VIRTUAL SUPER CE PROGRAM

Presented by: Stephen P. Clifford

Virtual Super CE Program

- 1-Hour Live Webinar Presentation:
  - It's All About Income
    - No CE credit
- Self-Study/Correspondence Course: The Advisor's Guide to Retirement Planning (2021 Edition)
  - Electronic Exam
    - State Insurance CE credit (varies with states)
      - 50/100 Question Exam
    - Professional Designation CE credit
      - CFP 50 question Exam = 10 Credits
      - CIMA/CPWA 50 question Exam = 5 Credits
  - Must receive a passing grade of 70% of higher

WEBINAR PRESENATION

IT'S ALL ABOUT INCOME

Presented by:

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Agenda

- Overview of Retirement Income Planning
- Developing a Retirement Income Plan
- Retirement Spending Patterns
- Risks in Retirement Income Planning
- Withdrawal (Spending) Strategies
- Role of Annuities in Retirement Income Planning

OVERVIEW OF RETIREMENT INCOME PLANNING

What is Retirement Income Planning?

- It is a **process** to convert a retirees' financial resources into a stream of income that will last the remainder of their lives.[1]
- Life Cycle of Financial (Wealth) Planning:
  - Accumulation Phase - Investors seek strategies that will support the highest returns (MPT, AA and diversification)
  - Distribution Phase - Retirees worry less about maximizing risk-adjusted returns and worry more about ensuring that their assets can support their spending goals for the remainder of their lives.
- The Art of Mountain Climbing[2]

A mountain climbing analogy for retirement[2]

Source: [1]LIMRA Security Retirement Institute (SRI); [2] Wade Pfau, Ph.D., CFP, RICP, " How much can I spend in retirement? (2017); Safety-First Retirement Planning: An Integrated Approach for a Worry-Free Retirement (2019)

The Changing Retirement Landscape

Retirement in the 20th Century

- A "single event" The Golden Years.
- Government and Employer were responsible for retirement income and health insurance for the retiree
- Short life expectancy

Retirement in the 21st Century

- "Mobile workforce"
- Responsibility of retirement income and health insurance shifted to the individual (YOYO planning).
- Phased-in retirement
- 30 – 40 years in retirement

Facts*

- Only 17% of Americans believe that they have enough money for their retirement
- Only 10% of retirees had a written plan for retirement
- Only 16% of workers have a written retirement plan, while an additional 42% of workers say they do have a retirement plan, but it's not a written plan.
- 63% of those with a written plan say they feel financially stable
- 32% say their confidence in their ability to retire comfortably has declined in light of COVID-19.
- Non-retirees with self-directed retirement savings varied in their comfort with making investment decisions for their accounts. Nearly 6 in 10 non-retirees with self-directed retirement savings expressed low levels of comfort in making investment decisions with their accounts

Source: Transamerica Center for Retirement Studies and the Aegon Center for Longevity and Retirement (September 2020). Retirees and Retirement Amid COVID-19 www.transamericacenter.org/docs/default-source/retirees-survey/tcrs2020_sr_retiree-retirement-amid-covid19.pdf

DEVELOPING A RETIREMENT INCOME PLAN

Assessing Retirement Income Needs

> 1st step in the retirement income process:
  - Assess the client's needs for income to meet their "lifestyle" needs.

> Methods used:
  - The Retirement Income Replacement Rate (Ratio) Method;
  - The Actual (Adjusting) Expense Methods

The Income Replacement Ratio Method

> The IRR method (AKA, "wage replacement method") uses a person's income after retirement divided by his or her gross income before retirement.
  - The average American needs between 75% and 85% of their pre-retirement income to maintain their lifestyle in retirement, based on assumptions that spending declines in retirement.[1]

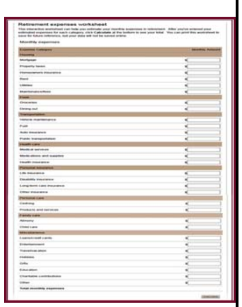
> The appeal of this approach is it's simplicity. The problem with this approach is that it doesn't account for the person's specific situation.

Source: [1]GAO, Better Information on Income Replacement Rates Needed to Help Workers Plan for Retirement, (2016) https://www.gao.gov/products/GAO-16-242?utm_medium=email&utm_source=govdelivery

Actual Expense: Single Budget Model

> Single Budget Model estimates the pre-retiree's anticipated "lifestyle" expenses:
  - Bottom-up Approach - a personalized and accurate spending estimates.

> Expense categories are combined into one "lifestyle expense." All expenses have the same priority.
  - No distinction between essential (basic) expenses and discretionary (optional) expenses.



Source: Vanguard Retirement expense worksheet; https://personal.vanguard.com/us/insights/retirement/tool/retirement-expense-worksheet

Actual Expense: Dual Budget Model

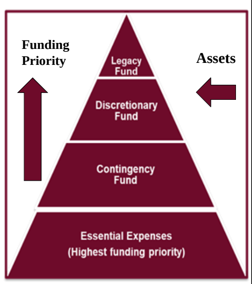
- A direct extension of the Bottom up budget but a distinction is made between two budgets:
  - Essential (Basic) Expenses -must have needs; and
  - Discretionary (Optional) Expenses – the "wants."

Write estimated retirement expenses in the appropriate column—either essential or discretionary		Essential	Discretionary
Housing	Mortgage/Rent/Condo Fees	$	$
	Property Taxes	$	$
	Homeowners' Insurance	$	$
	Household Maintenance	$	$
Food	At home (groceries, etc.)	$	$
	Dining out	$	$
Transportation	Vehicle Purchases or Lease Payments	$	$
	Auto Insurance & Taxes	$	$
	Fuel & Maintenance	$	$
	Public Transportation	$	$
Health Care & Insurance	Health Insurance	$	$
	Copays & Medical Services (those not covered by insurance)	$	$
	Medicare/Medigap Premiums & Expenses	$	$
	Drugs & Medical Supplies	$	$
	Dental, Hearing & Vision	$	$
	Life Insurance	$	$
	Long term Care Insurance	$	$
	Disability Insurance	$	$
Personal Care	Clothing	$	$
	Products & Services (haircuts, dry cleaning, etc.)	$	$
Other	Gifts/Charitable Contributions	$	$
	Entertainment/Recreation	$	$
	Travel/Hobbies	$	$
	Education	$	$
	Family care (parents, children, grandchildren)	$	$
	Income Taxes	$	$
	Other	$	$
	Subtotal	$	$
Total Essential & Discretionary Monthly Expenses		$	$

Modern Retirement Theory*

- Assumes all assets on an individual's retirement balance sheet should be used for their definitional highest and best purpose (Funding Priority):[1]
  - Balance Sheet: Financial Capital, Social Contract, and Human Capital
  - Assets and Income match Liabilities and Expenses.
  - The 3S Model:
    - **Secure (Safe)** – income must offer guarantee of some sort, or a back-stop protection;
    - **Stable** – income must not fluctuate; and
    - **Sustainable** – Income must be fore lifetime(s)

Hierarchy of Funds



Source: [1]Jason K. Branning and M. Gray Grubbs

RETIREMENT SPENDING PATTERNS

Constant (Real) Spending Models

- The simplest and most traditional approach to retirement spending, is to pick a constant fixed (inflation-adjusted) WR to use throughout retirement (e.g., Bill Bengen's 4% rule).
- Advantages:
  - Regularity and constant spending power (no spending drops).
- Disadvantages:
  - The fixed spending strategies can leave a lot of unused assets, it can also leave a retiree more exposed to failure--increases sequence of return risk (SOR).
- While the constant real spending strategy is widely used, it doesn't correspond to the typical spending patterns exhibited by retirees.

Phases of Retirement*

Michael Stein's, "The Prosperous Retirement: The Guide to the New Reality. The Three Phases of Retirement

Go-Go Years Ages 65 – 74	Slow-Go Years Ages 75 – 84	No-Go Years Ages 85+



Source: *Michael Stein, "The Prosperous Retirement: Guide to the New Reality" (1998).

Reality Retirement Planning

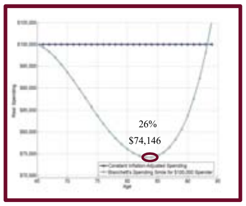
CES Average Annual Expenditures for Different Age Groups, 2018

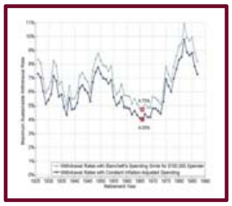
Expenses	55-64	65-74	75+
Housing	$20,907	$18,007	$15,427
Transportation	$10,444	$8,810	$5,098
Food	$8,023	$7,311	$5,592
Health care	$5,743	$6,711	$6,930
Apparel and services	$1,837	$1,460	$842
Entertainment	$3,755	$3,801	$1,763
Pensions and Social Security	$7,807	$3,545	$2,339
Other[1]	$7,696	$6,623	$5,190
Total Annual Expenditures	$66,212	$56,268	$43,181

Source : Ty Bernicke CFP® published in June 2005 issue of the Journal of Financial Planning called: "*Reality Retirement Planning: A New Paradigm for an Old Science.*" Bureau of Labor Statistics, Consumer Expenditure Survey, 2018; https://www.bls.gov/cex/2018combined/age.pdf

Blanchett’s Retirement Spending Smile

Understanding the Path of Real Retirement Spending by Age





“The assumption of constant inflation-adjusted spending, according to Blanchett’s article, will lead individuals to over save for retirement.”

David Blanchett’s Retirement Spending Smile The Estimated Path of Real Retirement Spending for a $100,000 Initial Budget at 65 vs. Constant Inflation-Adjusted Spending Strategy.

Source: Journal of Financial Planning, “Exploring the Retirement Consumption Puzzle,” (May 2014), David Blanchett.

SOURCES OF RETIREMENT INCOME

Sources of Retirement Income

- The Three-Legged Stool
  - Social Security
  - Company Pensions
  - Personal Savings
- Four-Legged Stool
  - Life Insurance / Annuities
  - Working in Retirement
  - Home Equity

“Self-funded savings, including retirement accounts (e.g., 401(k)s, 403(b)s, IRAs) and/or other savings and investments, are the most frequently cited source of expected retirement income by workers across generations (77 percent). [1]

Source: [1] Transamerica Center For Retirement Studies, Retirement Security Amid COVID-19: The Outlook of Three Generations (May 2020), https://transamericacenter.org/docs/default-source/retirement-survey-of-workers/tcrs2020_sr_retirement_security_amid_covid-19.pdf

Social Security

- The #1 Federal entitlement program.
  - 90% of people age 65 and older receive Social Security benefits. Provides up to 40% of an average retiree's retirement income.[1]
- To be eligible for benefits must have earned at least 40 credits (10 years). SSTWB is $142,800
  - Age 62 the earliest (most popular) to elect to receive benefits (permanent reduction); FRA 100% of PIA. Delay to age 70, PIA benefit increased with 8% simple DRC (76%).
- A worker's record can also be used to support spousal, dependent, ex-spouse, and survivor benefits
  - Spousal benefit at FRA equal to 50% of the primary earner's benefit; Survivor benefits are 100% of the deceased's PIA at FRA.

Source: [1]SSA and the Center for Retirement Research at Boston College;

Employer Sponsored Retirement Plans

- Employer Sponsored Retirement Plans [IRC § 401(a)]
  - Defined Benefit plans; or
  - Defined contribution plans
- The percentage of private sector workers who have access to a ESRP is 67% with a participation rate (PR) of 51% and a take-up rate of 76%. [1]
  - DB Plan: Access to a DB Plan is 15% with a participation rate of 11%, take-up rate of 74%;
  - DC Plan: Access to a DC Plan is 64% with a participation rate of 47%, and take-up rate of 74%.[2]
- 401(k) hold the largest share of DC plan assets,
  - $6.530 trillion as of the 3rd Quarter of 2020.[2]
- Employer Sponsored IRAs
  - SEP IRA - ER contributions only (No catch up contribution).
  - SIMPLE - < 100 EEs earning $5,000. Both employee and employer contributions

Source: [1], [2] Bureau of Labor Statistics (March 2020), released September 2020; https://www.bls.gov/ncs/ebs/benefits/2020/employee-benefits-in-the-united-states-march-2020.pdf

IRAs

- IRAs have become the #1 retirement asset. [1]
  - As of 3rd Quarter of 2020, assets were $11.3 trillion, accounting for 34% of all retirement assets of $33.1 trillion
  - In mid-2019, 46.4 million, or 36.1 percent of U.S. households reported they owned IRAs
- Traditional IRA [IRC § 408] and Roth IRA [IRC § 408A]:
  - Generally, April 15th of following tax year (does not include extensions)
- Growth of IRA assets have predominately been due to rollovers from DC plans.[2]

IRA Rollovers[3]

Year	# of Taxpayers (m)	Rollover Amount[2]
2017	4.7	$478.0
2016	4.8	$444.7
2015	5.0	$472.6
2014	4.9	$434.8
2013	4.7	$404.0
2012	4.4	$344.0
2011	4.2	$305.3
2010	4.3	$299.7

Source: [1],[2] Investment Company Institute (ICI), https://www.ici.org/research/stats/retirement/ret_20_q3 [3] IRS Statistics of Income (SOI) 2017; https://www.irs.gov/statistics/soi-tax-stats-accumulation-and-distribution-of-individual-retirement-arrangements

2021 Retirement Plan Contribution Limits

	2021	2020
Elective Deferrals: IRC § 402(g)(1)	$19,500	$19,500
Catch-Up (age 50) Contributions:RC § 414(v)(2)(B)(i)	$6,500	$6,500
Profit Sharing, SEP IRAs Employer Contributions	$58,000	$57,000
DB Dollar Limit:IRC § 415(b)(1)(A)	$230,000	$230,000
SIMPLE IRA Elective Deferrals: IRC § 408(p)	$13,500	$13,500
SIMPLE IRA: Catch-Up Contributions	$3,000	$3,000
SEP Minimum Compensation Limit: IRC § 408 (k)	$650	$600
Compensation Limit: IRC § 401(a)(17), 404(l)	$290,000	$285,000
Key Employee Officer: IRC § 416(i)(1)((A)(i)	$185,000	$185,000
Highly Compensated Employee: IRC § 414(q)(1)(B)	$130,000	$130,000
Traditional IRA: IRC § 408 / Roth IRA: IRC § 408A	$6,000	$6,000
IRA Catch-Up for IRAs	$1,000	$1,000
Social Security Taxable Wage Base (SSTWB)	$132,900	$132,400

Working in Retirement

> Worker's expectations to work past age 65 and even into retirement represent a dramatic change in the long-standing vision of fully retiring at age 65.
- Fifty-two percent of workers expect to work past age 65 or do not plan to retire.[1]

> However, most retirees reported that they retired from their jobs before typical ages for claiming Social Security benefits.[2]
- Reasons for early retirement: Health problems/disability, job related changes, and family transitions[3]

> The latest data, from the U.S. Census Bureau, the average retirement age is 64. For men age 64.6 and women age 62.3[4]

Source: [1]Transamerica Retirement Security Amid COVID-19: The 20th Annual Transamerica Retirement Survey of Workers (May 2020); https:transamericacenter.org/docs/default-source/retirement-survey-of-workers/tcrs2020_sr_retirement_security_amid_covid-19.pdf; [3] EBRI 2019 Retirement Confidence Survey, https://www.ebri.org/docs/default-source/rcs/2019-rcs/2019-rcs-short-report.pdf?sfvrsn=85543f2f_4; JP Morgan Retirement Planning Guide 2019, page 8; [3] The Federal Reserve, Report on the Economic Well-Being of U.S. Households in 2019 (May 2020) https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-202005.pdf

Home Equity

> One of the largest assets on the retirees balance sheet for many Americans
- 55 percent of net worth of Americans age 62+ tied up in Home Equity[1]

> Strategic use of Home Equity = Reverse Mortgage
- A RM is a type of mortgage for those who are age 62 or older. A Home Equity Conversion Mortgage (HECM) insured by FHA. Maximum claim amount (MCA) insured is $822,375 (up from $765,600 in 2020).[2]
- RMs can be accessed tax-free as a lump sum, as monthly income, or as a standby line of credit (Contingency Fund).
- Repayments are deferred until after the borrower has permanently left the home.

Source: [1]U.S. Census Bureau; [2] U.S. Department of Housing and Urban Development; https://www.hud.gov/sites/dfiles/OCHCO/documents/2020-42hsgml.pdf

RETIREMENT INCOME RISK FACTORS

Longevity Risk

- Most significant factor in retirement planning and the hardest to gauge.
  - Risk of outliving one's assets.
- How long will a retirement plan need to generate income?
  - ½ of the population (50%) will outlive their statistical LE, and some will live much longer. According to SSA, the average male age 65 LE to age 84 (19 years) and a woman age 65 LE to age 86.5 (21.6 years).[1]
- Plan on the probability of living much longer, perhaps 30 + years in retirement.
  - For the average 65 year old couple there is a 49% chance that one spouse will live to age 90 and 20% chance one spouse will live to age 95.[2]

Source: SSA Period Life Table 2016 (updated 2019; [2]SSA and J.P. Morgan Guide to Retirement, 2020 Edition page5; https://am.jpmorgan.com/us/en/asset-management/gim/adv/insights/guide-to-retirement

Market Risk

- Exposure to loss - you have a lower than expected rate of return and possibly lose money in your investments (volatility)
  - Avoid market losses in the 5-years before/after retirement. SOR risk
- Mathematics of Loss: Each time you make a withdrawal after a loss, you create a permanent loss in the portfolio.
  - Subsequently, you need to recover from the initial losses, as well as from these permanent losses. Wall Street defines as: "Feeding the bear"
- Recovery in a distribution portfolio is a lot harder – if not impossible- than in an accumulation portfolio.

Inflation Risk

- Inflation creates an increased income demand for the remainder of a retiree's life (worst in later years of retirement).
  - Affects buying power of retirement income
- Assets will have to continue to grow or be forced to reduce consumption

At an average inflation rate of 3%, the cost of living would double every 24 years. A retiree's annual income will need to increase each year even during retirement in order to keep up with the gradual rise in prices of everyday goods.

Tax Rate Risk

- A key goal of tax planning is to reduce your clients effective tax rate.
  - According to the most recent data (2019) from the IRS, top 1 percent of tax returns-those reporting over roughly $818k in AGI paid an effective tax rate of 29%. (does not include state income taxes)[1]
- Asset Location – The Three Buckets (Taxable/Tax-deferred/Tax-free):
  - "Don't put all of your eggs in one basket." (Warren Buffet)
  - Maximize the use of marginal tax brackets (Partial Roth IRA conversions)
- A tax-efficient withdrawal strategy can add up to 110 bps without any additional risk[2]:
  - Spend from taxable portfolios; Spend from tax-deferred portfolios (after taking RMDS, if required); then Tax-free portfolio.

Source: [1] Tax Policy Center, Baseline Share of Federal Taxes, February 2020; Peter G. Peterson Foundation. [2]Vanguard's, Spending from a Portfolio; and Vanguard; Putting a value on your value: Quantifying Vanguard Advisor's Alpha; https://advisors.vanguard.com/iwe/pdf/ISGQVAA.pdf?cbdForceDomain=true;

Health Care and LTC Risks

- Majority of adults (74%) one of their biggest fears in retirement is health care costs going out of control and 64% are terrified of what health care costs will do to their retirement plans [1]
- Medicare is the primary health care for people age 65 and older. Medicare covers only 64% of health care costs.[2]
  - The cost of health care for a 65 year-old American couple retiring this year rose to $295,000 (after tax). A 84% jump since 2002 (then $160,000). Does not include LTC costs[3]
- 70% of consumers over the age of 65 will need some type of Long Term Services and Support (LTSS) at some point in their life.[4]
  - $280/day for a private room in a nursing home; $247/day for a semi-private room; $133/day, for care in an assisted living facility; $23/hour for a home health aide; $75/day for services in an adult day health care centers[5]
- Fewer than one out of six pre-retirees over the age of 50 have attempted to forecast how much they may need to cover healthcare or LTC expenses.[6]

Source: [1] Nationwide [2] EBRI Notes; Vol. 38 No. 10, Dec. 20, 2017; *"Savings Medicare Beneficiaries Need for Health Expenses";* [3]Fidelity 2020 Health Care Costs in Retirement; [4]Department of Health and Human Services; [5]Genworth 2019 LTC Costs; [6]Employee Benefit Research Institute (2019) Retirement Confidence Survey

Declining Cognitive Abilities Risk

- A retirement income plan must take into account that a retiree will experience declining cognitive abilities, hampering portfolio management and other financial decision making.
- According to Harvard Professor David Laibson[1], there are two categories of intelligence that are critical to investing:
  - Fluid intelligence (FI) – the creative ability to analyze new information and solve novel problems (IQ questions).
  - Crystallized intelligence (CI) – the ability, through life experience, to accumulate knowledge that helps us solve familiar problems and become better investors.
- After age 50, the decline in FI becomes the dominant force in our ability to make sophisticated decisions declines:
  - 50% of the 80 year old population would have difficulty making complicated financial decisions."

Source: The Center For Retirement Research, How Does Aging Affect Financial Decision Making http://crr.bc.edu/wp-content/uploads/2015/01/IB_15-1-508.pdf

WITHDRAWAL (SPENDING) STRATEGIES

Withdrawal (Spending) Strategies

- The FPA divides withdrawal (spending) strategies into three categories
  - Systematic Withdrawal Plan Strategy (SWP)
  - Time-Based Segmentation Strategy (The Bucket Strategy)
  - Floor and Upside Strategy (Essential vs. Discretionary)
- The Withdrawal Rate (WR) is the most important contributor to portfolio longevity.[1]

Source: [1]James Otar, Unveiling the Retirement Myth

Systematic Withdrawal Plan Strategy

> SWP strategy is designed for the retiree to take pre-determined periodic withdrawals from a portfolio of stocks, bonds, mutual funds, or target-date funds (Total Return Strategy).
  - The SWP, which is the most common method used by advisors, uses a sustainable withdrawal rate (SWR) with no probability of depletion to draw down a retiree's financial wealth during their retirement.

> The retiree's balance sheet and income needs don't enter into the calculation.

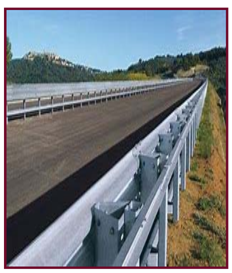
> Three broad categories
  - Constant spending inflation-adjusted strategy - Bengen's "4% Safemax rule"(exposes retiree to the most SOR risk)
  - Constant fixed percentage strategy (completely eliminates SOR risk)
  - Variable (Dynamic) Spending Strategies (flexibility)

Variable (Dynamic) Withdrawal Strategies

> Bengen's Floor-and-Ceiling Withdrawals
  - Ceiling is 20% higher than IWR and floor is 15% less than IWR

> Guyton's and Klinger's Decision Rules
  - Increase SWR at start of retirement by up to 20%: Withdrawal rule; Portfolio Management rule; Capital Preservation rule; and the Prosperity rule;

> RMD Spending Rules
  - Actuarial method, recalculate WR annually based on remaining portfolio balance, remaining longevity and expected returns.



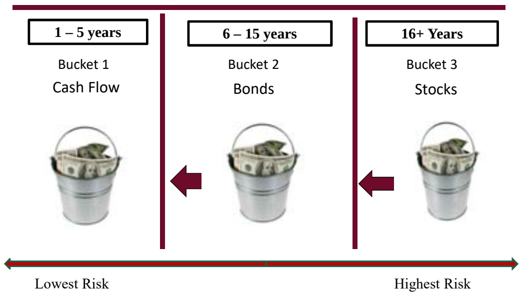
"Spending Guardrails"

Time-Based Segmentation (TBS)

> Segment assets into different "buckets" that are aligned to fund different periods of retirement—bringing a chronological consideration to when each asset class gets utilized. A way to help manage SOR.
  - Fixed-income assets are held to maturity to guarantee upcoming retiree expenses over the short and medium term; and a growth portfolio is also built with more volatile assets having higher expected returns, to be deployed to cover expenses in the more distant future.

> Behavioral aspects of TBS appeals to retirees who:
  - Reject a more aggressive total-returns investing approach;
  - Comfortable with a more aggressive allocation coupled with bond ladder; and
  - Have discipline to accept dynamic asset allocation and to follow the rule on when to extend the ladder (in an effort to avoid locking in sequence risk).

The Bucket Strategy*



* The Bucket Strategy originally conceived by Harold Evensky, *"Evensky & Katz Cash Flow Reserve Strategy,"* Retirement Income Redesigned: Master Plans of Distribution (2006; Bloomberg Press.

The Floor and Upside Strategy

- Starts with the retirees balance sheet and their lifestyle needs (Modern Retirement Theory). Sometimes referred to as the "actuarial approach"
  - The Floor - match essential expenses with guaranteed sources of income. This is the critical difference between the other strategies
  - The Upside - match discretionary (aspirational) expenses with growth portfolio.
- Two views of Flooring:
  - Goals-based approach – essential spending needs locked in with funding from safe, secure, and sustainable investments (3S's)
  - Investment based (engineering view of flooring) approach – the amount of flooring from financial capital under current market conditions

ROLE OF ANNUITIES IN RETIREMENT INCOME PLANNING

Role of Annuities

> Provides a guaranteed* stream of income.
  - The only financial product that combines both an accumulation phase and distribution phase in one product.

> Shift a portion of the market risk and longevity risk to the insurance company.

"71% of clients said a guaranteed lifetime income product was a highly valuable addition to Social Security, up from 67% a year ago.[1]

*Guarantees are backed by the financial strength and claims paying abilities of the issuing company.

Source:[1] CANNEX, The Sixth Annual Guaranteed Lifetime Income Study, released June, 2020
https://www.cannex.com/wp-content/uploads/2020/06/GLIS-2020-Top-10-Key-Findings.pdf

Types of Annuities

> Income Annuities (Income Now)
  - Single Premium Immediate Annuity (SPIA)
  - Deferred Income Annuity (DIA)
  - Qualified Longevity Annuity Contracts (QLACs)

> Deferred (Savings) Annuities (Income Later)
  - Variable Annuity (w/GLB riders)
  - Fixed Index Annuities (w/GLB riders)
  - IOVAs
  - Structured Annuities

SPIA

> A stream of income based on life of the annuitant (measuring life). Generally, makes first payment 30 days after purchase.
  - Fixed, Variable, or Combination (fixed and variable)

> Key Benefit: The Mortality Credit
  - Transfer income from individuals with shorter than expected life spans to those with longer life spans (mortality credits/risk pooling)

> Both the market risk and longevity risk are mitigated

Payout Options

- Single Life Only (purest form of annuitization)
- Refund Life
- Life with Period/Term Certain
- Joint Survivor Life
- Fixed-Period
- Fixed-Amount

Income Payment Options	Male Estimated Monthly Income	Cash Flow Payout Rate	Female Estimated Monthly Income	Cash Flow Payout Rate
SL no payments to beneficiaries	$485	5.82%	$459	5.51%
SL w/10 years certain	$474	5.68%	$453	5.54%
SL w/Cash Refund	$427	5.12%	$419	5.03%
Income Payment Options	**Estimated Monthly Income**		**Cash Flow**	
JL 100% Survivor (no payments to beneficiaries)	$403		4.84%	
JL with Cash Refund	$391		4.69%	
5-Year Period Certain	$1,684		20.20%	

Source: http://www.immediateannuities.com/; **Projected monthly payout on a $100,000 annuity purchased by a hypothetical 65-y.o. M/F.** Date **12-20-20.** Cash flow –monthly income times twelve divided by the deposit amount. Cash flow percentage is significantly higher than the internal rate credited to the premium.

Deferred Income Annuity (DIA)

- DIAs, commonly referred to as longevity insurance, provides guaranteed* income for life similar to a SPIA, but unlike a SPIA, the benefit payments for DIAs do not begin until some future point in time (2-40 years). "Hybrid SPIAs"
  - The income guarantee* is unaffected by fluctuations in market interest rates. And like a SPIA, the contractually guaranteed rate of the DIA is based on current mortality tables and rates.
  - The insurer can offer the guarantee* because the date of annuitization is known in advance. DIAs offer significantly higher payouts than SPIAs.
- DIAs may also represent a more palatable hedge against longevity risk because the effective cost of the insurance is lower.

* Guarantees are backed by the financial strength and claims paying abilities of the issuing company.

Qualified Longevity Annuity Contracts

- QLAC is a form of DIA, that can be purchased inside an IRA and 401(k).
  - QLACs can lower RMDs by up to 25%[1]
- QLAC Rules:
  - Contribution: The lesser of 25% or $135,000 (2021);
  - Type of Annuity Purchased: Fixed annuity (cannot be a VA or Index Annuity);
  - Income Start Date: One month past participant's birth month at age 85;
  - Income Payments: Single Life; Joint life, either life income or life income with cash refund and return of deposit death benefit is allowed before and after income commencement date, however amount cannot be more than deposit; and
  - Additional Riders: Cost-of-living adjustments that are constant (1% to 5% increase) or by a index such as the CPI-U inflation index.

Source: [1] MarketWatch, "How to reduce your RMD by up to 25%, August 13, 2014; http://www.marketwatch.com/story/how-to-reduce-your-rmd-by-up-to-25-2014-08-13.

New
Federal Legislation

Washington Update

- The "Setting Every Community Up for Retirement Enhancement Act" or "*SECURE Act*."[1]
- The "Coronavirus Aid, Relief, and Economic Security Act" or "*CARES Act.*"[2]

Source: [1] The SECURE Act; https://congress.gov/bill/116th-congress/house-bill/1994 [2] The CARES Act; https://www.congress.gov/116/bills/s3548/BILLS-116s3548is.xml

The SECURE Act Provisions

- **IRAs (Individuals)**
  - **Section 107**: Traditional IRA Contributions. Repeals the prohibition on contributions to a traditional IRA by an individual who has reached age 70 ½ (must have earned compensation).
  - **Section 113**: Penalty-free Withdrawals for Birth or Adoption. Permits penalty-free withdrawals from retirement plans for expenses related to the birth of a child or adoption ($5,000).
  - **Section 114**: Required Minimum Distributions. Increases to age 72 for RMDs from retirement plans
  - **Section 401**. Stretch IRA. Modifies RMDs rules with respect to DC plans and IRA balances upon the death of the IRA participant. All distributions must be made by the end of the 10th year after death, except for distributions made to certain eligible designated beneficiaries (EDBs).
    - Including: Spouse; Disabled beneficiaries; Chronically Ill beneficiaries; Beneficiaries less than 10 years younger than the IRA owner; and for Minor Children of the IRA participant until they reach the state's age of majority.

The SECURE Act Provisions

> **Retirement Plans for Businesses;**

- **Section 101:** Multiple-Employer Plans. Amends the IRC to revise requirements for MEPs and pooled employer plans (PEPs).
- **Section 102:** Safe Harbor Cap on Automatic Enrollment and Escalation. Increased from 10% to 15% but only after the second year
- **Section 103:** Safe Harbor (SH) Notices and Non-Elective Amendments. Limits the annual Safe Harbor notice to matching contribution plans and permits amendments to non-elective status at any time before the 30th day before the close of the plan year.
- **Sections 104 /105**. Tax Credits. Increases small business tax credits (maximum $5,000 new plans / $500 existing plans that add auto enrollment)
- **Section 112**: Long-Term Part Time Employees: allows certain long-term employees who work at least 500 hours in 3 consecutive 12-month periods and have reached age 21 (2024).
- **Section 109** –Portability of Lifetime Income Options. Permits qualified DC plans, 403(b) plans or government 457 plans to make a direct trustee-to-trustee transfer to another ESRP or IRA if a lifetime income investment is no longer authorized to be held as in investment option under the plan
- **Section 203**: Expanded Access To Annuities: requires benefit statements provided to DC plan participants to include a lifetime income disclosure at lease once during any 12-month period.
- **Section 204**: Safe Harbor for Fiduciaries: provides a SH for fiduciaries in the selection of an insurer for a guaranteed retirement income contract.

Electronic Exam

> Some states may require additional forms:
- Disinterested Third-party Form
- Personal Attestation Form

> Exam will be available for 10 business days to complete.

> Exam will be graded instantaneously (unlimited retakes)

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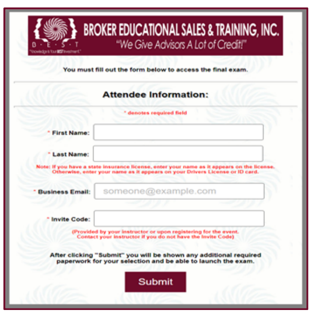
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