New: How To Create A Predictable Income Stream In Retirement

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ABOUT IRONWOOD FINANCIAL:

At Ironwood Financial we believe in the fiduciary duty. It's an oath we took to put our clients' interests above our own and it's a standard that we believe all Tucson retirees deserve.

That's why we built our process to put you first, no matter what. We want to know what drives you, what your values are, and what you really want in life so we can help you achieve those goals and help you thrive in retirement.

It's about your life, not just your money. So let's start there.

If you want to learn more about our process and why we are different, then click here.

How to Create a Predictable Income Stream In Retirement

Without annuities and other high risk strategies that can put your money at risk.

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How do you see yourself in retirement?

Do you see yourself spending your time with your loved ones, having the freedom to do what you want, when you want, and living life in abundance?

Or do you fear what lies ahead?

If you're like most retirees, then you're most likely concerned with some of the following:

- You worry that you could run out of money in retirement.
- You're concerned about your health and what a health crisis could do to your income.
- You're concerned changing tax codes could end up hurting you in retirement.
- You're probably wondering who to trust to help you retire and have heard about everything from annuities to the 4% rule and wonder what really works?
- And, last but not least, what if another recession happened before you retired like the Dotcom bubble in 2000 or the Great Recession in 2007? How would you get through it?

You're not alone. These fears come up over and over again in conversations we have with people like you who are concerned about their retirement.

What we want to show you today is that *you can* have a great retirement and gain confidence in your strategy. Retirement doesn't have to cause anxiety or worry and that we're here to help you get to a place where you can live out your dreams and have the retirement you've worked so hard for.

What we'll cover:

- 3 big problems you'll need to face in retirement that can steal away your income.

- How to take income from your portfolio in a way that can help calm some of those fears and put you in a position to handle downturns.
- How to approach the market and risk so you know what you're up against.
- Figuring out a way to leverage long term rates of return and capture that potential over time.
- Do it without taking on large amounts of risk.
- And, how to make sure that your income lasts and doesn't lose purchasing power in retirement (one of the most pervasive risks that retirees face).

Let's dive in and get started.

Problem #1 - The Elephant in The Room

If there is one thing that can cause anxiety, it's the stock market. How as a retiree can you stay invested for the long haul when the bigger risk is right around the corner: *a recession or downturn that causes you to lose too much of your money*?

First, let me make a statement to get this on the table:

> "The first 5 years of your retirement are one of the riskiest times for you to withdraw money."

Why is that? It's because of something called **sequence of return risk.**

When you hear financial pundits talk about investing in the stock market you'll most likely hear the same story, "The market has averaged 10 or 11% over time. That's why you need to invest in the stock market and stay in for the long haul."

But it's not that simple.

Yes, returns over time can average that high, but in retirement you need to stop looking at the long term averages and start looking at the short term.

The key point being that you are relying on your money to create an income today, not "over-time".

That's why we need to understand the history of the market.

- **Over 20 Years:** When you look at market returns of a 20 year period there were zero times the market lost money according to Oppenheimer. That's why they always talk about the averages.

- **Over 10 Years:** There has only been 7.

- **Over 5 years:** There have been 12.

- **Over 1 year:** 16 losses. Including a 44.8% drop .

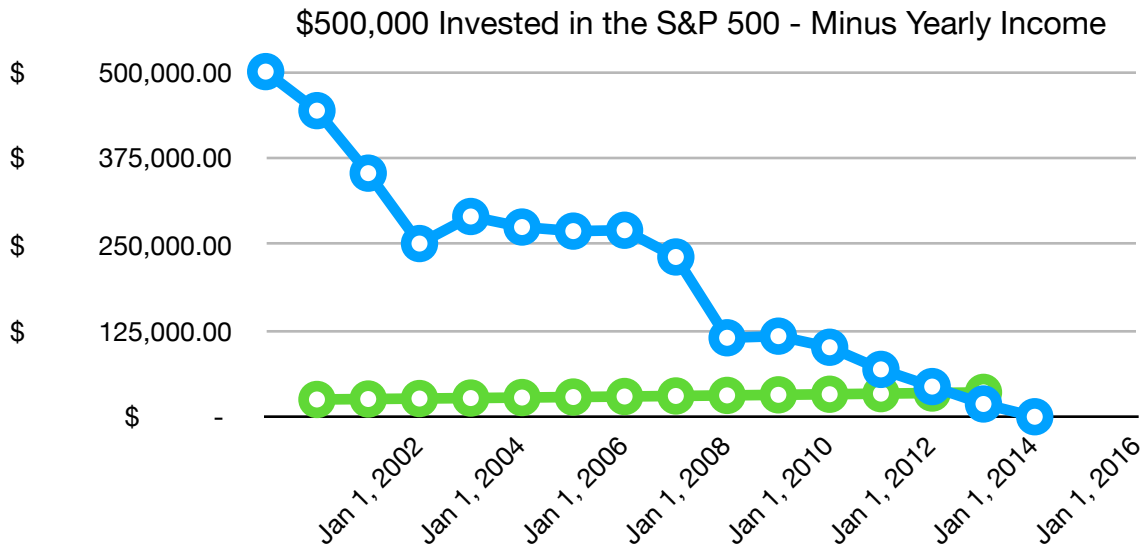
No wonder Warren Buffett has always said his favorite holding period is "forever."

The trend is clear. The longer you hold an investment, the better your chances of making money.

Which is why sequence of returns matter. Investing for 1 year is a completely different problem all together because of the risk. And if you retire in a down year? The results don't instill confidence.

We did our own analysis to show you:
Look what happens if someone retired in 2000 with a 100% stock portfolio.

You most likely would have ran out of money in just 15 years.*



*If you started with a $500,000 portfolio in January of 2000 and at the end of the year started taking out $25,000 per year and adjusted it for inflation. The results are illustrated above.

Actual SP 500 Market Returns 1987-2017: Source - http://www.multpl.com/s-p-500-historical-prices/table/by-year - As of 8-2-17

That's not a risk many retirees would take and it's why we need a different approach.

Key takeaways:

- Don't risk money you need for income in the next few years.

- Understand that the market averages well over time, but over the short term you can't predict it.
- If you retire in a down year you need to have a strategy built to survive it.

That's not the whole story, we also have to understand what kind of environment we're living in so keep reading.

Problem #2 - Purchasing Power.

Do you remember when milk cost a quarter, gas was under a dollar gallon, or when the average home cost was under $20,000?

Most retirees do and it's something that can severely affect you in retirement and it's why we want to warn you of strategies that don't take it into account.

The reason? Inflation - the sneaky thief stealing away the purchasing power of your money.

Let me explain:

Inflation can be defined a few different ways but to keep it simple think of it like this.

In our monetary system new money is always being created, and because of that, the value of the dollar slowly goes down.

Meaning a dollar today, at 3% inflation would only be worth about 97 cents in one year. This happens every year and slowly lowers the amount of “stuff” your money can purchase.

If your money doesn’t match the pace of inflation that means you might not “lose money” physically but in terms of the lifestyle, you can certainly lose in that regard.

This creates a scenario where you need to be aware of and have a plan to counteract the affects of inflation in your portfolio especially over long periods of time.

Which brings us to the next challenge…

Problem #3 - It's a different world...

Retirement has become complicated.

Another big challenge in today's environment isn't just the stock market and the potential to lose purchasing power, it's also that interest rates are at an all time low and it's compounding the above two problems.

In the good old days when interest rates were high, you could simply buy CD's or bonds with some of your portfolio, live off the interest and and live a very comfortable retirement.

I wish it were so easy today...

If interest rates are 2% instead of 8%, then you would need a portfolio 4 times the size just to make up the difference.

One solution would be staying in the workforce until your portfolio has quadrupled, or until interest rates have gone way up, but that just isn't realistic for most people.

But it also represents other challenges.

If we're starting to see interest rates rise what does that mean for the next 20 or 30 years? Wouldn't it make sense that interest rates may go up and approach rates we've seen in the past?

So what does that mean for your investments? Let's cover a couple examples.

Example 1: What happens if interest rates trend upward over the course of 20 years if you are in a fixed income strategy like an annuity?

Here's the risk:

Your income may be "guaranteed" but what if it never increases?

At inflation rates of 3% that means of the course of 20 years an income of $50,000 today, would only be worth $27,419.97 in purchasing power in the future.

But what if interest rates keep trending higher and higher while your income remains fixed?

- At just 5% inflation that same $50,000 income turns into $18,355.58.
- At 7% inflation it goes down to $12,279.41.
- In 1974 it averaged 11%, and while 20 years at that rate may seem impossible, it should make you realize the risk on the table!

(calculated using a future value calculator using each negative interest rate compounded monthly)

If you own an annuity or are thinking of buying one then I highly recommend you read or watch these two resources and stay tuned in your email for another annuity piece that covers the topic again.

Should you hate annuities, or love them?

Annuity case study (and what to look out for).

The reason? Many annuities may never get a return higher than 1.75% even with all the guarantees.

Does that sound like a return that will keep up with inflation?

Example #2: What happens if you buy a large amount of long-term bonds and interest rates increase?

If you thought losing purchasing power was bad, what if higher interest rates also caused your bonds to lose value?

Bonds are tricky but there is one simple way to look at them.

If you own one today and interest rates go up, it's value will drop.

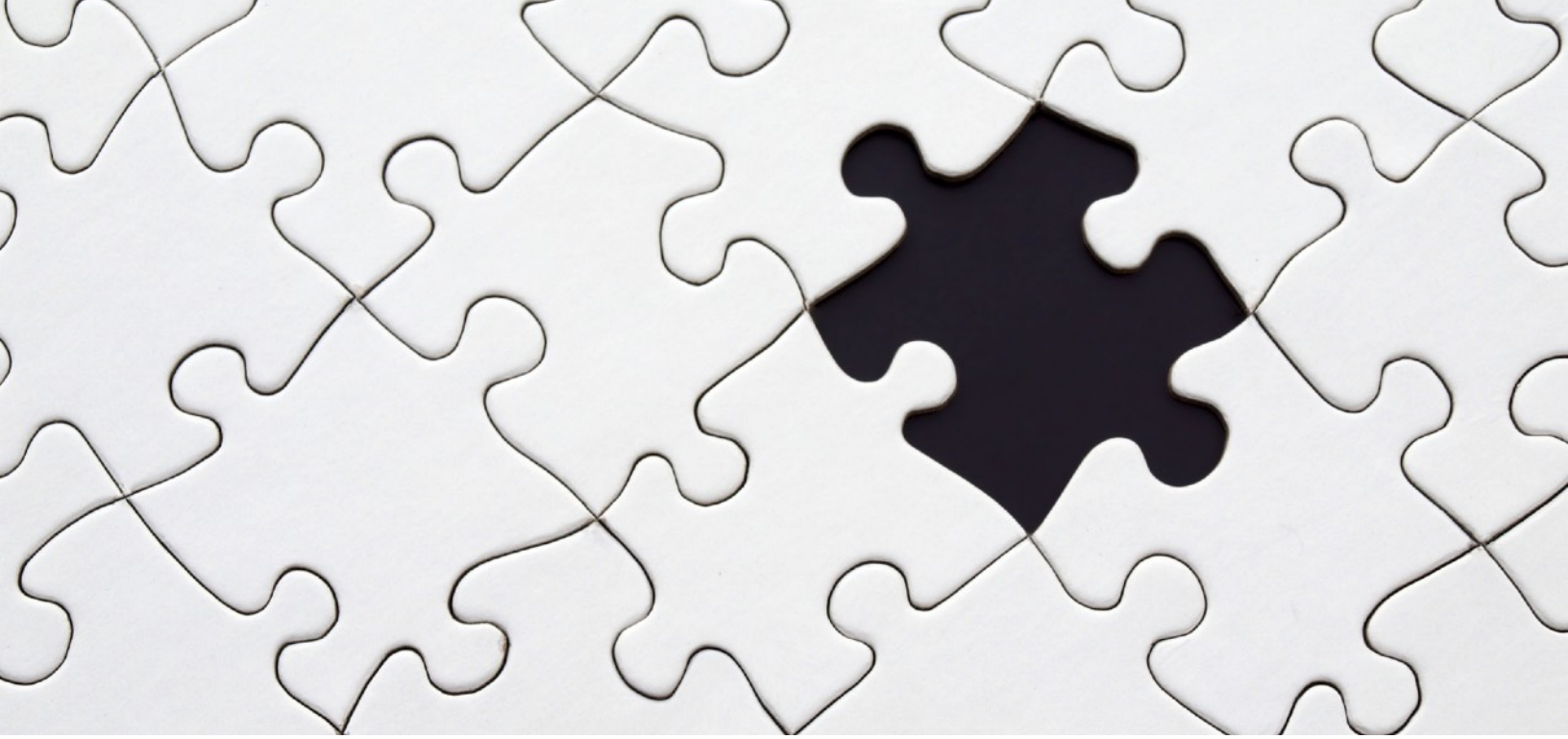
If you own one today and interest rates go down, it's value will increase.

That represents a large amount of potential risk over the next 20 years if interest rates steadily rise. You could find yourself in a situation where your bonds are continuously losing value every year even as they pay out interest.

Add that to inflation rates increasing and you have another situation where your income could suffer over time.

And at this point you may be wondering if there is a solution.

Keep reading to learn our strategy for combatting these issues.



The missing piece of the puzzle: A new strategy for creating predictable income.

Happily, there is another solution.

There is a more modern way of setting up your portfolio that works to give you a stable income while at the same time leaving you room for growth to help with future inflation.

To understand this method, you need to completely re-examine the way you think about preserving your money in retirement. In fact, we're going to be spending and not preserving quite a bit of it.

Before I show you this strategy, I need to show you why it's necessary.

The Reason this Strategy Has Become Necessary

Many people think they can simply take money out of their portfolio when they need it, no matter the time.

In reality, there are good times and there are bad times. The market may grow over the long term and average returns over 10%. But the short term swings, where the market can trend down for 2-3 years, go flat, or be extremely volatile is what causes the real problem.

Using the examples above, you already know that withdrawing money out of the market in a downturn can be disastrous and that you need to keep your purchasing power intact.

But life can't be put on hold. If it's a bad time to take your money you can't simply stop paying your bills.

The electric company isn't going to wait until your portfolio recovers for you to pay them. Your expenses happen every day and your portfolio needs to be able to match those cash flows for you to maximize your retirement.

This strategy helps eliminate the need to sell stocks at a time when they are down and it allows you the ability to wait until they have recovered to sell them when the time is right.

Remember buy low, sell high? This strategy creates a systematic way to create that kind of environment.

The Three Pile Model

To accomplish this, you split your money up into three or more piles, for example:

- The first one is the money you will be spending over the first five years.
- The second is the money you will be spending from years 6-10.
- And the last is all the money you will be spending after that.

Let's use an example of someone who wants to spend $50,000 per year on a $1,000,000 portfolio.

The first pile of money is the one we need to spend over the next 5 years. This one therefore, has a really short time horizon and must be very conservative.

For example, one could use CD's or a short term bond ladder. In our example, we are spending $50,000 x 5 years = $250,000.

If we can buy safe investments that we can liquidate at the right time averaging a 1.5% rate of return, then we need to put $240,000 into our first pile and use that to generate a $50,000 income over the next 5 years.

If we are buying guaranteed investments like U.S. Treasuries, then our first five years of cash flow are <u>guaranteed</u> without taking on any risk.

The magic of this strategy is that this buys us 5 years before we even have to touch our second pile. That gives us a much longer time horizon than the first pile which allows us to take a little more risk.

In this pile, we would create a more moderate/conservative portfolio using basic asset allocation models to allow us to take some risk but not much. Because it's five years before we need to spend it, we have time for a downturn and recovery without being forced to sell at the wrong time. It gives us flexibility to respond to market trends accordingly versus just hoping your withdrawal rate will work over time.

In this example, if we assume a 5% rate of return on this pile, then you would need to start with about **$190,000** for it to grow into the $240,000 we need for the next five years of income.

Once that happens, you would move that $240,000 into a guaranteed pile and again take an income of $50,000 for five years, without the risk.

Last but not least let's look at the third pile.

This one has all the rest of the money in it, or:

$1,000,000 - $240,000 - $190,000 = **$570,000.**

Suddenly, we have 10 years before we need to spend any of this third pile. You can now invest it like you were 10 years away from retirement!

This means we have the ability to take more risk, hope for a higher return and use a moderate asset allocation model that's constantly adjusted and rebalanced according to market trends. Let's assume 6% for the sake of this example.

If we accomplished that, the $570,000 you invested in the third pile would turn into **$1,020,000**.

At the end of the day:

- We started with $1,000,000.
- Spent $50,000 x 10 = $500,000.
- With the potential to be left with $1,020,000.

You are now ten years into your retirement and enjoyed a stable income over that time without having to tie up your money in annuities or hoping that your withdrawal rate wouldn't negatively affect your portfolio.

At this point you again start cycling your money into the different piles to maintain your income.

Now I explained this very simply, when in reality you need to constantly adjust and respond to the current market trends, including re-balancing and other strategies **but the point remains strong.**

I used what I consider to be very achievable rates of return and I'm not promising anything outrageous. What we achieve is a segmented way to think about your money so that your emotions don't get the best of you in a market downturn or volatility and lead yourself to making bad decisions that could put your retirement at risk.

It also has a benefit we didn't touch on today. Since you can take on more risk in the third pile, it can give you some much needed protection from inflation.

Since you are on a longer time frame you can invest in investments that traditionally outpace inflation. If you had higher rates of return than in this example, then your nest egg would have grown even larger, raising your potential income and the chance to leave a legacy.

To accomplish the same thing using 10 year treasury bonds and employing the traditional method of living off of interest only, would

require a portfolio of over $2,000,000 and not provide any inflation protection.

That's why this strategy can allow you to retire with a stable income, with far less money than traditional methods.

In addition, with the fee levels on variable annuities being anywhere from 2-5% it becomes advantageous to try and avoid them. Just because they provide "guarantees" doesn't mean that you can't actually create your own.

And, this strategy needs to be laid out correctly, managed for risk, and invested with your unique situation in mind.

In conclusion:

We believe that a successful retiree is an educated one.

It's your responsibility to learn all you can about the different strategies, techniques, products and potential pitfalls facing you in retirement.

Our goal with this eBook is to open your mind to a new possibility that goes against the grain of standard advice.

But one fact remains.

Every person is unique and requires a custom strategy built specifically for their situation and risk tolerances.

We all have different goals, beliefs, and needs in retirement. The only true way to take them all into account is to start with a financial plan.

So what should you do now?

You can stay where you are and hope that your current strategy is going to work.

Or, you can get a second opinion with our team in a free planning session.

You only have one shot at retirement and it's time to make sure your strategy will help you succeed. If you want some help in gaining confidence in your strategy then get in touch with our team and experience the Ironwood Difference.

What's Next

If you enjoyed this ebook and found it thought provoking then I have a few things you can do to get started.

1. If you appreciated this content, please copy this link (http://ironwoodfinancial.com/ebook-01-new) and share it with friends or colleagues who you think would find it valuable.
2. If you are ready to get help and get a custom financial plan prepared then we invite you to learn more about our process (it's free for those that qualify).
3. Or send us an email and let us know what you thought! We appreciate any and all feedback.

Sincerely,

Alex Parrs
Ironwood Financial

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