Map Your Course

Help to Minimize the Risks to Your Retirement

Sequence of Returns – Timing is Everything

Let's say you have a house. You've taken good care of it – fixed the roof when it needed it, spent money on landscaping and a sprinkler system, and completely redid the kitchen. Now it's time to sell and the housing market isn't looking so good – and there's no way you'll get your money out of it. Do you sell for a loss? Or, is it in your best interest to wait until the market recovers before you sell it?

Your retirement portfolio works in a similar way.

When you're building your retirement fund, you continue to invest money in it. You carefully allocate your contributions based on your risk tolerance and the investment's reward potential, you diversify it, and you weather the storm of market fluctuations. All with the hope that when it's time to take your retirement income, your disciplined investment strategy will pay off.

If there's a market downturn while you're drawing retirement income from your savings, it's probably not in your best interest to sell into the down market. Selling at a loss following a down market, especially in early retirement years, can seriously erode your portfolio and negatively impact your long-term retirement funds.

How Do You Plan for Something That's Out of Your Control?

Even if the markets perform poorly, you have to be able to pay the bills. And, you don't want to give up on your retirement dreams. Putting your money into "safe," low-risk investments doesn't completely solve the problem. That's because you count on your money to grow and low-risk savings like CDs and bonds offer comparatively low interest rates.

You Have Options

One way that you can plan ahead is by using an indexed universal life insurance (IUL) policy.

The information provided throughout this brochure should not be construed as tax or legal advice. Consult with your tax or legal professional for details and guidelines specific to your situation.

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Case Study: Part 1

Jack Meyer is 65 years old and ready to retire. He has saved $1 million for retirement.

- He plans to take $105,000 a year (pre-tax) during retirement to maintain his current standard of living
- His other sources of income include:
  - Social Security $20,000
  - Pension $16,500
- His retirement savings will need to provide $68,500 a year pre-tax for him to reach his $105,000 annual need. Plus, he'd like to plan for a 2 percent annual increase to help offset inflation

What Jack may not realize is how post-retirement market performance may impact his ability to continue to take his planned distributions from his retirement fund.

The following tables show Jack's hypothetical retirement fund, using two periods of S&P 500® historical annual performance as a representation of the market performance. These two time periods were chosen because they illustrate how drastically variations in market performance may affect your retirement savings.

In both hypothetical scenarios, Jack's beginning retirement fund balance is the same.

Hypothetical Scenario 1: Using S&P 500® performance from 1973 – 1998

Age	Beginning of Year Balance	Withdrawal (Pre-Tax)	Post-Withdrawal Balance	S&P 500® Change*	End of Year Balance
65	$1,000,000	$68,500	$931,500	-14.66%	$794,942
66	$794,942	$69,870	$725,072	-26.47%	$533,146
67	$533,146	$71,267	$461,878	37.20%	$633,697
68	$633,697	$72,693	$561,004	23.84%	$694,747
69	$694,747	$74,147	$620,601	-7.16%	$576,166
70	$576,166	$75,630	$500,536	6.56%	$533,371
71	$533,371	$77,142	$456,229	18.44%	$540,358
72	$540,358	$78,685	$461,673	32.50%	$611,717
73	$611,717	$80,259	$531,458	-4.92%	$505,310
74	$505,310	$81,864	$423,446	21.55%	$514,699
75	$514,699	$83,501	$431,198	22.56%	$528,476
76	$528,476	$85,171	$443,305	6.27%	$471,100
77	$471,100	$86,875	$384,226	31.73%	$506,141
78	$506,141	$88,612	$417,529	18.67%	$495,481
79	$495,481	$90,384	$405,097	5.25%	$426,365
80	$426,365	$92,192	$334,173	16.61%	$389,679
81	$389,679	$94,036	$295,643	31.69%	$389,332
82	$389,332	$95,917	$293,416	-3.11%	$284,290
83	$284,290	$97,835	$186,455	30.47%	$243,268
84	$243,268	$99,792	$143,477	7.62%	$154,410
85	$154,410	$101,787	$52,622	10.08%	$57,927
86	$57,927	$57,927	$0	1.32%	$0
87	$0	$0	$0	37.58%	$0
88	$0	$0	$0	22.96%	$0
89	$0	$0	$0	33.36%	$0

From 1973 to 1998, the market performed poorly right after his retirement. If Jack's retirement fund performed similarly to this period of time and he had to make a withdrawal from his retirement account following the market downturns, he would be selling into a market loss instead of giving his retirement fund time to recover

Based on the index performance from 1973-1998, Jack would have nothing left in his retirement fund at the end of age 86

Hypothetical Scenario 2: Using S&P 500® performance from 1982 – 2007

Age	Beginning of Year Balance	Withdrawal (Pre-Tax)	Post-Withdrawal Balance	S&P 500® Change*	End of Year Balance
65	$1,000,000	$68,500	$931,500	21.55%	$1,132,238
66	$1,132,238	$69,870	$1,062,368	22.56%	$1,302,039
67	$1,302,039	$71,267	$1,230,771	6.27%	$1,307,940
68	$1,307,940	$72,693	$1,235,248	31.73%	$1,627,192
69	$1,627,192	$74,147	$1,553,045	18.67%	$1,842,999
70	$1,842,999	$75,630	$1,767,369	5.25%	$1,860,156
71	$1,860,156	$77,142	$1,783,014	16.61%	$2,079,173
72	$2,079,173	$78,685	$2,000,488	31.69%	$2,634,442
73	$2,634,442	$80,259	$2,554,184	-3.10%	$2,475,004
74	$2,475,004	$81,864	$2,393,140	30.47%	$3,122,330
75	$3,122,330	$83,501	$3,038,829	7.62%	$3,270,387
76	$3,270,387	$85,171	$3,185,216	10.08%	$3,506,286
77	$3,506,286	$86,875	$3,419,411	1.32%	$3,464,548
78	$3,464,548	$88,612	$3,375,936	37.58%	$4,644,612
79	$4,644,612	$90,384	$4,554,228	22.96%	$5,599,879
80	$5,599,879	$92,192	$5,507,687	33.36%	$7,345,051
81	$7,345,051	$94,036	$7,251,015	28.58%	$9,323,355
82	$9,323,355	$95,917	$9,227,439	21.04%	$11,168,892
83	$11,168,892	$97,835	$11,071,057	-9.10%	$10,063,591
84	$10,063,591	$99,792	$9,963,799	-11.89%	$8,779,104
85	$8,779,104	$101,787	$8,677,316	-22.10%	$6,759,629
86	$6,759,629	$103,823	$6,655,806	28.68%	$8,564,691
87	$8,564,691	$105,900	$8,458,792	10.88%	$9,379,108
88	$9,379,108	$108,018	$9,271,091	4.91%	$9,726,301
89	$9,726,301	$110,178	$9,616,123	15.79%	$11,134,509

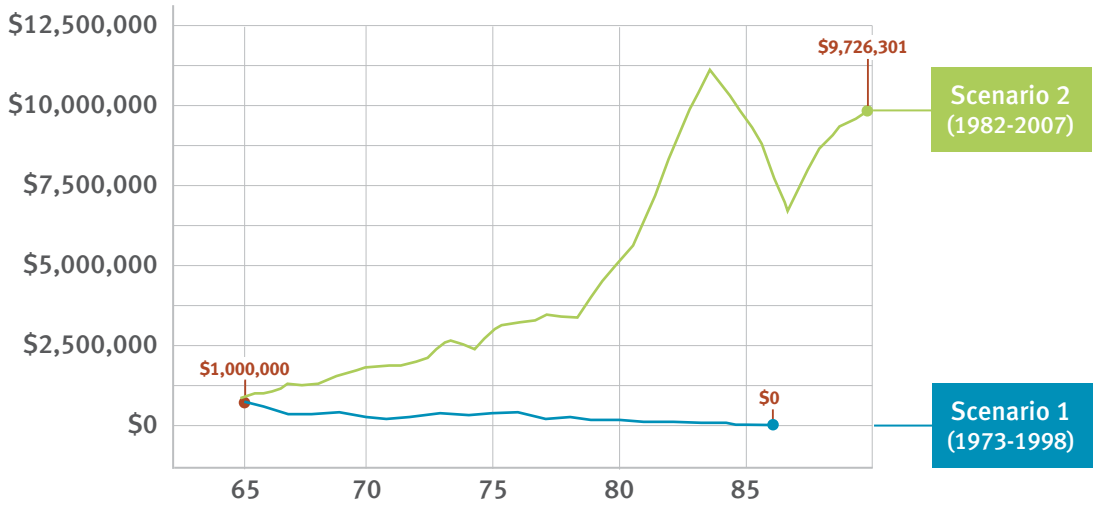
From 1982 to 2007, there were also a number of negative years; however, these happened later in his retirement

Based on the index performance from 1982-2007, Jack would have over $8 million left in his retirement fund at the end of age 86

The hypothetical scenarios are for illustrative purposes only. Past performance cannot be used to predict future results. You cannot invest directly in the S&P 500® Index.

*S&P 500 change measures annual returns including dividend over the stated time period.

Comparing the Retirement Fund Balances



- As you can see in these two hypothetical market examples, it's not just the market ups and downs that are important. What may be even more important is the sequence of returns – when the markets make their upward and downward movements.
- The returns, along with the sequence of returns, allowed for Jack to have $6,759,629 at age 86 and almost $10 million at age 89 – as opposed to running out of money at age 86.

Average Return Comparison

The differences in the retirement fund balances might initially lead you to believe the average market performance over the 25-year period was significantly better from 1982 to 2007. However, if you look at the average over the 25-year periods, the period from 1973 through 1998 was almost the same.

It's the timing of the good and bad years that made the second scenario perform better. Because the period from 1982 through 2007 had better performance in the early years and its down years were in the later years, it was able to perform better than the period from 1973 through 1998 when the down years occurred early on.

	1973 to 1998	1982 to 2007
Over the first 5 years	2.55%	20.16%
Over the first 15 years	11.42%	17.42%
Over the first 25 years	**14.40%**	**14.46%**

An Additional Option Using Life Insurance

An Indexed Universal Life insurance (IUL) policy can help. During early years, it can provide a death benefit that will help replace lost income should you die unexpectedly. It also has the potential to build cash value[1] based on the performance of a market index. Then, down the road, if you need to supplement your retirement income – during a market downturn when you don't want to draw as much from your retirement savings, for instance – you can receive it income tax free from your IUL policy cash value by taking withdrawals and loans.[2,3]

Another great thing about an IUL policy is that you have limited market risk. You participate in the market's upside (up to the cap rate), but its zero percent minimum floor helps protect you from downside market risk.

[1] The amount that may be available through loans and withdrawals, as defined in the contract.
[2] For federal income tax purposes, tax-free income assumes (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); and (2) the policy does not become a modified endowment contract. See IRC §72, 7702(f)(7)(B), 7702A. This information should not be construed as tax or legal advice. Consult with your tax or legal professional for details and guidelines specific to your situation.
[3] Any policy withdrawals, loans and loan interest will reduce policy values and benefits.

Case Study, Part 2: How an IUL Policy Can Help Jack

Let's take a look at how an indexed universal life insurance policy could supplement Jack's retirement income if he was faced with market returns similar to those from 1973 through 1998.

In Jack's case, he purchases a $500,000 Income Advantage[SM] IUL policy at age 40. This provides him with a death benefit to protect his family in case he should die unexpectedly. He continues to pay a premium of $500 per month for 25 years until he turns age 64. At age 65, he has $260,944 in projected cash value[1] assuming a 6 percent hypothetical interest rate in all years.

How an IUL Policy Helps Jack in Retirement

- In years after a market loss, he stops withdrawing from his retirement account and instead takes a loan from his IUL policy. For purposes of the case study, we assume the client takes their full income from their IUL policy. Keep in mind that tax law requires you to take Required Minimum Distributions (RMDs) from retirement accounts after age 70 1/2.
- By taking his distributions from the IUL policy, he lets his retirement savings recover and doesn't sell into a market loss
- In addition to helping Jack through a few low-market years, he still has a meaningful death benefit

It's important to remember that what happens to a retirement portfolio varies by the individual. And, past performance of the market is not an indicator of future results. Market performance and sequence of returns can make a significant difference in how your retirement portfolio performs.

	Retirement Account					IUL Policy		
Age	Beginning of Year Balance	Withdrawal (Pre-Tax)	Post-Withdrawal Balance	S&P 500® Change (1973-1998)	End of Year Balance	IUL Distribution (Non-Taxable)[2,3]	Projected IUL Cash Value[1]	IUL Death Benefit Remaining
65	$1,000,000	$68,500	$931,500	-14.66%	$794,942	$0	$260,944	$500,000
66	$794,942	$0	$794,942	-26.47%	$584,521	$50,306	$222,620	$449,694
67	$584,521	$0	$584,521	37.20%	$801,963	$51,313	$180,849	$397,375
68	$801,963	$72,693	$729,270	23.84%	$903,128	$0	$189,829	$395,322
69	$903,128	$74,147	$828,981	-7.16%	$769,626	$0	$199,292	$393,229
70	$769,626	$0	$769,626	6.56%	$820,114	$54,453	$209,272	$391,093
71	$820,114	$77,142	$742,972	18.44%	$879,976	$0	$163,172	$334,462
72	$879,976	$78,685	$801,291	32.50%	$1,061,710	$0	$170,809	$331,152
73	$1,061,710	$80,259	$981,451	-4.92%	$933,164	$0	$178,820	$327,775
74	$933,164	$0	$933,164	21.55%	$1,134,261	$58,942	$187,255	$324,330
75	$1,134,261	$83,501	$1,050,760	22.56%	$1,287,811	$0	$134,863	$261,875
76	$1,287,811	$85,171	$1,202,640	6.27%	$1,278,045	$0	$140,537	$257,112
77	$1,278,045	$86,875	$1,191,171	31.73%	$1,569,129	$0	$146,527	$252,254
78	$1,569,129	$88,612	$1,480,517	18.67%	$1,756,930	$0	$152,869	$247,299
79	$1,756,930	$90,384	$1,666,546	5.25%	$1,754,039	$0	$159,614	$242,245
80	$1,754,039	$92,192	$1,661,847	16.61%	$1,937,880	$0	$166,835	$237,090
81	$1,937,880	$94,036	$1,843,844	31.69%	$2,428,159	$0	$174,629	$231,832
82	$2,428,159	$95,917	$2,332,242	-3.11%	$2,259,709	$0	$183,126	$226,469
83	$2,259,709	$0	$2,259,709	30.47%	$2,948,243	$70,441	$192,488	$220,998
84	$2,948,243	$99,792	$2,848,451	7.62%	$3,065,503	$0	$129,489	$153,715
85	$3,065,503	$101,787	$2,963,716	10.08%	$3,262,458	$0	$135,804	$160,701
86	$3,262,458	$103,823	$3,158,635	1.32%	$3,200,329	$0	$142,335	$167,920
87	$3,200,329	$105,900	$3,094,430	37.58%	$4,257,316	$0	$149,071	$175,363
88	$4,257,316	$108,018	$4,149,299	22.96%	$5,101,978	$0	$156,007	$183,021
89	$5,101,978	$110,178	$4,991,800	33.36%	$6,657,064	$0	$163,132	$190,888

Taking distributions from his IUL policy during the five years following a market loss makes the difference between Jack running out of money at age 86 and having over $3 million remaining when he turns age 86.

Why is the amount taken from the IUL less than the amount taken from his retirement fund?
When money is taken from a taxable retirement fund, you have to pay ordinary income taxes on your money. Distributions from a life insurance policy are generally received income tax free.[2,3] Assuming that Jack has a 28 percent effective tax rate, a pre-tax distribution of $69,870 from his retirement fund would be equivalent to a $50,306 distribution from his IUL policy.

By planning ahead with a properly-funded IUL policy, you have an additional source of retirement income. This planning strategy can help you avoid selling for a loss after a market downturn, while providing the life insurance protection your family needs today.

[1] The amount that may be available through loans and withdrawals, as defined in the contract.
[2] For federal income tax purposes, tax-free income assumes (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); and (2) the policy does not become a modified endowment contract. See IRC §72, 7702(f)(7)(B), 7702A. This information should not be construed as tax or legal advice. Consult with your tax or legal professional for details and guidelines specific to your situation.
[3] Any policy withdrawals, loans and loan interest will reduce policy values and benefits.

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