



2016 MDRT Annual Meeting e-Handout Material

Title: 4th Generation Retirement Planning

Speaker: Guy E. Baker, MSFS, CLU

Presentation Date: Tuesday, June 14, 2016

Presentation Time: 10:00 - 11:30 a.m. AND
3:30 – 5:00 p.m.

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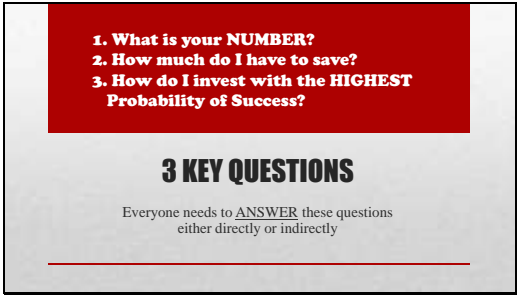
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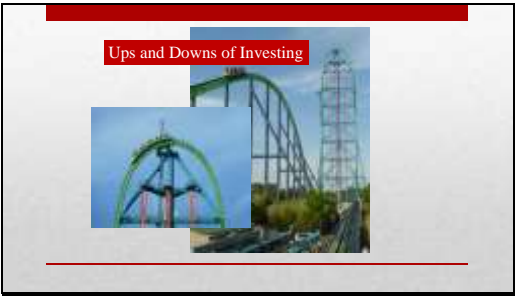
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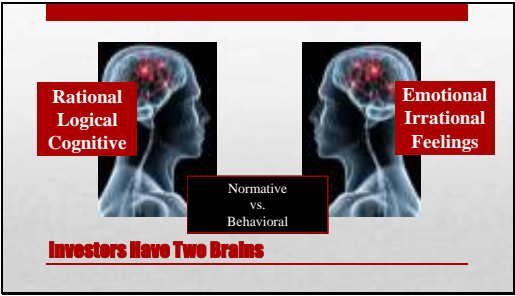
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What It Takes To Successfully Invest

"To invest **successfully** over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is:

1. *A sound intellectual framework for making decisions and*
2. *The ability to keep emotions from corroding that framework.*

Warren Buffett

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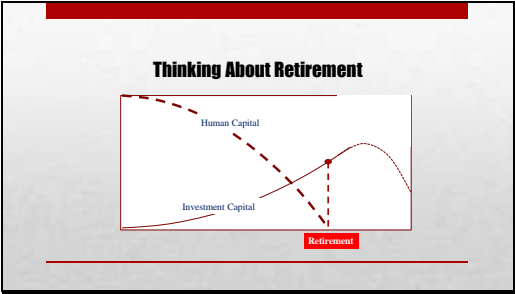
Topics to Cover

1. Think About Retirement
2. How the Old Model has Changed
3. Look at the factors undergirding the change
4. Things we can do about it.

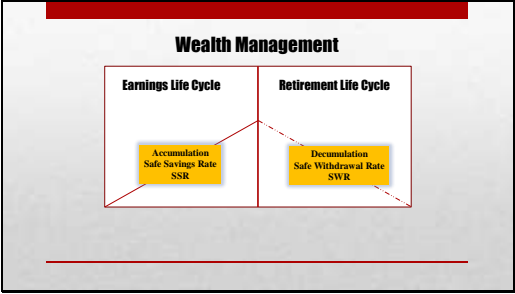
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Human Capital – is a depleting Asset
Our Human Net Worth
CONVERTS
Earnings to Investments and Savings

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What Does Safe Mean?

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- **Safe Savings Rate** – The amount you need to save to be assured you will reach your Number.
- **Safe Withdrawal Rate** – The amount you can withdraw and feel confident you will not run out of money.

Hitting Your Goal

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Safe Withdrawal Rate

Sustainability Depends on:

Volatility
Sequence Risk

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Progression of Retirement Planning

1 st Generation	2 nd Generation
4% Withdrawal Rate 30 year projections No Contingency Planning Defined Benefit Plans +	4% Withdrawal Rate 30 year projections Defined Benefit Plans + ✓ What is the Failure Rate? ✓ Use Monte Carlo Simulation

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3rd Generation	4th Generation
Monte Carlo Simulations <ul style="list-style-type: none">✓ Variable Withdrawal Rates✓ Inflation✓ Global Diversification✓ Calculated Failure Rates✓ Include LE projections✓ Use Annuities to Build Income Floor✓ Loss of DB Plans – Convert to 401k✓ More Reliance on Social Security	Variable Withdrawal Rates <ul style="list-style-type: none">Include LE projectionsCalculate Failure RatesGlobal DiversificationMonte Carlo SimulationUse Annuities to Build Income FloorSocial Security <ul style="list-style-type: none">✓ Income Glidepath✓ Flooring & Funding Ratio✓ Real Estate and Trust Deeds✓ Life Expectancy Annuities

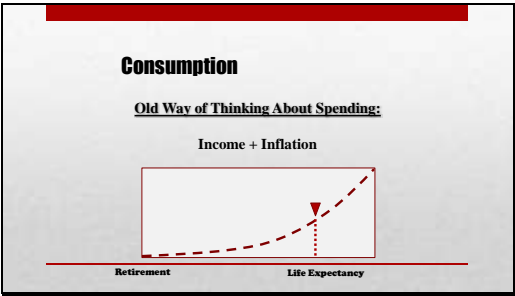
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WHAT DROVE THESE CHANGES?

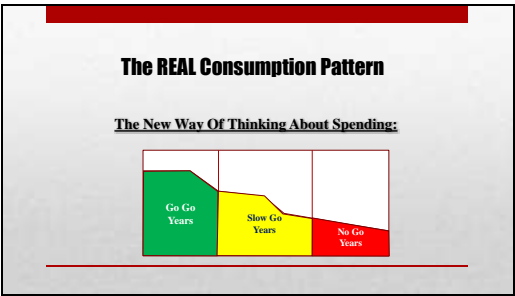
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RISK

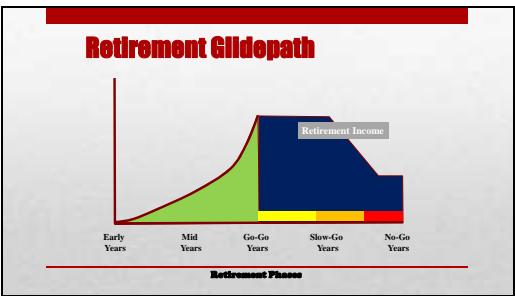
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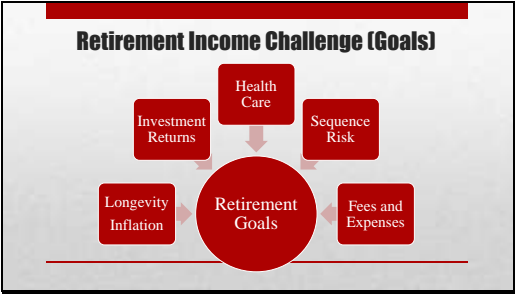
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**How Much Capital Is Needed?
Rule of Thumb**

20 TIMES Income = AGE 70

WHAT IS YOUR NUMBER?

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**The Amount You Need At Retirement
to Make It To Age 90**

\$100,000 of Real Income

@ 70 (20 TIMES = \$2,000,000)

Depends on When You Start

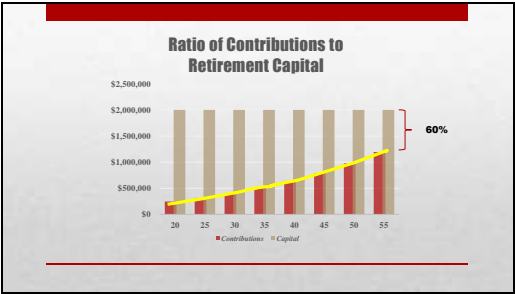
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How Much Do You Have To Save Each Year @ 7%?

GOAL @ 70	\$2,000,000	Per Month
@ 25	\$7,000	\$ 585
@ 30	\$10,000	\$ 833
@ 35	\$15,000	\$ 1250
@ 40	\$21,000	\$ 1750
@ 45	\$31,000	\$ 2575
@ 50	\$50,000	\$ 4166
@ 55	\$80,000	\$ 6667

What Is Your OTHER Number?

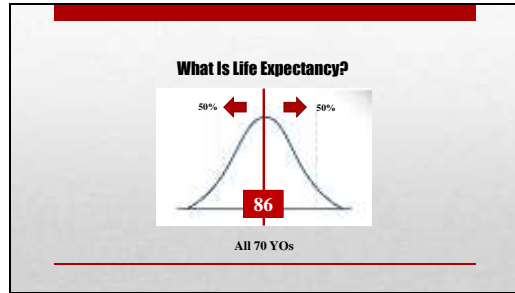
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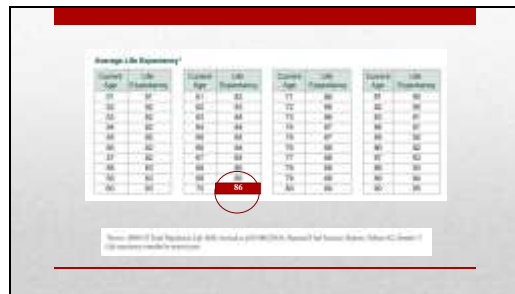
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Life Expectancy

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Today

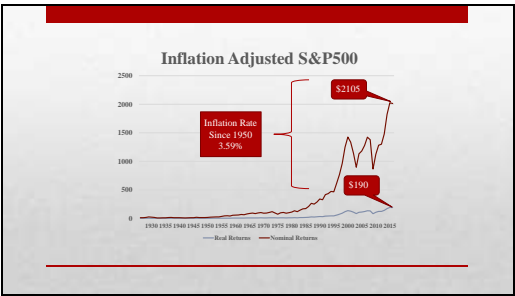


30 Years from NOW

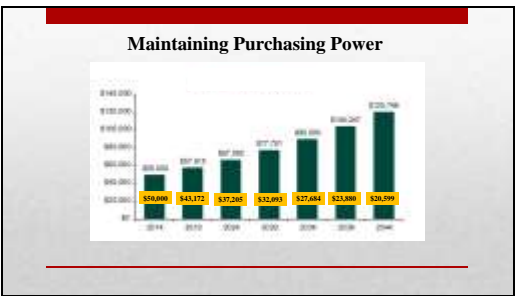


What is INFLATION?

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Use the Rule of 72

3%

72

= 24 Years

Age	Income	Inflation Adj	Capital	Heuristic
30	\$100,000	\$326,160	\$6,524,076	65 times
40	\$100,000	\$242,726	\$4,854,525	50 times
50	\$100,000	\$180,160	\$3,612,222	35 times
60	\$100,000	\$134,392	\$2,687,833	30 times
70	\$100,000	\$100,000	\$2,000,000	20 times

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THE 3RD QUESTION – CREATING
A PROCESS.

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WHY?

Dalbar Study


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Keys Issues Bothering Investors

- Most Investors are **NERVOUS** about where to put their money.
- Most Investors have no idea how much **RISK** is in their portfolio.
- Most Investors are **NOT AWARE** of an investment Process backed by **FOUR** Nobel Prizes in Economics.
- Most Investors are **UNAWARE** of how much they are paying for the privilege of investing.
- Who Can I trust to help me – and how do I know?

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People Can See Patterns in Anything.



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- **1. Not understanding Volatility**
- **2. Not knowing how to construct a portfolio**
- **3. High Fees and Expenses**
- **4. Taxation on growth**

There are FOUR Factors

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- Fees and Expenses
- Diversification
- Rebalancing

Three Keys to Managing Your Portfolio

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Fees Matter

\$500,000 Earning 10% Annualized Return over 25 Years

- Fees matter.
- Over long time periods, high management fees and related expenses can be a significant drag on wealth creation.
- Passive investments generally maintain lower fees than the average actively managed investment by minimizing trading costs and eliminating the costs of researching stocks.

Fee Rate	Final Value (\$)	Difference from 3% Fee
1%	\$4,311,540	+21%
2%	\$3,428,237	+37%
3%	\$2,715,716	-

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- Three Primary Fees You Can Control
 - Fund Fees
 - Trading Costs
 - Bid Ask Spread

Managing Fees

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The KEY to Diversification
Four Typical Asset Classes:

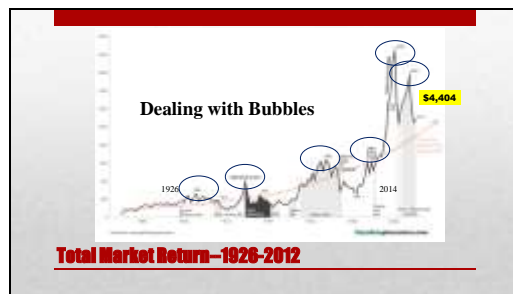
- Cash
- Stocks or Equities
- Bonds or Debt
- Real Estate

Applying CAPM To Investing

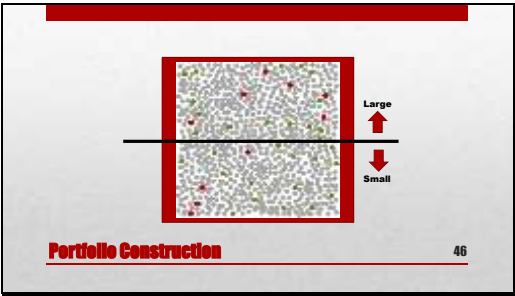
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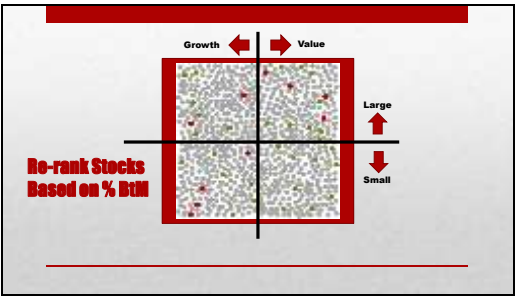
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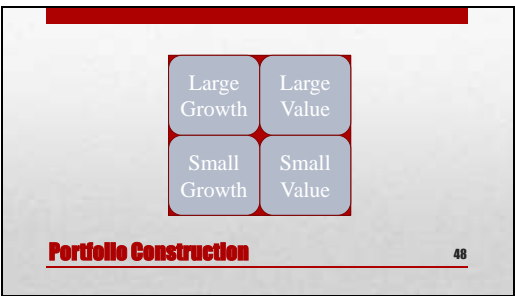
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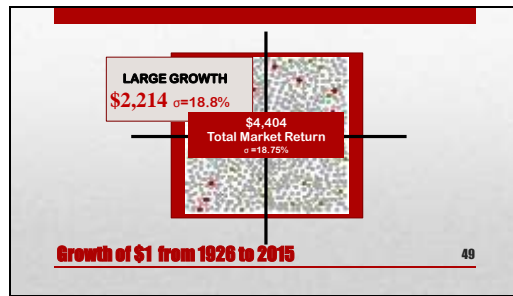
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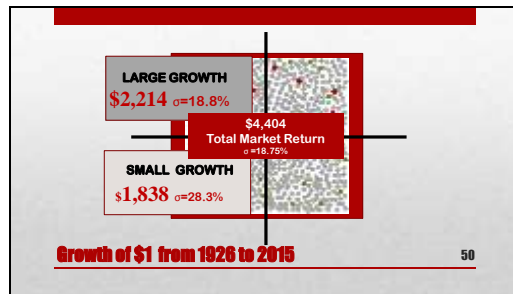
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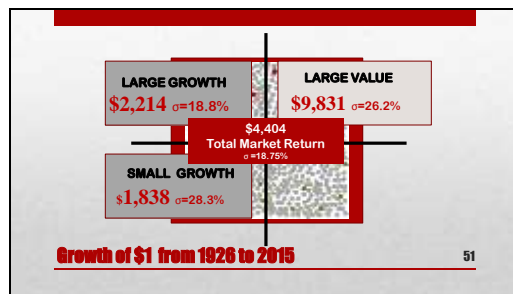
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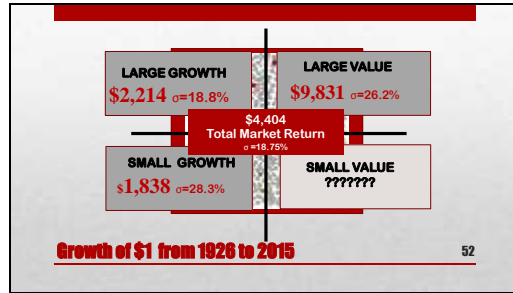
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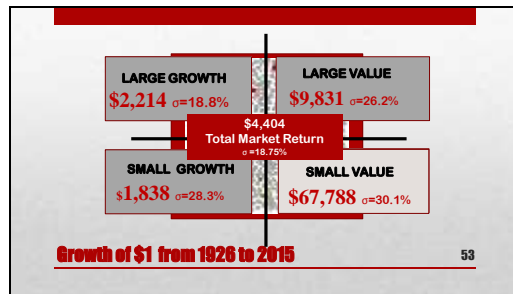
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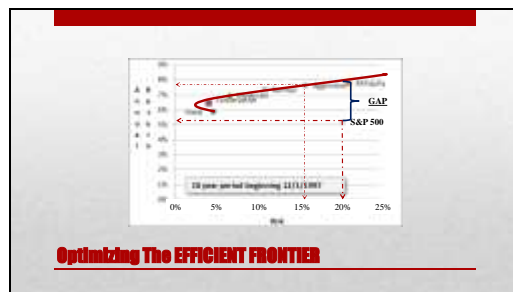
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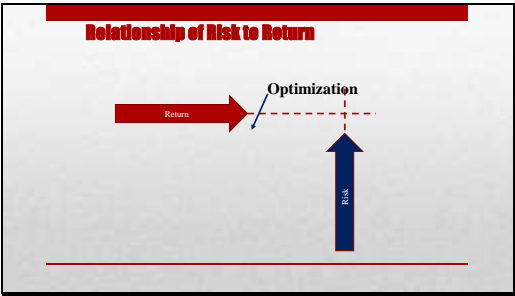
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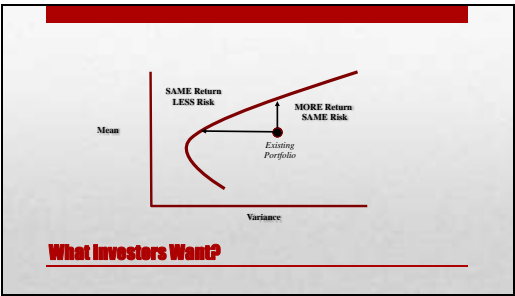
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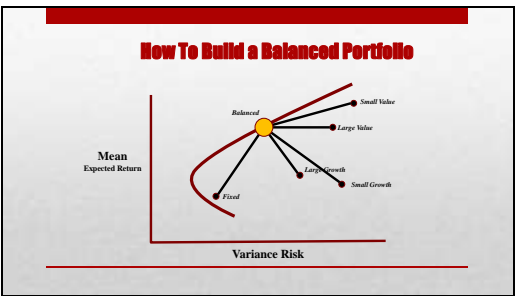
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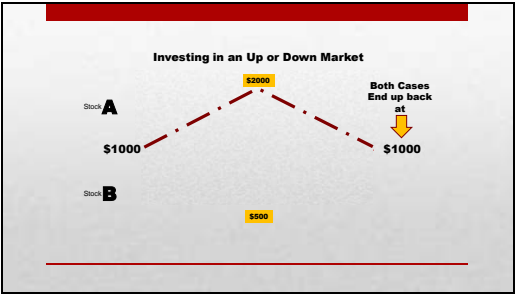
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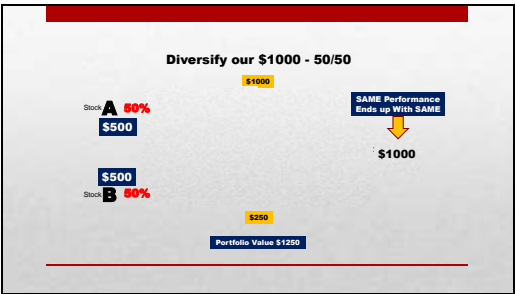
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The Power of REBALANCING

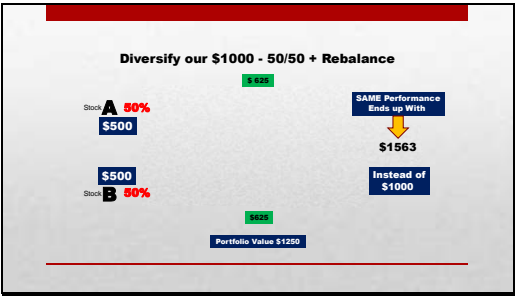
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