Fast and Slow Thinking

In Client Conversations

Holly P. Thomas, CFP®
FPA of Central Ohio
September 9, 2014

Question

- Has a client conversation ever gone differently than you thought it did?

Overview

- Different Levels of Communication
- Biases - Types of Irrational Thinking
- What Can We Do to Counteract? Courage + Compassion = *Have a Servant's Heart*

Levels of Conversation

- Two brain systems
- Two species
- Two selves

Two Brain Systems

- Emotional / fast / primitive / “system 1”
- Rational / slow / cognitive / “system 2”
- An Example

Two Species

- 1) “Econ” – pure rational / utility- and profit-maximizing / “Adult”
- 2) Human – not so much

Two Selves

- Experiencing Self
- Remembering Self

In the Conversation

- Two Systems
- Two Species
- Two Selves

Lots of Labels

- Optimism / Overconfidence
- Anchoring
- Endowment Effect
- Possibility Effect
- Certainty Effect
- Denominator Neglect
- Mental Accounting
- Disposition Effect
- Saliency
- Illusory correlation
- Insufficient adjustment
- Representativeness
- Framing.......

Bias

- A systematic error in judgment, especially prevalent in choices involving risk.
- 4 Building Blocks

1. Cognitive Ease

- Fast Thinking / System 1 is impulsive
- Slow Thinking / System 2 can be lazy
- Fast + Slow = conservation of mental energy
- Feeling familiar, true, good, or effortless

2. Substitution

- Fast – If I can’t answer this question, I’ll substitute a close one.
- Slow – Can I think of any reason not to believe that answer?
- 1) Fast – “I don’t understand what she’s talking about, but does she seem trustworthy?”
- 2) Slow – “She certainly doesn’t sound unethical, so I will just go with whatever she says.”

Substitution, cont.

- Affect ("I like Apple products, so the stock must be less risky.")
- How happy are you with your life these days? (Common substitution: What is my mood right now?)
- What do you want to do in retirement? (Common substitution: What do I want to do right now?)

3. Reference Points

- Nobel-prize-winning research

4. Coherence

- Fast Thinking creates causal links / stories / explanations connecting unconnected things
- Slow Thinking's job is to "unbelieve"

Loss Aversion (vs. Risk Aversion)

- Which do you prefer, A or B?
- A) A sure gain of $3000.
- B) An 80% chance of a gain of $4000.

- Which do you prefer, C or D?
- C) A sure loss of $3000.
- D) An 80% chance of a loss of $4000.

WYSIATI

- Coherence + Cognitive Ease combo
- Full disclosure?

Availability Bias

- Poll

Availability Bias

- Cognitive ease and substitution combo – what we can more easily recall we will deem as more probable
- “Everyone is saying to buy/sell/hold.”
- “The timing just doesn’t seem right.”

Recency Bias

- More recent is more recallable, therefore more probable
- One form of availability bias

Hindsight Bias

- “I knew _________ was going to go up/down.”
- Revision of beliefs (<u>and memory</u>) in light of actual events
- Dangerous to evaluate on outcome instead of process.

Predictions

- Analytical lookup from a table (actuaries)
- Intuition from random repeated experience (fire chief)
- “Intuition” based on coherence + substitution

Cognitive Illusions

- Illusions of skill
- Illusions of validity
- Bias toward control, judgment, intuition, talent explanations
- Bias against luck, randomness, formulas, checklists

Other Suggestions

- Digital Diet
- Writing Things Down
- Enlisting Cognitive Ease
- Planning Pre-Mortem
- Bring a Clear Future to the Present
- SPACE

Digital Diet

- What is their current information diet?
- TV Channels / Shows / YouTube
- Magazines / Newspapers
- Email / Social Media / Blogs / E-Letters?
- Neighbors / Relatives / Group Members

Writing Things Down

- Which is more likely to get done?
- What if they don't write it down?
- Asking permission

Play Pre-Mortem

- Imagine it's a year / xx years from now
- Delighted – what happened?
- Disappointed – what happened?
- Checks on expectations and remembering self

Bring a Clear Future to the Present

- Manage the experiencing self's understanding of what to expect.
- Future warning of possible pain (loss) for future gain will help remembering self.

Enlist Cognitive Ease

- Different learning styles – adults are children in big bodies – tactile, visual, auditory learners
- Big numbers and letters in bright blue and red – for persuasion / conclusions
- Small and black print – for performance on a task
- Pretentious language / Jargon -> low credibility

SPACE (adapted from Ken Donaldson, LMHC, author, Marry YourSelf First)

- Stop
- Pause
- Assess
- Choose
- Enact

Courage + Compassion = Have a "Servant's Heart"

- Acknowledge, don't avoid, the fast/emotional system
- Show them you are human not econ.
- Remember the remembering self.
- Give them SPACE.

Sources

- Daniel Kahneman, Thinking Fast and Slow
- Nassim Taleb, Fooled By Randomness
- Atul Gawande, The Checklist Manifesto
- Rick Kahler and Ted Klontz, Facilitating Financial Health
- Holly Thomas, The Mindful Money Mentality

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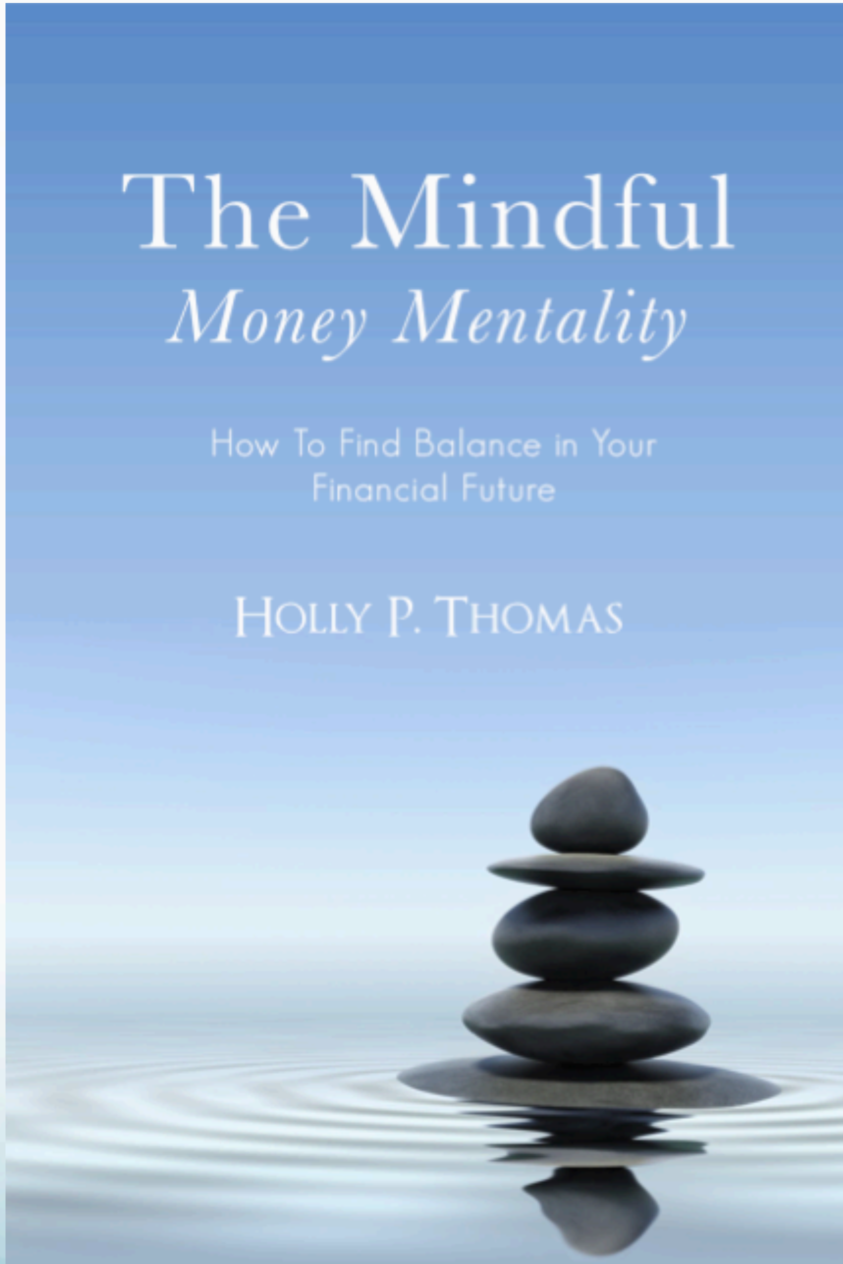
The Mindful
Money Mentality
How To Find Balance in Your
Financial Future
HOLLY P. THOMAS

Insurance and Estate

Holly P. Thomas, CFP®

Insurance

Health Insurance

- Evaluate policy for:
  - Deductible
  - Copay
  - Max out of pocket cost
- Use a spreadsheet to match EOB's and payments
- Make certain everyone knows when deductible and max costs met

Health Insurance

- Begin tracking expenses
  - Out of pocket payments
  - Travel - $0.24/mile
  - Lodging - $50/person up to $100
- This will be helpful for cash flow and taxes

Life Insurance

- Obtain copies of all policies
- Review beneficiaries and verify with insurance company
- Review riders
  - Accelerated death benefits
  - Long term care benefits

Life Insurance

- Remember group term policies
  - Workplace benefits
  - AAA
  - Association membership benefits
  - Credit union benefits

Beneficiaries

- Direct to minors?
- If trust, does trust language match ok?
- Verify. Verify. Verify.
  - Ex-spouses
  - None on file at all

Disability Insurance

- Obtain copy of all policies
- Review
  - Elimination period
  - Benefit period
  - Definition of disability
  - Residual disability benefits

Disability Insurance

- Make claim early
- Let physicians know claim is being made
- Track progress of claims
  - Keep record/names of all calls
  - Verify receipt of information

Disability Insurance

- Social Security
  - Make claim early
  - Fast track for “compassionate allowance”
  - http://www.ssa.gov/compassionateallowances/conditions.htm

Long Term Care Insurance

- Obtain copy of policies
- Understand triggers and benefits
  - Indemnity or reimbursement plan
  - Elimination period
  - Home benefit riders
  - Care coordination services

Long Term Care Insurance

- Make claim early
- Let physicians know claim is being made
- Track progress of claims
  - Keep record/names of all calls
  - Verify receipt of information

Estate Planning

The Main Rule: Organize and Simplify

Get Organized

- Everything you own (Assets)
- Everything you owe (Liabilities)
- Titling and beneficiary designations
- Veterans: copy of DD214
- Copies of all statements, deeds, titles, and insurance policies in a single notebook

Document the Support Network

- Care managers
- List of all professionals' contact info
- List of health care providers' contact info
- Circle of trusted friends/neighbors
- Emergency pet care?

Trusted Circle

- Housekeeper -> bookkeeper -> caregiver -> executor / trustee
- Candidates with client's best interest at heart?

Bank Accounts

- All bank accounts - who knows you at the bank?
  - Savings accounts and CD's w/mat. dates
  - Health savings accounts (HSAs)
  - UTMAs
  - Bank IRAs

Investment Accounts

- Contacts: managers and assistants
  - Brokerage accounts
  - Stocks held with transfer agents
  - Mutual funds held directly with company
  - IRAs - SIMPLE, SEP, Roth, Traditional
  - Annuities
  - 529s

Bank and Investment Accounts

- Consolidate
- Check ownership and beneficiary designations
- Check Power of Attorney status
- Consider TOD titling

Employer-Provided Assets

- Deferred compensation, 457(b)
- Stock options - grant dates, expiration dates, terms and types
- Restricted stock grants
- 401(k), 403(b) accounts
- Flexible Spending Accounts

Employer-Provided Assets

- Check beneficiary designations and verify with employer

Physical Financial Assets

- Stock Certificates or bonds with coupons
  - Cash out or place in brokerage account
- Savings Bonds
  - Consider cashing out

Physical Financial Assets

- Precious metals
- Stamps, coins, collectibles
  - Depending on basis, consider gifting while alive

Real Property

- Deed
- Title policy
- Partnership agreement
- Buy-sell agreement
- Property Management Agreement

Closely-held Interests

- LLCs - LLC Agreement
- S corps - stock certificates – is corporation current?
- C corps - stock certificates - is corporation current?
- Partnership Interests - Partnership By-Laws
  - Buy-sell agreements for all

Titled Personal Property

- Cars, Motorcycles, Boats - titles
- Trailers, RVs - titles
- Aircraft - copy of FAA registration

Other Property

- Loans to others - copy of promissory note and any collateral documents
- Prepaid dues and subscriptions - still use?
  - Gym memberships
  - Club memberships
  - Publications
- Prepaid Funeral Arrangements

Digital Financial Assets

- Digital Asset Inventory: Karin Prangley, Krasnow Saunders, kprangley@krasnowsaunders.com
- All devices and their passwords
  - Smartphone, tablet, desktop, laptop
- All email accounts with passwords
  - State how each email account is used (personal, professional, spam account)

Digital Financial Assets

- Credentials (user id & password) for all online accounts
  - Bank accounts that have online access
  - Brokerage accounts that have online access
  - Online-only Bank (SmartyPig, e.g.)
  - PayPal
  - Treasury Direct

Digital Financial Assets

- Points and/or Miles - user ids and passwords
  - Terms of transfer
  - Expirations

Digital Intellectual Property

- Registrar / host? Credentials? Continue / discontinue? Who would maintain? Value?
  - Blogs
  - Webpages
  - Domain names
  - Digital photo storage

Other Digital Assets

- Online storage accounts - iCloud, Dropbox
- Other online accounts relevant or important to you - wishes if you die or are disabled?

Online Presence

- Club, group, and association profile pages
- Professional: LinkedIn, corporate web page
- Prayer / Support groups - private / public?

Liabilities: Everything You Owe

- Mortgages – keep with Real Estate documents
- Charitable Pledges
- Co-signed obligations and loans - copy of promissory notes

Estate Planning Documents

Basic Estate Planning Documents

- Will
- Living Will
- Durable Power of Attorney
- Health Care Surrogate
- HIPAA Designation

Wills

- How old?
  - Does it still reflect wishes?
- Executed in state of current residence?
- Properly executed according to that state?

Wills

- Have any amendments (codicils) been completed
- Is there a personal property schedule
  - Does it reflect current wishes
  - Consider gifting while alive
- Pour over - sends “stray” assets into trust

Revocable Trusts

- Living Trust: Best for health and capacity challenges
- Not a substitute for a will
- Consider clause allowing revocation of rights

Revocable Trusts

- Consider amendment to make successor the current co-trustee
- Make certain all assets are titled appropriately to the trust
- Consider Memorandum of Trust

Powers of Attorney

- Springing vs. Durable
- Specific vs. Broad
- Broad = Powerful
- Accepted language can vary widely by state
- Make certain all involved parties will accept current POA

Health Care Directives

- ALL health care providers, neighbors, friends, family get copies
- HIPAA Designation - who can see records
- Health Care Surrogate - who can make decisions (sometimes called HCPOA) - takes fortitude

Health Care Directives

- Five Wishes
  - Consider lawyer review for conflicting instructions - is a legal document
- Living Will - do / do not use artificial means

Ethical Wills / Personal History

- Not a legal document
- Expression of values and history, not just collection of assets

Resources

- The Beneficiary Book
  - www.active-insights.com
- Care Journey
  - www.CareJourney.org

Questions?

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Books, free e-letter, workshops, etc.:

www.porchviewpublishing.com

Financial Planning Association of Central Ohio

Advising Clients Post DOMA Decisions

September 9, 2014

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Introduction

- Explanation of DOMA and Ohio law
- Overview of Supreme Court DOMA cases and pending case
- Overview of federal laws impacted
- Planning considerations for same-sex couples

DEFENSE OF MARRIAGE ACT (DOMA); BACKGROUND

Baker vs. Nelson, 291 Minn. 310, 191 N.W. 2d 185 (1971). Jack Baker sought license to marry another man. Minnesota Supreme Court ruled Minnesota law limiting marriage to persons of opposite sex did not violate U.S. Constitution. In 1972 U.S. Supreme Court dismissed appeal.

DEFENSE OF MARRIAGE ACT (DOMA); BACKGROUND

- In December 1990 three same sex couples filed applications for marriage licenses in Hawaii, and were denied. In Baehr v. Miike, the Hawaii Supreme Court ruled the state must show a compelling interest in prohibiting same-sex marriages.

DOMA BACKGROUND (Cont'd.)

In 1996 a U.S. House Judiciary Committee report recommended a bill called the Defense of Marriage Act, as a response to Baehr. The Committee expressed a moral disapproval of homosexuality and feared "a redefinition of marriage in Hawaii to include homosexual couples could make such couples eligible for a whole range of federal rights and benefits."

DOMA Enactment

- DOMA overwhelmingly passed and was enacted by Congress in September 1996. The House voted 342-67 in favor; The Senate voted 85-14 in favor.

DOMA Section 2

- States not required to give effect to same sex marriages performed in other states.
- Issue: Inconsistent with "Full Faith and Credit Clause," Article IV, Section 1, of the U.S. Constitution? States must recognize public acts, records and judicial proceedings of other states.

DOMA Section 3

- In determining the meaning of any Act of Congress, or of any ruling, regulation, or interpretation of the various administrative bureaus and agencies of the United States, the word "marriage" means only a legal union between <u>one man and one woman</u> as husband and wife, and the word "spouse" refers only to a person of the <u>opposite sex</u> who is a husband or a wife.

Ohio "Mini" DOMA (ORC 3101.01)

- Enacted in May 2004
- Ohio explicitly bans same-sex marriage by stating that "a marriage may only be entered into by one man and one woman"
- Further, Ohio does not give effect to same sex marriages recognized in other jurisdictions: "Any marriage entered into by persons of the same sex in any other jurisdiction shall be considered and treated in all respects as having no legal force or effect in this state and shall not be recognized by this state."

Ohio Constitution (Amended 2004)

- Article XV; Section 11. Only a union between one man and one woman may be a marriage valid in and recognized by this state [Ohio] and its subdivisions …
- Ohio voters approved the Amendment by a 62%-38% margin.

Challenges to DOMA

In February 2011, President Obama issued an order stating that DOMA was unconstitutional and directed the DOJ not to defend the law in court

U.S. v. Windsor Overview

- Estate tax marital deduction case.
- Edith Windsor, the widow of Thea Spyer, paid $363,000 of federal estate taxes and sued for refund. Windsor and Spyer were married under Canadian law.
- Issue: Was DOMA definition of marriage as "between one man and one woman" unconstitutional?

U.S. v. Windsor Overview (Cont'd.)

- On June 26, U.S. Supreme Court, in a 5-4 decision (Kennedy siding with Ginsburg, Breyer, Sotomayor and Kagan) found Section 3 of DOMA to be unconstitutional "as a deprivation of the liberty of the person protected by the Fifth Amendment."

Hollingsworth v. Perry Overview

- Federal District Court ruled in favor of plaintiff who challenged California Proposition 8 (a mini-DOMA), preventing same sex marriages in California. State officials did not appeal the Federal District Court's decision. Citizen group intervened on appeal, lost at 9th Circuit and appealed to U.S. Supreme Court.
- On June 26, U.S. Supreme Court, in a 5-4 decision (Scalia and Roberts siding with Ginsburg, Breyer and Kagan) that the citizens group lacked standing to bring the case.

July 2013 Ohio Case; Obergefell vs. Kasich

- In July 2013, after Windsor, the U.S. District Court, Southern District of Ohio, began hearing an Ohio case challenging Ohio's mini-DOMA law.

Obergefell vs. Kasich (Cont'd.)

- Cincinnati residents John Arthur and Jim Obergefell flew to Baltimore, Maryland in early July 2013 and married under Maryland law at the Baltimore/Washington International Airport. Arthur had ALS and a limited life expectancy.
- Couple challenged 2004 Ohio law banning recognition of gay marriage.

Obergefell vs. Kasich (Cont'd.)

- In late July, U.S. District Judge Black granted Arthur and Obergefell a temporary restraining order against the 2004 Ohio law despite a warning from Attorney General DeWine that it could contribute to a broad rewriting of Ohio law in favor of such unions.

Obergefell vs. Kasich (Cont'd.)

- Judge Black referred to the U.S. Supreme Court decision in Windsor and challenged the notion that Ohio could pick and choose which out-of-state marriages to recognize.
- September 3, 2013; David Michener added as additional plaintiff. Another TRO granted.
- Arthur died on October 22.

Federal Laws Impacted

- Definition of marriage and spouse is relevant in over 1,100 different federal laws
  - Internal Revenue Code, ERISA, COBRA, FMLA, HIPAA
- Must determine which state's law applies for determining rights.
  - State in which the marriage occurred - "place of celebration."
  - State in which the couple currently resides- "place of domicile."

Federal Tax Impact; Revenue Ruling 2013-17

- Place of celebration controls when applying and interpreting federal tax laws
- Prospective application began on September 16, 2013
  - May be relied on for filing original returns, amended returns, or claims for refund for years in which statute of limitations is open

Federal Tax Impact; Income Tax

- Same-sex couples may now file joint federal returns
  - May be beneficial, but may result in a higher tax
  - Must file Ohio tax return separately; Ohio Information Release IT 2013-01
- Employer subsidized health care premiums for same-sex spouse no longer taxable income
- Pre-tax dollars directed to cafeteria plans, FSA, HSA may be used for benefit of same-sex spouse

Federal Tax Impact; Income Tax (Cont'd.)

- Spousal Roth IRA contribution limits apply
- Deductibility of alimony applies to same-sex spouses
- Same-sex spouses considered related parties under the Code
  - Prevents taxpayers from recognizing losses and other tax benefits in certain related party transactions
  - Self-dealing rules
- Innocent spouse relief available

Federal Tax Impacted; Employment Tax

–FICA no longer imposed on amount of health care premiums for same-sex spouse included in employee's gross income

Federal Tax Impact; Estate and Gift Tax

- The following are now available for all legally married couples:
  - Unlimited marital deduction
  - Qualified terminable interest property deduction
  - Portability
  - Inter vivos gift exclusions
  - Gift-splitting
- Joint tenant taxation
- GRIT planning eliminated – IRC Section 2702

Federal Tax Impact; Claims for Refund

- Revenue Ruling 2013-17 permits filing amended returns and claims for refund for estate tax, employment taxes and income taxes
- Only for years in which statute of limitations to claim a refund is open
- Had to be legally married in year for which refund is applicable
- Notice 2013-61 provides additional guidance for refunds of FICA taxes and income tax withholdings

Federal Benefits Impacted

- Social Security & Survivor Benefits – Eligibility was based on status of marriage in place of domicile, press release following Windsor suggests policy will be changed to place of celebration
- Medicaid – Eligibility based on status of marriage in place of domicile
- Military and Veteran's Benefits – Eligibility based on place of celebration
- Federal Government Employee Benefits- Eligibility based on place of celebration

Federal Employment Laws Impacted

- Eligibility under employer health care plans
  - Employers must review definitions used in health care plans
- Eligibility for benefits under FMLA- based on place of domicile
- Eligibility for COBRA benefits- based on place of celebration
- Spousal rights under qualified retirement plans subject to ERISA extended to same-sex spouses

Planning Considerations for Ohio Residents

- Should we get married?
  - Income taxes
  - Benefits from spouse's employer
  - Federal benefits
  - Estate and gift tax savings
- Where should we get married?
  - 18 states and District of Columbia
  - Divorce laws
  - Prenuptial agreements

Estate Planning Considerations for Ohio Residents

- Importance of Will – intestacy statutes
- Probate avoidance
- Planning for children
- If family members are likely to contest:
  - Consider no contest clause
  - Consider depositing Will with probate court; ORC Section 2107.07
  - Consider having probate court declare Will valid; ORC Section 2107.081

Estate Planning Considerations for Ohio Residents

- Review existing revocable trusts- trusts may now be drafted to minimize federal estate taxes
- Review existing irrevocable trusts
- Importance of health care directives, financial powers of attorney, disposition of bodily remains
- Beneficiary designations – no automatic revocation
- Spousal IRA rollovers permitted

Questions?

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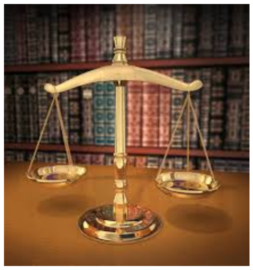
Practice Management



Running the Business of Our Business
Effective Administration and Tax Management

Planning for the Planner
The Real Story

Hosted by Russ Kessler, Esq., CPA
-Certified Attorney Specialist-
Federal Taxation Law
Kessler & Ballenger Co., L.P.A.

I. Hybrid Tax Status of Financial Planners

- **Statutory Employee (full time life insurance salesman)**
  - Employee Status
    - Social Security and Medicare
    - Benefits
    - Retirement Plans
  - Independent Contractor Status
    - Income Taxation
    - Schedule C Reporting
    - Avoids Alternative Minimum Tax
  - Multiple Schedule C Issues
    - Allocation of Expenses
      - Directly Allocated
      - Apportionment (Methodology)

II. Business Structure Issues

- **Liability Protection**
  - Entity Protection
    - Corporations
      - C Corporation
      - S Corporation
    - Limited Liability Companies
      - Single Member LLC
      - Multi Member LLC
    - Malpractice Liability Protection
      - Administrative Staff
      - Professional Staff
      - Partners/Shareholders
  - Asset Segregation Protection
    - Transfer to Entity Without Exposure
      - Spouse (Domestic Relations Issue)
      - Asset Protection Trust

Business Structure Issues (cont'd)

- Qualified Retirement Plans
- Individual Retirement Accounts

- Tax Issues
  - Bifurcation of S Corporation Income
    - Salary (must be fair compensation)
    - Dividends
  - For Most Other Tax Issues, Entity Selection is Fundamentally Neutral
  - Income Assignment Issues

Go to View: Header and Footer: Notes and Handouts to change

Change Date in menu View: Headers and Footers: Notes and Handouts

III. Retirement Plan Issues

- **Net Statutory Employee Income is Excluded For Purposes of Determining Retirement Plan Contributions**
- **Leased Employee Coverage (IRS § 414(n))**
  - Safe Harbor Exclusion
    - 10% Non-Integrated Contribution
    - Less than 20% of non-Highly Compensated Employees
  - Staff Compensation Alternatives
    - PEO Employee

Retirement Plan Issues (cont'd)

- **Retirement Plan Alternatives**
  - Defined Contribution Plans
    - 401(k)
    - Profit Sharing Plan
  - Defined Benefit Plan

IV. Business Transition Issues

- **What is there to Sell?**
- **What is the Real Value?**
  - Traditional Business Valuation
  - Running Start Methodology
- **Who is the Buyer?**
  - External
  - Internal
    - Restrictive Covenants

V. Questions

Get Started with LinkedIn

Best practices for making targeted contacts and introductions

A world of investing.

Putnam INVESTMENTS

Patrick Quinlivan
Regional Marketing Director

Consult with your firm's compliance department before you engage in any social media activities.

Stay compliant with their policies, *however they define them.*

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5 astounding facts about financial advisors and social media

75%

of financial advisors are using social networks for business purposes.

Putnam Investments Survey of Financial Advisors and Social Media (2013) conducted in partnership with FTI Consulting.
Survey conducted in July 2013 among 408 U.S.-based financial advisors.
Data sources: FTI Consulting financial advisor panel and Harris Interactive.

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5 astounding facts about financial advisors and social media

40+

The "social advisor" is typically over age 40 with 10+ years tenure in the business.

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$1M | 52%
Of these, 52% gained more than $1M in new assets.

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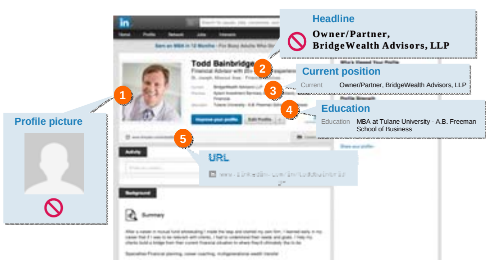
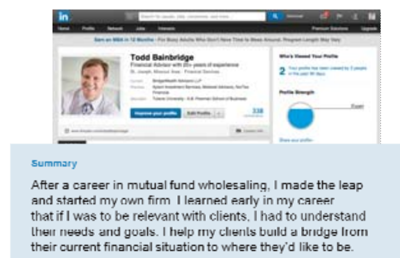
The numbers don't lie...

YOUR LINKEDIN NETWORK
338 connections link you to
5,942,811+
professionals

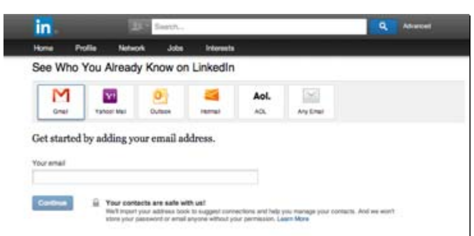
Optimize your profile



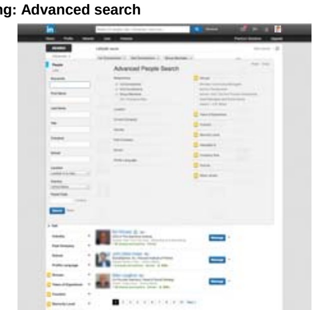
Write a great summary



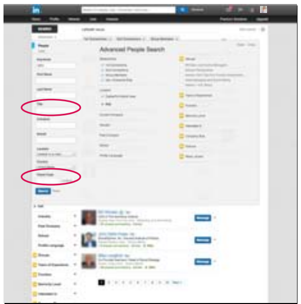
Making connections



Prospecting: Advanced search



Prospecting: Title within an area



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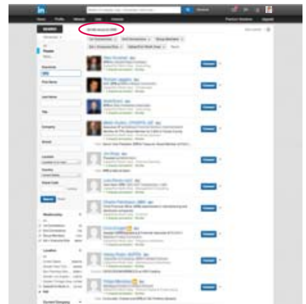
Putnam 13

Prospecting: Narrow the results



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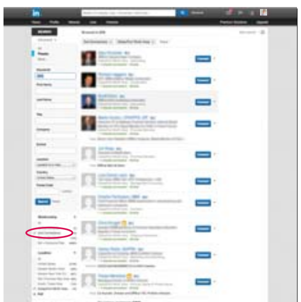
Prospecting: Narrow the results



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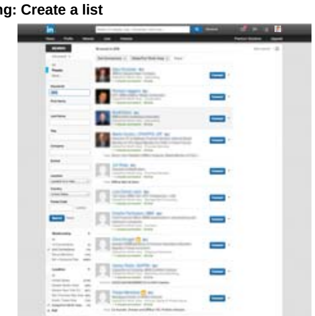
Prospecting: Create a list



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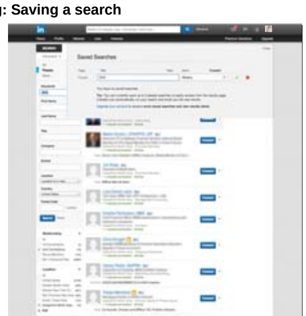
Prospecting: Saving a search



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Find alumni connections

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Putnam 18

Closing thoughts

Getting started

- Go to Putnam's tech blog site: www.advisortechtips.com
- Start to make connections
- Ask for *targeted* introductions
- Use the search tool for research on clients, prospects, and competitors
- Think creatively

Putnam Retail Management.

Russell Quarterly Economic and Market Review

New market highs: cause for caution or celebration?

Erik Ristuben, Chief Investment Strategist

SECOND QUARTER 2014

Important information and disclosures

ease remember that all investments carry some level of risk, including the potential loss of Principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

ersification does not assure a profit and does not protect against loss in declining markets.

thing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

ks of asset classes discussed in this presentation:

n-U.S. markets entail different risks than those typically associated with U.S. markets, including currency fluctuations, political and economic instability, accounting changes, and foreign taxation. Securities may be less liquid and more volatile.

estments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems which can be expected to have less stability than those of more developed countries. Securities may be less liquid and more volatile than U.S. and longer-established non-U.S. markets.

al Asset risks:

estments in infrastructure-related companies have greater exposure to adverse economic, financial, regulatory, and political risks, including, governmental regulations. Global securities may be significantly affected by political or economic conditions and regulatory requirements in a particular country.

mmodities may have greater volatility than traditional securities. The value of commodities may be affected by changes in overall market movements, changes in interest rates or sectors affecting a particular industry or commodity, and international economic, political and regulatory developments.

clines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks. Investments in international markets can involve risks of currency fluctuation, political and economic instability, different accounting standards, and foreign taxation.

all capitalization (small cap) investments involve stocks of companies with smaller levels of market capitalization (generally less than $2 billion) than larger company stocks (large cap). Small cap investments are subject to considerable price fluctuations and are more volatile than large company stocks. Investors should consider the additional risks involved in small cap investments.

ge capitalization (large cap) investments involve stocks of companies generally having a market capitalization between $10 billion and $200 billion. The value of securities will rise and fall in response to the activities of the company that issued them, general market conditions and/or economic conditions.

fensive style emphasizes investments in equity securities of companies that are believed to have lower than average stock price volatility, characteristics indicating high financial quality, (which may include lower financial leverage) and/or stable business fundamentals.

namic style emphasizes investments in equity securities of companies that are believed to be currently undergoing or are expected to undergo positive change that will lead to stock price appreciation. Dynamic stocks typically have higher than average stock price volatility, characteristics indicating lower financial quality, (which may include greater financial leverage) and/or less business stability.

hough stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

Investment Grade is a system of gradation for measuring the relative investment qualities of bonds by the usage of rating symbols, which range from the highest investment quality (least investment risk) to the lowest investment quality (greatest investment risk).

oss domestic product (GDP) refers to the market value of all final goods and services produced within a country in a given period. It is often considered an indicator of a country's standard of living.

urce for MSCI data: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

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ndard Deviation is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The greater the degree of dispersion, the greater the risk.

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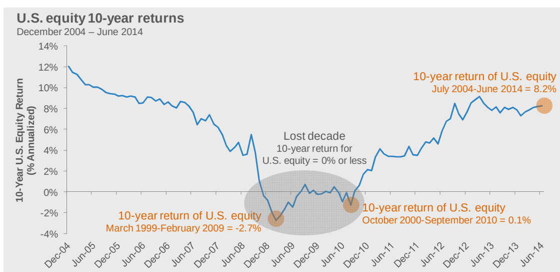
No Bank Guarantee

Table of contents

Lost decade? We found it.

LONGER TERM PERSPECTIVE ON U.S. EQUITY RETURNS



- As recent as September 2010, the 10-year performance for U.S. equities appeared "lost."
- Don't let short-term events dim long-term view and goals.

U.S. Equity: Russell 3000® Index
Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Economic indicators dashboard

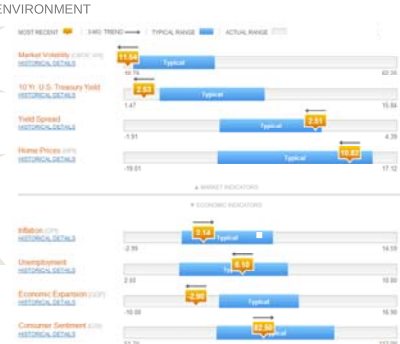
EVOLVING ECONOMIC ENVIRONMENT

NEW METHODOLOGY
Typical range was 90%, now +/- 1 std. deviation

NEW INDICATOR
All eyes on interest rates: 10-year U.S. Treasury Yield added

NEW INDICATOR
Home prices improving: S&P/Case-Shiller 20-City Index added

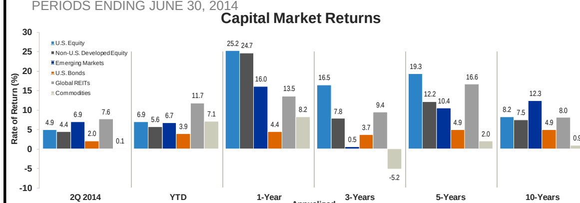
INDICATOR CHANGES
Some More Familiar Numbers
- Inflation now CPI Index
- Unemployment now BLS official rate
- Consumer Sentiment now University of Michigan Survey



http://www.russell.com
Current state as of June 25, 2014.
See appendix for category definitions.
Russell's Economic Indicators Dashboard charts several key indicators to help investors assess the current "health" of the economic and market trends.

Capital markets

PERIODS ENDING JUNE 30, 2014



U.S. Equity: (Russell 3000® Index) U.S. stock index which includes the 3,000 largest U.S. stocks as measured by market capitalization
Non-U.S. Developed Equity: (Russell Developed ex-U.S. Large Cap Index) International market index that includes Western Europe, Japan, Australia and Canada
Emerging Markets: (Russell Emerging Markets Index) Emerging markets index that includes S. Korea, Brazil, Russia, India and China
U.S. Bonds: (Barclays U.S. Aggregate Bond Index) Broad index for U.S. Fixed Income market
Global REITs: (FTSE EPRA/NAREIT Index) Index for global publicly traded real estate securities
Commodities: (Bloomberg Commodity Index Total Return*) Broad index of common commodities

Capital Markets:
- U.S. equity market continues to post strong results reflecting expectations of ongoing economic and corporate profit growth.
- Developed non-U.S. equity markets on par with U.S. over the last year, led by strong European returns.
- Emerging markets starting to show signs of life as entire YTD 2014 return came during second quarter rebound.
- Fixed income markets continue surprisingly strong YTD results as interest rates remain low.
- Global REITs benefited from strong quarter in Asian markets and double digit YTD returns from both North America and Europe.
- Commodities were flat during the quarter as energy and metals produced solid returns, but agriculture trended down.

Source: Russell, Barclays, Bloomberg, and FTSE NAREIT.
*Effective July 1, 2014, the Dow Jones-UBS Commodity Index Total Return was renamed the Bloomberg Commodity Index Total Return.
Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

What worked and what didn't in 2Q 2014

What worked

Equities
- Dynamic +6%
- Energy +12%
- Canada +10% / Emerging +7%

Fixed Income
- Long-term U.S. Treasuries +5%
- Emerging Markets Debt +4%

Alternatives / Real Assets
- Global Infrastructure +9%
- Asian REITs +9%

What didn't work

Equities
- U.S. Microcap -1%
- Financials +2%

Fixed Income
- Short-term U.S. Treasuries +0%
- Cash +0%

Alternatives / Real Assets
- Emerging Markets REITs -1%
- Agriculture -9%

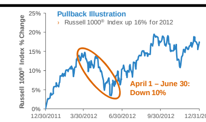
Capital market leadership reverses from U.S. equity in 2013 to Real Assets in 2014

	YTD 2014	2013
Global REITs	11.7%	3.7%
Global Infrastructure	15.5%	14.0%
Commodities	7.1%	-9.5%
U.S. Equity	6.9%	33.6%

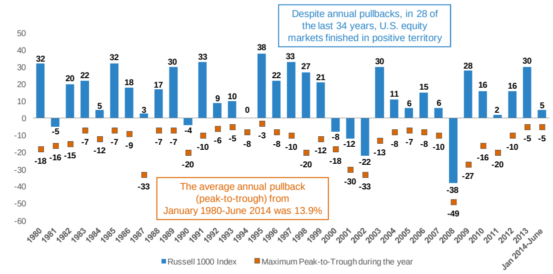
Index Legend: Dynamic – Russell 1000® Dynamic Index; Energy – Russell 3000® Energy Index; Canada – Russell Global Canada Index; Emerging – Russell Emerging Markets Index; Financials – Russell 3000® Financials Index; Long U.S. Treasuries – Barclays Long U.S. Treasuries Index; Emerging Markets Debt – Barclays Emerging Markets Debt Index; Short Treasuries – Barclays 1-3 Year U.S. Treasury Bond Index; Cash – Citigroup 1-3 Month T-Bill Index; Global Infrastructure – S&P Global Infrastructure Index Net; Emerging Markets REITs – FTSE/EPRA NAREIT Emerging Markets Sector; Agriculture represent the sub-indexes of the Bloomberg Commodity Index Family; Global REITs FTSE/EPRA NAREIT Index; Commodities – Bloomberg Commodity Index Total Return; U.S. Equity - Russell 3000® Index. Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Pullbacks are common

AND SHOULD NOT DISTRACT THE LONG-TERM INVESTOR

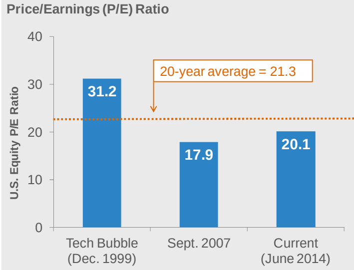


Calendar-year U.S. equity returns (%) and intra-year declines



Source: Russell. Returns calculated with dividends included. Maximum peak-to-trough represents the return difference between the largest peak-to-trough of the calendar year.
Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

U.S. equity valuations in perspective



P/E Ratio = Average stock price of an index / Overall corporate earnings of an index

- Many investors are asking: "Are valuations stretched?"
- Current U.S. valuations are consistent with long-term average
- Russell does not believe we are in "bubble" territory

U.S. Equity represented by Russell 3000® Index.

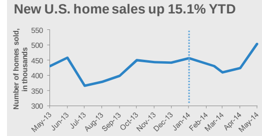
Source: Factset. P/E averages are calculated based quarterly data beginning 12/31/1999.

Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

Validating last year's equity rally

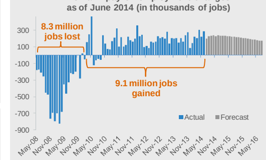
KEY METRICS SHOW U.S. OUTLOOK REMAINS POSITIVE

New U.S. home sales up 15.1% YTD



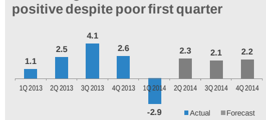
Source: National Association of Home Builders

Labor market has recovered jobs lost in the Global Financial Crisis



Source: Bureau of Labor Statistics

U.S. GDP growth forecast remains positive despite poor first quarter



Source: Historical GDP growth – Bureau of Economic Analysis, Forecast GDP growth – Blue Chip Consensus Economics survey as of June 9, 2014.

The rally appears to be validated

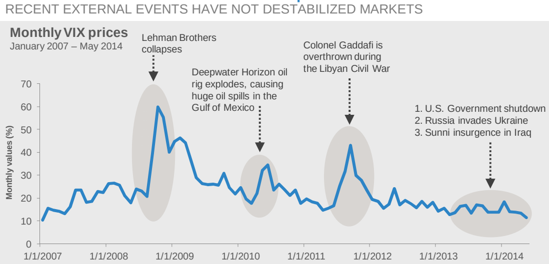
- 1Q 2014 GDP growth disappointed, but was counterbalanced by strong home sales and job growth.

Each month since 1976, Blue Chip Economic Indicators has polled 50 of America's top business economists, collecting their forecasts of U.S. economic growth, inflation, interest rates, and a host of other critical indicators of future business activity.
Forecasting represents predictions of market prices and/or volume patterns utilizing varying analytical data. It is not representative of a projection of the stock market, or of any specific investment.

Have investors become complacent?

RECENT EXTERNAL EVENTS HAVE NOT DESTABILIZED MARKETS

Monthly VIX prices
January 2007 – May 2014



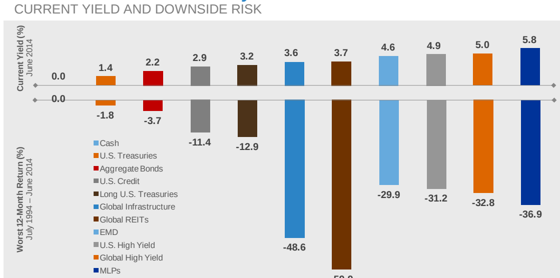
Source: The CBOE VIX (Chicago Board Options Exchange Volatility Index)

	2008	2010	2011	YTD
% of days market +/- 1%	51%	29%	37%	12%
% of days market +/- 2%	27%	8%	13%	2%
% of days market +/- 3%	16%	3%	5%	0%

Source: Market represented by S&P 500® Index

Yield: be careful what you reach for

CURRENT YIELD AND DOWNSIDE RISK



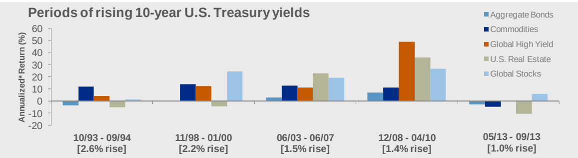
- Low interest rates can tempt investors to "reach" for yield
- Higher yields carry additional risks
- Don't mistake yield for safety

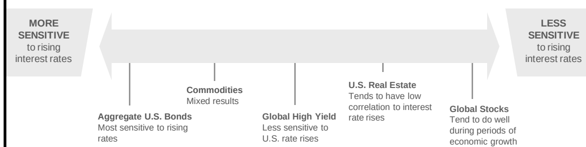
Cash: Citigroup 1-3 Month T-Bill Index; U.S. Treasuries: Barclays U.S. Treasury Index; Aggregate Bonds: Barclays U.S. Aggregate Bond Index; Credit: Barclays U.S. Credit Index; Long Treasuries: Barclays Long U.S. Treasuries Index; Global Infrastructure: S&P Global Infrastructure Index; Global REITs: FTSE EPRA/NAREIT Index; EMD: Barclays Emerging Markets Debt Index; U.S HY: Barclays U.S. High Yield Index; Global High Yield: Barclays Global High Yield Index; MLPs: Alerian MLP Index.

Rising interest rates in perspective

HISTORICAL LOOK AT DIFFERENT ASSET CLASSES

Periods of rising 10-year U.S. Treasury yields





*Periods longer than one year are annualized.

Aggregate Bonds = Barclays U.S. Aggregate Bond Index; Commodities = Bloomberg Commodity Index; Global High Yield = Barclays Global High Yield Index; U.S. Real Estate = FTSE/NAREIT Index; Global Stocks = MSCI World Index.

Other time periods will produce different results. Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Diversification does not assure a profit and does not protect against loss in declining markets.

Different economies, different recoveries

POTENTIAL OPPORTUNITIES FOR GLOBAL INVESTORS

As of June 2014	UNITED STATES	EURO AREA	JAPAN	CHINA
IMF forecasted 2014 real GDP (annual percent change)	Steady, 2.8%	Weak but improving,1.2%	Improving, 1.4%	Steady, 7.5%
Unemployment	Improving, 6.1%	High but improving, 11.6%	Low, 3.5%	Steady, 4.1%
Interest rate policy	Low, no change	Rate cut	Low, no change	No change
Stimulus	Yes, tapering	Yes, more possible in the future	Yes, expanding	No
Recovery since market bottom (cumulative return 3/9/09-6/30/14)	+225%	+162%	+97%	+122%

Sources: IMF, U.S. Bureau of Labor Statistics, Eurostat, Japan Ministry of Internal Affairs and Communications, People's Republic of China Ministry of Human Resources and Social Security. Market returns: United States – Russell 3000® Index, Euro Area – Russell Eurozone Index, Japan – Russell Japan Index, China – Russell China Index.
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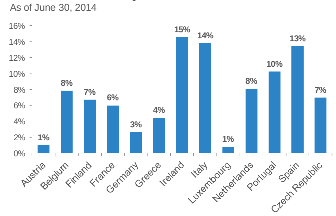
Euro area

HEADLINE RISKS DON'T EQUAL MARKET REALITIES

LOW INFLATION	STAGNANT GROWTH	EUROPEAN CENTRAL BANK TAKES ACTION
› Euro area inflation at 0.5% in May, well below 2% target	› Euro area GDP growth at 0.2% in 1Q 2014, up from 2013	› To bring back inflation and boost lending

Year-to-date country returns
As of June 30, 2014

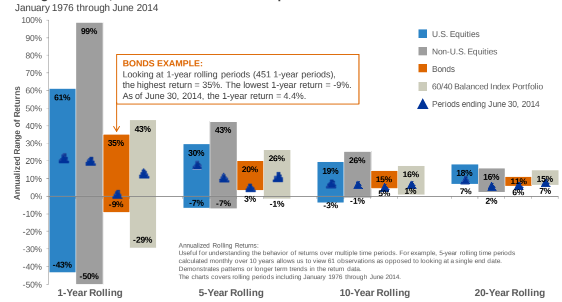


Source: Eurostat, Russell Indexes: Russell Austria Index, Russell Belgium Index, Russell Finland Index, Russell France Index, Russell Germany Index, Russell Greece Index, Russell Ireland Index, Russell Italy Index, Russell Luxembourg Index, Russell Netherlands Index, Russell Portugal Index, Russell Spain Index, Russell Czech Republic Index. Euro area includes: Belgium, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Luxembourg, Malta, the Netherlands, Austria, Portugal, Slovenia, Slovakia and Finland.
Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.

Historically, diversification can work for those who wait

TIME HORIZON MATTERS

Range of stock, bond and balanced index portfolio total returns
January 1976 through June 2014



Diversification does not assure a profit and does not protect against loss in declining markets.
U.S. Equities: S&P 500 Index; Non-U.S. Equities: MSCI EAFE Index; Bonds: Barclays U.S. Aggregate Bond Index; 60/40 Balanced Index Portfolio: 40% S&P 500 Index, 20% MSCI EAFE Index, 40% Barclays U.S. Aggregate Bond Index.
Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.
Indexes do not include a deduction for fees and expenses. Had they done so, returns would have been lower.

Don't "do something" just to do something

- Remember – volatility comes with being in the market
- Learn from research on soccer goalies and penalty kicks:
  - 94% of goalies dove for the ball, but…
  - They caught 30% when they dove left
  - They caught 25% when they dove right
  - They caught 60% when they stayed in the center
- When markets get rough…stay centered on your plan!

Important information and disclosures

International/Global:
International/Global investing value may be significantly affected by political or economic conditions and regulatory requirements in a particular country. Investments in non-U.S. markets can involve risks of currency fluctuation, political and economic instability, different accounting standards and foreign taxation. Such securities may be less liquid and more volatile. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and political systems with less stability than those in more developed countries.

Bonds:
With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise and conversely when interest rates rise, bond prices typically fall. When interest rates are at low levels there is risk that a sustained rise in interest rates may cause losses to the price of bonds. Bond investors should carefully consider these risks such as interest rate, credit, repurchase and reverse repurchase transaction risks. Greater risk, such as increased volatility, limited liquidity, prepayment, non-payment and increased default risk, is inherent in portfolios that invest in high yield ("junk") bonds or mortgage backed securities, especially mortgage backed securities with exposure to sub-prime mortgages. Investment in non-U.S. and emerging market securities is subject to the risk of currency fluctuations and to economic and political risks associated with such foreign countries. When interest rates are at low levels there is risk that a sustained rise in interest rates may cause losses to the price of bonds.

Growth:
Growth investments focus on stocks of companies whose earnings/profitability are accelerating in the short-term or have grown consistently over the long-term. Such investments may provide minimal dividends which could otherwise cushion stock prices in a market decline. A stock's value may rise and fall significantly based, in part, on investors' perceptions of the company, rather than on fundamental analysis of the stocks. Investors should carefully consider the additional risks involved in growth investments.

Value:
Value investments focus on stocks of income-producing companies whose price is low relative to one or more valuation factors, such as earnings or book value. Such investments are subject to risks that the stocks' intrinsic values may never be realized by the market, or, that the stocks may turn out not to have been undervalued. Investors should carefully consider the additional risks involved in value investments.

Index definitions

Index definitions (cont'd)

Economic recovery dashboard definitions

Market Indicators

MARKET VOLATILITY(VIX) – CBOE VIX (Chicago Board Options Exchange Volatility Index) measures annualized implied volatility as conveyed by S&P 500 stock index option prices and is quoted in percentage points per annum. For instance, a VIX value of 15 represents an annualized implied volatility of 15% over the next 30 day period. The VIX measures implied volatility, which is a barometer of investor sentiment and market risk.

10 YR. U.S. TREASURY YIELD – The yield on the 10 year U.S. Treasury note issued by the U.S. Government. It is important because it is seen as a benchmark for interest rate movements and borrowing costs in the economy.

YIELD SPREAD – The spread between 3 month Treasury bill yields and 10 year Treasury note yields measures the market outlook for future interest rates. A normal or upward-sloping yield curve, can imply that investors expect the economy to grow and inflation to eat into asset returns. They thus demand a higher yield for long-term Treasuries. An inverted yield curve has often been an indicator of coming recessions, but not always. For example, reduced inflation expectations could cause the yield curve to flatten.

HOME PRICES – The S&P/Case-Shiller Home Price Index is a measurement of U.S. residential real estate prices, tracking changes in top 20 metropolitan regions. This indicator value represents the trailing year over year % change in the home prices index as of last month-end. Residential real estate represents a large portion of the US economy and the Home Price index helps us monitor the value of real estate.

Economic Indicators

INFLATION – The Consumer Price Index (CPI) NSA (non-seasonally adjusted) measures changes in the price level of a market basket of consumer goods and services purchased by households. This indicator value represents the trailing year over year % change in the CPI index as of last month-end.

UNEMPLOYMENT – The Bureau of Labor Statistics measures employment and unemployment of all persons over the age of 15 using two different labor force surveys conducted by the United States Census Bureau (within the United States Department of Commerce) and the Bureau of Labor Statistics (within the United States Department of Labor) that gather employment statistics monthly. The data reported here is seasonally adjusted (SA) to account for seasonal gains in employment leading up to Christmas.

ECONOMIC EXPANSION (GDP) – GDP (Gross Domestic Product) measures the total market value of a nation's output of goods and services during a specific time period. It is usually measured on a quarterly basis. Current GDP is based on the current prices of the period being measured. Nominal GDP growth refers to GDP growth in nominal prices (unadjusted for price changes). Real GDP growth refers to GDP growth adjusted for price changes. Calculating Real GDP growth allows economists to determine if production increased or decreased, regardless of changes in the purchasing power of the currency.

CONSUMER SENTIMENT – The University of Michigan Survey of Consumer Sentiment Index is an economic indicator which measures the degree of optimism that consumers feel about the overall state of the economy and their personal financial situation.

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Introduction to Managing Retirement Income

Positioning financial professionals to serve the growing retirement income market

Developed by:

The International Foundation for Retirement Education (InFRE®)

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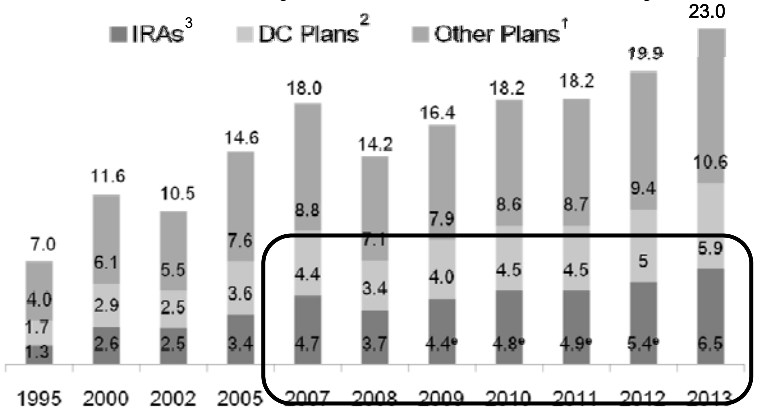
Retirement assets in U.S.

Trillions of dollars, year-end, selected years



[1] Other plans include private-sector DB plans; federal, state, and local pension plans; and all fixed and variable annuity reserves at life insurance companies less annuities held by IRAs, 403(b) plans, 457 plans and private pension funds. Federal pension plans include U.S. Treasury security holdings of the civil service retirement and disability fund, the military retirement fund, the judicial retirement funds, the Railroad Retirement Board, and the foreign service retirement and disability fund. These plans also include securities held in the National Railroad Retirement Investment Trust and Federal Employees Retirement System (FERS) Thrift Savings Plan (TSP).
[2] DC plans include 401(k) plans, 403(b) plans, Keoghs, and other DC pans without 401(k) features. [3] IRAs include traditional IRAs, Roth IRAs, ad employer-sponsored IRAs (SEP IRAs, SAR-SEP IRAs and SIMPLE IRAs).
[3] Data are estimated. Note: Components may not add to the total because of rounding. Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division. See "The U.S. Retirement Market, Fourth Quarter, 2012."

Key questions to answer with clients when creating a retirement income solution

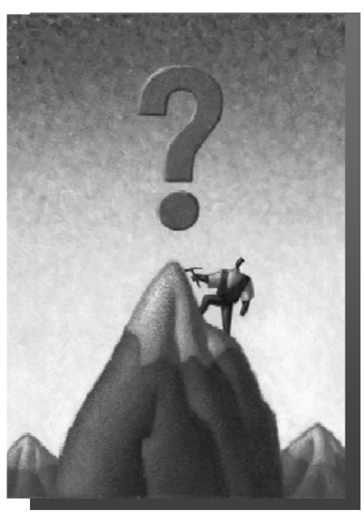
I. What's different about retirement?

II. How prepared are they?

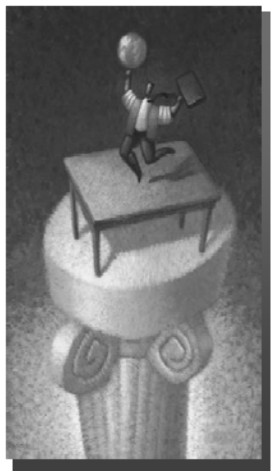
III. What do they need to think about before making decisions?

IV. How can I help them convert retirement resources into income?

I. What's different about retirement?



What are the primary retirement risks?

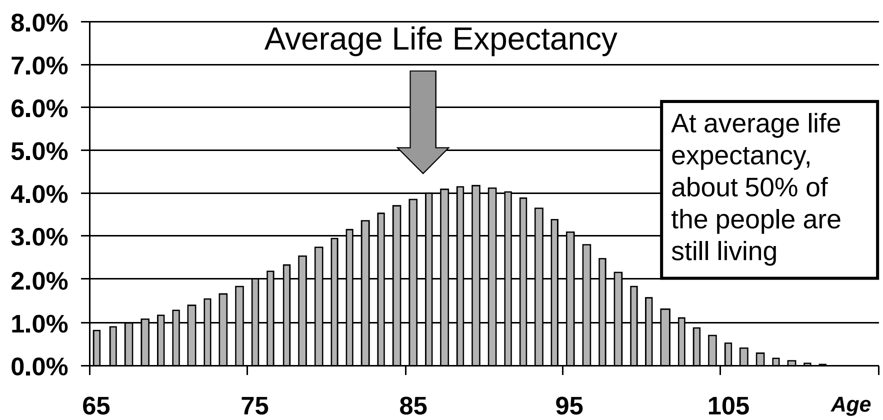


1. Longevity
2. Inflation
3. Healthcare and long-term care
4. Investing risks

Risk #1: Longevity risk

Annual Percentage of Deaths
Population of 65 Year-Olds

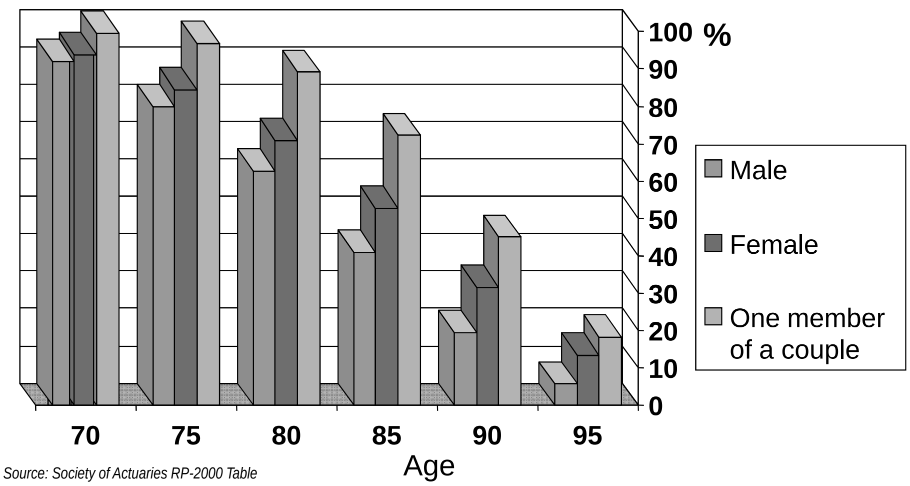
% actual deaths



Source: 2000 Individual Annuity Mortality table

If married, what are chances one of them will live until a certain age?

Life Probabilities at Age 65



Source: Society of Actuaries RP-2000 Table

Are there any special concerns for women?

- 42% of women age 65 and older are widows.[1]
- 80% of women die single compared to 80% of men who die married.[2]

- The poverty rate for elderly women living alone is five times that for married older women.[3]

Have three plans: for both to live longer than expected; if he dies first; or if she dies first

[1] www.agingstats.gov [2, 3] www.wiserwomen.org

Risk #2: Inflation risk

"Applying the Rule of 72"

$$\frac{72}{4\%\ \text{inflation}} = \text{Every 18 years expenses will double}$$

Age	Expenses
55	***$50,000***
73	***$100,000***
91	***$200,000***

Risk #3: Healthcare cost risks

- Assisted living facility base rates[1]:
  - Average: $42,600/year
- Home health care[1]:
  - Average: $21/hour
- Long-term care[1]:
  - Average semi-private room cost: $81,030/year

Annual long-term care insurance cost ranges from $1,098 at age 50 to $5,965 at age 79 and older[2]

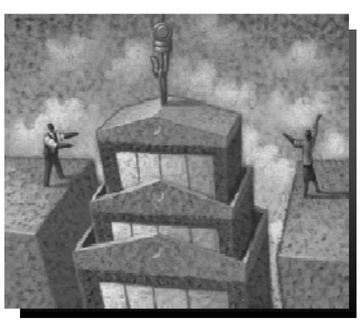
Couple's estimated lifetime out-of-pocket expenses = $220,000 for Medicare premiums/cost sharing & prescription drug expenses[3]

[1] MetLife Mature Market Survey of Long-Term Care Costs, 2012. [2] The costs shown are for inflation-adjusted coverage and assume the individual qualifies for standard health rates. Policy coverage is assumed to be 3 year benefit, $150 per day, 90 day waiting period, with 4% inflation coverage. Source: ltcfeds.com. [3]Fidelity Consulting, 2013

Risk #4: Investing risks

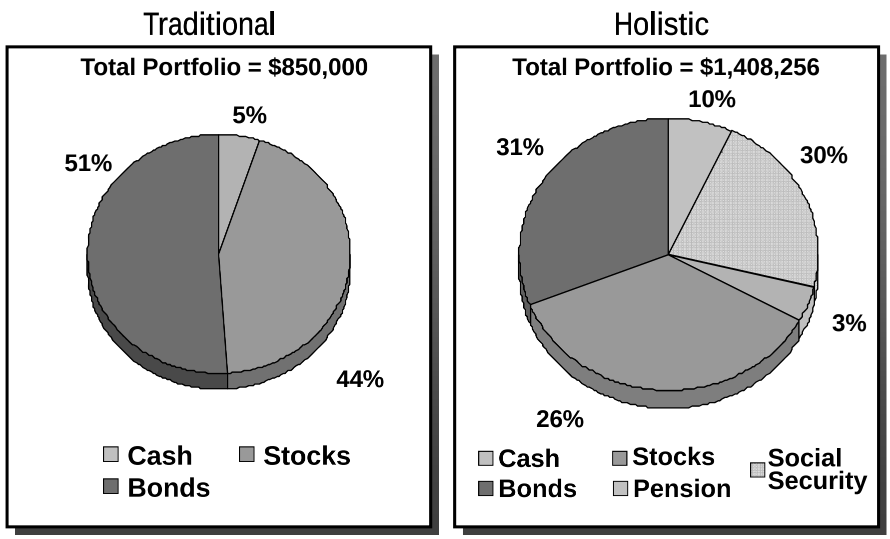
A. Stock Market Reluctance
B. Declining Interest Income
C. Negative Point-in Time

A. Ways to Manage Stock Market Reluctance Risk



- Stock market volatility is reduced over the long-term
- Asset allocation reduces short-term volatility
- Holistic asset allocation approach

Another approach to asset allocation



Example of Social Security as a government bond position

- Social Security benefit = $28,000 per year
- 20-year government bond yield = 3.35%*
- PV of the Social Security "bond" = $416,917
- Discount rate = current yield of equivalent type of bond with same time horizon as life expectancy
- Recalculate regularly because the present value declines over time

*hypothetical rate

B. Declining interest rates reduce income

Annualized income on $50,000 invested during:

Year	Treasury Bill Annual Rate	Income Per Year
1981	13.81%	$6,905
1989	8.03%	$4,015
1997	5.18%	$2,590
2005	3.39%	$1,695
2013	0.09%	$45

Source: U.S. 6 Month Treasury Bill rates, Federal Reserve Statistical Release, www.federalreserve.gov

C. Negative point-in-time

Q: If you invested $100,000 averaging 6% return per year, and you withdrew 6% per year, what would your balance be at the end of 10 years?

A: Depends on two factors

1. Are there any years with negative returns?
2. When do the losses occur? occur?

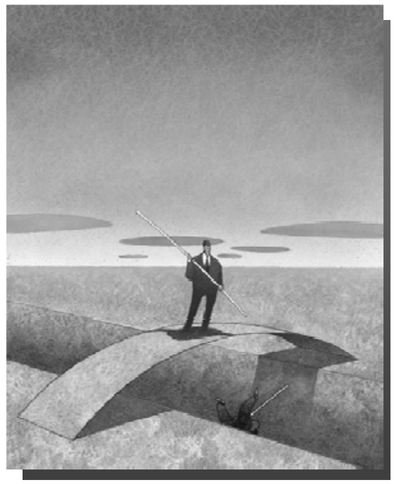
$100,000 in hypothetical investment with loss in early years

Year	Rate of Return	Withdrawal	Ending Balance
1	-15%	$6,000	$79,900
2	-10%	6,000	66,510
3	10.63%	6,000	66,942
4	10.63%	6,000	67,420
5	10.63%	6,000	67,949
6	10.63%	6,000	68,535
7	10.63%	6,000	69,182
8	10.63%	6,000	69,898
9	10.63%	6,000	70,691
10	10.63%	6,000	71,567
Average ROR	**6%**		

$100,000 in hypothetical investment with loss in later years

Year	Rate of Return	Withdrawal	Ending Balance
1	10.63%	$6,000	$103,922
2	10.63%	6,000	108,409
3	10.63%	6,000	113,295
4	10.63%	6,000	118,770
5	10.63%	6,000	124,680
6	10.63%	6,000	131,296
7	10.63%	6,000	138,615
8	10.63%	6,000	146,712
9	-15%	6,000	119,605
10	-10%	6,000	102,245
Average ROR	**6%**		

II. How prepared are they?



A retirement income planning solution

Essential Expenses

Fill Income Gap (A)

Income from Lifetime Sources

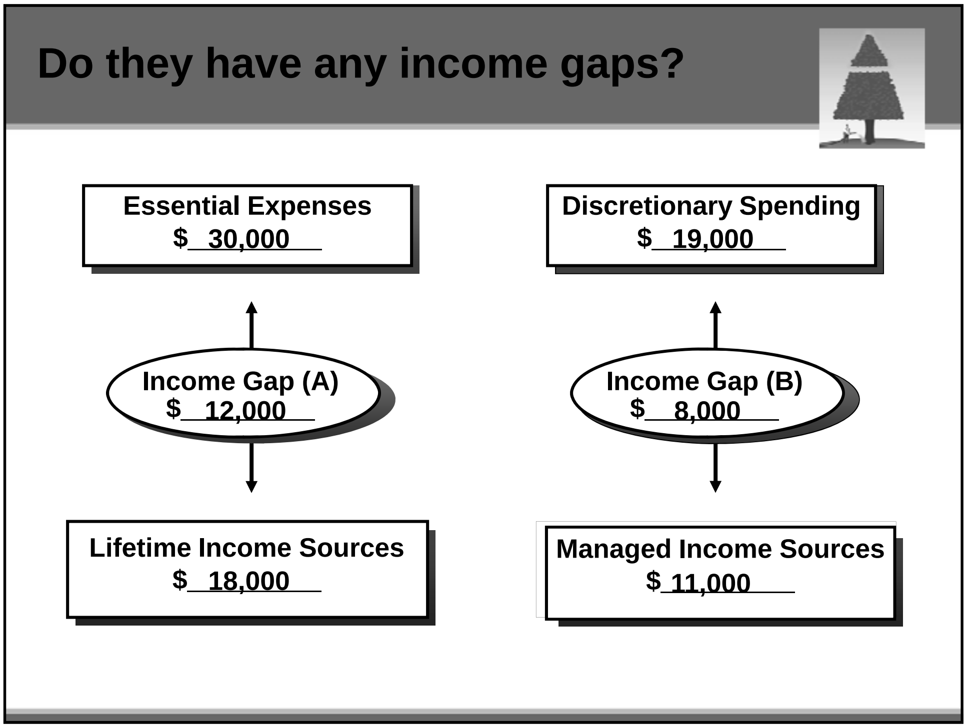
- Social Security
- Pensions
- Income annuities
- Other lifetime income sources

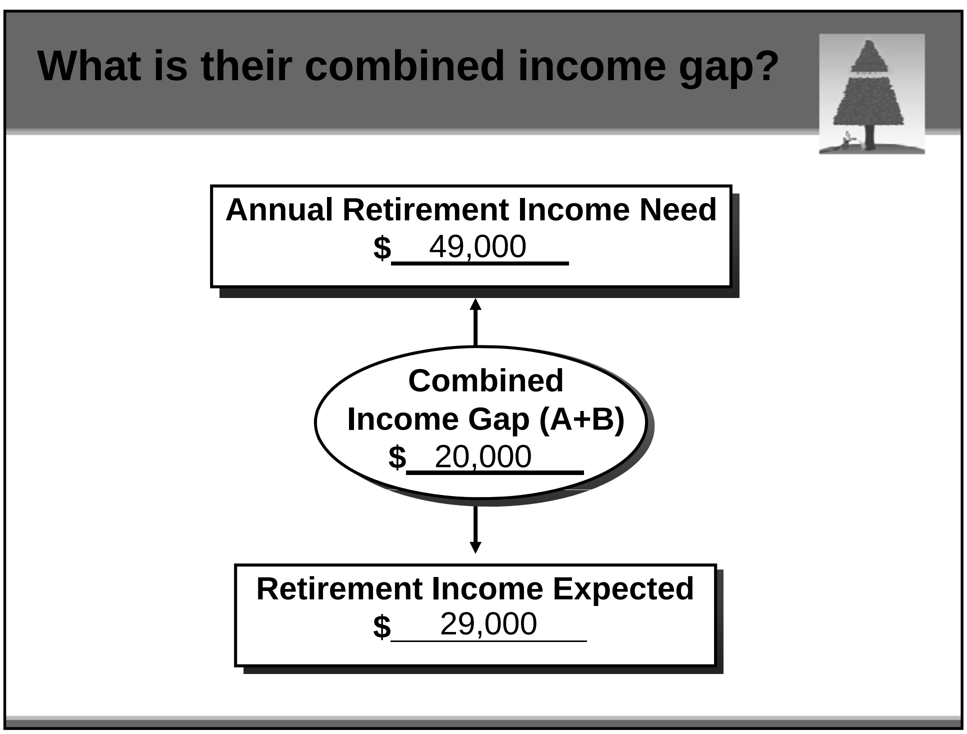
Discretionary Spending

Fill Income Gap (B)

Income from Managed Sources

- Taxable accounts
- Personal retirement accounts
- Employment income
- Other managed sources


Do they have any income gaps?
Essential Expenses
$ 30,000
Discretionary Spending
$ 19,000
Income Gap (A)
$ 12,000
Income Gap (B)
$ 8,000
Lifetime Income Sources
$ 18,000
Managed Income Sources
$ 11,000


What is their combined income gap?
Annual Retirement Income Need
$ 49,000
Combined
Income Gap (A+B)
$ 20,000
Retirement Income Expected
$ 29,000

Back-of-the-napkin calculation

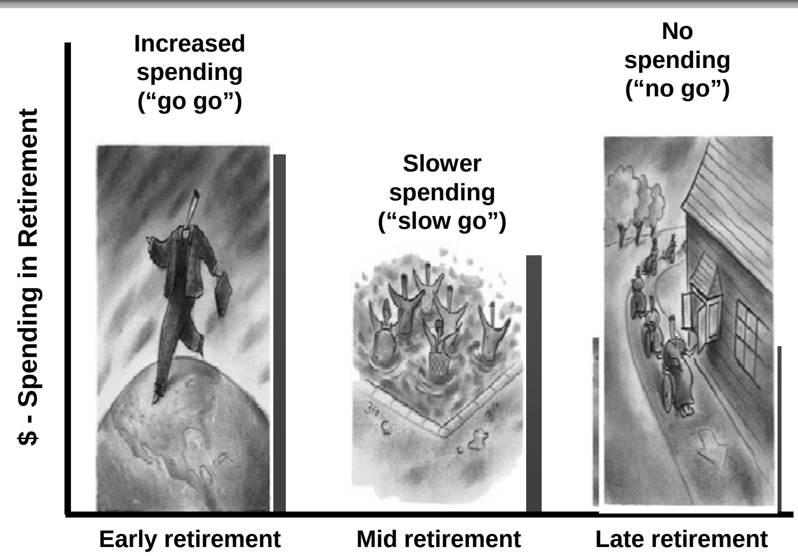
How long might savings last if the client retired today?

Assumptions: assets are conservatively invested and investment earnings are equally offset by taxes and inflation

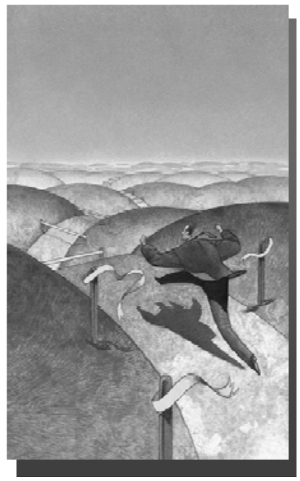
Current value of your retirement savings:	$360,000	(1)
Combined income gaps:	$20,000	(2)
# of years money might last	= 18 years	(line 1 divided by line 2)

The fewer years savings might last indicates the need to use more options to fill the gaps.

Retirement income needs change based on retirement phases & changing priorities



III. What do they need to think about before making decisions?



Options for closing potential gaps between retirement resources and expenses

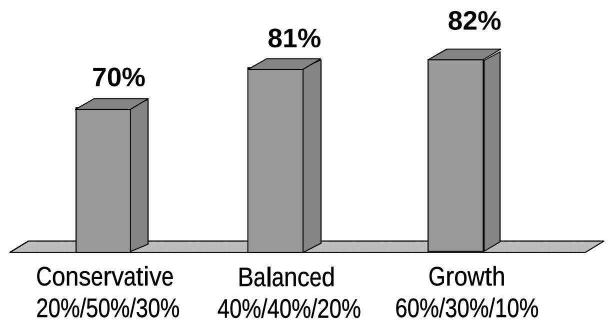
Priority	Options for Closing Gaps	Essential Gap	Discretionary Gap
☐	1. Increase returns on managed assets	☐	☐
☐	2. Create additional lifetime income	☐	☐
☐	3. Spend less in retirement	☐	☐
☐	4. Work full-time	☐	☐
☐	5. Work part-time	☐	☐
☐	6. Postpone Social Security and pension	☐	☐
☐	7. Increase savings	☐	☐
☐	8. Use home equity	☐	☐

Combinations of options may be necessary!

Option 1: Increase returns on managed assets

The probability of sustaining withdrawals for 30 years using varying stock/bond/cash allocations

4.5% initial portfolio amount withdrawn and adjusted for inflation



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Results from “The Retirement Probability Analyzer” by Moshe Milevsky and the Society of Actuaries, which computes probabilities associated with various retirement investment and spending strategies.

Results may vary over time and each time the simulation is run. IMPORTANT: The projections or other information generated by the authors of the article regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and, are not guarantees of future results.

Option 2: Create additional lifetime income

Immediate annuities create lifetime Income and a potential for a higher IRR

Lonely Hearts Club, or “The Five 95 Year-Olds”

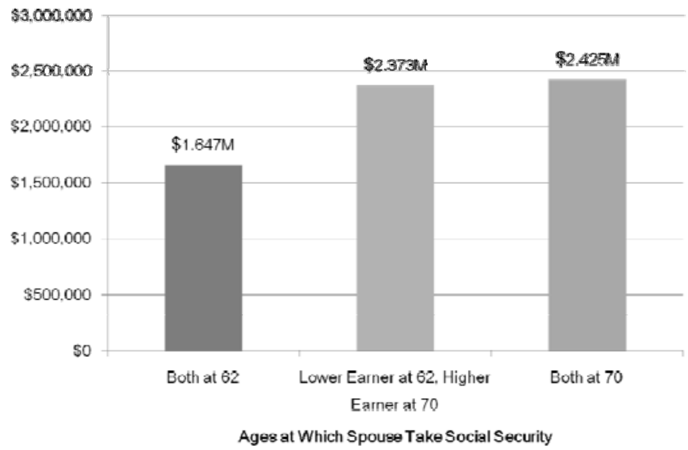
Banker:
105k/5 = $21k each or 5% return

Actuary:
105k/4 = $26.25k each or 31% return

Example adapted from “Grandmas Longevity Insurance,” Moshe Milevsky, October 2004

Option 6:
Postpone Social Security benefits

Cumulative social security benefits under different claiming scenarios (pre-tax, inflated)



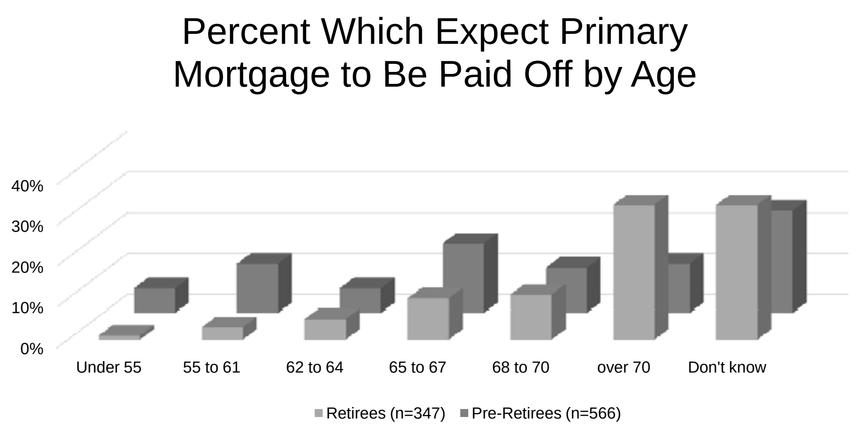
Assumptions: Both spouses currently age 60; Higher Earner salary assumed to be $100,000, Lower Earner $50,000; Higher Earner dies at age 80 (having received final benefit just before 80th birthday), Lower Earner survives until 95. All Social Security benefits shown in future value with assumed annual inflation rate of 2.8% Cost of Living Adjustment (COLA) after initiation. Initial Social Security benefit estimated in future value using the Quick Calculator (assuming a 0% relative growth factor) on the Social Security Administration's website. Source: T. Rowe Price & www.ssa.gov

Source: The Impact of Running Out of Money, Society of Actuaries Post-retirement Needs and Risks Committee , Urban Institute, WISER, 2012

Option 8:
Use home equity

- Four ways to tap equity
  - Selling the home and downsizing
  - Line of credit
  - Home equity loan
  - Reverse mortgage

Option 8:
Use home equity



Source: Figure 82., 2013 Risks And Process of Retirement Survey Report, Society of Actuaries Post-retirement Needs And Risks Committee

Combinations of Options May Be Necessary

One option may lead to another:

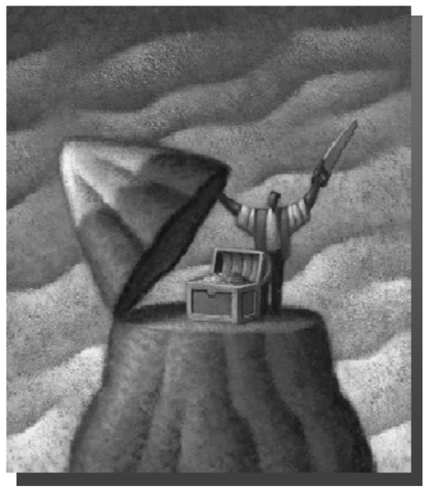
- Options #4 & #5 – Work full-time or part-time
- Option #6 – Postpone Social Security and pension
- Option #7 – Increase savings

Potential result:

- Reduced number of self-funded retirement years
- Increased Social Security and pension benefits
- Additional savings and time for investment returns

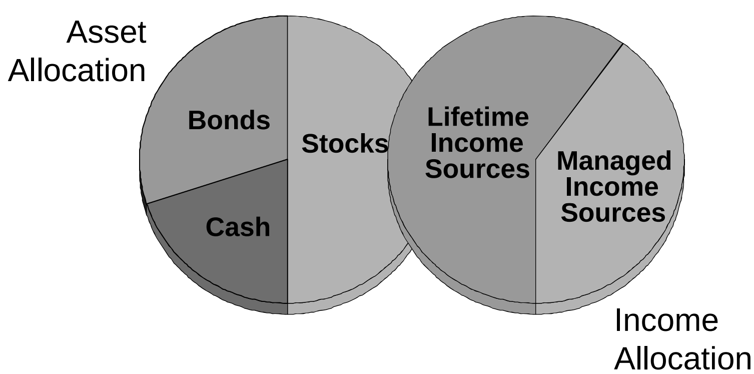
Run the numbers!

IV. How can I help them convert retirement resources into income?

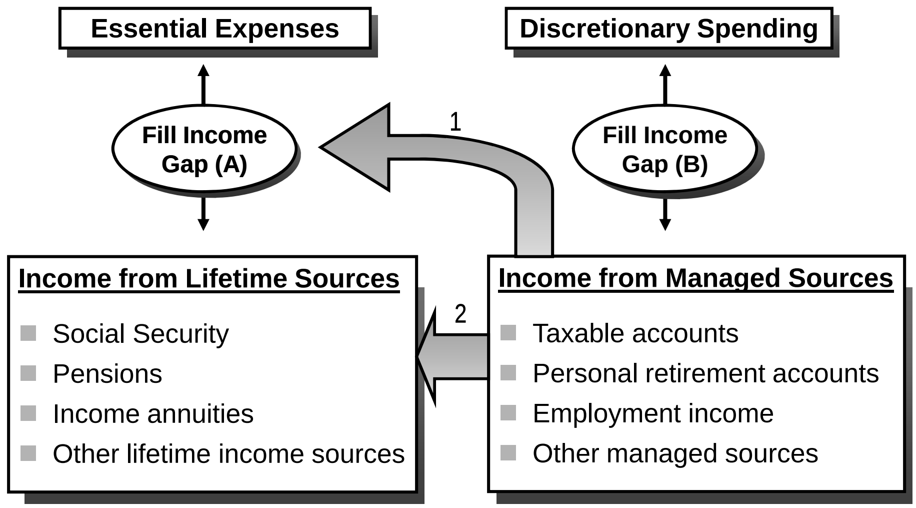


What is the ultimate goal?

To create an integrated asset and income allocation strategy that produces the desired quality of life



Converting retirement resources into income?



Ways to convert assets into income to increase the probability of retirement resources lasting:

1. Systematic withdrawal plan or SWP (Spend investment earnings and principal)
2. Annuitization (Use an immediate income annuity to create lifetime income)
3. Combination of 1 & 2 (diversified asset & income allocation)

1. Fixed-dollar SWP adjusted for inflation

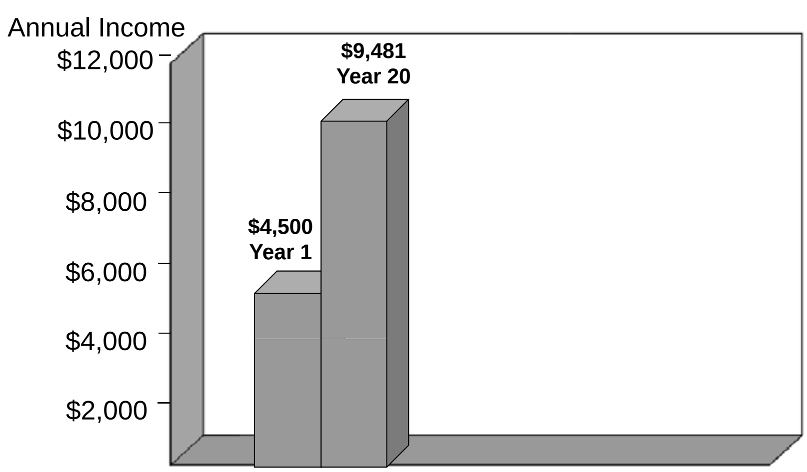
- *How it works*
  - Distribution based on a percentage of assets in the first year; adjusted for inflation each year thereafter

    Example:

    First year: 4.5% on $100,000 = $4,500 in year 1
    Second year: based on 4% inflation,
    1.04% * $4,500 = $4,680 in year 2
- *Why it works*
  - Studies show a 4-5% initial withdrawal rate adjusted for inflation may be sustainable over a 30-40 year retirement, depending on equity allocation. *(The higher the initial withdrawal rate, the lower the chance of sustainable income.)**

**Source: "Making Retirement Income Last a Lifetime," John Ameriks, Robert Veres, Mark J Warshawsky,* Journal of Financial Planning, *December, 2001; "The Best of 25 Years Determining Withdrawal Rates Using Historical Data," William P. Bengen,* Journal of Financial Planning, *March, 2004; ."Decision Rules and Maximum Initial Withdrawal Rates," Jonathan T. Guyton, William J. Klinger,* Journal of Financial Planning, *March, 2006.*

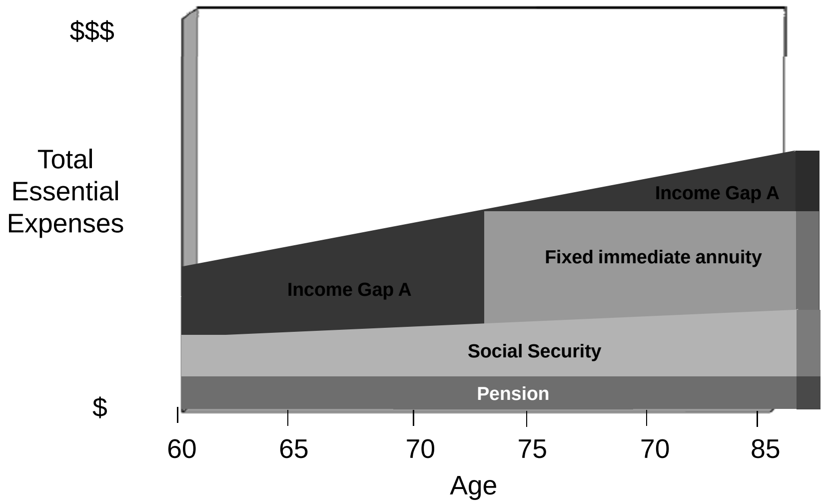
Example of 20 Year SWP



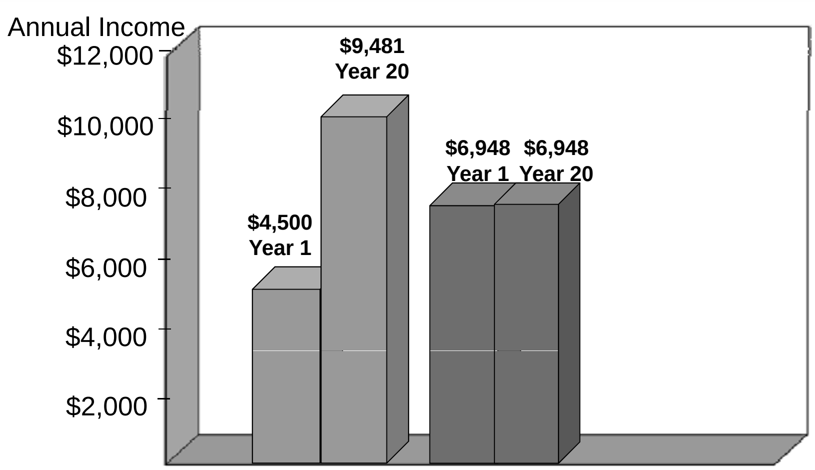
SWP	**$100,000**
Fixed Life Annuity	**$0**
Total	**$100,000**

SWP: 4.5% initial withdrawal 4% inflation annually

2. Annuitization



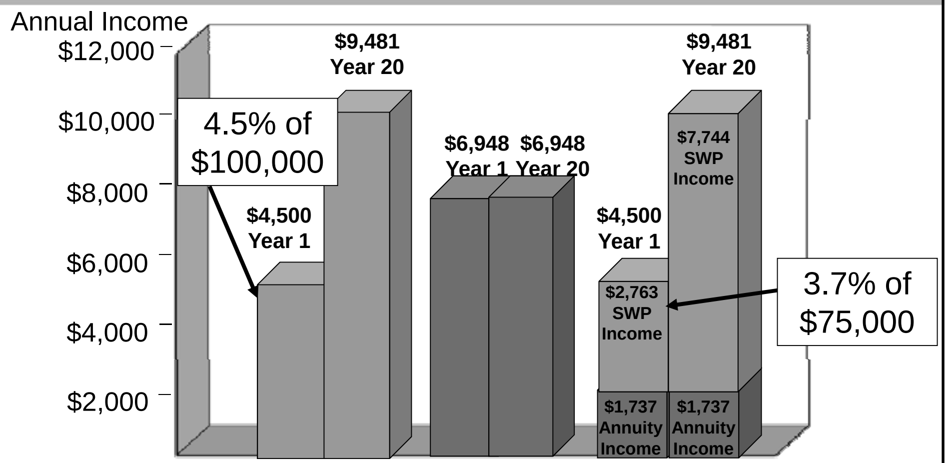
Example Of Fixed Annuity After 20 Years



SWP	$100,000	$0
Fixed Life Annuity	$0	$100,000
Total	$100,000	$100,000

SWP: 4.5% initial withdrawal 4% inflation annually. Annuity: www.immediateannuities.com, life only annuity, 65-year old male, state of Illinois, May 2012.

3. Combination of SWP and Annuitization



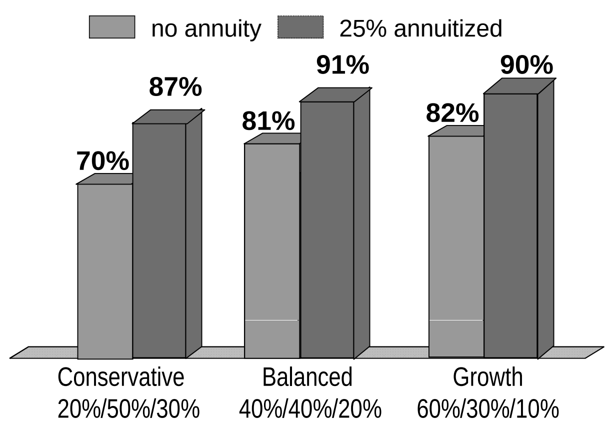
SWP	$100,000	$0	$75,000*
Fixed Life Annuity	$0	$100,000	$25,000
Total	$100,000	$100,000	$100,000

Annuity: www.immediateannuities.com, life only annuity, 65-year old male, state of Illinois, May 2012.

Comparing SWP only with SWP *and* annuitization

The probability of sustaining withdrawals from <u>non-annuitized</u> **portion of the portfolio** ***for 30 years using varying stock/bond/cash allocations***

Annuity payments + portfolio withdrawals = 4.5% of initial portfolio, adjusted for inflation



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Deferred Income Annuities (Longevity Insurance)

How they work

- Lump-sum payment for promise of guaranteed lifetime income starting in the future
- Lower cost and provide more liquidity compared to SPIAs
- Allows retiree to once again plan to a specific date
- Payment of $100,000 at age 65, payments begin at 85*

  $37,000 annually/return of premium before age 85

  $53,000 annually/no return of premium

* www.immediateannuities.com, American General Life Insurance Co., life only annuity, 65-year old male, state of Illinois, August 2014.

Maintain and Update the Plan

When . . .

- Point-in-time risk has been positively or negatively experienced
  - Market
  - Interest rates
- Death of a spouse
- Spending higher or lower than expected
- Health/LTC changes
- New products
- Going back to work