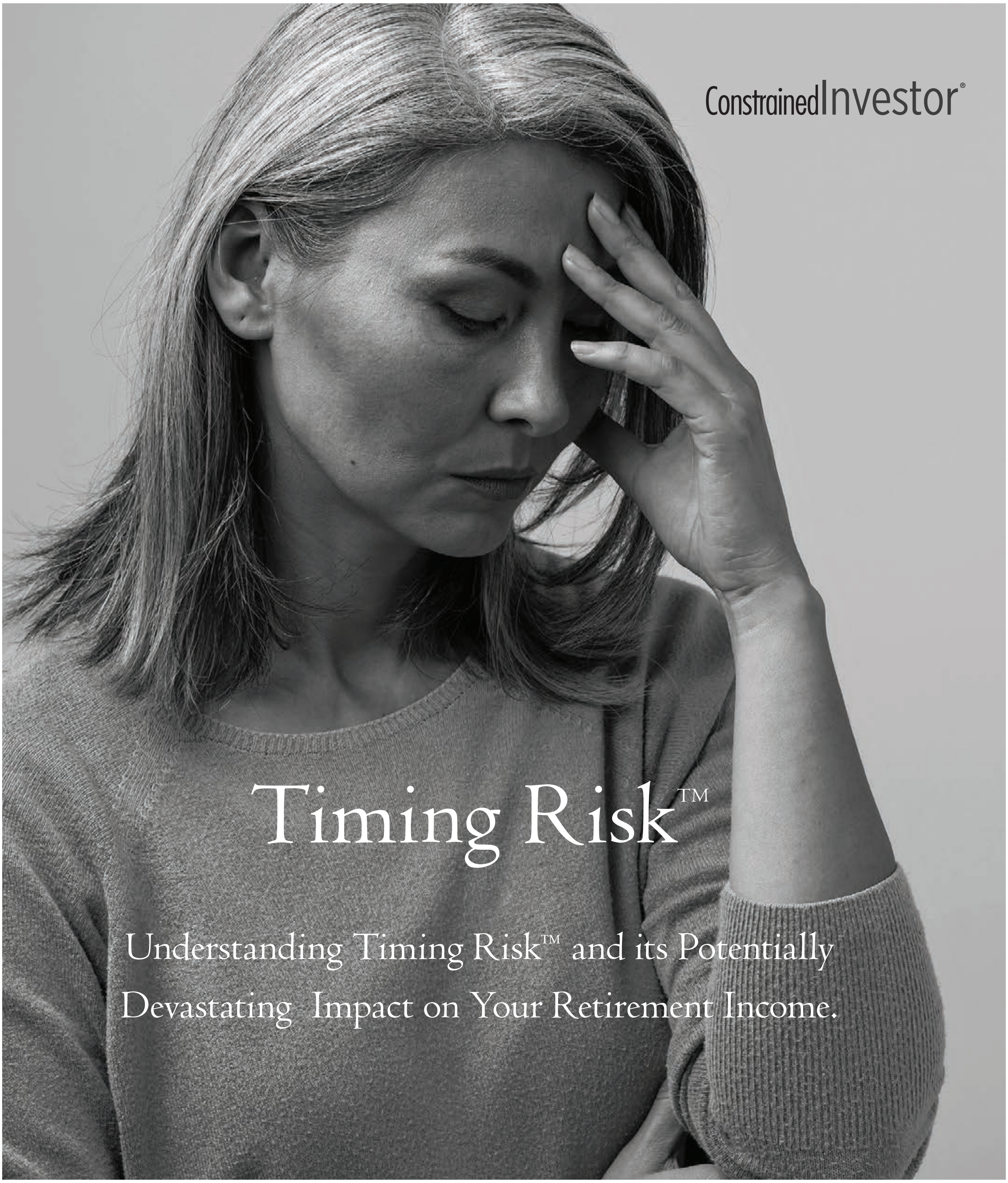


Timing Risk™

Understanding Timing Risk™ and its Potentially Devastating Impact on Your Retirement Income.

David Macchia's

Constrained Investor®

No person would intentionally leave it to luck to determine their financial security in retirement. Yet, without a strategy that manages Timing Risk and Longevity Risk, that is exactly what millions of retirees do.

After you read this brochure, you will understand why most people who are approaching retirement, or recently retired, should never fail to have a plan for managing key risks. Let's look at why.

10 PEOPLE
OF RETIREMENT AGE

FINANCIALLY IDENTICAL

SAVINGS	SAME	SAME
$500,000	**Investment Portfolio**	**Money Withdrawal**

Imagine ten, financially identical people who have reached retirement age. Each has the same $500,000 in savings. Each person has the exact same investment portfolio. Each will enter retirement and withdraw the same amount of money.

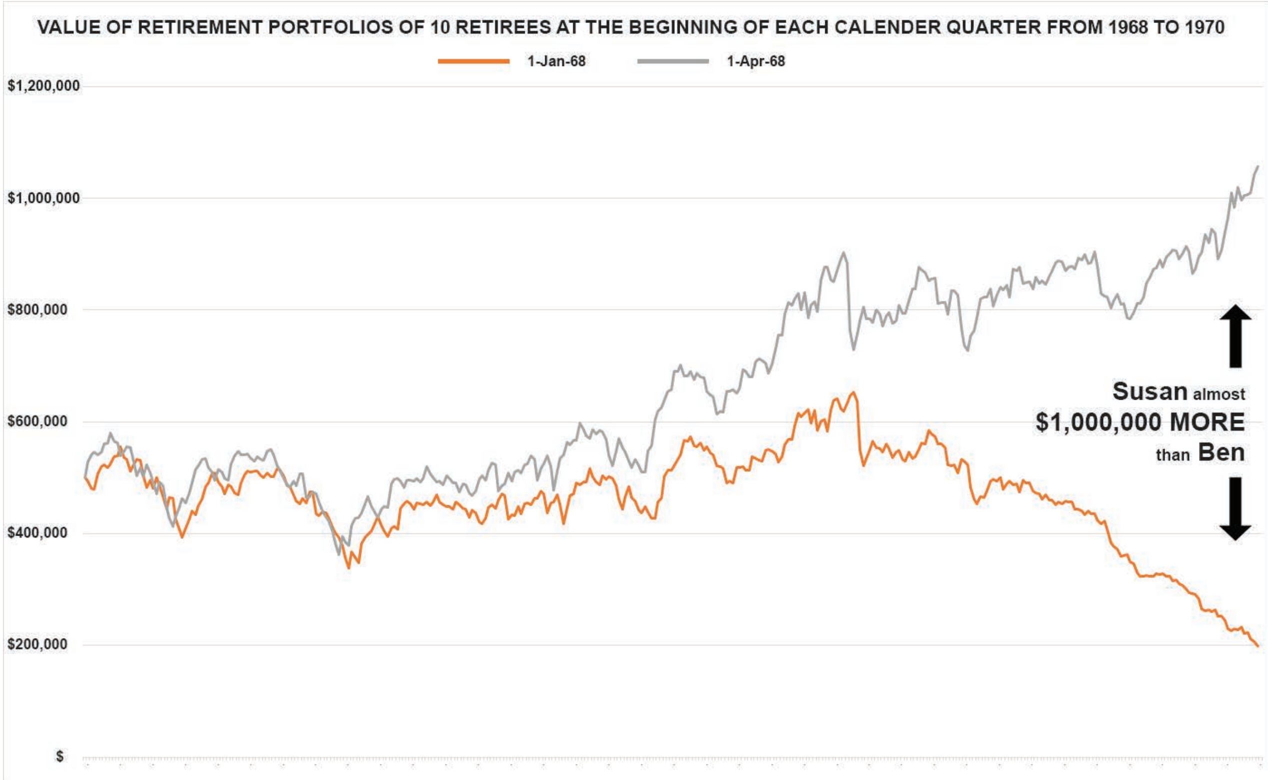
What's different? Only this: The timing of their retirements.

To demonstrate the income-destroying potential of Timing Risk, rather than retire all ten individuals on the same day, we will separate them by one calendar quarter. This means that, about every 90-days, another person will retire. The first person will retire on January 1. The second, on April 1, The third, on July 1. It will continue in this sequence until all ten have retired. Then, we'll look at the financial results experienced by the ten retirees over retirements lasting 30-years.

This example demonstrates why retirees must manage Timing Risk.

Ben and Susan's Results

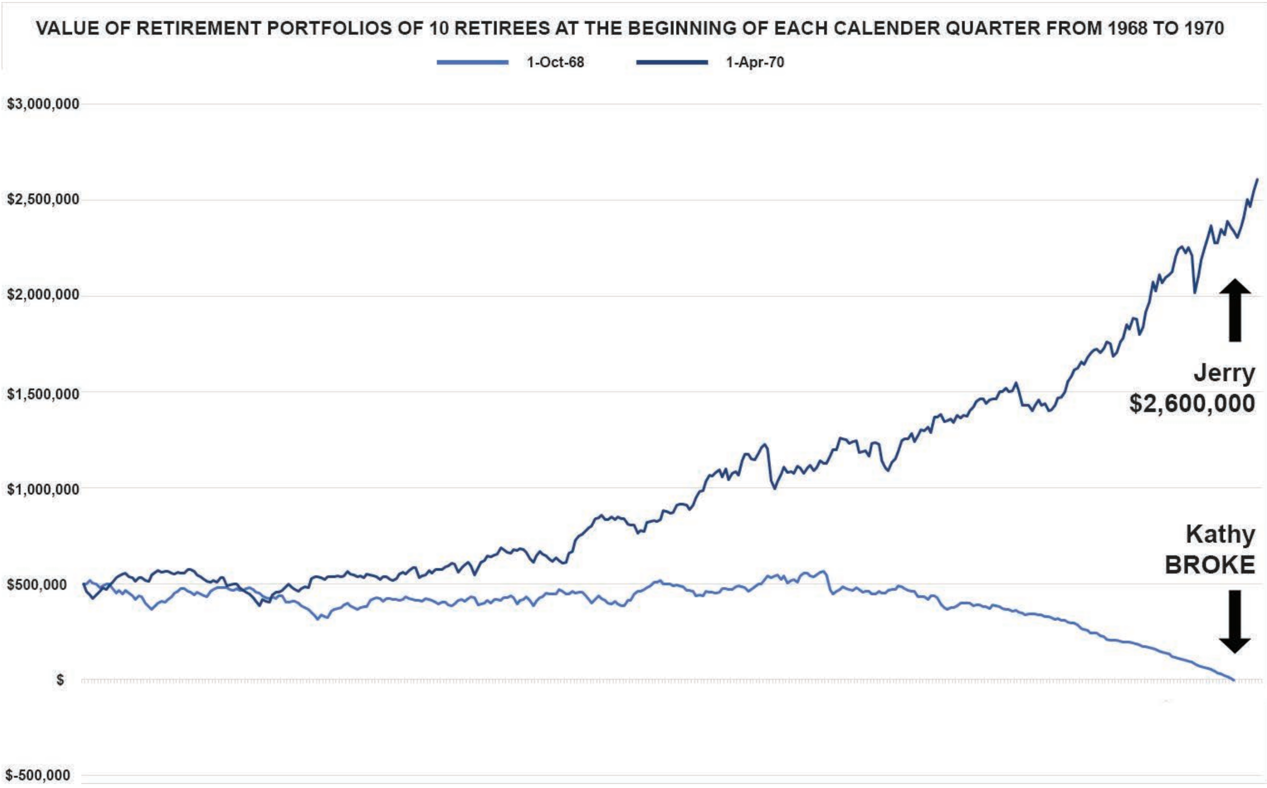
On January 1, Ben is the first to retire. Then, on April 1, Susan follows Ben into retirement. Will their financial results be different? Shockingly different. Susan is lucky. She ends up with about $1,000,000 more than poor unlucky Ben, who retired just three months earlier. These results reveal the incredible impact of timing. Ben, who had been thinking he would wait until Spring to retire, decided against it. A million-dollar mistake.



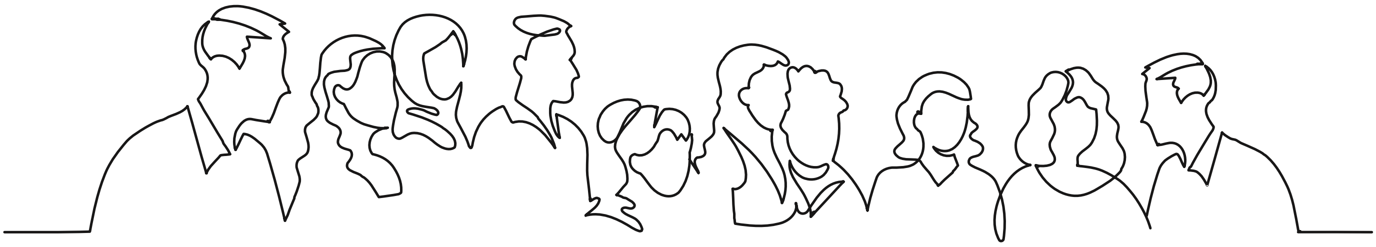
Source: LIMRA Secure Retirement Institute, 2018. The portfolio has an asset allocation of 42.5 percent large company stocks, 17.5 percent small company stocks, and 40 percent intermediate-term government bonds and is rebalanced annually. The initial withdrawal amount was $1,686 per month, or for the first year $20,235 or 4.05% of beginning assets. The individual retiree withdrew the same dollar amount within each calendar year, and adjusted annually for the prior calendar year's inflation rate. The cost of funds in the portfolio is 100 bps annually. Fund returns are from Ibbotson, Morningstar.

Kathy and Jerry's Results

It's even worse for Kathy, the 5th retiree. She ran out of money entirely. On the other hand, Jerry's luck was extremely good. Among the ten retirees, his results were the best. Not only did Jerry receive 30-years of inflation-adjusted income, but he also accumulated a pile of cash equal to $2,600,000. **Kathy is broke, and Jerry is rich.**



Do these outcomes surprise you? It's all due to timing. The lesson is, when you do not plan for Timing Risk, it's like leaving it up to luck to determine your financial security in retirement.



$198,717 | $1,056,382 | $19,7594 | $-721.83 | $-1422.69 | $641,898 | $1,069,129 | $1,534,933 | $1,911,538 | $2,606,465

How do I manage Timing Risk?

You may be wondering, *“How do I manage Timing Risk?”* It’s actually quite simple. Because Timing Risk is most dangerous early in retirement, arrange your savings so that during the first ten years of retirement, you are drawing your income from vehicles which are not subject to principal risk.

One uncomplicated way to accomplish this is to use a combination of two annuities, a 5-year Single Premium Immediate Annuity (SPIA), and a 5-year deferred annuity. The SPIA pays you guaranteed monthly income over years 1 thru 5 of retirement. While the SPIA is sending you paychecks, the interest earning deferred annuity accumulates. Beginning in year 6, it is converted into another SPIA which pays you guaranteed monthly income in years 6-10. This simple arrangement provides 120 months of guaranteed income, avoids principal risk, and protects you against Timing Risk.

What Type of Investor Are You?

Retirees who have similar amounts of savings often require different strategies for producing retirement income. Why? Because among retirees with similar nest eggs, some will need more income than others to meet their living expenses. Therefore, those who require more income may push the limits of reasonable investing expectations and quite possibly leave themselves no room for error. **This introduces an important concept. Any retiree can be placed into one of three categories of retirement investors**.

01 Overfunded Investors

02 Underfunded Investors

03 Constrained Investors®

01. Overfunded Investors

“Overfunded” investors are the lucky minority of people who have more investment assets than are needed to produce the monthly income they need to fund their lifestyles.

02. Underfunded Investors

“Underfunded” investors typically have low savings balances.

They will rely primarily upon Social Security to provide their retirement income. .

03. Constrained Investors

Constrained Investors make up the majority of retirees who have saved consistently for retirement Every one of them should seek to manage Timing Risk.

What is the profile of a Constrained Investor? There is a mathematical computation I will demonstrate below, but also a general description: Someone who reaches retirement with savings, but the amount of savings isn’t high compared to the level of income needed to support the investor’s minimally acceptable lifestyle. This does not mean that Constrained Investors have low savings balances. On the contrary, they may have accumulated millions of dollars. But whatever amount of savings they have, all Constrained Investors share this important distinction: Absolute reliance upon their savings to produce a sizeable portion of the income they require to fund a minimally acceptable lifestyle.

What does this mean in practice? I can sum it up in one word: Caution.

Constrained Investors have little or no cushion to protect against the impact of investing mistakes. Therefore, their foremost planning priority is the mitigation of risks which hold the potential to reduce or even wipe out their incomes. While this brochure is primarily about Timing Risk, I want to mention two additional risks that really matter to Constrained Investors.

Timing, Inflation and Longevity: The 3 Big Risks®

Retirees face a number of risks. We've already addressed the management of Timing Risk. Let me briefly address two additional risks, **Inflation Risk** and **Longevity Risk**. Along with **Timing Risk**, these also deserve your careful attention.

01	02	03
Timing Risk	Inflation Risk	Longevity Risk

Inflation Risk

When a retiree's income fails to keep pace with inflation, the automatic result is a reduced standard-of-living. To help protect against inflation risk, Constrained Investors benefit from an investing strategy which includes investments. Over many decades, stocks have proven to be an investment that keeps pace with inflation. However, it can be difficult for Constrained Investors to remain consistently invested during periods when stock prices are volatile or are in a steep decline. Balancing investments in stocks with safe money vehicles can provide safe monthly paychecks all through retirement. The security of a safe paycheck provides a framework for investment discipline that can help Constrained Investors remain invested through all stock market conditions. Investing involves risk, and you may incur a profit or a loss.

Longevity Risk

A critically important risk that Constrained Investors must be protected against is longevity risk. In the long run, nothing is more important. Imagine a single woman, we'll call her Sarah, who is 66 years of age. Sarah is in good health, and just entering retirement. Sarah has had a close-up view of what it is like to live a long time in retirement. Her mom lived until age 96. If Sarah outlives her mom by six years, Sarah will need monthly income that continues until she is 102. It is not a far-fetched outcome. In the U.S today, there are 900,000 centenarians. If Sarah lives to age 100, she will be one among 5,000,000.

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Never forget this: No retiree stops needing income.

An annuity which provides lifetime, guaranteed income is a vital component of Sarah's overall income planning. The monthly income payments supplement her Social Security, and help Sarah produce the overall amount of income needed to fund her lifestyle. If, like Sarah, you are a Constrained Investor, you will probably find that the security of a lifetime guaranteed income is essential to your peace-of-mind in retirement.

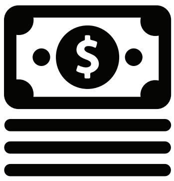
An Example: Paula, A Constrained Investor

Consider the example of another retiree, a widow who is also 66 years of age and in good health. Her name is Paula. Similar to Sarah's example above, Paula's mom also lived into her 90s. Paula craves financial security in her old age. She has saved regularly and has accumulated a nest egg of $925,000. Paula has begun collecting Social Security income of $2,200 per month. She requires a total of $5,400 per month to pay for what we'll term her minimally acceptable lifestyle. Subtracting Paula's Social Security income from her total required monthly income, we arrive at Paula's **"income gap."**

PAULA

$5,400/month
REQUIRED RETIREMENT INCOME

66
Years Old
HEALTHY



$925,000
RETIREMENT SAVINGS

$2,200/month
SOCIAL SECURITY

Required Income – Social Security = Income Gap

$5,400 - $2,200 = $3,200

The Income-to-Assets Ratio™

The Income-to-Assets Ratio offers an uncomplicated method to determine if you are a Constrained Investor. Just divide the annual income needed to be generated from savings by the total amount of savings available to produce income. If the resulting percentage is 3% or more, you are a **Constrained Investor**.

In Paula's case, she needs her savings to produce

$3,200 X 12, or $38,400 annually.

$38,400 ÷ $925,000 = .0415, or, 4.15%

4.15% is greater than 3%.

So, with an Income -to-Assets Ratio of 4.15%, **Paula is a Constrained Investor**.

Paula's savings will be under pressure to deliver the level of income she needs. Practically speaking, Paula has no margin for error in terms of making investing mistakes. Her reliance upon her savings to produce income is unconditional. Mitigating risks, therefore, is the first order priority in Paula's income strategy.

In Retirement, It's All About Your Income

> " *In retirement it's your income, not your wealth, that creates your standard of living.* "

Robert C. Merton
ECONOMIST AND NOBEL LAUREATE

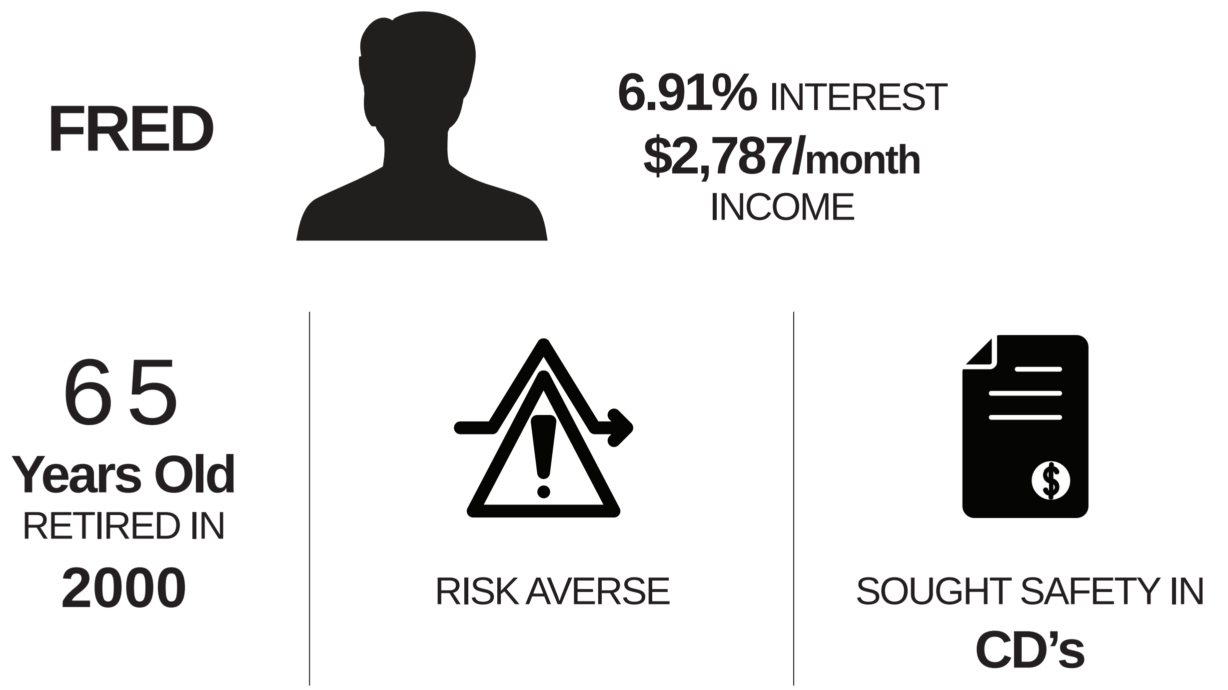
These words made an impact on me. And it led me to coin this phrase:

The income-producing capacity of money changes all this time. And you should assume that it will change during your retirement.

Allow me to explain why this concept is so important for retirees to understand. I will share an example that incorporates the meaning of both statements.

Driven by the belief that a larger nest egg will provide more monthly income, retirees typically seek to enter retirement with as large a savings balance as possible. It makes perfect sense. It is simply logical for a retiree to presume that more savings will generate more income. But it often doesn't work out that way. The reason this deserves your careful attention is because, as stated above, ***the income-producing value of money changes all the time.*** You should assume that while you are retired it will change.

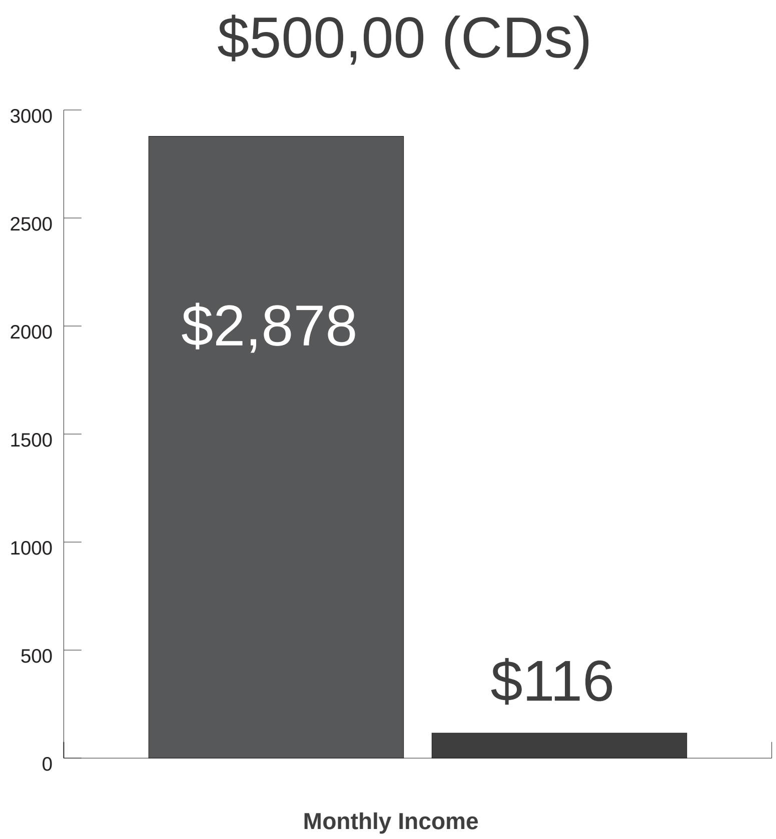
An Example: Fred



Consider Fred, who retired in 2000 at the age of 65. Fred entered retirement with savings of $500,000. A man who is risk averse, Fred craved the safety of CDs. Earning interest of 6.91%, Fred safely earned interest income of $2,787 per month.

Fast-forward 14 years.

It's 2014 and something has happened that Fred would not have imagined back in 2000. Interest rates have plummeted. Now 79 years of age, and still averse to risk, Fred's CDs are earning only a minuscule 0.28% rate of interest. Fred's monthly income has been driven down by 96%, to a tiny $116.



Over 14 years in retirement, Fred's wealth never changed, but its income producing capacity changed remarkably. More than likely, when interest rates fell to near zero, Fred invested in stocks. It's worked out. Now, however, with the economy uncertain, stocks prices dropping, interest rates rising, and inflation surging, **Fred needs to be concerned about Timing Risk**.

Are You Unprotected Against Timing Risk?

If you have investments and believe that you are unprotected against Timing Risk, forward this brochure to your financial advisor. If you do not have an advisor, seek out one who has expertise in **retirement income distribution planning**.

"Distribution planning" refers to the specialty of intelligently spending down retirement savings. Not all financial advisors are trained in this specialty area of financial planning. It takes specific skills and insights on the part of the financial advisor. Ask the advisor for a formal, written income plan that explains how your near, medium and long-term income will be generated. The formal written income plan is not a "financial plan."

A Special Concern for Women

Everything about Constrained Investors that I have described above applies to all investors regardless of gender. However, female investors face challenges that men don't face. These make retirement security for a women ever more daunting. For performing similar work, even today, women typically earn only 85% of what men earn. Women tend to retire earlier. In addition, women often face caregiver responsibilities that may cause them to leave the workforce for periods of time. These issues often cause women to enter retirement with lower amounts of savings.

At retirement, the stakes are simply higher for female Constrained Investors. This is especially true when you consider that women live longer than men.

To address income in retirement that may be needed for decades, an annuity which pays you lifetime guaranteed income is an invaluable component of your overall financial picture.

Conclusion

Planning for retirement income is perhaps the most important financial responsibility most retirees will face. Never forget that it is your income, not your wealth, that creates your standard-of-living in retirement. Always remember that the income producing capacity of money changes all the time.

Over the near term, I view Timing Risk as critically dangerous to those who are close to retirement or recently retired. Longer term, it's longevity risk that retirees must seek to manage. The good news is that it's easy to deal with both.

If you are a Constrained Investor

If you are, don't delay. Take action to safeguard your precious, indispensable and lifestyle-protecting retirement income.

Finally, if you meet a financial advisor who recommends against lifetime guaranteed income, run away. That advisor has yet to learn about the needs of Constrained Investors like you.

About David

David Macchia is an author, business strategist and entrepreneur focused on improving retirement security outcomes for America's Constrained Investors. He is Founder & CEO of Wealth2k, Inc, and the developer of the widely used retirement income strategy, The Income for Life Model. Recently, David introduced Women And Income, the first retirement income solution developed expressly for "Boomer" women.

David earned an MBA, with Honors, from Boston University Questrom School of Business. He holds the Retirement Management Advisor and CBBF professional designations. David is the author of *Lucky Retiree: How to Create and Keep Your Retirement Income with The Income for Life Model*.

David addresses the 1,200 attendees at the Pershing Customer Conference.

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