TOP RETIREMENT INCOME AND INVESTMENT STRATEGIES FOR ALL MARKET CONDITIONS

Did you know that only one-third of investors are suited for a "traditional" retirement income plan? Even the creator of the 4% has tweaked his plan after realizing he is not a fan of market volatility. Let's dive into some alternative methods to make your retirement a success!

LifePoint Planning

Hi there, Doug Oosterhart here…

Thanks for downloading the guide! It includes both retirement income AND investment strategies to make your planning a success.

I'm excited to show you how we've helped our clients optimize their retirement income and investment strategies and avoid some common (and costly) mistakes…

And listen, I get it - you've already got a financial planner and you're super busy.

You're knee deep in day-to-day obligations and you don't have the time to study and learn the nuances of all the strategies, how they play a role in your planning, and why it even matters in the first place.

But I do, and today I'm going to show you how to optimize your retirement income and investing strategies.

Let's start by establishing a baseline for what is meant by a "retirement income plan". You've worked hard to build a nest egg through diligent saving and now it's time to turn that nest egg into an income source. How do you go about making that happen? How do you determine what strategy is best for you and, more importantly, which strategy you can stick with? You don't get a "re-do" for your retirement, so it's important to get it right.

Do I have your attention now?

I hope so, because I love sharing the knowledge I've gained over 1000's of client meetings and a decade of experience.

It's important for your advisor to stay strategy agnostic when it comes to planning a retirement (meaning not holding prejudices toward any specific strategy). Retirement planning is not a one-size-fits-all method.

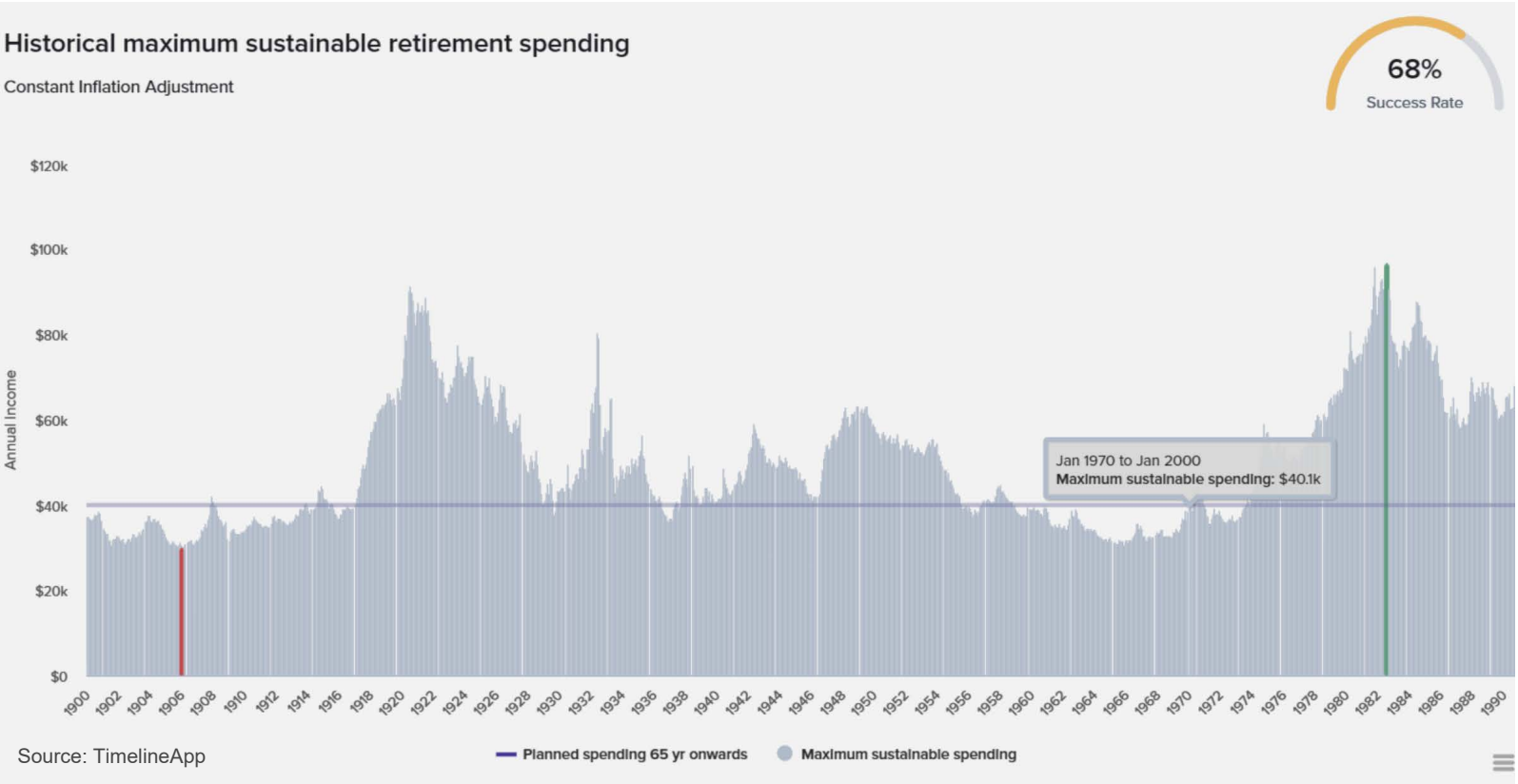
This guide provides a few of many retirement income strategies. It's important to identify what works best for your specific situation.

Let's jump in...

STRATEGY #1

The conventional and "traditional" 4% rule.

Let's start with the strategy that is probably the most familiar to investors, the 4% rule. This strategy was developed by Bill Bengen in the 90's and it says, "assuming a minimum retirement of 30 years, a first-year withdrawal of 4%, followed by inflation-adjusted withdrawals in subsequent years, should be safe". The research was based on a portfolio of 50-70% stocks and the rest in intermediate term bonds. However, the rule has somewhat morphed into saying that an investor with a balanced portfolio can comfortably withdraw 4% of their portfolio each year in a 30 year retirement (comparison on next page). On top of that, the investor can adjust that amount for inflation every year without the risk of running out of money. Sounds simple enough, but might be easier said than done. The graphic below shows the success rate of a $1,000,000 portfolio starting with $40,000 in withdrawals for a 30 year retirement with rolling 30-year periods. As you can see, the success rate is 68% when measuring those 30-year periods beginning in 1900. In this case, the 4% number is what we would call the **payout rate**, which is a key term to know for later. The payout rate is different from the rate of return as it has to deal with the amount of money that a retiree is distributing from their assets and not the growth of the account year-over-year.



4% of the year 1 portfolio value plus an inflation adjustment each year -->

4% Year 1 - Growth

Starting balance: $1,000,000

Year 1: $40,000 (4%) withdrawal (balance now $960,000)

Market growth 8%, balance now $1,036,800.

Inflation 3%, so year 2 withdrawal is $41,200

Portfolio now $995,600.

4% Year 1 - Decline

Starting balance: $1,000,000

Year 1: $40,000 (4%) withdrawal (balance now $960,000)

Market growth -15%, balance now $816,000.

Inflation 9%, so year 2 withdrawal is $43,600

Portfolio now $772,400

Always taking 4% of the balance each year -->

4% of the Balance Annually - Growth

Starting balance: $1,000,000

Year 1: $40,000 (4%) withdrawal (balance now $960,000)

Market growth 8%, balance now $1,036,800.

Year 2: 4% of $1,036,800 or $41,472.

Portfolio now $995,328.

4% of the Balance Annually - Decline

Starting balance: $1,000,000

Year 1: $40,000 (4%) withdrawal (balance now $960,000)

Market growth -15%, balance now $816,000.

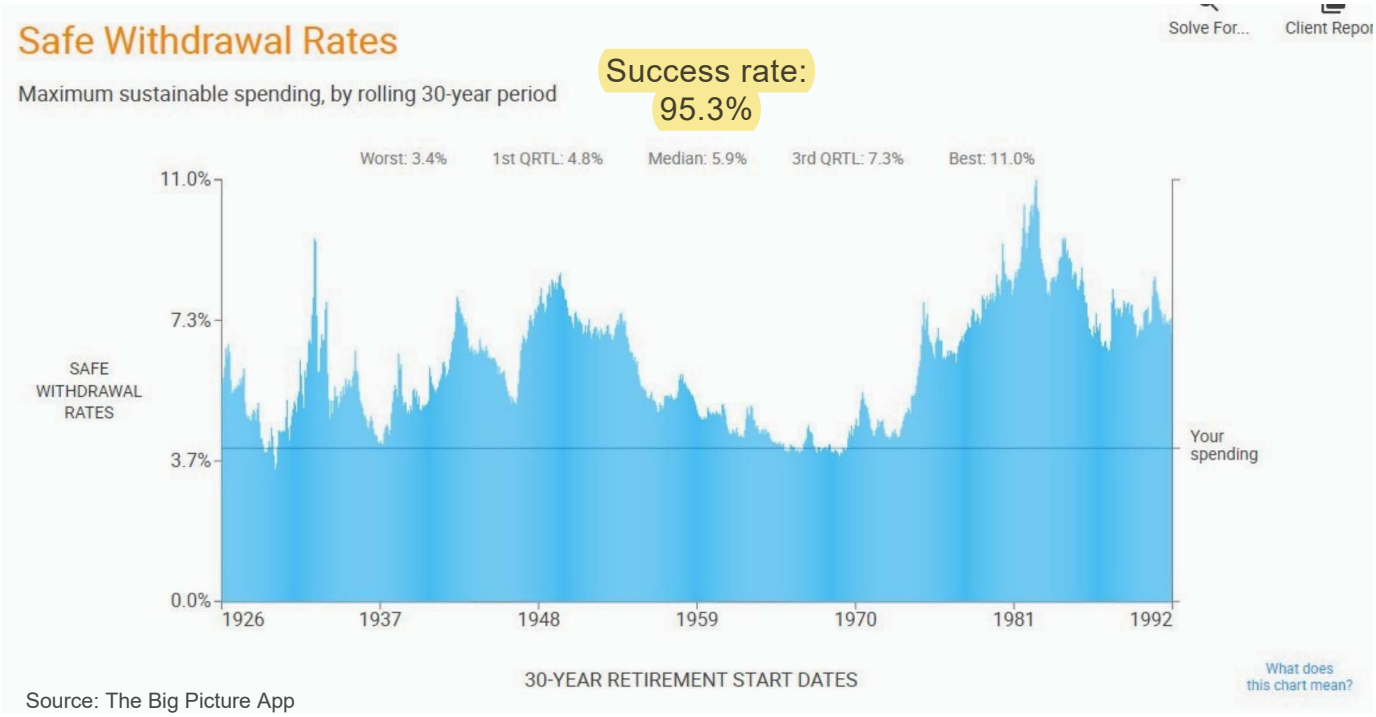
Year 2: 4% of $816,000 or$32,640.

Portfolio now $783,360.

Here are some additional takeaways:

- The 4% rule has been successful in 99% of 30 year periods starting with the 1973 to 2003 time period through the 1991 to 2021 time period.
- The 4% rule had almost no success for a retiree entering retirement between 1900 and 1916 (yes, the world was a much different place 100+ years ago, but that is the math!).
- Eliminating the time period from 1900 to 1925, creates a totally different success rate (visual below with success rates starting with data in 1926 - present)

So what does this all mean? It means that although an investor cannot time the market, they can (and do) fall victim to simply retiring at the "wrong" time (in terms of how the market performs). Therefore, it's important to make sure that an investor has a plan and systems in place to be successful even when (not if) the market goes down. The sequence (or order) of returns that a retiree experiences plays a huge role in determining the success of their plan. Since the returns (and timing of the returns) isn't something an investor can control, they must have a plan!



Source: The Big Picture App

As mentioned above, the 4% rule seems simple, but not easy. This strategy works best for an investor that is comfortable with a "total return" approach that doesn't have a problem with volatility in the market. This investor is comfortable with what we call a "probability-based" approach where they have faith the markets will continue to provide a comfortable source of income for their retirement. Based on research from Dr. Wade Pfau, who is one of the most well known retirement researchers in the space, only about one-third (33.3%) of retirees are comfortable with this strategy alone.

In fact, the creator of the strategy, Bill Bengen, has even tweaked his retirement income strategy and portfolio allocation after realizing the market's volatility was too much to handle for him.

STRATEGY #2:

Dynamic spending strategy with spending rules (Guardrails).

Now that you are familiar with the 4% rule, let's add another layer to the strategy. You are probably familiar with guardrails on the freeway, but what about guardrails for your retirement portfolio? Think of your retirement as a 30+ year long financial road trip. Let's also make your speed analogous to your withdrawal rate. The faster you travel, the higher your withdrawal rate. With the 4% rule, you're always taking out 4% no matter what. So in our analogy, you'd always be going the same speed! If I say to you, "now in your car, you have no brakes and no mirrors, how fast would you travel then?" (the answer is you'd probably drive slower).

It sounds like a ridiculous question, but the 4% rule is analogous to having no brakes and no mirrors. The reason for that is because the traditional 4% rule says that you get an inflation adjusted increase in your income every year no matter what - meaning that you take out the 4% (or more!) no matter what too! So therefore, since you are doing the same thing and going the same speed (remember we are still on the financial road trip that is retirement), you don't need brakes. You're not slowing down, you're always going the same speed. Secondly, you're taking out the 4% each and every year regardless of the conditions around you as well - so since you're always doing the same thing regardless of conditions, you don't need mirrors either!

I don't think you'd take a road trip if your vehicle was without brakes and/or mirrors, so it's probably not wise to take the retirement road trip without spending rules for your portfolio.

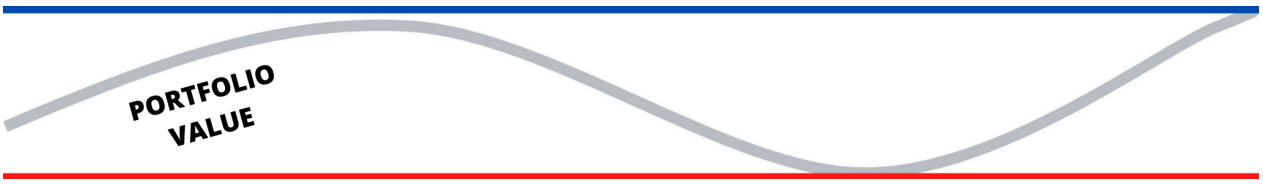
One of the most solid dynamic spending rules that can be used is a **guardrail strategy**.

So what is a guardrail strategy when it comes to your retirement spending? It starts with a withdrawal rate and adds some rules (let's keep using 4% for a $1,000,000 portfolio). Rule 1 - if your withdrawal rate goes up by 20% (to 4.8% in this case), meaning your portfolio went down, you take a 10% pay cut ($36,000 instead of $40,000) for the next 12 months. Rule 2 - if your withdrawal rate goes down by 20% (to 3.2% in this case), meaning your portfolio went up, you get a 10% pay increase ($44,000 instead of $40,000) for the next 12 months. Sound confusing? Keep scrolling for a visual -->

Sample Guardrail Strategy for a $1,000,000 Portfolio

In Good Times/Upper Guardrail		
If portfolios grows above:	**$1,250,000**	
Income increases 10% to:	$44,000	$3,667

Upper Guardrail - not leaving a mattress stuffed full of money



Lower Guardrail - not running out of money in retirement

Portfolio Income Potential		
Income Baseline:	**$1,000,000**	
Distribution Rate:	4.00%	
Available Income:	**$40,000**	**$3,333**
	Annually	*Monthly*

In Bad Times/Lower Guardrail		
If portfolio falls below:	**$840,000**	
Income decreases 10% to:	$36,000	$3,000

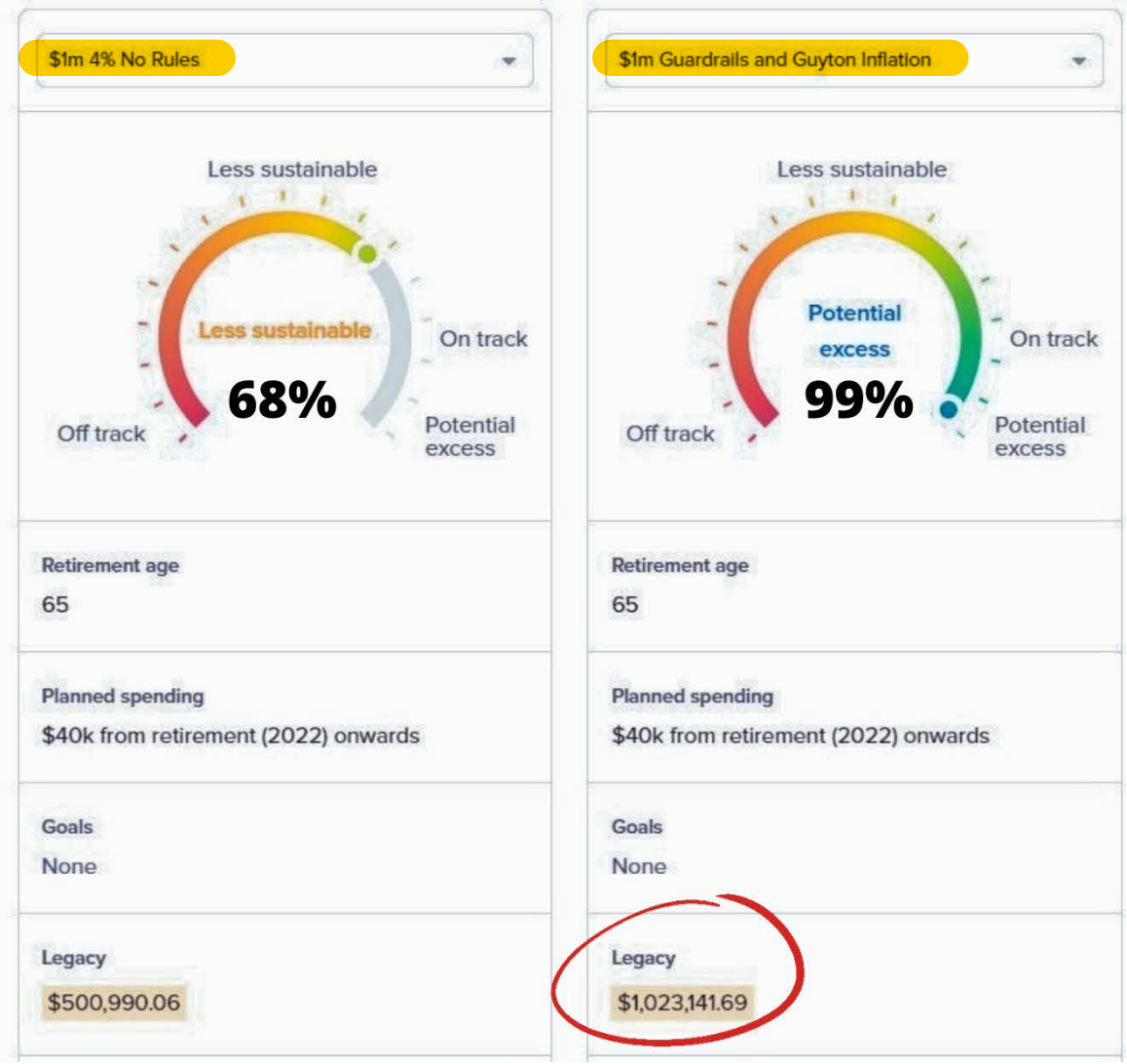
Plus inflation in growth years

As one can see, the guardrails strategy is designed to give an investor the highest possible monthly income without jeopardizing the portfolio when (not if) the market declines.

To be successful, and investor must also consider:

- Having a war chest of cash, CD's, and short-term bonds
- Strategic rebalancing
- Careful diversification
- Tax efficiency
- Discipline

Now let's compare the success rates of using the 4% rule alone vs. using guardrails...



Source: Timelineapp

Not only does adding a guardrail strategy onto the 4% rule add a higher level of success for the investor, it also increases the amount of money left for legacy goals at the end of the plan.

So what's the catch?

A retiree has to have total buy-in to the strategy and the ability/capability to stick with it. There will be years where they do not get a cost of living adjustment and/or a 10% decrease in their income for the following year. Some retirees do not like that fact and they prefer more of a safety first approach. Let's talk about that...

STRATEGY #3:

The safety first approach.

Now it's time to talk about pensions, Social Security, and the controversial "A word" -- annuities. Many times throughout my career, when I have asked if a prospect has a pension, they answer with, "No, but I wish!". I then follow up with asking if they have any annuities. A lot of times they say, "No, I'm not a fan of annuities..."

Obviously, this makes no sense as the foundational premise of a pension is that it's an annuity. What about Social Security? Yes, that's also a form of an annuity. We are not here to discuss whether annuities are good or bad as a whole. We are here to talk about strategies for retirement. And, well, annuities are definitely a way for some retirees to have peace of mind in retirement.

There are legitimate strategies for using annuities in a retirement plan. That doesn't mean that they're right for everyone, but it doesn't make them illegitimate.

Here are a couple of legitimate strategies:

1. Using a guaranteed income stream to cover your fixed and known expenses by using a portion of your portfolio to buy an income annuity.
2. Use a fixed-indexed annuity (FIA) as a way to hedge against downturns in the market, while earning a potential mid-low single digit return long-term.

Let's discuss these strategies more in-depth...

A retiree can match their fixed expenses to a fixed income payout. If they have a goal to have an income floor of $5,000 per month and their Social Security payments account for $3,000 per month, they could consider an income annuity to make up for the other $2,000.

For a couple that is 67 years old, they would need to use about $540,000 - $575,000 to accomplish that goal (assumptions are for a joint annuity, paying $2,000 per month with a 3% cost of living adjustment each year).

Age	Year	Monthly Payout	Annual Amount	Total Payout	Payout Rate
67	1	2000	24000	24000	4.44%
68	2	2060	24720	48720	4.58%
69	3	2122	25462	74182	4.72%
70	4	2185	26225	100407	4.86%
71	5	2251	27012	127419	5.00%
72	6	2319	27823	155242	5.15%
73	7	2388	28657	183899	5.31%
74	8	2460	29517	213416	5.47%
75	9	2534	30402	243819	5.63%
76	10	2610	31315	275133	5.80%
77	11	2688	32254	307387	5.97%
78	12	2768	33222	340609	6.15%
79	13	2852	34218	374827	6.34%
80	14	2937	35245	410072	6.53%
81	15	3025	36302	446374	6.72%
82	16	3116	37391	483765	6.92%
83	17	3209	38513	522278	7.13%
84	18	3306	39668	561946	7.35%
85	19	3405	40858	602805	7.57%
86	20	3507	42084	644889	7.79%
87	21	3612	43347	688236	8.03%
88	22	3721	44647	732883	8.27%
89	23	3832	45986	778869	8.52%
90	24	3947	47366	826235	8.77%
91	25	4066	48787	875022	9.03%
92	26	4188	50251	925273	9.31%
93	27	4313	51758	977031	9.58%
94	28	4443	53311	1030342	9.87%
95	29	4576	54910	1085252	10.17%

Remember this term from earlier? Generally, annuity payouts are higher than the 4% rule we discussed already. This is due to a number of different items (illiquidity of the contract, mortality credits, etc).

The highlighted portion indicates the age at which the annuity has paid out more than the initial deposit of $540,000 in this case

There are a number of variables that impact the monthly payment vs. the initial amount that the retiree must use to purchase the income annuity. For example, if the retiree does not include their spouse, the amount needed to purchase the annuity decreases. If the annuity does not have an inflation adjustment each year, the amount needed to purchase the income annuity also decreases.

So what are the takeaways from the payout chart on the previous page?

1. Should a retiree select an income annuity as a strategy with a cost of living adjustment, they are getting a guaranteed payout of more than 4% per year, increasing forever.

2. The break even point (aka when the retiree has been paid out more than they put into the annuity) is around age 83-84.

In an effort to stay strategy agnostic, it's important to point out (again) that retirement income is not a one-size fits all exercise. With an income annuity, the premium amount spent to buy the contract is not liquid. You can't cash it out (in this case). Instead, it's returned to the retiree in the form of monthly payments. Some retirees might consider that a deal-breaker. Others might be okay with that and prefer the guaranteed payouts for as long as they live - knowing that the payouts are not subject to market volatility. This is the art and the science of all decisions in financial planning.

Could an investor earn more by investing in the market? Sure. Could that investor also earn less? Sure. Again, it's important to identify a strategy that the retiree can stick with to ensure ultimate success in their plan.

Just because someone might love or hate one specific strategy doesn't automatically make another strategy wrong.

Annuities can be complex instruments (we are going to discuss another, and more complex type, next) so it's important to do due diligence and compare different types for your situation.

What about investors that want to hedge downturns in the market while still participating in some market upside?

Next, we will discuss a high level overview of fixed-index annuities and how they might fit for certain retirees.

There's another type of annuity that is one of the most popular in the marketplace. It's called a fixed-indexed annuity (FIA). Think of this type of annuity slightly differently than the classic income annuity we mentioned previously.

A FIA can be used for conservative growth that isn't subject to market risk. In fact, the money in a FIA isn't invested at all as the annuity itself isn't considered a security. Instead, the return portion of the account balance is based on an index, like the S&P 500, while not actually being directly exposed to the stock market.

There are some terms to be aware of regarding FIA's:

- **Participation rate**: how much of an index increase you actually receive. The higher your participation rate, the more of an index performance you'll receive.

Index performance	Your participation rate	Your earnings
10%	80%	8%
5%	80%	4%
20%	50%	10%

- **Cap**: To offer both opportunity and protection, some indexed annuities have a maximum growth rate, or cap. You are also protected against losses.

Cap	Index performance	Increase to your annuity value
5%	+8%	5%
5%	+5%	5%
5%	-3%	0%

- **Fee, Margin, or Spread**: generally subtracted from the earnings. As explained in the previous section about "caps," you're also protected against losses.

Index performance	Your participation rate	Your earnings	Fee	Your earnings after fee deduction
12%	75%	9%	2%	7%
5%	80%	4%	2%	2%
-5%	80%	0%	2%	0%

- **Surrender Charge**: the amount paid in fees to cash out the annuity before a certain number of years (can vary between 0 years to 15+ years depending on the annuity). Below is a sample surrender charge schedule for a 7 year annuity.

SURRENDER CHARGE SCHEDULE

1 year	2 year	3 year	4 year	5 year	6 year	7 year
9%	8.8%	7.9%	6.9%	5.9%	5%	4%

Annuity chosen: Athene Performance Elite 7

- **Free Withdrawal**: the amount the annuity holder can take out of the contract annually free of surrender charges. (Usually this is about 10%)

Now that you know the basic terms, let's take a look at a hypothetical outcome of buying a FIA with $100,000. For this example, we will look at a 7 year annuity (meaning for the first 7 years there are surrender fees) that tracks the S&P 500 index each year. The cap on this example is 7% and there is no extra fee to track this index. There is also a 0% maximum loss with this option. For simplicity, there are no withdrawals taken from the account.

Hypothetical Values (Current Rates)

Here's how the annuity might look over a 30-year period. The values show what would happen if the allocations earned interest using current rates in all years. The indexed interest is based on actual index performance during the most recent 10-calendar year period for the first 10 years. We repeat the index performance from this 10-year period afterwards.

		BEGINNING	END OF YEAR				
Year	Age	Premium	Account Value	Interest Crediting Rate	Minimum Guaranteed Surrender Value	Surrender Value	Death Benefit
1	67-68	$100,000	$107,000	7%	$88,375	$98,270	$107,000
2	68-69	$0	$114,490	7%	$89,259	$105,356	$114,490
3	69-70	$0	$122,504	7%	$90,151	$113,731	$122,504
4	70-71	$0	$122,504	0%	$91,053	$114,897	$122,504
5	71-72	$0	$131,080	7%	$91,963	$124,069	$131,080
6	72-73	$0	$140,255	7%	$92,883	$133,898	$140,255
7	73-74	$0	$140,255	0%	$93,812	$135,206	$140,255
8	74-75	$0	$150,073	7%	$94,750	$150,073	$150,073
9	75-76	$0	$160,578	7%	$95,697	$160,578	$160,578
10	76-77	$0	$171,819	7%	$96,654	$171,819	$171,819
11	77-78	$0	$183,846	7%	$97,621	$183,846	$183,846
12	78-79	$0	$196,715	7%	$98,597	$196,715	$196,715
13	79-80	$0	$210,485	7%	$99,583	$210,485	$210,485
14	80-81	$0	$210,485	0%	$100,579	$210,485	$210,485
15	81-82	$0	$225,219	7%	$101,585	$225,219	$225,219
16	82-83	$0	$240,985	7%	$102,601	$240,985	$240,985
17	83-84	$0	$240,985	0%	$103,627	$240,985	$240,985
18	84-85	$0	$257,853	7%	$104,663	$257,853	$257,853
19	85-86	$0	$275,903	7%	$105,710	$275,903	$275,903
20	86-87	$0	$295,216	7%	$106,767	$295,216	$295,216
21	87-88	$0	$315,882	7%	$107,834	$315,882	$315,882
22	88-89	$0	$337,993	7%	$108,913	$337,993	$337,993
23	89-90	$0	$361,653	7%	$110,002	$361,653	$361,653
24	90-91	$0	$361,653	0%	$111,102	$361,653	$361,653
25	91-92	$0	$386,968	7%	$112,213	$386,968	$386,968
26	92-93	$0	$414,056	7%	$113,335	$414,056	$414,056
27	93-94	$0	$414,056	0%	$114,468	$414,056	$414,056
28	94-95	$0	$443,040	7%	$115,613	$443,040	$443,040

1-Year S&P 500 PTP Cap

Allocation: 100% Inception date: 03/04/1957

Here's how the annuity might have looked over 3 different 10-year periods. The values show what would happen if the stated index earned indexed interest using current rates for the periods indicated. Annualized Credited Rate does not reflect any rider or contract charges.

HIGH PERIOD

Annualized credited rate: 5.56%

Anniversary Date	End of Year Credited Interest Rate	End of Year Accumulation Value
12/31/2012	7.00%	$107,000
12/31/2013	7.00%	$114,490
12/31/2014	7.00%	$122,504
12/31/2015	0.00%	$122,504
12/31/2016	7.00%	$131,080
12/31/2017	7.00%	$140,255
12/31/2018	0.00%	$140,255
12/31/2019	7.00%	$150,073
12/31/2020	7.00%	$160,578
12/31/2021	7.00%	$171,819

LOW PERIOD

Annualized credited rate: 4.11%

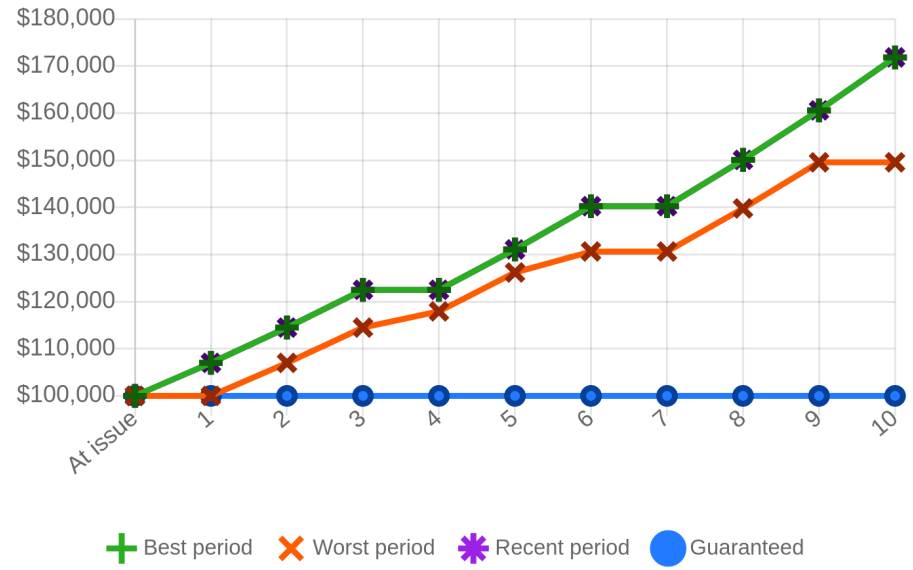
Anniversary Date	End of Year Credited Interest Rate	End of Year Accumulation Value
12/31/2002	0.00%	$100,000
12/31/2003	7.00%	$107,000
12/31/2004	7.00%	$114,490
12/31/2005	3.00%	$117,926
12/31/2006	7.00%	$126,181
12/31/2007	3.53%	$130,634
12/31/2008	0.00%	$130,634
12/31/2009	7.00%	$139,779
12/31/2010	7.00%	$149,563
12/31/2011	0.00%	$149,563

MOST RECENT PERIOD

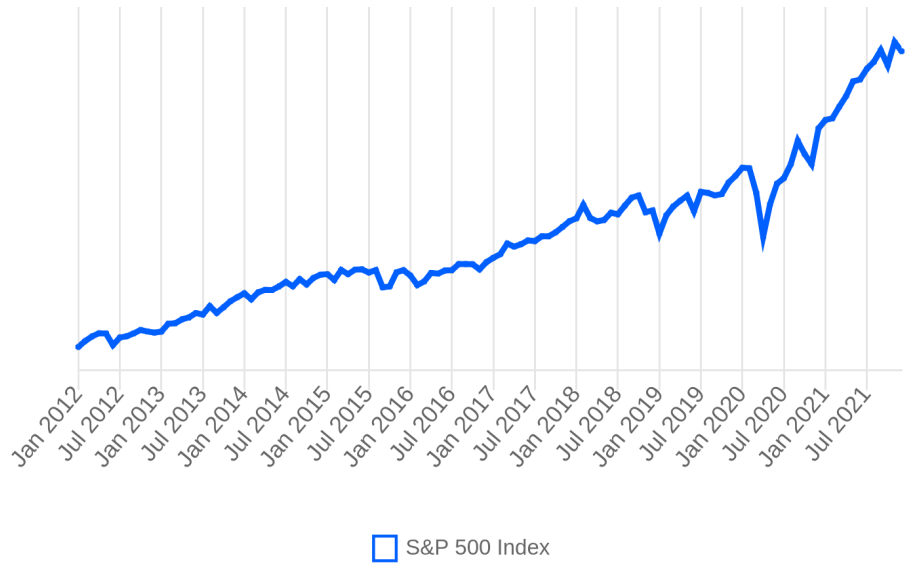
Annualized credited rate: 5.56%

Anniversary Date	End of Year Credited Interest Rate	End of Year Accumulation Value
12/31/2012	7.00%	$107,000
12/31/2013	7.00%	$114,490
12/31/2014	7.00%	$122,504
12/31/2015	0.00%	$122,504
12/31/2016	7.00%	$131,080
12/31/2017	7.00%	$140,255
12/31/2018	0.00%	$140,255
12/31/2019	7.00%	$150,073
12/31/2020	7.00%	$160,578
12/31/2021	7.00%	$171,819

Graphical Presentation of Historical Periods

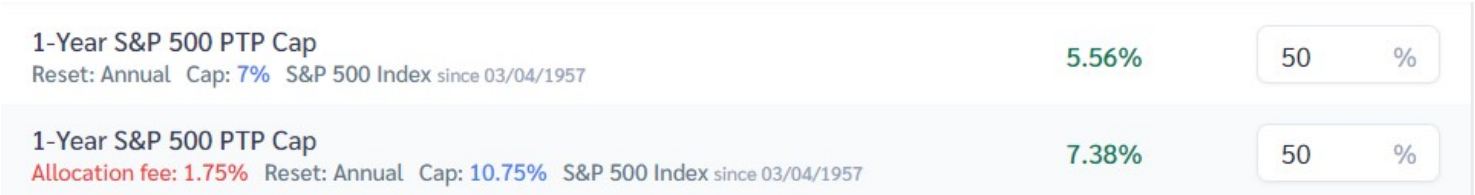


Historical Index Performance



What are the takeaways from the two previous pages?

- A FIA could potentially be a place to get conservative growth for a portion of a retiree's portfolio.
- It's important to look at the low period returns as a gauge for how the account could perform long-term. Anything higher than the low period is just icing on the cake.
- This hypothetic uses an annuity without any extra fees! This is shown to prove that options without extra fees DO exist. However, in some cases, there can be extra fees.
    - Example 1: A retiree can choose to add an "**income rider**", which allows the annuity holder to pension-ize or annuitize the contract (turning on guaranteed payments for life). Those payments would continue even if the annuity's value has gone to $0. With some annuities, there can be a fee for adding the income rider. The reason is that an income rider adds more risk to the insurance company.
    - Example 2: A retiree can select from various options on which indexes their money is tied to. They can also pay a fee for a higher potential cap. The hypothetical scenario above uses a no-fee indexing option with a cap of 7%. Another option (illustrated below) would be for that retiree to pay a fee for a higher cap of 10.75%. This is called an **allocation fee**.



- **So can a FIA holder ever lose money?** Sometimes you'll see people touting that fixed-indexed annuities cannot go down in value. This is only partly true. The true part is that the annuity value will not go down due to the market being down. There is a floor of 0% return. However, the annuity can go down if the annuity holder is paying fees for an income rider and/or an allocation fee AND they are credited with a 0% return. Those fees still remain even if the index has a negative return (meaning you earn 0%). Illustrated on the next page is an example of the same annuity from page 15, but this time it's allocated to the option directly above with a 1.75% allocation fee.

Hypothetical Values (Current Rates)

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1	67-68	$100,000	$108,812	10.75%	$88,375	$99,919	$108,812
2	68-69	$0	$118,400	10.75%	$89,259	$108,939	$118,400
3	69-70	$0	$128,834	10.75%	$90,151	$119,591	$128,834
4	70-71	$0	$126,579	0%	$91,053	$118,734	$126,579
5	71-72	$0	$136,222	9.54%	$91,963	$128,932	$136,222
6	72-73	$0	$148,226	10.75%	$92,883	$141,495	$148,226
7	73-74	$0	$145,632	0%	$93,812	$140,399	$145,632
8	74-75	$0	$158,465	10.75%	$94,750	$158,465	$158,465
9	75-76	$0	$172,428	10.75%	$95,697	$172,428	$172,428
10	76-77	$0	$187,622	10.75%	$96,654	$187,622	$187,622

As you can see, after there is a 0% interest crediting, the fee is applied and the account value has decreased.

Here's a summary of the safety-first approach using guaranteed income sources:

- Using an annuity strategy is definitely not right for everyone. However, it could be a solution suited toward retirees that prefer guarantees and do not want to expose a portion of their dollars to the market.

- As with every decision in finance, there are trade offs. Will an annuity offer a potentially higher guaranteed payout rate than using the 4% rule mentioned earlier? In most cases, yes. However, a retiree could potentially give up some liquidity (aka the ability to "cash out") in turn for the higher guaranteed payments.

- "Will a FIA earn the 10%+ returns my agent is showing?" Most likely, no. FIA's are a way to potentially earn low-mid single digit returns and lessen volatility for a retiree.

- Annuities can be complex. Due diligence and a comparison with multiple annuity options is needed to make sure the product is fairly priced and will behave in the way a retiree desires.

- **"What about commissions? I have read that annuity agents get 7-10% off the top?"** Here's the deal with commissions - most annuity companies offer different options for commissions percentages. An agent can take a higher payout up front (usually ranging between 4 - 6.5% for FIA's (page 15) and 2 - 4% for income annuities (page 11) and get no additional commission thereafter. Agents could also take a commission option where they're paid a smaller percentage up front and then a small "trail" commission year after year. For example, an agent can get a 1% commission up front and then a 1% trail each year. That option seems similar to an advisor that charges 1% of assets from a client account each year. However, it's different in the sense that the commission is paid by the insurance company and not directly from the client's annuity value. Confused yet? When an annuity agent says they are not paid by the client, they are paid by the insurance company, that is mostly true. If the client buys an annuity for $100,000, their account value doesn't go to $95,000 right off the bat due to commissions. The commission is paid by the insurance company that knows the annuity holder is subject to a surrender period. Remember those surrender fees that can range from zero to 15 years? If an annuity owner surrenders their annuity (we are talking FIA's here), the surrender charge basically makes up for any money lost by the insurance company that paid the commissions. Knowing this, annuities with longer surrender charge time frames (like 15 years) generally pay a slightly higher commission than annuities with lower surrender charge time frames (like a 5 year annuity).

If you are someone that still does not like the word annuity, you are not alone. When they are brought up, there are often polarizing opinions on them. Remember, the goal is to stay strategy agnostic and identify a strategy that works for a specific retiree's mindset and situation.

Are there ways to hedge market downturns without annuities? Wouldn't it be nice if an investor could hedge the market with a mutual fund or ETF without the complexities of using leveraged options strategies (which are beyond the scope of this guide)?

The good news is that there is a strategy using ETF's that an investor can use to hedge the market. We will wrap up (with this already long guide) with that strategy next...

STRATEGY #4:

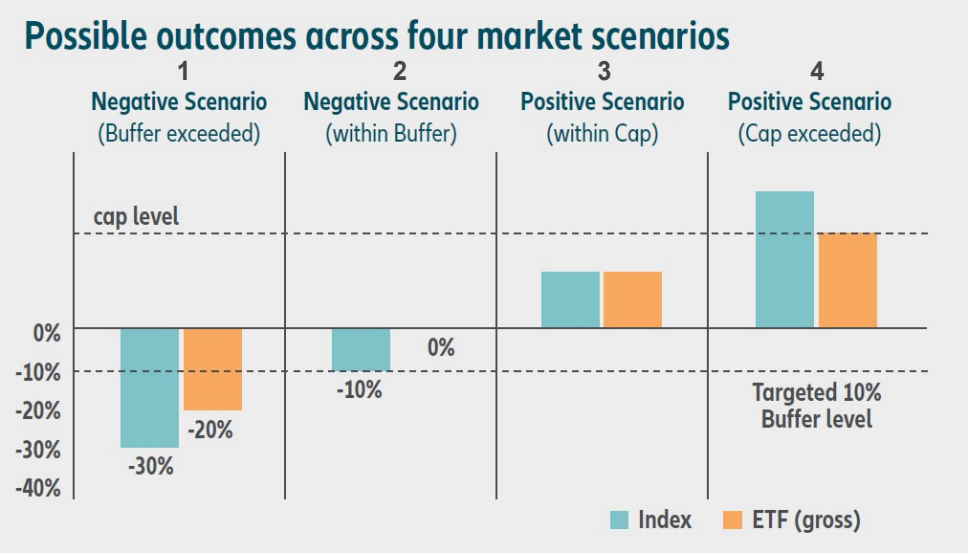
Defined outcome/hedged/buffered exchange traded funds (ETF's).

Newer onto the scene, and gaining a lot of traction, are "defined outcome" ETF's. These ETF's were designed to allow investors to participate in the growth potential of equities, while also addressing downside exposure and volatility. They utilize caps (remember those from the annuity section?) and buffers. The caps are what cap the upside return (there's no such thing as a free lunch) and the buffers are what "buffer" against downside in the market. The caps and buffers are determined based on a "defined outcome" time frame (quarterly, semi-annually, annually) and they track an index, like the S&P 500. The ETF company uses "flex options" (beyond the scope of this guide) which are tools that allow investors to hedge their portfolios on the upside and/or the downside.

This is best explained with an example. Let's say an investor uses a defined outcome period that starts on January 1st and is 365 days long (aka January 1st to December 31st). In this case, assume the investor selects an ETF that tracks the S&P 500. Although they can purchase the ETF at any time, they choose to purchase it on January 1st. Their upside is capped at 12% and their buffer (the downside protection) is 10%. There are 4 possible outcomes on December 31st, which are illustrated below:

There are four possible scenarios when you invest during a stated Outcome Period:

- Index losses exceed the Buffer
- Index losses are within the Buffer
- Index returns are within the Cap
- Index returns exceed the Cap



In scenario 1, the market went down more than the 10% buffer over the course of the 12 month outcome period. If the market finished down 20% (orange bar) from the start to finish of that 365 day period, the first 10% of the losses were hedged, meaning that the investor is "only" down 10%. Another example: if the market was down 15% over that outcome period, the investor would be down 5%. The investor shares in the losses greater than the buffer.

In scenario 2, the market went down, but it didn't go down 10%. In this case, the investor would have their losses fully hedged. The goal of the ETF when the market losses are within the buffer, is that the investor's return is 0% (not including fees, which generally are about 0.75% per year for these ETF's).

In scenario 3, the index had a positive return, but it was less than the cap. In this case, if the investor held the ETF until December 31st, they would get a return as close to the index as possible. Keep in mind, the return may not be exactly what the index returns because of the flex options mentioned previously.

Lastly, in scenario 4, the index returns more than the cap. This was a common occurrence for outcome periods ending in 2021. In this case, the investor would get the full capped return, but nothing more. Like previously stated, there is no such thing as a high returning investment with no risk!

What are the takeaways from using buffered ETF's?

- They piggyback off of a fixed-indexed annuity strategy, but they are fully liquid (meaning an investor can buy or sell them whenever they'd like).

- They are meant to hedge against downside risk in the market. Some common buffer percentages to the downside are 9%, 10%, 15%, 20%, and 30%. Meaning that losses are hedged up until the buffer is hit, and then the investor shares in the losses.

- The have defined outcome periods, but can be bought and held. One company offers new outcome periods every month (so if an investor wanted an outcome period starting August 1st and ending July 31st of the following year, that is available).

- An investor can buy these ETF's at any time, even if it's the middle of an outcome period. That said, when purchasing these ETF's outside of the first day of the outcome period, it's best to call/talk with the ETF company or an advisor to make sure you're purchasing at the correct price.

- Different from annuities that track indexes, buffered ETF's go up and down daily. So if an investor purchases a buffered ETF and the index it tracks goes down, the value of the buffered ETF goes down too. It's important to understand these products before buying!

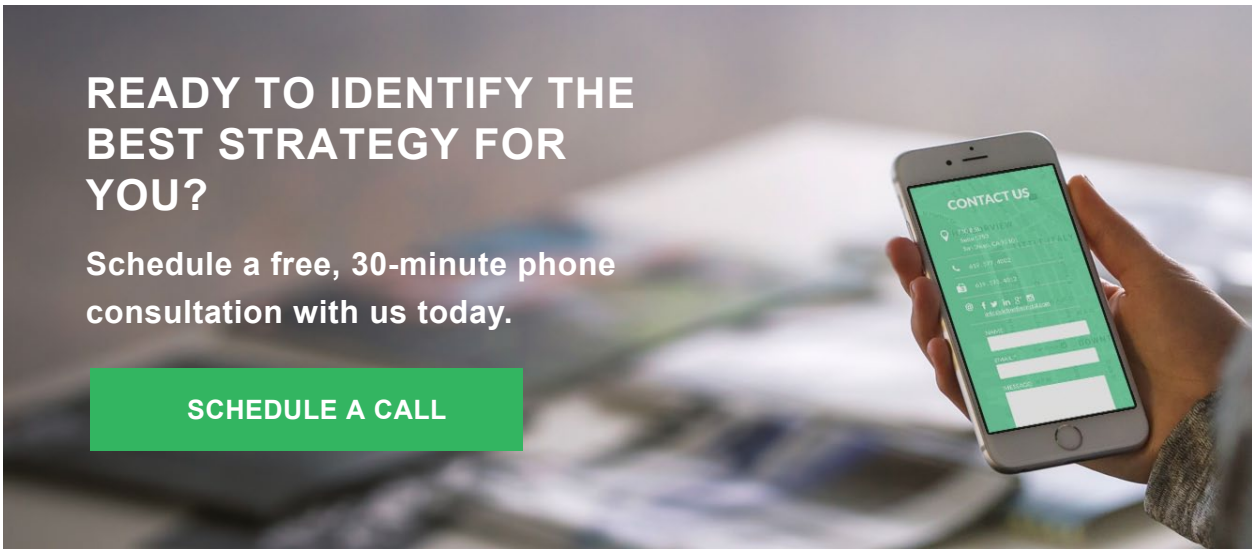
Have you had enough yet?!

I think this guide is long enough and I didn't even mention all of the strategies! There are bonds ladders, floor and ceilings, bond tents, and more that I didn't even get a chance to discuss. That said, I've saved the best strategy for last:

STRATEGY #5:

WORK WITH LIFEPOINT PLANNING!

Retirement planning and income strategies can be confusing. On top of that, you don't get a re-do! It might be worth considering partnering with a fiduciary financial advisor to identify which strategy makes the most sense for your specific situation. We are strategy agnostic, meaning that we truly care about what solution is best for YOU. If you're wondering if you're in the position to retire now or in the future, let's discover what retirement style suits you for the rest of your life. How will you best live a fulfilling life in retirement?



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