Commonwealth

The Ultimate Retirement Income Planning Guide for Advisors

There are many areas to focus on when creating a retirement income planning experience for your clients.

Your knowledge and comfort level with the information shared in this guide will help you add depth to your client relationships and distinguish yourself as an expert in retirement income planning. We've also outlined practical information that will assist you in addressing your clients' needs through the use of various strategies and products. As background, we have included a discussion of the emotional aspects of retirement.

Step 1: Define the Client's Goals

Clients' goals for retirement vary. You need to have a clear idea of how clients picture their post-working years before plunging into the data-gathering and analysis portions of the plan. As you know, **working with clients on their finances often involves navigating the emotional issues that come with particular goals and financial situations**. So, it will not surprise you to learn that retirement planning involves a bit of psychology.

No, you don't have to get a new degree to work through an income plan, but you do need to tune in to your clients' hopes, fears, and concerns to address all of their needs. Being familiar with and able to address the many issues surrounding retirement can help you better shape your clients' expectations for the future.

Visioning: The retirement dream

It's important to get your clients to envision what their days will be like when every day is a "vacation day." Many people believe this doesn't take much consideration, but there are pros and cons to having so much spare time. Be conscious of how your clients' attitudes, as well as the choices they make, may affect them as they progress through retirement. At this time, you should also be aware of your clients' desires and hopes for the future and start considering whether they are realistic—or whether your clients are ignoring potential roadblocks.

To facilitate this process, you may wish to give your clients the Envisioning Your Ideal Retirement worksheet. It asks probing questions to help them get a better grasp of what their days will be like during retirement.

Step 2: Take Inventory

Once you've discussed the emotional aspects of retirement, including your client's personal retirement vision, the next step is to take inventory of your client's financial situation to see how realistic his or her goals are. Keep in mind that this process is an **ideal time for you to uncover assets that your clients may hold elsewhere**. Remind your clients that, for their income plan to be effective, you need to be aware of all assets that may affect its success.

Inventory includes not only current assets and liabilities, but also an assessment of risks and concerns for each client's situation.

Assets and liabilities

This section is designed to help you identify all of your client's assets and liabilities. The comparison of current expenses and income versus projected expenses and income should begin here. Work with your clients to uncover **how much of their income they may realistically need** in retirement, based on their goals and desired lifestyle. While making this determination, differentiate between essential and discretionary expenses. While both categories feed into the total retirement income need, you can more easily adjust the discretionary spending element.

It's said that the average American needs to replace 80 percent of his or her income in retirement. While this is a handy number, it can be misleading, as replacement ratios have inherent problems. Your clients likely fall into different income categories, so this standard is not going to work for all of them. Additionally, how you calculate the ratio matters (top-down versus bottom-up), and it's important to keep in mind that expenses change over time.

Ask more questions to help you project certain expenses, such as health care. The answers may reveal that your clients aren't necessarily prepared for risks to their retirement income, including longevity (e.g., their father died at age 66, so they expect a short retirement period). Clients generally underestimate their post-retirement expenses. You will likely find it necessary to adjust the spending/income ratios a few years into retirement to align them with reality.

Actual Replacement Ratios

Pre-Retirement Income	Social Security	Private and Employer Sources	Total Income to Replace
$30,000	59%	31%	90%
$50,000	51%	30%	81%
$70,000	42%	35%	77%
$90,000	36%	42%	78%
$150,000	23%	61%	84%
$200,000	17%	69%	86%
$250,000	14%	74%	88%

Source: Aon Consulting/Georgia State University 2008 Retirement Income Replacement Ratio Study. Aon Corporation, 2008, pages 2 and 12. Data source is U.S. Department of Labor's 2003, 2004, and 2005 Consumer Expenditure Survey, which provided data on 12,823 working consumer units and 6,498 retired consumer units.

Risks to retirement income

You're well aware of the risks to income in retirement. But to help you develop a more effective income plan, you need to be sure that your clients are aware of these risks as well—and that they're equipped with some ways to minimize them.

Longevity risk. Compared with previous generations, your clients can expect to live longer, healthier lives in retirement. This also means they could possibly outlive their income. A longer retirement magnifies the effect on savings of even a low withdrawal rate.

The next table shows the chances of retirement savings lasting through a 25-year retirement. It also attempts to illustrate how to attain a truly stable income by increasing the withdrawal rate by an amount equal to the targeted inflation rate.

Number of Years Money Will Last—3% Inflation

	Rate of Return (%)											
Withdrawal Rate (%)	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
12	7	8	8	8	8	9	9	10	10	11	12	13
11	8	8	9	9	9	10	10	11	12	13	14	15
10	9	9	10	10	10	11	12	13	14	15	17	19
9	10	10	11	11	12	13	14	15	16	18	21	26
8	11	11	12	13	14	15	16	18	20	24	30	•
7	12	13	14	15	16	18	20	22	27	36	•	•
6	14	15	16	18	19	22	25	31	44	•	•	
5	17	18	20	22	24	29	36	•	•	•		
4	20	22	25	28	33	42	•	•	•			
3	25	28	33	39	•	•	•	•				
2	35	40	50	•	•	•	•					
1	•	•	•	•	•	•						

Action steps to address longevity risk include:

- Identifying sources for more annualized income
- Accessing home equity

Inflation risk. Inflation erodes what savings can buy through increased costs and diminished purchasing power, while taxes reduce savings' returns. Inflation affects almost every aspect of a plan as it is applied to major and minor expenses, such as health care, food, home value, and entertainment.

Action steps to address inflation risk include:

- Controlling expenses over time
- Securing income streams that are/can be protected from inflation
- Conducting an annual tax review

Health and long-term care risks. The rising cost of health care is an issue across all age groups, but costs have risen disproportionately higher for retirees. Furthermore, unexpected health and long-term care expenses can easily exhaust savings. Long-term care is an issue in itself, as it may lead to a change in housing needs, and there may even be a lack of available facilities or caregivers. This is a sensitive topic for clients and one that must be approached delicately.

Action steps to address health and long-term care risks include:

- Reviewing Medicare and other health insurance coverage
- Identifying long-term care options
- Obtaining long-term care insurance
- Identifying housing options
- Identifying potential caregivers and facilities
- Conducting an annual tax review

Market risks. Just as in the accumulation stage of your client's financial life, there is the risk of market volatility and asset allocation changes, along with interest rate risk, during the distribution stage. The element of time is critical.

Action steps to address market risks include:

- Laddering fixed investments
- Laddering fixed annuity purchases
- Better diversifying assets
- Rebalancing assets
- Identifying if the objective is to "die broke" or "leave a legacy"
- Running an investment tool analysis/projection
- Conducting an annual tax review

Business and public policy risks. Risks in these areas are often hard to anticipate, but you can still prepare for certain events, such as employer bankruptcy; a reduction or an elimination of employee benefits; insurer insolvency; employment risk (physical and job availability); lack of diversification (employer stock and annuity insurer); changes in social security or Medicare; and changes in income tax rates, tax brackets after the death of a spouse, and estate tax rates.

Action steps to address business and public policy risks include:

- Building an emergency fund of at least one year's worth of health insurance premiums
- Closely following the employer's financial status while in retirement
- Having routine physical examinations and exercising regularly
- Taking job skill training classes, such as computer skills, regularly
- Diversifying employer stock holdings into other stocks
- Conducting an annual tax review
- Conducting an annual estate plan review

Family issues. Family issues abound in retirement, just as they do in other stages of life. You will want to consider some common events that may take place, as well as their potential impact on your client's plan. These include divorce of the retiree or adult child; disability or health issues of the retiree or adult child; unexpected death of the retiree or adult child with dependents; job loss of the retiree or adult child; care of grandchildren or other dependents; elder care for retiree parents; and paying for college while in retirement.

Action steps to address family issues include:

- Entering marital/family counseling
- Reviewing disability/health policies
- Reviewing/updating will and beneficiary designations
- Identifying adult/child care facilities
- Obtaining long-term care insurance for parents
- Filing for financial aid

Step 3: Identify Distribution, Tax, and Estate Issues and Opportunities

At this stage, it's important to identify additional issues and opportunities that can affect the amount and type of income your clients will receive in retirement. You likely have already discussed distribution, tax, and estate issues and opportunities with clients for whom you've worked on full-blown financial plans. Income planning also may require an in-depth look at these issues to ensure that the plan meets your client's needs.

It's likely your clients have IRAs, 401(k)s, or other employer-sponsored retirement plans. If your clients have significant assets in these plans, you'll want to consider a specific distribution strategy for these assets. To do so, you'll need to be aware of the following:

1. Types of distributions
2. Distribution tax basics
3. RMDs, RBDs, and timing issues

1. Types of distributions. There are four main types of distributions available to retirees: rollovers, lump-sum distributions, partial distributions, and annuity distributions.

2. Distribution tax basics. The best spendable income—that is, the most tax efficient—is income taken from taxable accounts, as capital gains and dividends are taxed at lower rates. This information is especially relevant for clients in higher marginal tax brackets. Your clients may object to the suggestion that they take advantage of the lower capital gains tax, however, because they may instinctively oppose spending their principal. Additionally, this approach forces clients to sell positions they may be emotionally attached to. A good course of action for countering resistance is to **remind clients (often) that your plan is designed to provide lifetime income.**

If you do decide to liquidate assets, the lists below recommend the order you may choose to follow.

First: Taxable

- Long-term capital gain treatment, 20 percent maximum
- Hold stocks and other long-term capital gain-type assets, including high-dividend stocks

Second: Tax deferred

- Employer retirement plans, IRAs, annuities
- Ordinary income, 37 percent maximum
- Hold income-generating investments like bonds and CDs

Third: Roth

- Consider liquidating after tax-deferred assets if estate planning is an issue

3. RMDs, RBDs, and timing issues. With the passage of the SECURE Act in December 2019, the required beginning date (RBD) for RMDs is typically April 1 of the year following attainment of age 72—though your client can delay RMDs if still working for an employer—so you'll want to pay particular attention to the timing of these required distributions as you formulate your client's retirement income plan.

The first distribution year can have two taxable distributions, but if an RMD puts a client in a higher tax bracket, distributions may start prior to the RBD.

In addition, be sure that your clients are aware of the following:

- The penalty on withdrawals that are less than the full RMD is 50 percent on the difference between the RMD and the amount distributed.
- For Roth IRAs, distributions:
  - Are not subject to RMD rules
  - Do not count toward RMDs for other plans

  Beneficiaries of Roth IRAs are, in many circumstances, required to withdraw the balance of the account within 10 years of the death of the original account owner. They are also subject to a 50 percent penalty if they fail to do so. Certain beneficiaries (e.g., spouses) are not subject to the 10-year withdrawal rule, but they are subject to RMDs, as well as the 50 percent penalty on withdrawals less than the RMD.

There are several other tax issues and rules with which you should familiarize yourself:

- There is no penalty for taking distributions from qualified plans if your client is age 55 and separated from service.
- For qualified plans and IRAs, there is no penalty when taking 72(t) distributions (i.e., substantially equal periodic payments).

If necessary, make quarterly estimated tax payments to avoid the underpayment penalty (or have the custodian withhold taxes from the RMD).

Taxation of social security benefits

Social security benefits do not come tax free, and this information also needs to be factored into the income plan. The thresholds used in the following chart are not adjusted for inflation.

Amount required to include in combined income*	50% of income taxable after threshold of	85% of income taxable after threshold of
Married couples filing jointly	$32,000	$44,000
Single taxpayers	$25,000	$34,000

Source: www.ssa.gov
*Combined income is AGI plus nontaxable interest plus one-half of the social security benefit.

Step 4: Identify Gaps/Shortfalls

Once you've completed taking inventory of your clients' assets, you are ready to identify and address any shortfalls by comparing expenses to income (current and projected). You also will have a clearer sense of what steps your clients may be willing to take to ensure their retirement income stream.

Clients tend to fall into one of three categories:

1. **No shortfall.** These high-net-worth clients may have a surplus of assets. You will have to consider things like legacy planning and the intelligent allocation of assets to reduce taxes and reach other estate planning goals.
2. **Slight shortfall.** For clients in this category, you can address gaps in income using some basic strategies we will discuss in Step 5. You may also have to engage in conversations surrounding the adjustment of goals in retirement and ensure that those goals still fit the client's situation.
3. **Severe shortfall.** These clients have not prepared for retirement and it appears unlikely that they will meet their income goals. There are strategies you may employ to improve the situation, but you will likely engage in some difficult discussions about redefining goals.

When a shortfall exists, you should:

- Revisit the goals and expectations and revise as necessary
- Evaluate current savings and determine ways in which to optimize those savings
- Reexamine expenses

Often, when you've identified a shortfall, clients may recall additional assets they had not mentioned previously. When faced with the reality of not meeting their goals, clients will take stock again of any revenue or asset sources. Now is a time to restate how important it is to have all of your clients' essential financial information.

Step 5: Implementing the Retirement Income Plan

Now that you've identified shortfalls, or a lack thereof, you may proceed with the implementation of an income plan. It is important to note the difference between a full financial plan and an income plan. You may very well create an income plan without doing a full-blown financial plan. For example, for clients who do not have a shortfall, you may want to complete a full plan to address other long-term planning needs, while you may decide to create an income plan only for the middle-of-the-road client who doesn't require additional estate or advanced planning.

Showing the shortfall

The first step in creating an income plan for your clients is to close any gaps or shortfalls you identified. Be sure to differentiate between essential and discretionary expenses, as covering the essentials is the first priority.

When dealing with **essential expenses,** you will cover gaps with lifetime income sources, such as:

- Social security
- Pensions
- Annuities
- Other savings
- Future deposits (e.g., inheritance, sale of home)

Discretionary expense gaps may be covered with managed income sources, such as:

- Taxable assets
- Personal retirement accounts
- Employment income
- Other variable sources

You can create a summary of a client's income allocation to illustrate holdings and shortfalls before delving into the options your client has. You may also want to identify resources that can be converted into income, such as annuities.

Addressing the shortfall

There are several approaches you can follow to address any shortfall. Each has pros and cons and may not be appropriate for every client.

Option 1: Reposition assets. Adopting a more aggressive asset allocation to reap a longer-lasting income stream may be an appropriate step. You will want to explain the benefits of this approach to your clients, and **be sure to underscore the fact that they will still have a fixed component to their portfolio at all times**—in the form of their anticipated social security benefits and other things, such as pensions or guaranteed income. You will likely want to perform investment analysis tool simulations to illustrate the probability, under different scenarios, that the client will run out of money.

Option 2: Retire later and postpone social security and pension payments. Postponing retirement may be a suitable option for some clients. You should make them aware of the potential risk of pension underfunding if they choose to retire early or at their expected retirement age. In addition, waiting for social security benefits can make a difference—in a beneficial way—as the following table illustrates.

Increase in Annual Social Security Benefits for Delayed Retirement	
Age	Social Security
55	$0
59	$0
62	$11,148
67	$15,840
70	$19,644

Source: www.ssa.gov; assumption: $40,000 final income in 2018 at age 55 and no inflation

Visit www.ssa.gov to view more examples and to ensure that you have the most up-to-date facts.

Option 3: Add additional lifetime income. Sources of lifetime income are varied, and what you choose for your client will be based on his or her preferences, which you learned about during the inventory process.

Options to consider are:

- Long-term bond interest
- Laddered CDs
- Dividend income
- Rental income
- Real estate investment trusts (REITs)
- Fixed and variable annuities

Option 4: Spend less. Discuss with your clients the option of spending less. Note that what they say they will or can do is often different than what they actually do in retirement. This is one of the many reasons it is critical to **check in on the plan at least annually** to assess its progress and check for issues. This option may also necessitate a tough conversation about what clients hoped to do in retirement and what they will actually be able to do.

Option 5: Work part-time. Early in the planning process, you likely addressed your client's feelings about working during retirement. If your client was open to the idea, this option is an easy one. If not, you may want to highlight the positive benefits of part-time work, such as a built-in social network and the satisfaction that can come from contributing to the workforce.

According to a study done by Merrill Lynch and Age Wave, Work in Retirement: Myths and Motivations, "72 percent of pre-retirees over the age of 50 say their ideal retirement will include working . . . And with already half (47 percent) of current retirees having worked or planning to work during their retirement years, it will become increasingly common for people to seek work during this stage of their lives." You may need to assess your client's health and skill set at this point to determine whether these may help or hinder the possibility of part-time work in retirement. You should also inform your clients about how part-time work might reduce social security benefits.

Option 6: Use home equity. There are several ways to tap into home equity. The client may take a home equity loan or line of credit, consider selling the home and downsizing (something you may have asked about early in the visioning process), or use a reverse mortgage.

For information on home equity and reverse mortgages, see Considering a Reverse Mortgage?, a guide published by the Consumer Finance Protection Bureau.

Converting resources into income

Now that you've identified how you will address your client's shortfall, it's time to determine how you will convert your client's resources into income. Remember, your goal is to create an integrated retirement income plan that will provide your clients with the income they need to support themselves throughout retirement. Following are several strategies to consider.

Option 1: Bucket strategy. This approach integrates capital conservation and preservation of purchasing power. The chart below illustrates a sample of this strategy.

	Bucket Allocation			Asset Allocation
	1st Asset Bucket	**2nd Asset Bucket**	**3rd Asset Bucket**	**Total**
Percentage of total beginning retirement assets	50%	30%	20%	100%
MMF, CDs	50%	0%	0%	25%
Fixed Income	50%	40%	0%	37%
Domestic Equities	0%	20%	60%	18%
International Equities	0%	20%	20%	10%
Real Estate	0%	20%	20%	10%
Total	**100%**	**100%**	**100%**	**100%**

Buckets can be determined by:

- Taxability of assets
- Required distributions (social security, pension, RMD) for those with a greater amount of accumulated assets
- Lifestyle, for those with health concerns
- Holding periods (5, 10 years), for those with concerns about asset duration

Assets can be carved out today for current or future income gaps.

Pros:

- Less overwhelming for both advisor and client, as assets are divided into smaller, more manageable pieces
- Provides more efficient means for managing risks (e.g., market volatility, longevity, inflation), since buckets are linked to specific goals

- Helps address liquidity needs and estate planning goals
- Provides clients with a concrete strategy that helps allay fears of not having enough money to retire

Cons:

- Can be a difficult concept to explain to clients
- Can be harder for advisors to monitor, compared with some other strategies
- May require more frequent updating than other strategies, to ensure that each bucket keeps pace with client's goals and objectives

Client profile: This is a flexible strategy that can be tailored to meet the needs of a wide range of clients with varying levels of accumulated assets, risk tolerances, lifestyles, and time horizons.

Option 2: Interest only. This is the strategy that many retirees will be most familiar with: protecting the principal and living off the interest. The goal of the interest pool is to provide target income through dividends and interest from bonds and short-term instruments.

Pros:

- Simple to understand and execute
- Easy to maintain
- Predictable cash flow may be possible
- May be able to minimize risk to cash flow
- May be able to offset inflation through growth pool if any assets are available for growth pool
- Can reinvest growth pool dividends and capital gains, if desired

Cons:

- May fall behind inflation because of the large allocation to bonds and other short-term vehicles
- Often requires significant assets to generate target income
- Interest rate risk remains
- Income is 100 percent taxable as ordinary income, unless it is from municipal bonds
- May incur taxes on onetime reallocation during setup

Let's assume that your client needs to generate a discretionary pool of $2,000 per month. To do so, your client would need to invest around $600,000; interest rates would have to yield 4 percent; and those returns would need to outpace inflation ($600,000 x 4% = $24,000 per year, or $2,000 per month). In other words, it takes a very large asset pool to implement this strategy.

The growth pool may be small, and it should be invested in a portfolio based on the chosen asset allocation/target asset mix. A balanced or growth allocation may be considered to address the impact of inflation and the potential lack of a broad asset allocation. An annual asset allocation review is highly recommended.

Client profile: This strategy may be appropriate for very conservative investors who have significant assets to generate desired income, or for conservative investors who don't need to withdraw much money.

Option 3: SWP. This strategy takes all assets set aside for discretionary retirement income and allocates them based on a client's target asset mix. The goal is to **provide target income while maintaining the asset allocation mix** over the client's lifetime. A balanced or growth portfolio may be considered with this strategy to address the combined impact of inflation, longevity, and asset allocation shifts.

Your client should invest in an appropriate mix of equities, bonds, and short-term instruments to help generate current income needs, as well as to provide opportunity for portfolio growth in the long run. Then—annually, quarterly, or monthly—you can liquidate assets systematically or rebalance to sell best performers, on a pro rata basis, and distribute those assets to the client for his or her target income needs.

Pros:

- Can be simple to set up for certain clients
- Supports aggressive portfolios
- Minimal portfolio changes may be required over certain periods of time
- May support higher distribution rates
- Distributions from certain mutual funds can be automated

Cons:

- Can be a labor-intensive strategy for you and your client, and there is a certain level of market risk
- Automated distributions can be difficult from individual securities
- Possible income adjustments may be necessary due to market volatility
- Difficult to gift money with confidence
- Tax report can be tricky
- High level of involvement may be required for selling strategy
- Surviving spouse must be fully engaged in managing portfolio
- May be tax issues involved in rebalancing or reallocating positions

An annual asset allocation review is highly recommended.

Client profile: This strategy may be appropriate for clients who do not need a significant amount of discretionary assets and who are looking for a growth strategy that will allow them to leave a legacy. These clients may also want to "guarantee" a portion of their discretionary spending by purchasing a lifetime income annuity at some point in their retirement.

Option 4: Bridge strategy. This strategy, also called a "split strategy," takes all assets set aside for discretionary retirement income and splits them into two buckets: one bucket designed to meet certain income goals over a specific period of time; and one bucket designed to allow for portfolio growth and management of the five key risks to retirement income.

The goal is to provide target income to bridge a gap for a particular time period (e.g., for five years, from 62 to 67, when full social security becomes available for certain retirees; or from 65 to 72, when RMDs must begin), while allowing a significant portion of your client's portfolio to remain invested to target growth for the longer term.

The dedicated income pool will be drawn down to $0 by the end of the period, while **the growth bucket will have remained invested in your client's chosen asset allocation** and left untouched, with the goal of regenerating the original discretionary pool and possibly increasing it (depending upon market conditions).

This strategy can help minimize key retirement risks: it assumes an appropriate withdrawal rate, allows for construction of a balanced or growth portfolio within the growth pool, and hedges longevity and inflation.

Pros:

- Simple to maintain for the duration of the planning time period
- More predictable cash flow
- 100 percent of current income provided by small "bucket" of total assets
- Minimal reallocation required
- Very easy for clients to understand and monitor
- Dividends and capital gains from growth pool may be reinvested
- Most of income stream may be tax free (If nonqualified assets are used, most of the income stream from the five-year income pool becomes a tax-free return and a portion of the lifetime income stream becomes a tax-free return of principal.)

Cons:

- Income pool will be drawn down to $0
- Must reformulate allocations before end of last year of bridge gap
- Asset allocation becomes more aggressive and sensitive to potential market volatility at or near end of period
- May incur taxes on reallocation during setup

An annual asset allocation review is highly recommended.

Client profile: This strategy may be appropriate for investors who are looking for simplicity and ease in managing retirement income; who are comfortable with drawdown; and who need a specific gap-filler before social security, pension payments, or RMDs begin.

Option 5: Annuities and annuitization. A strategy that relies heavily on annuities and annuitization may be an option for your most conservative clients who have very low risk tolerance. It is possible to ensure lifetime income needs through the purchase of annuity products with certain benefit riders. You should keep in mind that annuities may not be appropriate for all of your clients.

Pros:

- Guaranteed lifetime income
- Potential for greater internal rate of return (IRR) for older annuitants due to mortality credits
- Allows more aggressive asset allocation with other investments
- Reduces risk of underconsumption

Cons:

- Loss of control over assets, as assets are typically locked up until annuitization begins
- Inflation exposure with fixed annuities
- Higher costs with variable annuities
- Exposure to a lower IRR in the short term

Client profile: Relying heavily on annuities, benefit riders, and/or annuitization could be an option for your most conservative clients with a very low tolerance for risk. They will seek the guarantee afforded them through these products and strategies.

Option 6: Annuities and income benefit riders. The unquestionable popularity of living benefit riders has led to a rapid evolution in their design. They have transformed from simple return of principal riders to lifetime income guarantees. Similar to annuitization, they offer clients guaranteed minimum income streams, often with upside potential. They also address many of the objections to traditional annuitization: no longer do you need to make an irrevocable transfer of your account balance to purchase the income stream, assets stay invested, and income is taken in the form of structured annual withdrawals.

The income is often based on the higher of the actual contract value or a hypothetical benefit base—typically net premiums rolled up at a fixed percentage or some type of contractual high watermark. This offers further protection against loss of income and may allow conservative clients the comfort to invest more aggressively than they otherwise would.

Pros:

- Income is guaranteed for life
- Assets can stay invested, offering upside income potential
- Can provide lifetime income streams that extend to the insured's spouse

Cons:

- Riders are often expensive
- Conservative investments may hamper performance
- Lack of flexibility—withdrawals greater than the annual fixed amount allowed can be taken, but investors may see their benefit base suffer or their guarantees canceled

Client profile: This strategy, relying heavily on annuities, benefit riders, and/or annuitization, may be an option for conservative clients who have very low risk tolerance. They will seek the guarantee afforded them through these products and strategies.

Your clients will want to consider the trade-offs that come with annuitization and living benefit riders. Much of it is qualitative decision-making based on their needs and risk tolerance. As you will see from the next example, the combination of annuitization and a systematic withdrawal plan may appeal to a wider range of clients.

Option 7: Combination of SWP and annuitization. The SWP option (Option 3) mentioned that some clients may wish to guarantee a portion of their income with an annuity; therefore, a strategy that may appease a broad range of client needs and interests is one that combines the SWP and annuitization methods.

The client would purchase an annuity with a portion of his or her assets in an effort to fill lifetime income gaps. Any current shortfall would then be addressed with a SWP. Excess annuity payments could be rolled over into a properly diversified portfolio.

Pros:

- Versatile
- Appropriate for a wide range of clients
- Supports aggressive portfolios
- Minimal portfolio changes may be required over certain periods of time
- May support higher distribution rates
- Distributions from certain mutual funds can be automated
- Guaranteed lifetime income
- Potential for greater IRR for older annuitants due to mortality credits
- Reduces risk of underconsumption

Cons:

- Loss of control over assets, as assets are typically locked up until annuitization begins
- Inflation exposure with fixed annuities
- Higher costs with variable annuities
- Exposure to a lower IRR in the short term
- Can be a labor-intensive strategy for you and your client, and there is a certain level of market risk
- Automated distributions can be difficult from individual securities
- Possible income adjustments may be necessary due to market volatility
- Difficult to gift money with confidence
- Tax report can be tricky
- Surviving spouse must be fully engaged in managing portfolio
- May be tax issues involved in rebalancing or reallocating positions

Client profile: This strategy may be suitable for clients who want to guarantee a portion of their income. It should appeal to a broad range of clients.

Tying It All Together

As with any plan or course of action you implement with your clients, the **process and plan should be documented and reviewed periodically**. An annual review may be the standard practice, but you and your client will want to determine the frequency, based upon his or her needs.

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