RETIREMENT INCOME STRATEGIES:

HOW DO INTEREST RATES PLAY A ROLE?

YOU'RE READY. YOU CAN ALMOST TASTE IT.

Retirement is just within reach, and the finish line is so close you can practically smell it. You've worked your whole life to get to this point, and you're ready.

Ready for a guilt-free tee time or a mid-morning yoga class. Ready for long lunches with friends and attending every one of your grandchildren's soccer games. Ready to travel to see and explore all of the things you've waited all this time to experience.

But are your finances ready, too?

Working with an independent financial professional to take an in-depth look at your retirement savings before your paychecks stop can help you create sound financial strategies for the days ahead — furthering your pursuit of a financially independent retirement.

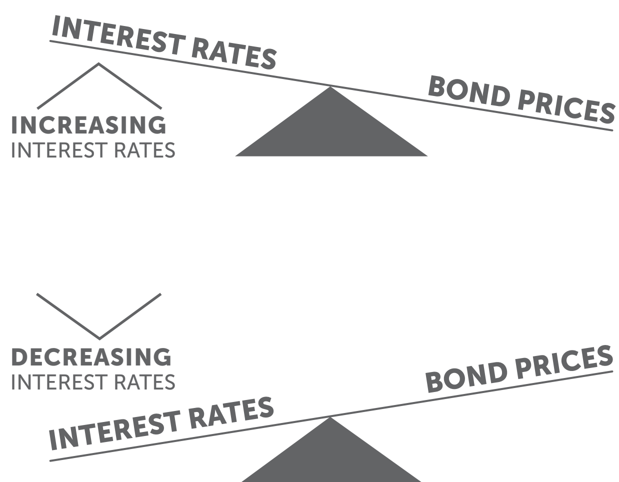
HOW DO INTEREST RATE CHANGES PLAY OUT IN YOUR RETIREMENT INCOME PLAN?

As retirement nears, a traditional strategy for many people has been to move from growth-seeking products to more conservative, fixed-income products. Many people choose to switch from investing in the stock market to investing in bonds — a safer alternative.

Bonds can help you add diversification and stability to your overall retirement strategy and are commonly considered to be less volatile than stocks. In fact, as interest rates have generally declined since the early 1980s, many bonds have provided solid long-term returns.

However, while bonds can be an attractive addition to an overall retirement income strategy, they are not without risk. In fact, if you're counting on bonds to help you save for retirement or to generate retirement income, you could find that their value has decreased when it's time for you to cash in or reinvest in another bond.

Bonds fluctuate in value in direct correlation to changes in interest rates. When interest rates go up, a bond's value will go down, and vice versa.



How can this play out in your retirement income plan? Let's take a look at a hypothetical example. As we do, please keep in mind that

WHY ANNUITIES?

» GUARANTEED STREAM OF INCOME FOR THE REMAINDER OF YOUR LIFE

» PROTECTION FROM MARKET DOWNTURNS

» TAX-DEFERRED ASSET ACCUMULATION

» DEATH BENEFIT OPTIONS DURING THE ACCUMULATION PHASE

the examples contained herein are for illustrative purposes only; they should not be viewed as a representation of either past or future results.

With that in mind, meet Bob. Bob retired in 2005 with $500,000 in retirement savings. After determining the amount of Social Security he and his wife would receive, Bob concluded that he would need to generate an additional $20,000 a year in income to live the comfortable lifestyle he and his wife desired.

Seeking that additional retirement income, Bob used his $500,000 to purchase a 10-year bond. The interest rate was 4.5 percent, which meant that Bob could generate $22,500 in annual income from the interest he earned, keeping his principal intact. This was a great solution for Bob, at least until the bond matured.

When the 10 years were up, Bob had to reinvest his $500,000, only now interest rates had dropped to 2 percent. That meant that if he reinvested in the same 10-year bond, he'd only be able to generate $10,000 in income each year — less than half of what he was earning before. Coupled with the impact of inflation over a 10-year period, this loss in income could result in a significant change in lifestyle for Bob and his wife.
That's just one possible scenario. What if interest rates had dropped to 2 percent five years into Bob's 10-year bond

period? Bonds generally have a "call period." That is a period of time during which the issuer of the bond can "call," or buy back, the bond for the purchase price plus any accrued interest. In Bob's case, when the interest rate dropped from 4.5 percent to 2 percent, the issuer may have had the ability to call the bond in order to reissue the debt at a lower interest rate. In that case, Bob would have been in the same position of having to purchase a new 10-year bond knowing it would generate less than half the income provided by the previous 10-year bond. The only difference is that now he would have been facing this predicament much earlier than in the scenario where the bond reached full maturity. Most bonds offer call protection for the first two to three years of the bond period, but far fewer offer call protection for the life of the bond.

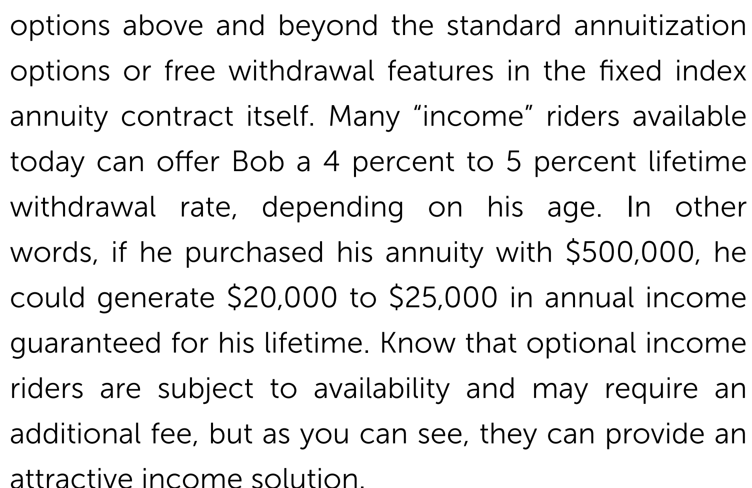
VARIETY IS THE SPICE OF LIFE

Achieving asset protection today may require more than the traditional asset allocation strategies. As you prepare for retirement, your financial professional is likely to look for products that provide interest earnings, diversification, asset protection and guaranteed income. If you currently own bonds, you may want to consider adding fixed annuities to your overall retirement income strategy to help protect and grow your retirement assets while providing a steady, reliable source of guaranteed income throughout retirement.

A fixed annuity is a contract you purchase from an insurance company. For the premium you pay, the insurance company provides you income, either starting immediately or at some time in the future. Fixed annuities offer tax-deferred accumulation potential, a death benefit during the accumulation phase and, when you're ready, a guaranteed stream of income payouts, which are backed by the financial strength and claims-paying ability of the issuing insurance carrier.

Like bonds, fixed annuities offer a safer alternative to investing in the stock market, where volatility can put assets at risk. One of the features an annuity has that a bond does not is a guaranteed income stream for life. That means regardless of what interest rates do, you continue to receive the same, steady income each year for as long as you live.

So, let's look back at our previous example with Bob and his wife. Investing his $500,000 in bonds, Bob experienced the downside to interest rate risk. What if he had instead used that $500,000 to purchase a fixed index annuity with an optional "income" rider? These riders are known by a variety of different names and are designed to provide alternative income



options above and beyond the standard annuitization options or free withdrawal features in the fixed index annuity contract itself. Many "income" riders available today can offer Bob a 4 percent to 5 percent lifetime withdrawal rate, depending on his age. In other words, if he purchased his annuity with $500,000, he could generate $20,000 to $25,000 in annual income guaranteed for his lifetime. Know that optional income riders are subject to availability and may require an additional fee, but as you can see, they can provide an attractive income solution.

One of the tradeoffs is that, unlike bonds, when you receive income from your annuity, you will see your principal erode over time. With an annuity, the income is guaranteed, but the principal will be reduced by any income payments. So, looking back at Bob's situation, he could have generated the additional income he needed, regardless of interest rate or stock market volatility. While his principal may not have remained fully intact, his income stream would have, for the remainder of his life, and possibly the life of his wife as well. The lifetime withdrawal rate, and thus the amount of income, will be reduced for benefits paid over the lives of both spouses.

Prior to beginning lifetime income payments, most annuities contain provisions that allow you to withdraw a percentage of the value of the base annuity contract each year up to a certain limit without a penalty. However, these withdrawals will also reduce the contract value and the value of any protection benefits. Excess withdrawals above the contract's limit typically incur surrender charges (early withdrawal penalties) within the first five to 10 years of the contract. Because annuities are designed as long-term retirement vehicles, annuity withdrawals are also subject to ordinary income taxes and, if taken before age 59 ½, are subject to a 10 percent federal additional tax.

THINK ABOUT THE LONG TERM

With the potential for a rising interest rate environment, the return on your fixed income investments may not be what you had hoped — possibly changing your perception of your future standard of living. And with retirement getting closer and closer, you may not have time to make up any losses to the income you were counting on using to do all that you had planned.

Now may be a good time to consider an annuity as part of your overall retirement strategy.

Reviewing all of the components of your retirement strategy before the paychecks stop can help you feel more confident as you look forward to retirement. Annuities may be one way to help you pursue your long-term retirement goals.

To learn if annuities might be appropriate for your retirement income strategy, contact a financial professional who can provide you with a review of your current financial situation and discuss the role insurance products may play in your retirement strategy.

RETIREMENT INCOME STRATEGIES:

HOW DO INTEREST RATES PLAY A ROLE?

This content is provided for informational purposes only and is not intended to serve as the basis for financial decisions.

We are an independent financial services firm helping individuals create retirement strategies using a variety of insurance products to custom suit their needs and objectives.

Investing involves risk, including the potential loss of principal. Any reference to protection benefits or lifetime income refer only to fixed insurance products, not securities or investment products. Annuities are not a deposit of nor are they insured by any bank, the FDIC, NCUA, or by any federal government agency. Insurance and annuity product guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company.

Neither the firm nor its agents or representatives may give tax, legal or investment advice. Individuals should consult with a qualified professional for guidance before making any purchasing decisions.

Any transaction that involves a recommendation to liquidate funds held in a securities product, including those within bonds, can be conducted only by individuals currently affiliated with a properly registered broker-dealer or Registered Investment Adviser.
If your financial professional does not hold the appropriate registration, please consult with your own broker-dealer representative or Registered Investment Adviser for guidance on your securities holdings.

Content prepared by Advisors Excel.

Advisory services offered through Cooper McManus, an SEC Registered Investment Advisor. Michael R. Clark, CFP®, Investment Advisor Representative. California Insurance License # 0B22623. Ensemble Wealth Management & Cooper McManus are not affiliated.