THE RISK PROCESS™

RETIREMENT INCOME SURVIVAL KIT

REACHING THE SUMMIT AND RETURNING SAFELY

Climbing to the top of a mountain is considered by many to be one of life's greatest achievements. However, the real goal of climbing is not simply to reach the top, but to reach the top and return safely. Considering that 80% of climbing accidents occur on the descent, it is this second half of the journey that presents the greatest risk...and requires the most planning.

THE SAME CAN BE SAID FOR RETIREMENT INCOME PLANNING.

For years, people have focused intensely on accumulating enough assets ("climbing to the top of the mountain"). However, the biggest risks facing retirees occur during the income distribution phase — when we retire and begin to live on our retirement savings ("climbing back down the mountain").

As we begin this second half of our journey, we are faced with unique and potentially devastating risks such as market, inflation, liquidity, longevity, health and survivor risks. Just like climbing a mountain, those who acknowledge and address these risks will be most likely to safely and successfully complete their journey.

We understand that, traditionally, the retirement income planning process can seem overwhelming and complex. However, because of its great importance, we did not want these barriers to leave our clients unprepared. For this reason, we developed The RISK Process™, an effective, time-tested approach that simplifies the complexity of retirement planning and guides you through the process of building a personal Retirement Income Survival Kit™.

THE FUNDAMENTALS

1. INCOME ALLOCATION
2. WITHDRAWAL PERCENTAGE
3. RISK MANAGEMENT

THE RISK PROCESS™ IS BASED ON THREE FUNDAMENTALS

Before embarking on a journey, it is important to understand the guidelines for a safe and successful experience. The same is true when planning for retirement. So before we begin, it is essential to understand that The RISK Process™ relies on three fundamentals to guide you through the process of building your personal Retirement Income Survival Kit™.

1 TRANSITION FROM ASSET ALLOCATION TO INCOME ALLOCATION

Effectively transition your retirement savings from traditional asset allocation to income allocation.

2 DETERMINE YOUR WITHDRAWAL PERCENTAGE

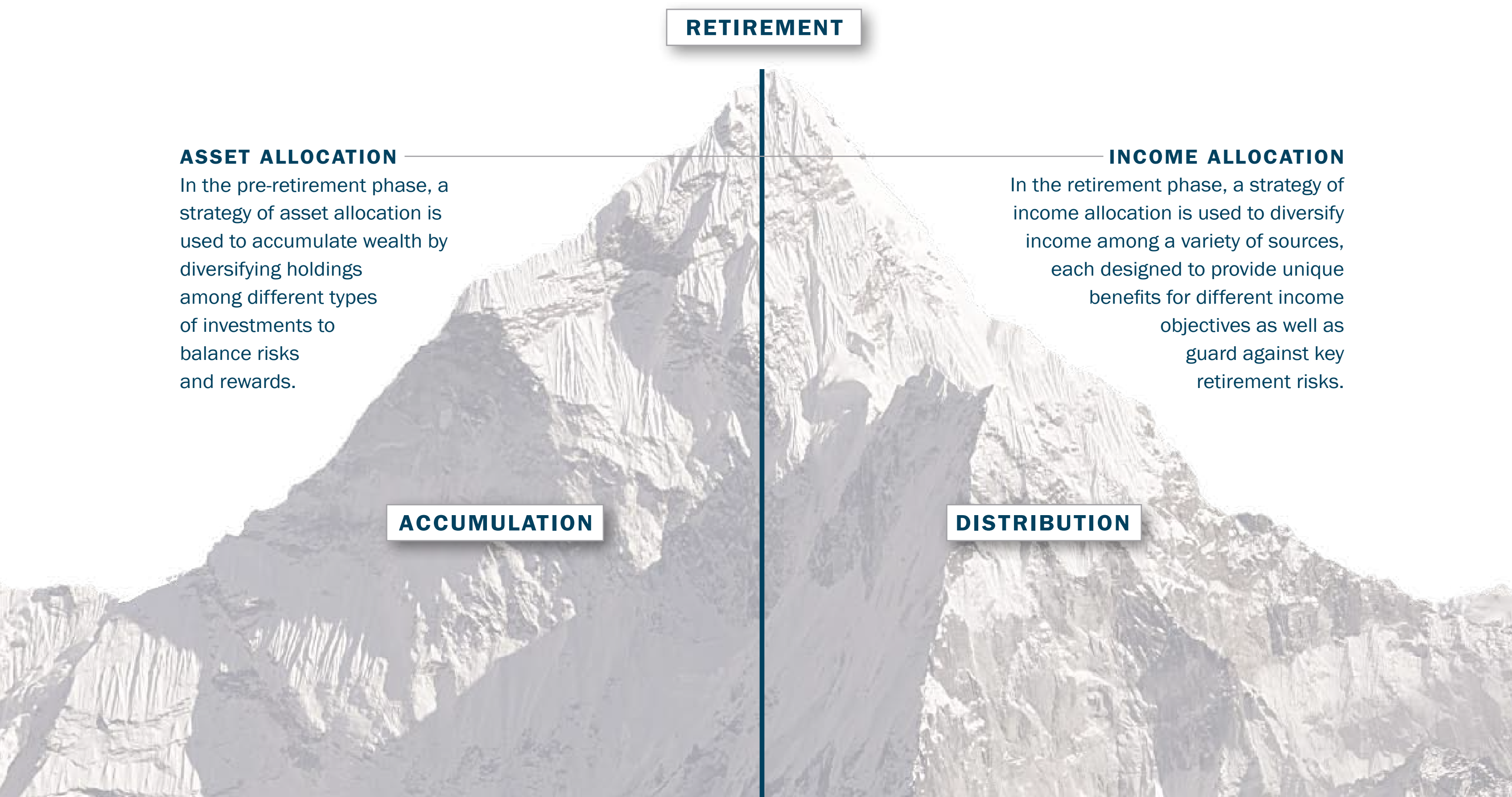
Determine the percentage of savings you can withdraw as income each year so it is sustainable *throughout* retirement.

3 RISK MANAGEMENT

Ensure that your annual income streams are protected against the key risks you will face during retirement.

1 EFFECTIVELY TRANSITION FROM ASSET ALLOCATION TO INCOME ALLOCATION

"It's time to take my savings and turn it into income that I can rely on for the rest of my life."



ASSET ALLOCATION

In the pre-retirement phase, a strategy of asset allocation is used to accumulate wealth by diversifying holdings among different types of investments to balance risks and rewards.

INCOME ALLOCATION

In the retirement phase, a strategy of income allocation is used to diversify income among a variety of sources, each designed to provide unique benefits for different income objectives as well as guard against key retirement risks.

Traditional investment management focuses on asset allocation. However, once we retire and begin withdrawing money, everything changes. The focus shifts to turning these assets into life-long income streams that provide for our needs and wants throughout retirement.

To effectively make the transition from accumulating assets for retirement to distributing assets during retirement, The RISK Process™ helps you:

- Reassess your available assets
- Redeploy them most efficiently into various income solutions as needed

2 DETERMINING A SUSTAINABLE WITHDRAWAL PERCENTAGE

A CASE EXAMPLE

- "Jane and Ed Smith" have accumulated $1 million in savings.
- The couple has determined they will need an annual income of $60,000 (6% annual withdrawal rate).
- Assuming their retirement will last 30 years with a 60/40 Stock/Bond asset allocation, Jane and Ed have an estimated 32% chance that their money will last the entire 30 years (SEE CHART AT RIGHT).
- The key to determining Jane and Ed's retirement success is not the $1 million they have accumulated. Rather, it hinges on their decision to take an annual income requiring a 6% withdrawal rate. Under these circumstances, the couple will have only a 32% chance that their money will last throughout retirement.

WHAT ARE THE CHANCES MY MONEY WILL LAST THROUGHOUT RETIREMENT?

ANNUAL WITHDRAWAL RATE	STOCK/BOND ASSET ALLOCATION 80/20	60/40	40/60	20/80
7%	24%	19%	14%	10%
6%	40%	32%	25%	18%
5%	62%	55%	46%	34%
4%	86%	84%	80%	66%

This is where The RISK Process™ can make a difference – by helping to increase the chances that savings will last throughout retirement.

WHAT IS YOUR PERCENTAGE?

When it comes to determining whether or not we are financially prepared to retire, the typical question is, "Do I have enough money?"

However, the real question is not how much money we have but rather, "What percentage of savings can I withdraw each year to meet my income needs throughout retirement?"

The RISK Process™ enables you to build a retirement income plan based on a withdrawal rate that helps ensure you won't run out of money during retirement.

The table at left summarizes a study performed by T. Rowe Price Associates, Inc. (TRPA). It shows the probability of successfully sustaining a given withdrawal rate over an assumed 30-year retirement period. Success is defined as having one dollar left in the account at the end of the retirement period. The results are hypothetical in nature and are based upon Monte Carlo analysis of five model investment portfolios made up of different allocations to stocks, bonds and short-term bonds. The given withdrawal rates are assumed to be taken out in their entirety on the first day of year one, and then adjusted upwards annually by 3% for inflation. Clients should be aware that their actual investment results may differ from this study, and that their potential for loss (or gain) may be greater than illustrated in this example.

3 ENSURE THAT INCOME STREAMS ARE PROTECTED AGAINST KEY RETIREMENT RISKS

STRATEGIES FOR MANAGING RISK

Building a personal Retirement Income Survival Kit™ involves analyzing our exposure to retirement risks and making decisions as to how we wish to address each of them. Generally, these decisions fall into four risk management categories: Avoid, Retain, Reduce or Transfer.

AVOID

DEFINITION: The action of not participating in activities that result in a chance of loss.

EXAMPLE: Deciding not to drive your car when weather is bad and roads are icy.

APPLICATION: Risk avoidance works in many areas of risk management but not when it comes to retirement planning. The risk of aging, declining health, longevity, and market risks are inevitable.

REDUCE

DEFINITION: Less exposure to the chance of loss.

EXAMPLE: We can reduce health risk by attempting to maintain a healthy lifestyle, but that can only reduce the health risk to a certain level.

APPLICATION: Reducing income risks as much as possible is certainly an option and should be part of the comprehensive plan.

RETAIN

DEFINITION: The assumption of risk without having a risk technique in place to help mitigate risk exposure.

EXAMPLE: If we live longer than expected and have no other strategy in place, the reality is that we are likely to run out of money.

APPLICATION: When evaluating the feasibility of whether to avoid, retain, reduce or transfer risk, it becomes clear that retaining 100% of income risk, or in other words, deciding not to do anything at all, is not an attractive option. Risk retention results from knowingly or unknowingly not addressing a chance of loss.

TRANSFER

DEFINITION: Transfer risk to a third party who can provide protection.

EXAMPLE: When buying homeowner's insurance, we pay a small premium in order to protect against a large chance of loss.

APPLICATION: The remaining risk management strategy is to transfer all or part of the various risks to a third-party financial institution that, due to the ability to pool risk and capital, is able to offer risk management solutions for an affordable price.

HOW MUCH RISK ARE YOU COMFORTABLE RETAINING?

Ultimately, the decisions we make during the risk management process will largely depend on individual situations and attitudes toward the various risks.

The goal is to decide, based on our personal circumstances and overall tolerance to the various risks, how much risk we are comfortable retaining versus transferring to a third party.

THE FUNDAMENTALS

1. INCOME ALLOCATION
2. WITHDRAWAL PERCENTAGE
3. **RISK MANAGEMENT**

3 ENSURE THAT INCOME STREAMS ARE PROTECTED AGAINST KEY RETIREMENT RISKS

The risks we face saving for retirement are different than the risks we face during retirement and often become magnified when we begin living on our savings.

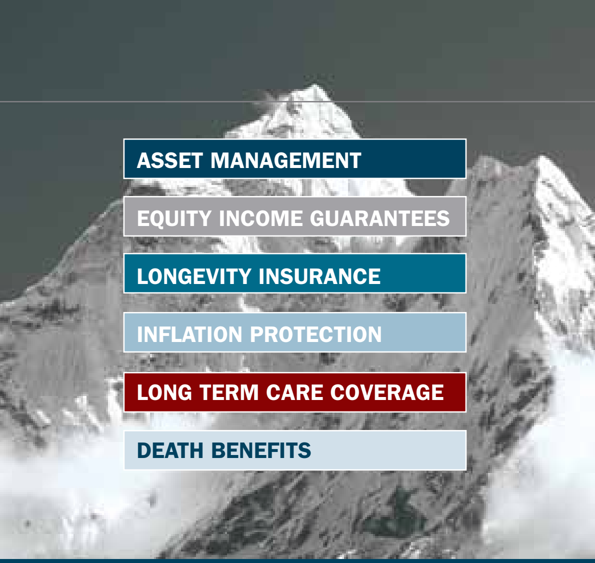
It is during the transition from saving money for retirement to spending money throughout retirement that we may find ourselves running out of money as income streams are depleted by one or more of these retirement income risks (see table at right).

To protect against this happening, we need to start reallocating savings from traditional asset allocations (climbing up the mountain) to income allocations (coming back down the mountain).

RETIREMENT RISK SUMMARY

RISK	CONCERN	IMPACT ON RETIREMENT INCOME
LIQUIDITY	The risk that my current portfolio will provide me with limited or no flexibility when unexpected needs arise	Since change is the one constant we can count on, even the most well thought out retirement plans must possess flexibility through liquidity.
LONGEVITY	The risk of outliving the assets I have set aside for retirement	Advances in medicine, access to care, and technology have dramatically increased life expectancy, i.e., the average length of time an individual is expected to live. Today, it is estimated that nearly 50% of individuals will outlive their life expectancy. For this reason, a sound retirement plan should address longevity risk by ensuring that your retirement income lasts for a lifetime and not just until life expectancy.
MARKET SEQUENCE OF RETURNS	The risk that the order of investment returns in retirement will negatively impact my portfolio and its sustainability (e.g. retiring just before a major market crisis)	Equities are typically needed to reach certain retirement objectives and keep pace with inflation. However, the volatility associated with equities can be devastating during an adverse market cycle. Once income begins in retirement, the average return becomes secondary to the sequence in which the returns occur. Experiencing negative returns early on in retirement may cause premature depletion of the entire portfolio. Retirees need to address this risk in order to adequately plan for their retirement horizon.[1]
INFLATION	The risk that costs of goods and services will increase over time	Inflation has superseded health care risk as the top concern of retirees, with the majority expressing concern that the value of their savings and investments might not keep pace with inflation.[4]
HEALTH	The risk of being forced to deplete a signifigant portion of my assets to pay for long term care	Medical statistics show two out of every three individuals age 65 and older will need some form of long term care in their lifetime.[2] Over 70% of individuals who need long term care assistance burden their loved ones as sole caregivers. 40% of individuals 65 and older will enter a nursing home with 10% of those individuals remaining in nursing homes for five or more years.[3]
SURVIVOR	The risk of leaving a financial burden on those I care about most	Perhaps no risk is greater than to place the burden of our passing on the ones we care about most. Survivor risk deals not only with planning for the time after death but also the lasting final impressions we wish to leave on the ones we care about most.

[1] *2006 Retirement Ruin and Sequencing of Returns, Moshe Milevsky, Ph.D. and Anna Abaimova*
[2] *2011 AARP Public Policy Institute Fact Sheet*
[3] *2012 A Picture of Higher Burden Caregiving, National Family Caregiving Associations & Care Improvement Plus*
[4] *2009 Risk and Process of Retirement Survey Report Findings (Sponsored by The Society of Actuaries. Prepared by Matthew Greenwald & Associates, Inc. and the Employee Benefit Research Institute)*



THE RISK MODELS

TRANSITIONING FROM ASSET ALLOCATIONS TO INCOME ALLOCATIONS

Indicates risk has been addressed

The RISK Process™ helps insulate your income against key retirement risks by constructing a portfolio comprised of various income solutions.

The income solutions within each portfolio are uniquely designed to provide specialized benefits such as asset accumulation, lifetime income, inflation protection, tax efficiency, long term care coverage and survivor benefits.

The sample models (at left) are hypothetical in nature and are intended to illustrate how combinations of various income solutions work together to address key retirement risks.

THE RISK PROCESS™

A SIX-STEP TURN-KEY PROGRAM FOR BUILDING YOUR RETIREMENT INCOME SURVIVAL KIT™

1. EDUCATE
The first step of The RISK Process™ is a proper education about the various risks that exist in retirement and the solutions offered within The RISK Process™.

TOOL: RISK Brochure, Video and Presentations

2. ENGAGE
In the second step, you have the option of entering into an agreement that clearly defines the commitments and responsibilities of each party in the process.

TOOL: The RISK Engagement Letter™

3. EXPLORE
The third step is to explore your retirement objectives and current resources to determine what steps are necessary to build your Retirement Income Survival Kit™.

TOOL: The RISK Questionnaire™

4. ENGINEER
The fourth step is to use the information gathered in the exploration process to engineer a custom RISK Model™. The Model will contain different allocations of income solutions to address your specific objectives and risks.

TOOL: The RISK Portfolio Models™

5. EXECUTE
The fifth step involves the design of The RISK Blueprint™ – a concise action plan showing how to diversify your holdings among the various income solutions to create your personal Retirement Income Survival Kit™. The Blueprint shows how the proposed strategy compares with your current income plan, specifically indicating how various retirement risks are to be addressed.

TOOL: The RISK Blueprint™

6. EVALUATE
The sixth step is to provide ongoing review and evaluation of your Retirement Income Survival Kit™.

TOOL: The RISK Snapshot™

TAKE CONTROL OF YOUR RETIREMENT FUTURE