gap and don't know how to appropriately build a bridge to fill the gap. Solving the gap deficiency takes a good understanding of the client's individual income needs and knowing how bridge the retirement income gap using a variety of longevity risk tools such as guaranteed income annuities. This includes: fixed annuities (with GWBR), single premium immediate annuities, 5x5 annuitization annuities. Split annuities and laddered annuities can be used in combination to help bridge the retirement gap or enhance retirement income and cash accumulation for retirees.

The use of fixed index annuities enables the consumer to achieve safe and secured compounding growth; guaranteed on a tax advantage basis with a unique ability to capture a significant portion of index returns without having to risk one's principle or prior gains. In other words, a fixed index annuity enables the consumer to achieve growth without risk. Longevity risk management through the use of annuities has been historically used in America for more than 200 years, protecting families' incomes and assets.

As a Senior Business Development Advisor with BCA Marketing, I feel strongly that the time is right to implement income planning strategies in order to take care of our Boomer clients in this manner. If they live another 30 years, they can still continue their legacy to their spouse, children and grandchildren.

In the end, you will be recognized as the retirement professional that you are. And the one who is skilled in offering clients sound advice.

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Joseph Clark, CFEd®, RFC®, has extensive knowledge in preservation and distribution of wealth, retirement planning, reduction of financial risk, tax efficiency and protecting assets from catastrophic illness. He is an experienced teacher, consultant and advisor with Brokers Choice of America. Joseph also works with personal clients through his agency, Clark Advisory Group.

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