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 the 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").*

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™.

RISK: RETIREMENT INCOME SURVIVAL KIT

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. 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™.

A proper distribution plan should cover three important checkpoints to meet its objective. The RISK Process™ incorporates all these steps into one comprehensive plan.

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.

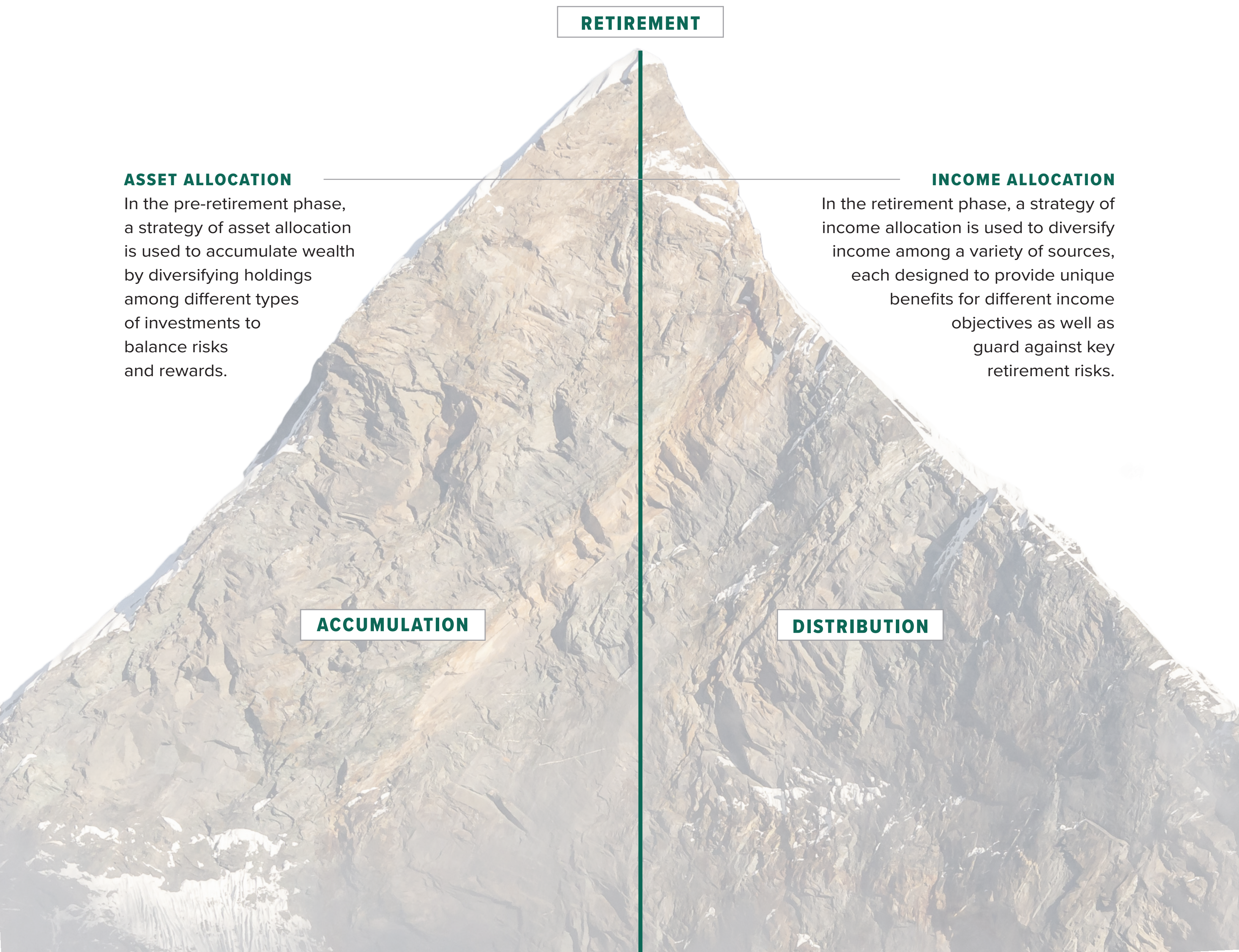
Now that you have the critical information needed to take the first step, talk with your Financial Advisor to start your RISK Process™.

EFFECTIVELY TRANSITION FROM ASSET ALLOCATION TO INCOME ALLOCATION

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 and redeploy them most efficiently into various income solution as needed.

"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.

DETERMINING A SUSTAINABLE WITHDRAWAL PERCENTAGE

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.

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 below).
- 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.

STOCK/BOND ASSET ALLOCATION

ANNUAL WITHDRAWAL RATE	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%

The table above 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.

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

ENSURE THAT INCOME STREAMS ARE PROTECTED AGAINST KEY RETIREMENT RISKS

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.

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. 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 to help keep pace with inflation. However, market risk, if not addressed, can cause volatility in portfolio values and may result in depletion of the entire portfolio.
INFLATION	The risk that costs of goods and services will increase over time	Whether we notice it or not, on a year to year basis, the purchasing power of a dollar is constantly changing. This concept is known as inflation, or the general trend of increasing prices or loss of purchasing power over time. Because of the effect inflation has on day-to-day expenses, it must also be accounted for in financial planning (e.g. spending goals, future income).
HEALTH	The risk of being forced to deplete a significant portion of my assets to pay for long term care	Planning for the expected costs associated with long term care needs is an often overlooked or unappreciated part of financial planning, especially retirement planning. No financial plan is complete without provisions for handling the possibility of a long term care event.
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 first time after death, but also the lasting final impressions we wish to leave on the ones we care about the most.

The RISK Process™

1. EDUCATE: Proper education about the various risks that exist in retirement and the solutions offered within The RISK Process™.

2. ENGAGE: Entering into an agreement that clearly defines the commitments and responsibilities of each party in the process.

3. EXPLORE: Explore your retirement objectives and current resources to determine what steps are necessary to build your Retirement Income Survival Kit™.

4. ENGINEER: 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.

5. EXECUTE: 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.

6. EVALUATE: Provide ongoing review and evaluation of your Retirement Income Survival Kit™.

DEMBOSKI & CHAPMAN

FINANCIAL AND INSURANCE SOLUTIONS, INC.