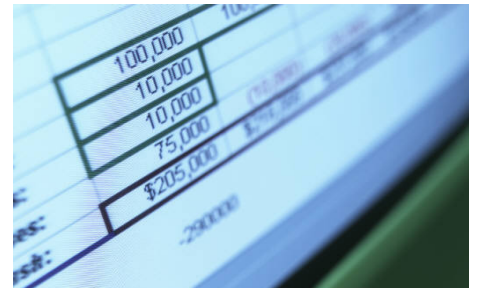




# GenFi SNAPSHOT INTO RETIREMENT:

## HOW TO AVOID RUNNING OUT OF MONEY

MAY 2013



### CASH DISTRIBUTIONS & INFLATION

#### HOW THEY AFFECT YOUR PORTFOLIO

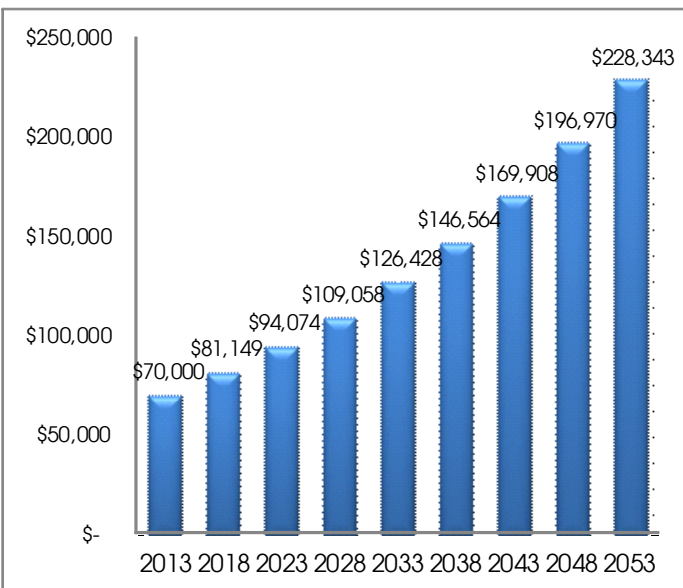
COMMON ASSUMPTIONS:

**Assumption:** Since equities deliver around a 10% average annualized return, it is safe to withdraw 10% a year without affecting the principal.

**FALSE-** Although markets annualize about a 10% return over the long term, returns can vary tremendously from year to year. Large downturns in the market may dictate withdrawal rate adjustments.

**Assumption:** I need \$70,000 for annual living expenses this year, so I will need \$70,000/year for the next 40 years.

**FALSE-** Many investors underestimate the impact inflation can have on your portfolio. Inflation averages about 3% per year. A need of \$70k now in 2013 will be about \$72k the following year, and so on. The chart below illustrates this concept. Medical expenses can also have a large impact.



### ESTABLISHING YOUR PORTFOLIO OBJECTIVE

#### WHAT IS BEST FOR YOU?

- Define the amount of money you want to have at the end of your time horizon.

#### SOME OBJECTIVES YOU MAY CONSIDER:

- Deplete your assets entirely and leave nothing behind.
- Target a specific end value, for beneficiaries or perhaps for charity.
- Maximize the purchasing power of assets over your time horizon.
- Aim to maintain present purchasing power at the end of the time horizon.

### DEFINING TRADE-OFFS

#### WHAT ARE YOUR NEEDS AND WANTS?

The amount of living expense combined with your portfolio's end value may require you to make some trade-offs in order to minimize the risk of running out of money.

Changes in annual living expenses/spending and asset allocations can give you different success rates and portfolio values. You can see the different trade-off factors and outcomes in the sample cases on the next page.



## CASE EXAMPLES

<b>CASE 1: Spending \$250k annually</b>			
\$3,000,000 starting value 10 years to retirement	60% Bonds/40% Stock	70% Bonds/30% Stock	100% Bonds
Probability of having capital sufficient to age 95	34%	24%	1%
Earliest year of asset depletion- 10 percentile result	2040 or 27 years	2049 or 36 years	2038 or 25 years
Median ending	0	0	0
<b>CASE 2: Spending \$200k annually</b>			
\$3,000,000 starting value 10 years to retirement	60% Bonds/40% Stock	70% Bonds/30% Stock	100% Bonds
Probability of having capital sufficient to age 95	66%	60%	21%
Earliest year of asset depletion- 10 percentile result	2046 or 33 years	2046 or 33 years	2044 or 31 years
Median ending	\$5,091,288	\$2,944,313	0
<b>CASE 3: 85% Success Rate</b>			
\$3,000,000 starting value 10 years to retirement	60% Bonds/40% Stock	70% Bonds/30% Stock	100% Bonds
Probability of having capital sufficient to age 95	85%	85%	85%
Earliest year of asset depletion- 10 percentile result	2053 or 40 years	2054 or 41 years	2056 or 43 years
Median ending	\$12,456,167	\$10,419,890	\$4,978,325
Annual Spending	\$166,000	\$162,000	\$144,000
Monthly Spending	\$13,830	\$13,500	\$12,000

## CONCLUSIONS:

- Even with additional retirement savings of \$35K annually, \$250,000 in spending annually is too much for a portfolio starting with \$3 million if longevity runs in your family
- Realistic changes to asset allocation can allow for additional spending of \$18,000 annually or \$1,500 per month
- A \$3,165 decrease to monthly spending in retirement increased probability of success by 25% with assets allocated 70%Bonds/30% Stocks.

Assumptions: Asset Classes	60% Bonds / 40% Stocks	70% Bonds / 30% Stocks	100% Bonds
<b>Stocks:</b>			
Large Cap	7.5%	5.0%	0.0%
Small & Mid Cap	6.5%	5.0%	0.0%
International Emerging Markets	6.5%	5.0%	0.0%
Real Estate	6.5%	5.0%	0.0%
Commodities	6.5%	5.0%	0.0%
<b>Bonds:</b>			
U.S. Corp & Muni	28.0%	30.0%	40.0%
Inflation Pro- tected	8.0%	10.0%	15.0%
High Yield	8.0%	10.0%	15.0%
International Emerging Markets	8.0%	10.0%	15.0%