Welcome to InFRE's October, 2017 Issue of Retirement Insight and Trends

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Retirement InSight and Trends is the quarterly newsletter for the International Foundation for Retirement Education's Certified Retirement Counselors® (CRC®s) to help retirement professionals with the practical application of new retirement readiness, counseling, planning and income management concepts for the mid-market. Find out more about the CRC® and InFRE here.

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October, 2017 InFRE Update: Volunteers Help All CRC® Certificants

retirement-insight.com/october-2017-infre-update/

by Kevin Seibert, CFP®, CEBS, CRC®, Managing Director, InFRE

Those who volunteer their time and expertise to serve on a CRC certification program committee help to ensure that the CRC meets the highest credibility standards and is maintained as one of the very few financial designations accredited by the National Commission for Certifying Agencies (NCCA). We simply could not fulfill our ongoing responsibilities to all CRC certificants without the help of our volunteers and words can't adequately express my gratitude and thanks to those who have served and currently serve on one of our volunteer committees.

Many of you have recently indicated an interest in volunteering but have questions regarding responsibilities and time commitment associated with various committees. Therefore, I thought it would be helpful to provide this overview of each of the various CRC committees to all who may have an interest in volunteering now or in the future.

The Board of Standards and Policy Development: The Board of Standards and Policy Development (BOS) is the policy-making and oversight body of CRC® Certification. The purpose of the BOS is to independently establish the governing rules and regulations related to the CRC® program, make determinations regarding eligibility and all essential certification decisions, and provide mediation and interpretations for the program as needed by staff and other volunteer groups. BOS members typically serve on one of the other CRC program committees prior to joining the BOS. One-hour conference calls are scheduled each calendar quarter to discuss current CRC program activities and to vote on recommended changes to policy and other matters as needed. A BOS term is for three-years and members may serve up to two terms.

Practice Analysis Committee: The CRC® comprehensive examination is designed to ensure that all CRC® candidates possess the necessary knowledge and skills to competently fulfill their responsibilities as retirement counseling professionals. The validity of the CRC® exam is based upon a CRC Practice Analysis (Practice Analysis) conducted every five years to determine the knowledge and skills deemed important for today's new retirement counselors. Keeping the Practice Analysis up-to-date and relevant is probably the most important thing we do to maintain a credible CRC® program and to meet NCCA accreditation standards.

In early 2018, InFRE will be forming a team of 10-12 CRCs to serve on the 2018 Practice Analysis Task Force (PATF). The PATF will make recommendations for updates and changes based on current trends and gaps that may not have been addressed in the last study.

Although we ask a considerable amount of time from PATF members over a period of four to six months, meetings are conducted virtually, and the commitment ends when the Practice Analysis is complete. **PATF volunteers will also receive ten hours of CRC® continuing education credit and a waiver of annual CRC® renewal fees for two years.**

Examination Committee: Sound credentialing practice requires that the CRC comprehensive exam is updated at least every three years. With guidance from InFRE's psychometric consultant, the Exam Committee develops the certification exam and monitors its performance. Committee members may be asked to write exam questions and/or help with the construction of an updated exam form.

Exam questions may be submitted as time allows and the next updated exam construction will begin in early 2019. We will ask committee members to participate in several virtual meetings over a period of two to four months and there typically is a little homework involved. **Examination Committee members will receive CRC® continuing**

education credit and a waiver of annual CRC® renewal fees based on their level of participation.

Recertification Committee: The Recertification Committee develops the recertification system and monitors its performance, including quality assurance through audits of Certificant applications.

Appeals Committee: The Appeals Committee considers and makes determinations on appeals made by candidates or Certificants.

Disciplinary Committee: The Disciplinary Committee is responsible for enforcing and administering the disciplinary procedures established by the BOS.

Although the requirements for the Recertification, Appeals or Disciplinary Committees are ongoing, the time commitment related to each of them is minimal and only on an as-needed basis. Terms of these committees are for one year and each committee member may serve up to three consecutive terms at their discretion. **Members of these committees will receive a waiver of annual CRC® renewal fees for each year served.**

I hope you will consider serving as a volunteer on a CRC committee or the Board of Standards. Please download and complete the InFRE Volunteer Application Form or fax the completed form to 847-756-7350 **on or before December 1, 2017.**

Elder Law Basics Part 2

retirement-insight.com/elder-law-basics-part-ii/

By Amber B. Woodland, Esq., Partner at ProcinoWells & Woodland, LLC.

The first half of this article was published in our July 2017 issue, and covered the basic definition of elder law, what is Medicaid, payment options for long-term care costs, how to qualify for Medicaid, the Medicaid asset or resource test, Medicaid transfer penalty rules, and three levels of elder law planning.

Amber B. Woodland, Esq., Partner at Procino-Wells & Woodland, LLC

Editor's note: This article is an adaptation of the live webinar delivered by Amber B. Woodland, Esq. in 2017. Her comments have been edited for clarity and length.

You can read the summary article here as part of the 3rd Qtr 2017 Retirement InSight and Trends Newsletter, worth 1.0 CE when read in its entirety (after passing the online quiz.

You may also choose to take the full length course Elder Law Basics: Long Term Care Medicaid & Asset Protection Planning for Seniors – Amber Woodland, Esq for 2.0 hours continuing education (CE) credit.

The Goals of Asset Protection and Long-Term Care Planning

The goals of asset protection are, first and foremost, to ensure that there's payment for the needed services to make sure that a person does not outlive their savings. The worst possible thing that could happen is for a person to need long-term care for so long that they blow through their life savings, and qualify for Medicaid because there is no nest egg available to supplement the things that Medicaid may or may not provide.

If a person runs out of money, is receiving care in a nursing home, and is on Medicaid because they are poor, they will go without dentures, hearing aids, eyeglasses, a computer, TV, or a recliner. He or she does not have a nest egg to use for those things. Their kids and other family members will have to chip in their own money to pay for additional needs.

So, the primary goal of asset protection planning is to set aside some of the applicant's own money that to use for the applicant. However, it is also important to many of my clients that they leave something behind to their family, and usually, that is to children. They do not want to see everything that they have worked for their whole lives be consumed paying for their nursing home care.

They are not even so much worried about themselves and creating a nest egg for themselves, and I remind them that, "That is really, really important, but we can also accomplish your goal of providing a legacy.

Sam and Rose – A Case Study

Assume Sam and Rose, are a married couple typical of what we see. They have a jointly owned residence worth $200,000. They have checking, money market, and brokerage type accounts that equal $185,000. Sam has an IRA of $200,000. Rose has an IRA of $125,000. Sam has life insurance with a cash value of $5,000, but Rose's life insurance has no cash value. They have a car and a truck. Their total available assets are $735,000.

For Medicaid purposes, what is excluded? We are going to assume that Sam needs long-term care and that Rose is the healthy spouse. In this case, the residence is protected because Rose is living in the home. Rose's IRA is protected because, in Delaware, the retirement account of the well spouse is off the table. The life insurance with no cash value is also excluded because it cannot be surrendered for anything that could be used to pay for Sam's care. One vehicle of the most value is also excluded, so we use the car worth $15,000.

Even with no planning, $340,000 of assets have been excluded and protected for Rose. The remaining assets – the bank accounts, Sam's IRA, the life insurance with cash value, and the truck – are what Medicaid considers available to pay for Sam's care, so that is $395,000.

Here's an illustration of what Medicaid would do if they were presented with these facts. You have $395,000 on the table. The general rules state that $197,500 would get allocated to Rose, and $197,500 would get allocated to Sam, but there's a cap to that general 50-50 rule, and that cap says that Rose can only keep up to $119,220.

So, Rose is entitled to keep $119,220, and everything else – $275,780 – would have to be spent to pay for Sam's care. We reduce his amount by $2,000 because he can have $2,000 under the Medicaid rules, and we add that to what Rose is entitled to keep. Rose, in this case, would be entitled to keep the max of $121,220. The remaining $273,780 would have to be spent before Sam would be eligible to receive public benefits.

If we have $273,780 to spend down, what type of planning might be available to them in this case? First and foremost, we would advise them to make sure that their prepaid funeral arrangements have been made; those contracts must be irrevocable. In this case, let's assume that Rose is very, very independent. She is very healthy. She has an old car. We would advise her to trade in both of her vehicles, which maybe have a trade-in value of $20,000, and an additional $10,000, and buy a brand-new $30,000 vehicle that's going to sustain her, not require a monthly payment, and not need a ton of repair and maintenance.

Then let's invest $15,000 in home improvements for a back porch or needed renovations to the bathroom or kitchen. She could spend money doing that because the home is protected.

Because Sam's retirement account would have to be liquidated, we must factor in that that is going to trigger some income taxes, and we get challenged about this in some cases, whether it is from the family or whether it is from the adviser who is managing the IRA.

If $40,000, in this case, must be paid in income taxes, it is a drop in the bucket compared to what would eventually need to be paid for long-term care. In most cases, especially with numbers like this, it still makes sense to do the liquidation of the IRA. That is an available resource. Get that liquidity and pay the taxes as part of spend-down. I know that that is a lot of money in income taxes, but when we are looking at a $10,000 a month nursing home bill, it would only take four months to spend that $40,000 otherwise.

If there's any debt, we will pay that off to reduce any monthly payments.

Let's assume that it took us a month to do this planning, so there would be a $9,000 nursing home bill paid during that time. Let's say there was $4,000 in professional fees that were incurred, and then there was $780 in just miscellaneous, ordinary day-to-day expenses.

That leaves $75,000 remaining to be spent. We started with $273,780, we did all the things I just listed, and we have $75,000 left. What can we do? We can purchase a Medicaid Compliant Annuity with the remaining $75,000. The annuity term could be as long as 13 years or 156 months. That is actuarially sound based on Sam's life expectancy.

The interest rate on a Medicaid Compliant Annuity is the applicable federal rate. It usually is very low. We are not purchasing these annuities for investment purposes. They are being used exclusively to qualify for Medicaid. A $750 investment would result in a $533 monthly payment. Over the course of the term, there would have been $75,000 of principal and only $8,172.96 of interest, so $83,172.96 would have been paid out.

The annuitant owner is Rose. She is going to be the one receiving the monthly annuity payments. As I mentioned earlier, all of Rose's income is protected, so if she gets Social Security, pension, and now this new annuity payment, she is not required to contribute any of that toward Sam's cost of care in the nursing home.

In this case, the beneficiary designation is the State of Delaware. If Sam were to pass away during the term of the

annuity, the state would have to be paid back up to the amount of benefits paid, and then the secondary beneficiary would be the kids.

Depending on Sam's condition, we might want to set the annuity term to be fewer than 13 years. It just can't be more than 13 years. That is a case-by-case analysis.

Top Estate Planning Mistakes

1. **Omitting essential provisions in a power of attorney.** A power of attorney is an essential foundational estate planning document. Unfortunately, even other attorneys are missing critical provisions when they are drafting these documents.

If we are presented with a power of attorney that does not permit gifting, or does not permit the creation of a trust, then we are stuck, and the client is left with this false sense of security that they have a power of attorney and everything is good. If the person cannot sign a new one due to incapacity, that is when we must get guardianship or conservatorship.

The most recent change in Delaware was in 2010 to our Power of Attorney Act. I know of some other states that had 2010 changes as well. Suggest to your clients that they have regular updates with their estate-planning attorney.

Also encourage them to work with an elder law attorney if they are seniors, because elder law attorneys just understand better the importance of a thorough and very specific power of attorney regarding gifting and trust creation. If they have not looked at their estate plan in decades, now is the time to do that because, without a thorough, binding power of attorney, it is going to cost them a lot more if their family must take it to court someday to get guardianship.

2. **Thinking that it is too late to plan.** Crisis planning can still shelter approximately half of the remaining assets, it was not too late to still do something.

3. **Confusing the look-back period and the penalty period.** There is a five-year look-back period under federal regulations. What that means is that any gifts made within five years of applying for Medicaid must be disclosed.

The best way that I can explain that to you is when a person applies for Medicaid, there is a question on the application that says, "Have you sold, transferred, or given away any assets within the last five years?" Ideally, you want to be able to mark that "no," but if assets have been transferred, whether it has been part of a plan or not, within the five years, they must be disclosed, and the question on that application must be marked "yes."

It does not mean that the person is not eligible for Medicaid for a full five years. It just means that transfers within those five years must be disclosed, and then, it is the amount of those transfers which results in a penalty period. So, the penalty divisor is divided into the total amount of the disclosed transfers, and that gives us the number of months that Medicaid will not pay for care.

4. **Misunderstanding the Miller Trust**. This is the device that 24 states use to satisfy the income part of the Medicaid regulations. It is only a tool to achieve income eligibility. It does nothing to shelter assets, and it always should say that any remaining funds in the trust at death must be paid back to the state. To create a Miller Trust, there must be a proper authority in the power of attorney to do that, or a guardianship might need to occur.

5. **Not knowing the Medicaid exemptions**. This is big because many folks never get around to doing any planning. A spouse might come into your office who is petrified she is going to lose her house. Even with no planning, a healthy spouse is protected by the spousal impoverishment rules. In Delaware, the retirement accounts are protected, and in other states too, but the house is protected for the healthy spouse in all

married-couple cases, and that is regardless of the residence's value.

It is important to know that the prepaid funeral, burial space, and burial space items are excluded, that one vehicle of any value and life insurance with no cash value are off the table. Medicaid does not make you have a yard sale. Knowing that all your household goods and personal possessions are excluded and not available to pay for care is really, really important, and can provide a great relief to people as you are talking to them.

6. **Not knowing the transfer rule exemptions**. This is where we can make transfers between spouses, and Medicaid does not care about that. I have a client where one of the sons is receiving Social Security disability. We can potentially transfer the assets from dad to that child receiving Social Security disability, and there will be no impact on dad's ability to qualify for Medicaid. So, transfers to blind or disabled children sometimes provide a good planning opportunity.

We talked about the cohabitating child and how the house can be transferred to that child after two years. We talked about that unusual case with the cohabitating sibling who has an equity interest and has been residing in the home for one year; the home can be protected. There are these transfer exceptions, and it is important, if the circumstances are right, that we rely on these to potentially protect a decent amount of assets.

7. **Forgetting about estate recovery** can be a trap. Estate recovery is the department of Medicaid that can come after the estate of the applicant. Any assets that remain in the applicant's name at the applicant's death are potentially subject to estate recovery. If the state has paid out $50,000 in Medicaid benefits and then the applicant passes away, and there is a home still in the applicant's name, then the state can recover against the home up to the $50,000 in my example.

Even if the applicant signs an intent-to-return-home statement, at death the residence is considered part of the probate estate and would, therefore, be subject to claims. If estate recovery does what they are supposed to do, they will file a claim against the estate, requiring the house to be sold and the claim to be paid.

8. **Not planning for the healthy spouse**. If you have a married couple, and you utilize the rules, you protect assets for the healthy spouse. Say Sam and Rose are married. Once Sam goes on Medicaid, you do not stop there. Rose's estate plan needs to be updated because the assets we protected for Rose, we never want to go back outright into Sam's hands. If Rose passes away first and all the assets that we protected now are back in Sam's hands, he would have to further reduce those to $2,000.

Updating Rose's estate plan, removing Sam's name from assets, and setting up a supplemental needs trust for Sam in case Rose dies first, are all things we review to make sure that everything is sealed up. In case Rose passes away first, the assets would not be potentially available and interrupt Sam's Medicaid eligibility.

Then we look at the tax consequences of cashing out accounts and making sure that we plan and provide for that so that the well spouse is not getting hit with a big tax bill in the next year.

9. **Misunderstanding the ethics related to asset protection planning**. I feel strongly about doing this planning for my clients, making sure they know what's available to them. I spend a ton of time in my community, educating the community in which I live to make sure that people are aware of this type of planning.

Remember, too, that this type of planning is ensuring payment for the services that are going to be needed and preserving a nest egg for the senior. It is just smart financial planning because the worst thing that could happen is that a person becomes destitute, dependent on public benefits, and has nothing else left to supplement what those public benefits may not provide.

10. **Over-generalizing the rules**. These rules are complicated. Medicaid is complicated stuff. VA is complicated stuff. There are federal nuances. There are state-specific nuances. Be careful about to who you listen.

> Nobody is necessarily ill-willed and pointing them in the wrong direction, but a family member who experienced Medicaid in New Jersey is not going to be able to give you advice on how things will work for you in Delaware. Alternatively, if your parent lived in Florida and qualified for Medicaid in Florida, there are going to be nuances.

Just be very, very careful about over-generalizing the rules, and understand the entire process and all the timing requirements. I have been doing this now, pretty much exclusively, for seven years, and it just amazes me how stuff still comes up that I have never seen before. As a team, we work through it, and we pull out our regulations. There are always these little nuances and things that could come up. If you miss one and dabble in this area, it could get you into hot water quickly.

Ethical Considerations

There are a couple of ethical considerations that I want to leave with you.

First, who is the client? The client is the one whom we feel we owe the professional duties of competence, diligence, loyalty, and confidentiality. In the real world, we are not working with the senior himself or herself. We are often working with the agent under the power of attorney. The family members, in this type of planning, are usually so intimately involved, and if the senior can be a part of the meeting, they bring trusted family members to the meeting. In some cases, the family members are even paying the bill.

However, who's the client? In almost every case, it is the senior. If I have a child sitting in my office who I call the greedy child, who's not really worried about a nest egg for mom or dad, who's just looking out for himself, and who wants to ensure that that legacy is there for him and his sisters, I remind that child that the parent is my client. I am here to make sure that the parent is protected, and that the parent is provided for, and that the parent does not outlive his money. Because of this planning, if there is a legacy to be left, that is great, but that is not the No. 1 reason that we engage in this type of planning.

There are always diminished-capacity concerns with this type of planning when you are working with seniors. There is a fundamental difference between the kind of capacity it takes to create a will and the capacity it takes to create a power of attorney. A power of attorney is a contractual document that the senior would sign, giving somebody else the ability to make legal and financial decisions on behalf of that senior. That must be done while the senior still has the capacity. Preferably, it was done way before any incapacity issues were even a concern.

The alternative if there is not a power of attorney, or if the power of attorney is not valid or thorough enough to do the type of planning, then we must go to the court and ask for a guardianship or a conservatorship, although that is not an ideal course of action because it can be costly. It can cause great delay, which means money. In a lot of these cases, it is a very public process, and there are a lot of annual reporting requirements that go along with that.

Finally, and this will be the last I say about ethical considerations, everything that I do, in my opinion, is legal and ethical. I and everybody in my firm feel that this type of asset protection planning is smart financial planning. We often remind ourselves that we cannot confuse our political views with what our client's legal rights are.

About Amber Woodland, Esq.:

Amber Woodland, Esq. is a member of the bar of the Supreme Court of the State of Delaware. She is also accredited by the Department of Veterans Affairs (VA) to prepare, present and prosecute claims for veterans before the VA. Amber's practice is focused in elder law including asset protection planning for long term care (Medicaid and VA), wills, trusts, estates, powers of attorney, health care directives and guardianships.

Amber is a graduate of Flagler College (Bachelor of Arts Degree, Psychology, Cum Laude, 2007), Saint Augustine,

Florida; and Regent University School of Law (J.D., 2010), Virginia Beach, Virginia.

In law school, Amber served as the Chairperson for the Volunteer Income Tax Assistance Program. She also received recognition in an article titled “Healing Healthcare Through Tax Reform,” Regent Journal of Law & Public Policy, Volume 2, Number 1, Spring 2010, 63, for her editing and research assistance. In addition, Amber served as a legal intern for a law office in Newport News, Virginia, where she primarily concentrated in the areas of estate and tax planning.

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Elder Law Basics: Long Term Care Medicaid & Asset Protection Planning for Seniors – Amber Woodland, Esq.

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Maximizing Your Clients' Social Security

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By Matthew Allen, CEO, Social Security Advisors

About 70 percent of Americans fail to make a smart Social Security decision and instead just guess or claim early. On average, this costs about $120,000 per couple and amounts to about $25 billion per year in lost benefits.

Why is this happening? Social Security is complicated. There are 2,728 Social Security rules, and there are over 9,200 strategies for the typical couple.

Why is it essential to maximize benefits for clients? They can:

1. Receive a higher Social Security benefit by pursuing a smart strategy.
2. Increase their standard of living and their financial flexibility.
3. Increase their retirement security, primarily because of the way survivor benefits work.
4. Increase the longevity protection for the survivor in a couple.
5. Receive an inflation-protected payment with automatic cost-of-living adjustments each year.
6. Have a consistent stream of income that is not market-dependent.
7. Get every penny they deserve – they deserve it.

Many people think they can just go to the Social Security Administration to get advice. Social Security is legally prohibited from providing advice. They also don't have the tools available to be able to make a quality recommendation.

Matthew Allen, CEO, Social Security Advisors

Editor's note: This article is an adaptation of the live webinar delivered by Matthew Allen in 2017. His comments have been edited for clarity and length.

You can read the summary article here as part of the 3rd Qtr 2017 Retirement InSight and Trends Newsletter, worth 1.0 CE when read in its entirety (after passing the online quiz.

You may also choose to take the full length course Maximizing Your Clients' Social Security – Matthew Allen for 1.0 hour continuing education (CE) credit.

Claiming Social Security Benefits

Benefits are available for singles, spouses, divorced spouses, widows, and children as well in some cases. One's Social Security benefit is based on their highest 35 years of earnings.

The earliest that anyone can claim a Social Security retirement benefit is at age 62, and they can earn delayed retirement credits for each year they defer, all the way up until age 70. In general, these delayed retirement credits accumulate at the rate of roughly 8% per year. Full retirement age is 66 for most people; it is also a bit of a magic age in the sense that it opens a variety of other Social Security options when someone reaches that age.

When your clients can claim Social Security is very different from when they *should*. The standard claiming ages on Social Security statements of 62, 66, or 70 are almost never the optimal times to claim.

Client's can look for their full retirement age on their Social Security statement. For someone born in 1960 or after, their full retirement age of 67.

Social Security Claiming Strategies

Many folks do not take the time to think about or recognize that there are strategies for claiming benefits. Life expectancy plays a significant role.

It is crucial for married couples to pursue this decision as a team. They want to be functioning together and coordinating their benefits. The most significant mistake most couples make is they think about their situation without considering their spouse.

The Bipartisan Budget Act of November 2015 created two different buckets of beneficiaries; those born before January 1, 1954, and those born after. **T**hose born before that date still qualify for some of the old Social Security rules, such as the Restricted Application, which gives someone the ability to claim a spousal benefit only, while they continue to accrue delayed retirement credits on their record.

An example is a married couple, John and Susan. John is 66 and Susan is 62. Both are entitled to a full retirement age amount of $2,000 a month.

Under the restricted application, Susan would file on her own record first in order for John to file for the restricted application, because a spouse cannot get a spousal benefit until the primary worker files. Susan's benefit of $2,000 would then be reduced to $1,500 because she filed early.

John is at full retirement age. He would be able to get $1,000 with the restricted application, or 50 percent of Susan's full retirement age amount. At age 70 he can switch over to his own record that will be $2,640 per month, or 32 percent higher than his full retirement age amount. He also will have collected $48,000 in spousal benefits at no cost to him or negative impact to Susan, resulting in an extra $161,000 over a longer life expectancy.

The Deemed Filing Rule is when someone files for their Social Security before their full retirement age, Social Security looks at the highest record available to them and pays out on that higher record. For example, if John filed a restricted application at age 65 instead of waiting until his full retirement age of 66, Social Security would have paid him based on his record. He would have missed the spousal benefits, and he also would have missed the delayed retirement credits.

Social Security Strategies for Couples

There are rules of thumb for couples with significant earnings discrepancies. In general, the lower earner should file early, and the higher earner should file later, ideally at age 70 in many cases (but not all cases). Also, the lower earner can start receiving Supplemental Spousal Benefits when the higher earner files in many cases.

For couples who have similar earnings histories, the general rule is that both the higher earner and the lower earner should delay, allowing them to accumulate additional retirement credits. However, if they were born before 1954, they should pay attention to that ability to use the restricted application, because coordinating benefits often works out best.

There is an ability to suspend benefits for anyone who has already achieved their full retirement age. Let's say someone started benefits at 64. Whether they made a mistake or didn't know any better at that point, once they reach their full retirement age they can suspend their benefits. That restarts the ability to get additional delayed retirement credits at 8% for each year until age 70.

Divorced Spousal Strategies

There are similar strategies for divorced spouses as for married couples, with additional qualifications. The divorced spouse needs to have been married for at least ten years. Once they have been divorced for at least two years, they are "independently entitled."

That is important, because unlike married couples where the spouse needs to wait for his or her spouse to claim on their own record to get the spousal benefit, by being independently entitled, the divorced spouse does not need to wait for the ex to claim to get a spousal benefit. For divorced spouses born before 1954, the restricted application

can be used in a very similar way to the married couple and can give the divorced spouse 50% of the ex's benefit.

Let's say they got divorced five years ago and someone's ex had not claimed a benefit yet. They can claim the spousal benefit if they are at least full retirement age to use the restricted application, and they can let their benefit continue to grow. The general rule of thumb here is that if they qualify for it, they should be taking advantage of it. They do need to be careful, though, of the deemed filing rule. If they try to file the restricted application at ages 64, 65, or 62, they are just going to get paid benefits on their own record in most cases, as opposed to as a spousal benefit.

Moving back to our example, let's say John and Susan are now divorced and are the same ages and have the same monthly benefit amounts: $2,000 and $2,000. Susan does not file, but John files a restricted application. That allows him to get the $1,000 a month based on 50 percent of Susan's benefit. At age 70 he will want to switch over and claim benefits on his record at the now higher rate of $2,640 a month (due to delayed retirement credits). By doing this, John will get about an additional $62,000 more over an average life expectancy; and over a longer life expectancy about $104,000 more.

Survivor Benefit Strategies

Survivor benefits for couples are incredibly important. When a spouse has passed away, and if the survivor is under 70 years old, they are in a position of what's called "dual entitlement." They can elect to claim either a survivor benefit or claim based on their own record. When a spouse passes away, the survivor gets the higher of the two benefits, and the lower one drops off.

Survivors can claim a survivor benefit as early as 60, two years earlier than a retirement benefit. It is critical to consider which record to claim on, and when, for a survivor.

They can claim early as a survivor, as an example, and then switch to their own benefit later; or they can claim their own benefit early and switch to the survivor benefit later. There are reductions occasionally just like there are for retirement benefits. There are reductions for benefits on claiming a survivor benefit before full retirement age. If someone claims at age 60, the benefit will be about 71% percent of what they would otherwise be eligible.

Let's say John and Susan were married, have the same benefit amounts, and John passes away. Susan files for the survivor benefit; in this case at age 60, and then switches to retirement benefits on her record at age 70. She will receive $1,437 per month from ages 60 to 70 years old, and then $2,640 per month at age 70 because of switching to her benefit. Doing this will total about $221,000 in additional benefits over an average life expectancy and nearly $270,000 extra over a long-life expectancy.

Social Security Strategies for Singles

Singles do not have as many Social Security strategy options available to them; it is more of a breakeven analysis. There is something crucial that singles need to pay attention to called "Social Security rat holes."

A rat hole happens when the 8 percent delayed retirement credit for singles is not calculated evenly between the ages of 62 and 70. There are some dips during that period with how Social Security calculates the Primary Insurance Amount for a person. This creates suboptimal time periods for singles to claim. For someone who has a full retirement of 66, the rat holes occur:

1. Between ages 62 and 63 and 11 months
2. Between 65 and four months and 66 and eight months.

If someone claims during these rat holes, it permanently reduces their Social Security benefit over their lifetime. If singles can wait and continue to get delayed retirement credits, they can increase their benefit by about 76 percent.

Social Security Strategies for the Self-Employed

Self-employment allows a unique planning opportunity especially if both spouses work in the business. One of the reasons is because of the financial flexibility that many self-employed people have in structuring their income (salary versus profits), and how much as a result they are paying into Social Security.

It is important to work with clients to develop an optimal amount of contributions that they should make to Social Security, because there are three different bend points, referring to that primary insurance amount formula. Social Security is a progressive governmental system. With these three bend points, you get the most amount of credit for the money you put in at the first bend point. By the time you get to the third bend point in the formula, you only get about $.15 for each dollar of additional contributions. By working with those who do have some flexibility on how they structure their income, the idea is to come up with the ideal amount that's subject to FICA taxes and structure it to maximize their benefits over the long term.

If someone is already receiving benefits and thought they made a mistake or is having second thoughts, often it does make sense to at least revisit the issue and consider suspending benefits to get those additional delayed retirement credits. They can resume benefits anytime before 70; they do not have to wait for 70 when benefits automatically resume.

Costly Social Security Myths or Misunderstandings

There are some costly Social Security myths and misunderstandings upon which folks mistakenly focus.

1. Claiming benefits before the "system runs out of money." Some of these concerns are unfounded.
2. Many people just don't think it matters when they claim benefits and that it is all going to equal out, and that could not be further from the truth.
3. They fail to recognize that while they work and collect Social Security, they think they can get a full benefit. With the earnings test, that is not the case. They can be penalized as a result.
4. They look at their Social Security benefits statement and think they only have three choices: ages 62, 66, or 70.
5. Social Security will help them figure everything out.
6. Divorced spouses mistakenly often think that they are in a position where they cannot collect on an ex-spouse.
7. Singles think there's no optimal claiming strategy for them; most people are not aware of the rat holes.
8. They also think that if a worker delays claiming until 70, the spouse will receive 50% of the increased benefit at age 70; that is not the case. The spousal benefit is always based on the full retirement age amount.
9. They fail to recognize that a Social Security decision cannot be undone, except for a one-year period where a Social Security decision can be adjusted.
10. They fail to work for 35 years, so their non-working years count as zeros. That lowers their average income. Working after collecting a Social Security benefit can be a way to increase a Social Security benefit. Many people think once they begin Social Security, that is it; it is entirely locked in and even if they work, it is never going to increase because of that work. That is not the case. Social Security continues to provide for additional credit if someone is working, and that the new earnings are within their highest 35 years.
11. Taxes can often reduce Social Security benefits by up to 30% in some cases. That is called the "Social Security Tax Torpedo."
12. Having errors on a Social Security record is more common than people think. When someone has a Social Security statement that has an error, he or she only have about three years, three months and 15 days to

correct that record. After that time, it becomes difficult to correct, and you generally must have firm evidence that it was a Social Security Administration mistake to get the record corrected. For your clients, pay attention to the earnings history; make sure it is accurately reflected.

13. Another mistake made is not minimizing the damage of having claimed early. One of the ways to do this is to suspend benefits, or at least consider it, and accumulate those additional delayed retirement credits, or possibly to withdraw an application entirely. To do that, they file a form called Form 521, which is a request for withdrawal of an application. In this case, they repay all the benefits that have been received to date. They can only do this once in their lifetime.
14. Underestimating life expectancy is one of the more frequent things people do. Since Social Security is a lifetime benefit, it is generally more conservative to be planning for a slightly higher life expectancy than what might otherwise be the case.

Coordinating Social Security Benefits with Other Retirement Assets

More frequently than not it makes sense for clients to tap into other retirement vehicles first and delay their Social Security. One of the reasons is the 8% percent per year increase in the benefit they get from continuing to defer their Social Security.

From a risk profile perspective, comparing the 8% benefit increase to Treasury rates and the interest rate environment today, deferring Social Security and taking benefits from other assets can extend the portfolio longevity.

One thing you should also be aware of for clients is the ability to receive retroactive Social Security benefits. Anyone after their full retirement age can receive some benefits as a lump sum. The general rule on retroactivity is six months. Let's say someone is 67 years old and has not yet claimed; they could elect to go back to claim at 66 and six months when they file. They would receive a lump sum benefit up front, and then the monthly benefits would start after that.

The Social Security Earnings Test

The earnings test is important from a planning perspective. It comes into effect when someone claims a Social Security benefit before reaching his or her full retirement age, and they are still working. If they are in that position and they are earning more than $16,920 per year (2017), Social Security is going to start to withhold some of their benefits.

The higher earnings test limit of $44,880 comes into play the year that someone reaches their full retirement age, so there is a little bit more flexibility that year. The earnings test disappears at full retirement age. Someone could make $1 million a year and collect their Social Security at full retirement age and have no problems. When someone does run into the earnings test, and he or she are making more than that limit of the $16,920, Social Security withholds $1 in benefits for every $2 they are over that limit. For example, Social Security is going to withhold $5,000 if they are $10,000 over.

It is important to recognize that the benefits are not lost entirely. They are credited back to that person's account at full retirement age. It does not come back as a lump sum though; Social Security calculates their life expectancy and they return it in the form of credits. A person might see a $10, $20, $30 a month increase in their monthly benefit, depending on the amount of benefits that were withheld.

Being subject to the earnings test can reduce other Social Security options in the future, especially for a spouse. It is very important to try to keep clients away from the earnings test, and it becomes a bureaucratic hassle if they get involved in that as well. A general rule of thumb is that if a client knows they are going to be working and exceeding the earnings test, not to claim benefits.

Social Security Disability Benefits

The Social Security Administration also can pay a disability benefit through a payroll tax-funded program to assist those who are disabled. To qualify, a person must have worked in a job covered by Social Security, they must have a medical condition that qualifies as a disability, and they must be in a position of being unable to work for one year or more.

The advantage of qualifying for a disability benefit is that it is paid at the 100 percent rate of the full retirement age. For example, if Susan's full retirement age benefit is $2,000, she would be able to get that $2,000 at age 50 as a disability benefit. At her full retirement age, it automatically converts to a retirement benefit.

Tips for Filing for Social Security Benefits

Here are a couple of tips here when filing as well as things to be careful of.

1. If someone is filing before their full retirement age, often what's asked is whether they would like to file for all the benefits they are eligible for. They do want to be in a position of knowing exactly what they want to be filing for, not claiming too early, not missing those delayed retirement credits, and not being subject to the deemed filing rules. They need to be aware of those things at that point.
2. Divorced spouses are often asked if they are applying for all benefits. Folks that are divorced do need to recognize they do have those options in many cases, and timing is important. If someone just answers the question generically, they are going to be subject to that deemed filing rule in most cases, and that can eliminate future options for them.
3. The same applies to survivors under age 70 because they have dual entitlement.

There are four principal areas to consider before claiming:

1. Life expectancy
2. Employment
3. Financial need (whether they have other assets or savings that they can tap into), and
4. Coordinating with their spouse.

If you have a client who is on the fence about whether to file, or you are not sure of the timing, you might want to consider using a Protective Filing Statement. It creates a reservation with Social Security and provides a six-month window to go back and use the original date. If someone did this in January, and then let's say they get to May and they thought it really would have been smarter to take the benefits in January, even though they are filing in May, they can go back to that January date and lock in that date. It can often be a valuable tool to use.

Suspending benefits even after someone has filed should not be overlooked as part of your planning arsenal because of being able to accumulate those delayed retirement credits. Regarding doing the actual suspension, it is a pretty simple matter sending a form to Social Security called a Statement of Claimant. The wording on the form does have to be specific to make it happen correctly, but it is painless from the client's perspective. Clients may want to consider withdrawing an application entirely if it is within the one year that they are allowed to do that. That can help them reset the situation in terms of making a better decision going forward.

If someone is filing on their own record, there are four ways to do it:

1. Doing it themselves online.
2. Calling the Social Security Administration
3. Visiting in person at a local office

4. Using a professional filing service.

The fourth option, given our experience, is the one to be focusing on, because it is way too easy to make a mistake. Social Security has been having tremendous issues with staff unfortunately providing wrong advice, even though they are not supposed to provide any advice. There's also the wait times; it is about 45 minutes on the phone to get through, and in person, it is a multiple-hour wait. There are easier ways of going about it.

Matthew Allen, CEO, Social Security Advisors:

Matthew Allen is the Co-Founder/CEO of Social Security Advisors and creator of the new course Maximizing Your Social Security produced in conjunction with Weiss Educational Services.

As a serial entrepreneur who is driven by a passion for providing industry-leading advice to his clients, Matthew has been at the forefront of financial services for over a decade. He has helped thousands of seniors maximize their Social Security benefits and avoid costly mistakes when filing.

In working with his clients, he realized that there was a major education and advice gap when it came to Social Security and was determined to fill this void by co-founding Social Security Advisors.

Having performed countless hours of client-focused research, Matthew applies this powerful knowledge and expertise by bringing insightful product vision, finance, and leadership skills to Social Security Advisors.

Matthew Allen, CEO, Social Security Advisors

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The Holy Grail of Retirement: How to increase income and growth while improving liquidity

retirement-insight.com/holy-grail-retirement-increase-income-growth-improving-liquidity/

By Curtis V. Cloke, CLTC, LUTCF, RICP®, Founder of Thrive Income Distribution System, LLC

Curtis Cloke, CLTC, LUTCF, RICP, Award-winning financial professional and retirement income expert, trainer, and speaker

Editor's note: This article is an adaptation of the live webinar delivered by Curtis Cloke in 2017. His comments have been edited for clarity and length.

You can read the summary article here as part of the 3rd Qtr 2017 Retirement InSight and Trends Newsletter, worth 1.0 CE when read in its entirety (after passing the online quiz.

You may also choose to take the full length course The Holy Grail of Retirement: How to increase income and growth while improving liquidity – Curtis Cloke for 1.0 hours continuing education (CE) credit.

There is a bridge in Honduras where no roads lead to it, and there's no river running under it. A cyclone came through that was so severe that it took out all the roads that led to the bridge. It also actually moved an entire river.

This bridge is metaphoric for what might happen if we continue to do the things the way we have done over the last 30 to 50 years of retirement income planning. It was a model that allocated a significant amount of assets to bonds, where you could expect somewhere about a 5 to 6 percent income yield consistently over time. Given this low-interest rate environment, we are in a 30-year trench that's probably going to be quite different. Also, now we have the risk of equity losses in bond instruments if we are not careful. We cannot do what we have always done in the past because the cyclone of increasing longevity, metaphorically, has come through the financial planning industry. We must realize that those methods are rendered useless just as the bridge in Honduras.

The 2012 mortality tables by the Society of Actuaries were published in 2014. The last time the tables were released was back in 2000. There are 12 years between the previous numbers and the current numbers. Men who reach age 65 in America are on average living to age 86.6, and women to age 88.8, for an increase of 2.2 years during the prior 12 years. If we were to live 30, 35 or 45 years in retirement, and every 12 years we add a 2.5-year extension to our life, we can see how disruptive this is as we go through more market cycles.

When people live longer, there are body parts that go bad and illnesses that happen, which means we must maintain our health with more expense before we pass on. When we extend life, it is additional pressure, of course, as we all know, on our portfolios.

The Importance of Liquidity in Retirement

There are two types of liquidity: discretionary spending liquidity and investment allocation liquidity. I can move money from stock to a bond or bond to a stock, but it does not necessarily mean that I can take it out.

Let's pretend Mary and John have been married 35 years. They worked for 40 years. They have $28,000 in their checking account. It is their emergency fund, their regular management of cash flow needs. Together, they have accumulated $1 million in their 401(k) plans.

There are two ways to address withdrawal rates. One is a withdrawal rate that would be predictable, static, and provides a level income in good and bad markets with a bit more safety. If you are willing to vary your income as markets ebb and flow, we can eke up your withdrawal rates a little higher.

Now let's pretend John and Mary say, "No, I do not want to get into a place where I have to unpredictably lower my

income standards with some market variability. Let's use a safe withdrawal rate."

We will not get into a debate about whether the safe withdrawal rate is 5 or 4 or 3 or 2 percent. Academics today will argue the 4 percent rule is dead on a static basis, that it is more like 2.2% or 3.0%. For this example, let's assume it is 3%.

If John and Mary are average mass affluent clients, they might need $90,000 of income. Let's pretend they have $30,000 in annual pension income and $30,000 in Social Security. If they have $1 million and 3% is the safe withdrawal rate, then they make it. Here's the problem. Two years later when Mary says to John, "I want to take the grandkids to Disneyworld and the $15,000 we need is not in the $90,000 budget."

If all these things were true, how much discretionary liquidity or spending capability can John and Mary get without putting risk pressure on their withdrawal rates? Everybody understands the answer to that is zero. The entire $1 million must be held hostage to generate the earnings needed to provide a safe withdrawal over the lifetime of their expected longevity.

This issue of control or the fear of missing out is something we need to address. We sometimes forget that we should preserve dollars, especially for those who have a much longer time to live after the first spouse dies. This situation becomes a significant woman's issue to prevent making bad decisions while they are both still alive that can jeopardize that surviving spouse.

Take Key Risks Off the Table

There are five top risks out of 18 retirement risks that are paramount to mitigate:

1. Longevity.
2. Health insurance premiums and out of pocket healthcare costs, not including the long-term care issues that might happen later in life.
3. Non-medical inflation.
4. Sequence of returns risk.
5. Market volatility for the accumulation of assets.

Too often I see software that asks you to put in a monthly or an annual income amount number and some inflation factor, but they don't differentiate between the portion of that cashflow for healthcare that may need to be inflated at 6 or 7 or 8 percent and the remainder of that cashflow need that's not medically related that might only need to be inflated 2, 3 or 4 percent. Our calculations need to separate the cashflows in retirement to directly reflect a different level of inflation for medical costs versus non-medical costs.

There are three basic retirement income approaches that address some combination of retirement risks – the systematic withdrawal income plan, bucket or ladder approach, and the income floor strategy.

With a systematic withdrawal income plan, you basically make many assumptions. You collect all the data and the intellect from the client through a discovery process and then plug it in. You agree to what kind of forecast to save and then you Monte Carlo test that to determine the success or failure. None of that is really going to happen the way you said because Monte Carlo completely ignores black swan events.

When you do that, you are assuming and consuming, crossing fingers and toes, hoping it all works out. Of course, you are hyper-sensitive as an advisor. You are watching things on a quarterly basis, you are meeting with clients regularly, and you are managing these things. However, it is an 'assume and consume' strategy.

The second strategy is the bucket or ladder approach, or a progressive, "time segments of money" approach. It can

be non-guaranteed sources of bucket strategies or a combination of at-risk and promise-based or guarantee-based bucket strategies. Nothing wrong with either one of these two strategies.

However, the strategy I want to highlight is the income floor strategy, where guaranteed income solutions are added to that floor, and how the possibilities might be that we can create more growth, more liquidity, and legacy from that result.

Wade Pfau, Ph.D. wrote, “For retirement income, we must step away from the notion that either investments or insurance alone will best serve retirees. More emphasis needs to be on the basic forms of insurance products and how they behave as part of an integrated retirement income plan.”

Let’s pretend that I have two tools from my workshop. I have a shovel in the left hand. Down the wooden handle of the shovel, I am going to put the phrase “traditional investments.” I have a hammer in the right hand, and down the wooden handle of the hammer, I inscribe the word “annuity.”.

There are 42 types of annuities. Annuities can either be taxed on an ordinary basis, or on a last-in or first-out basis. Did you know that certain types of annuities can be taxed differently, like first-in, blend-out? So, it is not first-in, first-out. It is not last-in, first-out. It is first-in, blend-out.

There are components of certain types of annuities that also have either no commission at all or very low commission if those are the types the advisor is providing. So, these products do not have to be conflicted in any way, but they can create significant benefits by allocating income guarantees for a particular set of cases.

Let’s pretend for a minute that you are in a discovery process with your client. The client metaphorically reaches into his pocket, and he pulls out a 16-penny nail. The “annuity” hammer is specifically and specially designed to put the nail in the wall.

However, let’s pretend for a minute that we have an advisor, even though he sees the nail and knows what the nail means, he says, “I hate hammers,” and he throws the hammer away. He goes over to the wall, and he picks up a shovel because he likes shovels better. He tries to nail the nail with the shovel.

Now, further down in the discovery process, he is talking to the spouse, and she says, “We need to dig a hole.” Just in the same way, let’s pretend we are talking to some insurance guy who does not use investments. He hates shovels, and he says, “I think I will go get a hammer.” Well, he would look pretty stupid digging the hole if he is grabbing the hammer and losing the shovel.

Here’s the point: All these products have specific purposes. Often, when it comes to annuities, we hear about the bad uses and the bad Joes in the industry. We do not hear the good stories often enough about what these products do. It is important to understand what each product does uniquely and separately to mitigate risk in retirement. So, I’m not talking about a broad sense of annuity products. I’m talking about a very specialized set of annuity products that create tremendous value to the consumer.

If I want to guarantee that longevity risk is taken off the table for a block of the income, I certainly can’t guarantee anything unless I do it with an insurance-guaranteed product. I certainly can’t mitigate hyperinflation in combination with that if I do not use equities. I should have equities in the portfolio.

Divide and Conquer*

There are four things that we would like for our assets on the day of retirement.

1. Preserve our wealth for heirs.
2. Grow it slowly over time.

3. Distribute from it to combination with secure income such as Social Security, pension and maybe rental income.
4. Inflate the distributions to keep pace with inflation.

Altogether, the four things we want is to grow and preserve our dollars while distributing from those dollars and inflating that distribution. They are conflicting goals. They are difficult to do.

If I had bought a piece of farm land – and I thought about this a long time ago being from Iowa – that produced commodity crops in any state in the country 100 years ago, I would have met all four of those goals simply with ownership of a commodity field.

I have been considering this now for over 18 years. The further ahead of time that I purchase income, the better the performance, the less capital is used, and the faster I can generate with the remaining income needed with equity growth. I have been buying layers and layers of income over time as I approach my retirement. I am only 54 today, so I have been at this quite some time. I will not have to worry about that income being there because it is pension-like income.

The remainder of the retirement portfolio is then available for liquidity and discretionary income for things like taking grandkids to Disneyworld, and growth. I have created less dependency on a constrained portfolio for a safe withdrawal rate and can, therefore, chase more growth, and then I can start to focus some dollars on building a legacy to protect the surviving spouse.

We call this the defensive approach in combination with an offensive approach. I need defense and offense to build a portfolio to last a lifetime. My good friend, Tom Hegna, talks about “paychecks and playchecks”. This is what we mean about “divide and conquer.”

There are many goals to achieve in retirement income: create reliable income, meet or beat inflation, and minimize taxes. Unfortunately, a lot of the research and testing that’s done today ignores fees and taxes. There are income products that create huge tax efficiency and have no ongoing drag of fees whatsoever. If I ignore fees and taxes, I will miss some of the greatest benefits of testing an income floor that these products merit out.

We designed software for our office so income products were fully capsulated and recognized, as we tested with a fiduciary standard approach, which one of these combinations of product allocations together give us the most income for the least dollars so that we could grow and provide liquidity with the maximum amount of dollars in an unconstrained way. We want to max returns but not with too much risk based on a client’s risk tolerance and legacy needed for the surviving spouse.

Income-Guarantees Require Insurance

Income-guaranteed products require insurance. Often there’s a misbelief or belief that annuity products are only as good as the carrier themselves. That is not correct.

The FDIC provides deposit insurance to depositors of banks. For insurance companies, specific products are required to have something called statutory capital reserves.

The statutory capital reserve is valued every single quarter, reported and reviewed by the NAIC, the National Association of Insurance Commissioners. The present value of each one of these income streams is valued just like life insurance and disability, car insurance and homeowners’ insurance.

Insurance companies must prove that they are retaining, off the general ledger, $1.05 for every $1.00 in statutory capital reserves. That means that when their out-go versus their in-go minus the capital reserves is at a deficit, they fail and are taken over by the insurance department of their state.

However, those statutory capital reserves have been untouched, and they are there so the insurance department can take them over while finding a suitable carrier takeover for that block of promises. Those dollars are there to make good on those payments. There's also a third layer of protection, a state pool guarantee.

Types of Retirement Income Annuities

Key retirement income annuities today:

- A SPIA is an immediate income annuity.
- A DIA is a single premium deferred income annuity.
- A Qualified Longevity Annuity Contract (QLAC) was approved by the federal government in 2014 that allows us to take some pre-tax dollars and kick them down the road as far as age 85 or at least as far as age 72, if we do not want to take required minimum distributions at age 70½.

Key elements of SPIAs and DIAs:

- They are a spread-based product, so when you get the income payment for the dollars you put in, and you calculate your IRR, there is no ongoing fee drag for these products.
- You can buy an inflation guarantee such as a 1 percent guaranteed increase, a 2 percent, 3 percent, 4 percent, and as high as 6½ percent. There are two products that exist, though I would not use them, that have an index-based adjustment with no cap.
- If I know how to manage the tax benefits for non-qualified after-tax sources, I get tax-exclusion tax treatment, that when applied appropriately, provides a first-in, blend-out tax treatment, which means I can take advantage of all kinds of other tax advantages that I would otherwise miss.
- All these guaranteed income products provide something called mortality credits. When I am 65, I get mostly return of principal and interest off the money invested. When I am age 90, I get very little interest. I am still getting my principal back until it's paid back, but now I am getting many more mortality credits because some people in the insurance pool are living, and some are dying.

Guaranteed income products allow you to "buy income and invest the difference"* more aggressively.

A Retirement Income Dashboard and a Case Study

We focus on four quadrants.

1. The investable net worth that addresses, "Am I running out?"
2. What's my withdrawal rate? We measure the withdrawal rate from the start of retirement to the end.
3. How much discretionary liquidity do you have and what's the reliability of the income?
4. How much of the income that I need in retirement is from promise-based assets versus risk-based assets?

Let's look at this case study of Larry and Cathy. They are 64 and 63, respectively. We picked longevity ages of 90 and 95 respective of their health and their family histories.

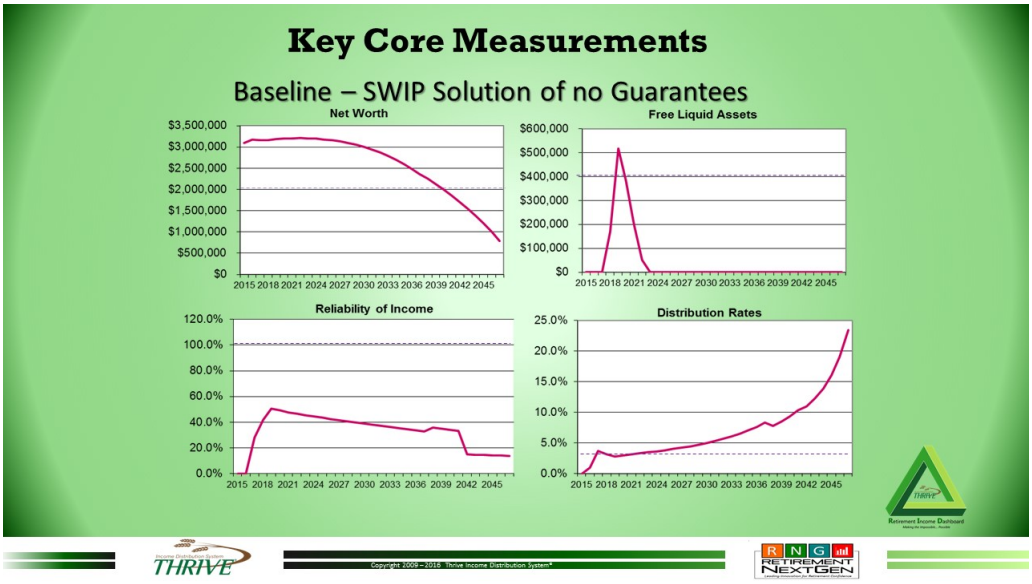
Both have Social Security. We have calculated their full retirement benefit. Larry had already elected a life-only pension before he met with us and it was an irrevocable decision.

They want $138,000 of net income in today's dollars that need to be grossed up for inflation and taxes. For non-medical cash flows, we are going to assume 3 percent inflation, and for medical cash flows, the health insurance premiums and out of pocket costs, we are going to inflate at 5 percent.

They have non-qualified assets of $1.35 million and qualified assets of $1.535 million. Their home is worth $500,000. Their investable assets, total investable assets are $3,085,000.

Now, take a good look at this case study and think to yourself how difficult it may or may not be to build a retirement plan.

Let's look at the following quantifiers or core measurements in our software dashboard below. Here we have a baseline or the SWIP (systematic withdrawal income plan) solution. It is a snapshot of the way things would be mathematically framed given the specs, performance, the fees if they are paying for current advice, the withdrawal rate and so forth.



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The first component (upper left) is the net worth column. Larry and Cathy said they want to maintain about a $2 million block of value for their heirs.

The second component (bottom left) is the reliability of income. There's the 100 percent reliability of income line, that takes into account inflation and taxes over time. The reliability of income redline starts out about 50 percent reliability because half is promise-based (Social Security and life-only pension) versus half is non-promised based, or risk-based (systematic withdrawals). As inflation starts to erode the promised-based income, the reliability of income goes down. Eventually, when one spouse dies, and some Social Security and pension benefits are lost (year 2042), you see that the surviving spouse has a much lower reliability of income than they had when they were both alive.

In the upper right-hand corner, the free liquid assets spike way up in the beginning. However, as soon as our investment performance crosses over our withdrawal rate and we are trying to preserve dollars, you can see that it drops to the floor.

We do not have discretionary liquidity in this particular case for very long. If we took monies out when we thought we had it, it would fall to the floor much more quickly. We really don't have any discretionary liquidity long-term here whatsoever. Most of the assets must be held hostage to generate the performance needed to keep the withdrawal risk as low as possible.

The bottom-right component is the distribution rate or the withdrawal rate. At 3% it doesn't take very long until the discretionary liquidity falls to the floor and where we cross above the targeted 3% withdrawal rate. Over time it gets well above 20%. I am not suggesting in the last trifecta of retirement that we cannot have higher withdrawal rates of 3 percent or 4 percent or 5 percent. Certainly, we can, depending on the amount of legacy we're going to leave

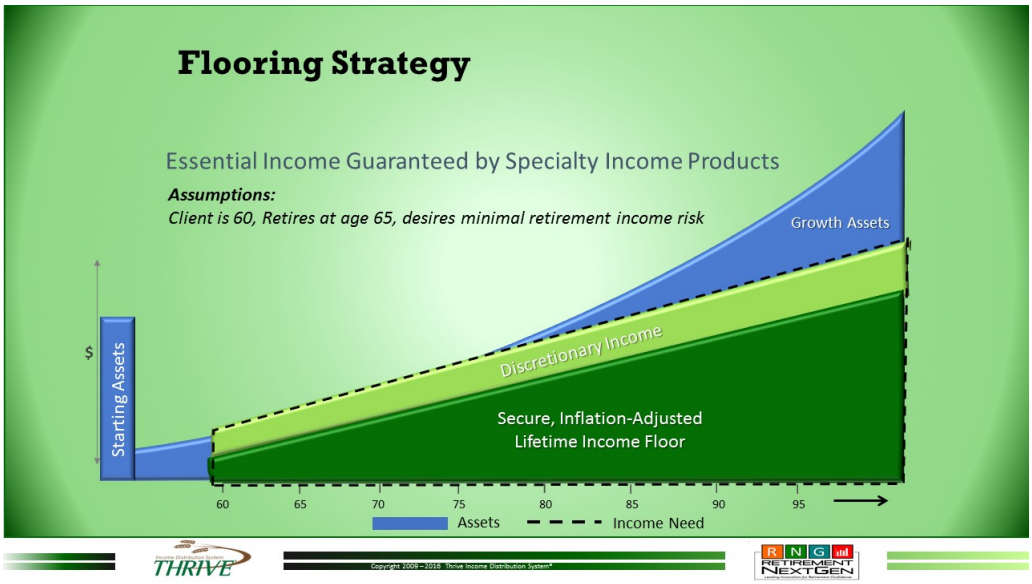
behind. However, I am going to suggest to you that this withdrawal picture, if I understand how to use it as an instrument reading a retirement dashboard, is really not safe at all.

Some of the unique and different things we tested to improve their retirement outcomes:

- *Delay Social Security and create a bridge of income*, so we did not have unsafe withdraw rates in the red zone at the front end of retirement by delaying Social Security.
- *Created guaranteed income on a period certain basis* will often provide low yields, but better yields than you can add in alternatives with very low tax implication.
- *Establish an essential income floor using a variety of products.* We tested qualified longevity annuity contracts that took some dollars off the table as early as possible and eliminate the risk of distribution risk at the later part of their retirement, while at the same time created some tax efficiency for about 10 to 15 years after age 70½.
- Created these brackets bumping Roth conversions programs. We utilized the tax bracket capacity before age 70½ to exploit at a low tax bracket, Roth conversions, which gives us back a significant amount of RMD control later.

Also, with some of the dollars that are freed up now, we can focus on other things that are important, such as adding a long-term care enhancement to life insurance to take some long-term care risk off the table.

The following is an example of a flooring strategy. The dark green is the essential floor. The top of the lighter green (discretionary income) completes the income floor. Some of the income may be from promise-based assets, some from risk-based assets. The block of blue is long-term growth assets.



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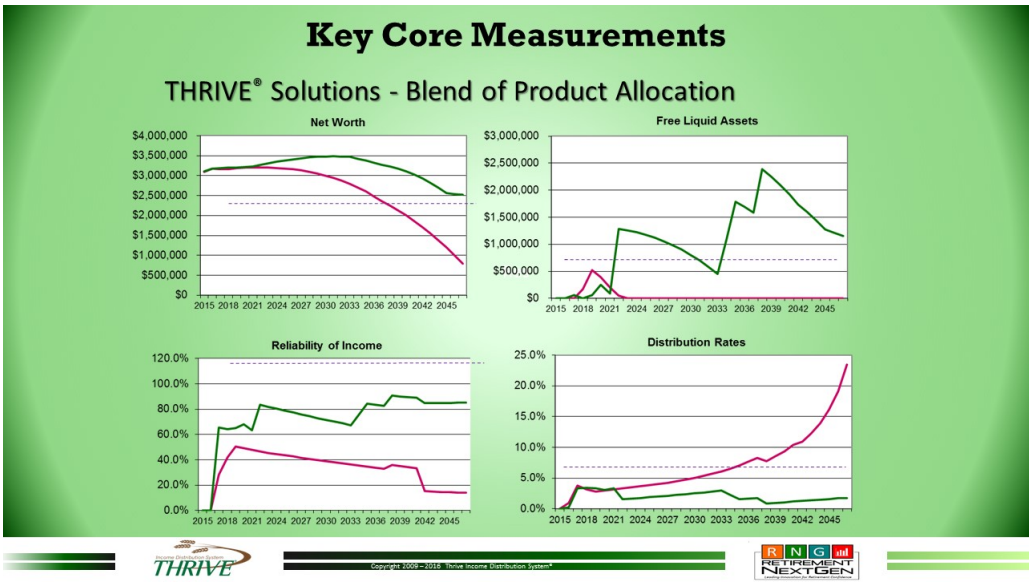
It used to take us many hours to test this mathematically. Finally, we created software so we can do this all in under an hour or 45 minutes in most cases. We will do 18 to 20 iterations with a variety of different products and solutions. Obviously, what we are trying to do is get the risk as low as possible without sacrificing performance.

When we applied the solutions mentioned earlier, we see the following improvements (see green lines):



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It is perceived or believed that when we buy income guarantees, we must be sacrificing performance. What if I told you that is absolutely not true? It's not even true in this interest rate environment. We've been testing this for 18 years, and when properly done, it's never been true. I don't have to worry about what I'm missing out on to take some dollars from luck to skill. I can do more of what I want to do, and that's having managed assets and more net worth ($2.5 million green line) without this constrained portfolio for a safe withdrawal rate.

More of the income is now from promised based assets for improved reliability of income, so the client is simply going to be happier. We have also created all kinds of discretionary liquidity (upper right). In fact, once we are past the year 2020 or so, we have about half a million dollars of liquidity or more that are totally unfettered, so the dollars are not held hostage to generate income.

Finally, the distribution rates are in line (bottom right). We have brought that distribution rate from dollars invested in the market way down from dependence on managed assets and the market.

So, this would be a hybrid. Most of our cases are in fact hybrids where we are bringing in the secure inflation-adjusted income floor. We are using bucket strategies with some managed dollars, and then we have long-term growth assets.

The role of a fiduciary is to be unbiased in what we do, embracing all the tools in the toolbox, even though some tools are used more often than others. It means taking an agnostic financial life planning approach as a best-interest standard. It is the math and science of best outcomes and testing that includes fees and taxes. You cannot ignore those things when doing the tests. Let's get over our fear of missing out. Let's test it, so we know instead of guess.

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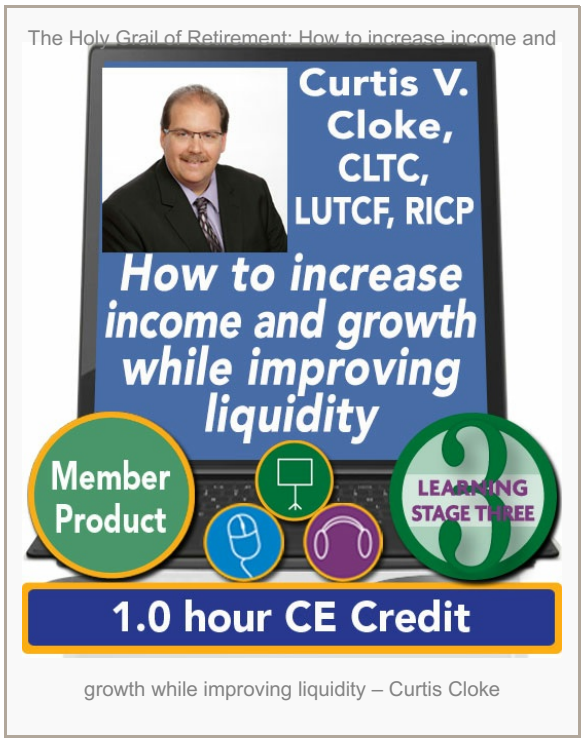
About Curtis Cloke:

Curtis Cloke, CLTC, LUTCF, RICP, Retirement Income Expert, is an award-winning financial professional and retirement income expert, trainer, and speaker with three decades of experience in income distribution planning.

Curtis actively engages all his audiences with his personable character and genuine care for clients' retirement needs and concerns. Through his extensive experience, he has perfected the ability to quickly and accurately

identify the income needs of all his clients and he's developed a system-based sales approach that he teaches to advisors. Beyond using annuities to create guaranteed income for life, he shows advisors how to generate the maximum inflation-adjusted income for their clients using the least amount of the portfolio.



growth while improving liquidity – Curtis Cloke

Curtis began his career as a financial professional with Prudential Financial. After many successful years with Prudential, he merged with a second firm and then in may of 2014, he founded his own firm, Acuity Financial, Inc. This is where his continues to apply and blend his expertise for his clients by providing advanced retirement income-planning strategies and techniques for financial professionals. Curtis is the developer of the Thrive Income Distribution System®, that provides a contractual solution for inflation-adjusted income utilizing the least amount possible of the client's portfolio value. He has also developed and provided continuing education training to professionals on many topics relating to retirement and estate- planning strategies.

Are you looking for a retirement speaker for your next conference, consumer event or internal professional development program? Visit the Retirement Speakers Bureau to find leading retirement industry speakers, authors, trainers and professional development experts who can address your audience's needs and budget.

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