Hope Is Not A Strategy:
Seven Strategic Moves For A More Secure Retirement
by Shawn Moran

Strategy #1:
Define the Longevity Challenge

Strategy #2:
Dream about Your Retirement Future

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Dare to Live Retirement On Your Terms

Important Notice: The concepts discussed are general in nature and may or mat not be applicable to you. Annuities are designed to meet long-term needs for retirement income. They provide guarantees against the loss of principal and credited interest, and the reassurance of a death benefit for beneficiaries.Guarantees are based on the financial strength and claims paying ability of the issuing insurance company.

The opportunity and the challenge of retirement today are essentially two sides to the same coin. The opportunity is that in light of ever increasing longevity we can now dream bigger dreams, pursue loftier goals, and embrace greater challenges than retirees of previous generations ever could have. The challenge? Making sure that our money lives as long as we do. A survey that was conducted a few years ago asked 3257 adults what they feared more: death, or outliving their money. 61% of the respondents indicated their greater fear was not of dying, but of their money dying before they did.[1]

I believe that there are two significant risks in retirement, one practical and the other personal. The practical risk, rather obviously, is that we would run out of money. The personal risk is that because of *the fear of running out of money*, we never actually relax and enjoy the only retirement we are ever going to have. Retirement is not a dress rehearsal. It is a one act play, and we need to take whatever steps are necessary so that our "golden years" really are golden. The

[1] Allianz Life white paper, Reclaiming the Future. 2011.

purpose of this paper is to outline seven strategic moves that could assist you in achieving that all important goal.

Strategic Move #1: Define the Longevity Challenge

The fact is that we are living longer and longer. With people retiring at younger ages and living to older ages, it will become increasingly common for retirees to spend close to as many years in retirement as they spent in the work place. The chart below shows that a 65 year old man has a 41% chance of living to age 85, a 65 year old woman has a 54% chance of living that long and a 65 year old married couple has a 49% chance that at least one member of the couple will live into their 90s! Ultimately, none of us knows how long we are going to live, but the first strategic move in planning for a secure retirement is to anticipate that retirement could last for a very long time.

"I believe that the biggest mistake that most people make when it comes to their retirement is they do not plan for it. They take the same route as Alice in the story from "Alice in Wonderland," in which the cat tells Alice that surely she will get somewhere as long as she walks long enough. It may not be exactly where you wanted to get to, but you certainly get somewhere."

––Mark Singer, The Changing Landscape of Retirement

Plan to Live Longer Than You Think

Probability of Today's 65-Year-Old Living to Various Ages

65 Year-Old Male		65 Year-Old Female		65 Year-Old Survivor	
Age	Probability	Age	Probability	Age	Probability
80	61%	80	71%	80	88%
85	41%	85	54%	85	73%
90	22%	90	34%	90	49%
95	8%	95	6%	95	23%

Source: Social Security 2010 Mortality Tables with 1% mortality improvement. Life Expectancy Calculator created by Mary Pat Campbell, FSA, updated July 2010.

Strategic Move #2: Dream About Your Retirement Future

The late Stephen Covey in his bestselling book "The Seven Habits of Highly Effective People," argued persuasively that one of the defining characteristics of successful people is that they "begin with the end in mind."[2] Rather than lurching from one life event to the next, driven along by chance and circumstance, there is wisdom in asking ourselves in advance where it is that we ultimately want to go, and then map out a thoughtful plan to get there. The GPS System in your car can very helpful to you in getting to your destination, but if you fail to enter in the address of where you actually want to go, the GPS

[2] Stephen Covey, "Seven Habits of Highly Effective People," 1989. Page 96.

System will do you little good. It is similar with retirement. I would encourage you to ask yourself this question: If at the end of my life I was to look back at my retirement and say, "I *love* how I spent those years," what things need to happen now so that you can truthfully make that statement then? Everyone's dream for retirement will be unique to them, but here are a few roles you may want to consider:

"Life is no brief candle to me. It is a sort of splendid torch which I have got a hold of for the moment, and I want to make it burn as brightly as possible before handing it on to future generations."

–George Bernard Shaw

Road Warrior. For many people, when they were younger they had neither the time nor the money to travel, but now that they are retired they have both. Are there places you would like to go that you'd regret never having seen? My father when he retired went to Ireland, the place of our ancestors and the place he had most wanted to see. What about you? You may want to make a travel destination "bucket list" and then take concrete steps to visit the places on your list.

Grand Parenting on Steroids. If you have grandchildren and you are at all like my parents and and my little boy, those grandkids are the apple of your eye. Perhaps one of your objectives is to spend more time with them, to pour your life into them, to create indelible memories with them. I met someone years ago whose objective in retirement was to take his grandchildren on one memorable vacation to unusual destinations every year. What about you?

College Redux. Perhaps you made your living as an engineer, but your real love was art history. Do you go back to school to learn more about that passion? Whether it is a local college, or many of the online learning opportunities that are out there, retirement can be a great time of learning. I know I have benefited from some of the programs in "Great Courses," a company that produces audio and video classes on a wide variety of subjects that are taught by some of the leading professors in the country. Their web address is: www.thegreatcourses.com.

Difference Maker. Is there a charity that you have always cared deeply for, perhaps donated money to, but never had the time to get involved? Are there programs in your church that would benefit from your time and talents? In the end, we will not take anything with us when we die. There is no such thing as a Brinks truck following the hearse on the way to the cemetery. All that will survive us will be the impact we will make on the causes and the people we love. What are those causes that you want your life to be devoted to?

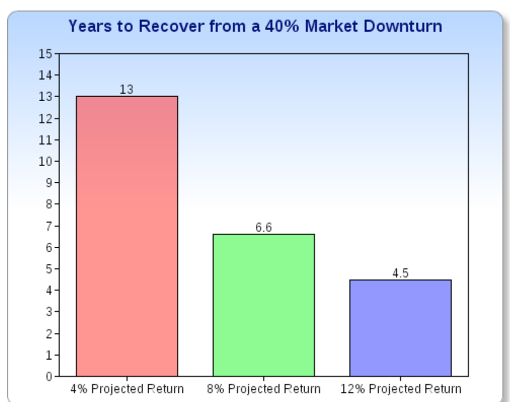
Strategic Move #3: Determine Your Tolerance for Risk

It is important to recognize that when it comes to our money, we need to act our age. What I mean by that is that the level of risk we are taking with our money needs to be consistent with how much time we have in front of us to leave our money alone to recover from losses before we will actually need it for retirement income. This is particularly true after we retire. Academic research is continuing to demonstrate that for those taking income in retirement, the performance of their money in the early years of retirement will often tell the tale as to whether the retirement account will live as long as the retiree. If the early years are fundamentally good ones, then in spite of taking income for retirement, the account has a much better chance to grow and be better prepared to deal with the inevitable rough years in the market that will one day come. If on the other hand, the early years of retirement result in a loss of money, a combination of withdrawals for income and losses in the market can create a hole that can be very hard to climb out of. W. Van Harlow, director of research at the Putnam Institute, says succinctly: "One of the biggest risk to a successful retirement is the exposure of savings to one or more adverse negative investment returns in the early stages of retirement."[3]

"Life is not measured by the number of breaths we take, but by the moments that take our breath away."

–Maya Angelou

The chart to the right is a hypothetical example of how long it might take to recover from a loss. A 40% market downturn can potentially take a considerable amount of time to recover from. When you are 30 or 40 years of age with decades to go until retirement, that may not be nearly as problematic as when you are within a few years of or actually at the point where you want to retire.



[3] "Optimal Asset Allocation in Retirement," W. Van Harlow. June, 2010.

Strategy #4:
Diversification

When the subject of diversification comes up in a financial discussion, it is generally referring to the need to "not have all of your eggs in one basket" when it comes to the types of financial products you own. While this is certainly sound wisdom, I believe it is important to not only diversify according to product, but also according to purpose. In other words, understand what it is you want your money to do before you focus on what products you want to own. I believe that there are four important categories (I'll call them buckets) for our money when it comes to retirement. For the sake of being memorable, they all begin with the letter "L." Those four buckets are: Liquidity, Lifetime Income, Long Term Growth and Legacy. Lets briefly look at each of them.

"And in the end, it's not the years in your life that count, but the life in your years"

– Abraham Lincoln

Liquidity. Before a discussion about the long term, it is important to make sure that the short term is accommodated. If we know anything about life, it is that life changes, sometimes very quickly. When the unexpected emergency occurs, we want to have sufficient liquid dollars in the bank to deal with it.

Lifetime Income. When we add up all of our anticipated expenses in retirement and then compare that number to our anticipated income from social security and any employer based pension, any shortfall is what I call "the income gap." The question is: what is the best way to bridge that gap so that you can not only have enough money to live on in retirement, but also *to live well* in retirement. This is the point where a shift in financial priority begins to take place. When we are younger, the letters R.O.I. typically for us mean "return on investment." When we are older and desiring retirement income, those same three letters become more about "reliability of income." Money allocated to this bucket should be intended to help fulfill the purpose of reliability of income.

Long Term Growth. Inflation is a reality of the world we live in. It has been called the "silent killer of wealth" because of the way it can gradually erode the purchasing power of our money. It is one of the reasons why hiding our money under the mattress is not a viable strategy. Left alone that money under the mattress would have far less purchasing power as the years go by due to inflation. Having money allocated for the purpose of long term growth could potentially help mitigate some of the effects of inflation.

Legacy. Most people have a desire to leave something behind to the ones they love. The legacy bucket can include assets such as your home and your life insurance that are not designed to provide for your retirement as much as they are to pass on to your children.

Strategy #5: Dependable Income Using Annuities

What is an annuity? An annuity is in many ways simply life insurance in reverse. When we are younger, we purchase life insurance in case we do not live long enough. When we are older, we purchase annuities in case we live too long. I have a three year old son. I own life insurance in part because if I die before he is fully grown, I want him to be well taken care of. With ever increasing longevities, annuities (when used properly) can be a tool to help make our money last if we live too long.

"Life is a great big canvas, and you should throw all the paint on it that you can."

– Danny Kaye

The academic community is increasingly recognizing the value of annuities in retirement. Wharton Business School's Financial Institutions Center stated in an important research paper, "The value of annuities in retirement seems to be a rare area of consensus with economists."[4] And yet in the academic research I have read, economists often point out the significant gap between the need for annuities in retirement and the number of people actually purchasing them. In a paper published by the White House Council of Economic Advisors it is stated, "Annuities can help to mitigate some of the risk faced by retirees. In particular, annuities protect retirees against the risk of outliving assets. This risk is substantial ... Despite the potential that lifetime income products have to mitigate risk, very few retirees elect to purchase either immediate or longevity annuities. Economists refer to this disconnect as the 'Annuity Puzzle'."[5] So what is the answer to that "puzzle?" I believe that often the answer is that potential buyers of annuities are confused by what they actually are and therefore often ignore them. Annuities are, after all, complicated products and that confusion can lead to inaction. Allow me to clarify for you some of the key issues.

An annuity is a contract with an insurance company, whereby they state that they will pay you an income for a specified period of time.

[4] Wharton Financial Institutions Center, Investing Your Lump Sum At Retirement. 2008

[5] "Supporting Retirement for American Families" white paper, 2012.

That specified period of time could be for your entire lifetime, regardless of how long you live. There are many types of annuities, but for the purpose of this discussion, I will be focusing on fixed deferred annuities.

With a fixed deferred annuity, money (called a "premium") is placed into an annuity. There are essentially two phases to this kind of annuity: the accumulation stage and the income stage. During the accumulation stage, the annuity is left alone to grow. The interest that is earned could be a declared interest rate, whereby the insurance company stipulates in advance how much interest will be paid over the course of the next contract year. In a fixed index annuity, that interest can be linked to a percentage of the performance of an outside index, such as the Standard and Poor 500 Index. If the index goes up in a given year, a formula will be applied by the insurance company to determine what percentage (if any) of that gain you will be credited with by way of interest. Typically, whatever interest is earned locks in each year on your contract anniversary and cannot be lost due to future corrections in the index. If the index goes down, no interest is earned but the annuity contract value does not decline. These fixed indexed annuities are *not* equity products. They are fixed products with a unique way of crediting interest, and with the risk being born by the insurance company.

4 Key Issues With Annuities

Like any financial product there are tradeoffs with an annuity that make them suitable for some people and unsuitable for others. Four key considerations:

1. ***Annuities are long term products with penalties for early surrender for a stipulated number of years. Make sure that you have plenty of liquidity for emergencies outside of the annuity.***
2. ***Annuities can be complicated products. Make sure that you study "the fine print" in the product disclosures before purchase. The excellent Buyers Guide to Fixed Annuities from the NAIC can be of much assistance to you here.***
3. ***The guarantees in a fixed annuity are contingent upon the claims paying ability of the insurance company. It is wise to look for companies with strong financials and to feel comfortable that the company backing the annuity you are considering will be there for the long haul.***
4. ***No product is for everyone. Be confident that having some money allocated to an annuity will better help you meet your retirement income goals. If not, don't buy one.***

"We do not quit playing because we grow old. We grow old because we quit playing."

– Oliver Wendell Holmes

The second phase is the income stage. Many fixed deferred annuities come with optional income riders in exchange for an annual fee.

These riders will pay a certain percentage withdrawal from the annuity when you begin to receive income. Hypothetically, let's assume your initial premium in an annuity was $200,000. Over a period of time, lets assume that the annuity grows to $300,000. If the withdrawal guarantee was 5% at the time you chose to begin receiving income, the insurance company would pay you an annual income of $15,000 per year from the annuity for the rest of your life. Any money that is in the annuity at the time of your death would go to your heirs, but if over a long enough time you were to gradually spend down the annuity to zero dollars, the income checks would continue for the rest of your life.

"Retirement has been a discovery of beauty for me. I never had the time before to notice the beauty of my grandkids, my wife, the tree outside my very own front door. And, the beauty of time itself."

– Hartman Jule

The question naturally arises: is it worth paying a fee for this kind of income predictability? Let me offer an analogy. Let's say that you plan to travel across the country to attend a concert. You know that if you waited until you flew to the concert hall you could buy the tickets at the gate for less money than if you paid a small fee to purchase them in advance, but you have to decide if saving that small fee is worth it to have the uncertainty as to whether the concert will be sold out when you arrive. Similarly, retirement is a long journey. Without the guarantees in an annuity, you may very well end being just fine and able to have your income goals met. The value of an annuity in an overall retirement plan is that for a fee, you "purchase your ticket in advance," securing a future retirement income that can be structured to live as long as you do.

Strategy #6: Develop A Team To Help You Succeed

I have often observed that in many areas of our lives we instinctively look for professional assistance. When we are ill, we call a doctor. When the car breaks down, we call a mechanic. When the pipes spring a leak, we call a plumber. The one big exception can come in regards to our money, where we may be tempted to go it alone. I believe that there is value in assembling a team of professionals to assist us in meeting our retirement planning goals. I often refer to the players on that team as the "4-A Team": an Advisor, an Agent, an Accountant and an Attorney. A capable Financial Advisor can help you in planning for retirement and making wise investment decisions. An Insurance Agent can help you if you have a need for life insurance and annuity planning. (Many financial advisors also have insurance licenses, and so may be able to assist you with both investment and insurance planning needs). An Accountant can help you make sure that nothing more is paid in taxes than is absolutely necessary, and an Attorney can help to make sure that what you own will go to the people you love in a manner consistent with your wishes at the time of your death.

Strategy #7:
Dare To Live Retirement On Your Terms

"Don't simply retire from something. Have something to retire to."

– Henry Emerson Fosdick

We probably would never set out on a journey without first having a pretty good idea of where it was we actually wanted to go. It is not much different when it comes to planning for our retirement. On a very personal and individual level we need to think through what it is that we actually want to do and accomplish in retirement. Lee Eisenberg in his bestselling book, "The Number," wonders aloud about why people do not plan for retirement. He asks, "Could it be that in the end the reason we don't plan is because we don't have anything meaningful to plan for?"[6] What is it we want to do when we step away from our work? Do we want to travel more, spend more time with our children and grandchildren, be more engaged in church or with charities? Perhaps you made your living as an engineer but what you always really loved was art history … do you go back to school to pursue that love? Rather than stumbling through your retirement years, ask yourself, "At the end of my life, when I look back at my retirement years, what do I want to be able to say about how I spent them?" Apart from having a defined goal of what we want to do in retirement, the years can just slip away as we spend our time engaging in things that do not engage our hearts. To quote the poet Goethe, "Things which matter most must never be at the mercy of things which matter least."

About the author

Shawn Moran is the founder and president of Retirement Planning Group of West Virginia and Director of Agent Training and Product Strategy for Tarkenton Financial. He is also an Investment Advisor Representative of Global Financial Private Capital, an SEC Registered Investment Advisor. He is the author of the upcoming book, "Hope Is Not A Strategy", is a popular speaker in the financial services industry and is a life and qualifying member of the prestigious Million Dollar Roundtable.

[6] Eisenberg, Lee. "The Number." 2006. Page 31.

Important Disclosure Information:

The purchase of an annuity is an important financial decision. You should have a full discussion with your agent before making any decision.

Annuities are designed to meet long-term needs for retirement income. They provide guarantees against the loss of principal and credited interest, and the reassurance of a death benefit for beneficiaries.

Early withdrawals may result in loss of principal and credited interest.

Any distributions are subject to ordinary income tax, and, if taken prior to age 59 and ½, a 10% federal tax penalty.

With the purchase of any additional cost riders, the contract's values will be reduced by the cost of the rider. This may result in a reduction of your principal in any year in which the contract does not earn interest or earns interest in an amount less than the rider charge.

Nothing in this paper is to be construed as specific financial advice. The concepts and strategies discussed in this white paper are general in nature and may or may not be applicable for your unique circumstances. Always carefully consider all of your options before implementing any financial strategy, consulting with your financial professional.

Nothing in this paper is to be construed as tax, investment or legal advice. Consult with your tax, investment and legal advisors regarding your specific needs and concerns.

Guarantees in insurance and annuity products are contingent upon the strength and claims paying ability of the insurance company and by you abiding by the terms of the contract.

Annuities are long term products with significant surrender charges for early surrender. They should only be purchased with the long term in mind.