INSIGHTS | PERSPECTIVES ON WEALTH MANAGEMENT

The Changing Retirement Landscape

CUNA Brokerage Services, Inc.

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Summary/Introduction

Retirement planning often focuses on asset accumulation: build up a big enough nest egg and the average retiree will be prepared for a comfortable retirement. But having a pool of assets is only the beginning—especially at a time when the majority of the population won't be able to rely on outside programs, such as pensions and Social Security, to provide most of their retirement income. Plus, people are living longer and with higher expectations of what a "good" retirement looks like.

Financial Service Providers (FSPs) and advisors can better serve their clients—and build assets and revenues for their program and organization—by playing a more active role in educating consumers about the changing retirement landscape and the steps that can improve their chances of navigating it safely. To do this, FSPs should offer financial planning services and make a commitment to written retirement plans—a proven way to build participation and assets.

The Changing Retirement Landscape

Asset accumulation is important, but it's only the beginning

Asset accumulation is a topic that has received a lot of press in recent years. After all, there's significant evidence to show most Baby Boomers don't have the assets they need to retire comfortably. A topic that's gotten far less attention is what to do after those resources have been amassed. Even those who have accumulated a healthy nest egg need a strategy to ensure those resources last throughout retirement.

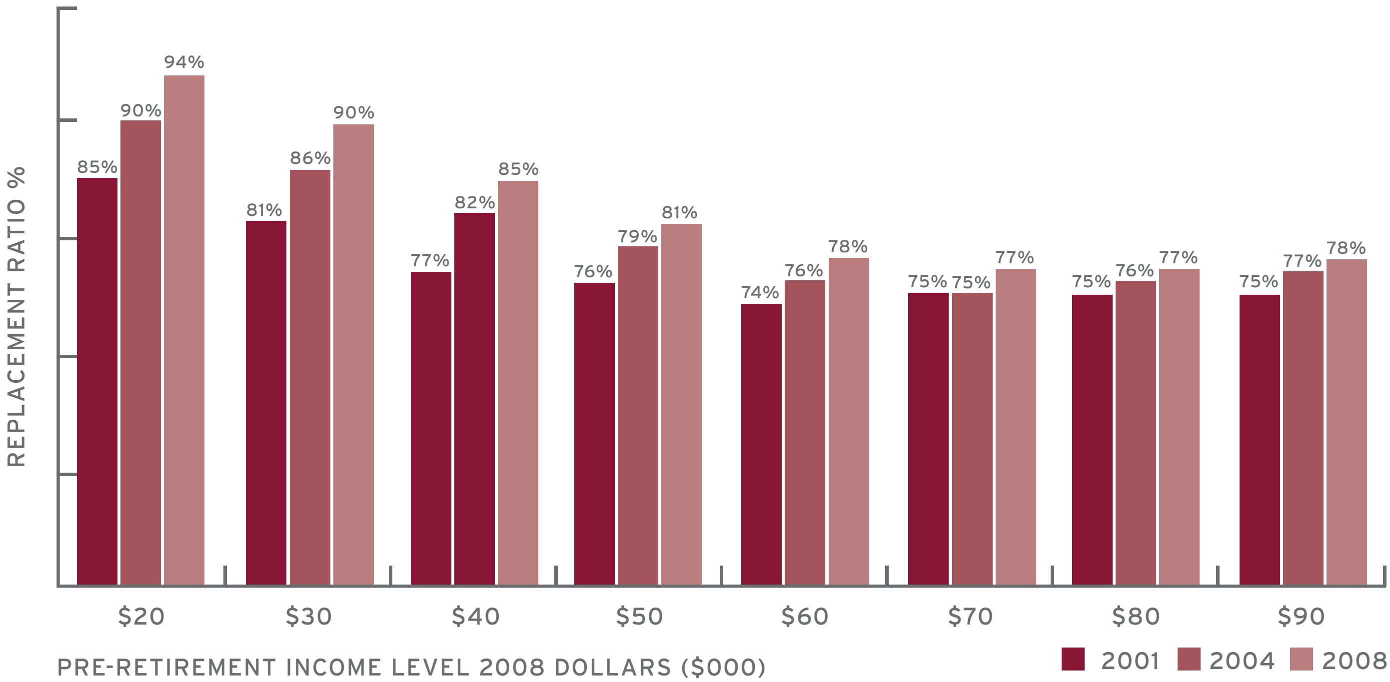
Today's retirees demand more of their retirement years—and face risks that previous generations did not

Many of today's retirees are active and relatively healthy and look forward to enjoying many "golden years" of the good life. That's the good news. The bad news is that these retirees also face realities previous generations typically didn't. "Longevity is the biggest risk factor," says Cindi Hill, CFP®, CRPC ®, a retirement solutions consultant with CUNA Brokerage Services. "If people retire in their mid-60s and live to their mid-90s, that's 30 years of income that they need to ensure. Over that period, they have to be concerned about making their assets last in the face of inflation and other risks. And this is exacerbated by people's desires to do more in retirement—travel, indulge hobbies—and the fact that more people are responsible for their assets than ever before. Pensions are largely a thing of the past and Social Security was always designed to be a safety net, not the main source of retirement income."

Retirees are justifiably anxious about not being a burden to their families in retirement. A study by LIMRA* found that their top two concerns were remaining financially independent (97%) and having enough money to last their lifetime (96%). Trends show retirees at every income level need to replace an increasing percentage of their working years' income in order to match their pre-retirement standard of living (See chart on page 4). This is especially critical for low-income households: their take-home pay represents a larger percentage of their gross income, meaning they will need to nearly match their pre-retirement income to maintain their standard of living.

*LIMRA, "THE POSITIONING OF ASSETS IN RETIREMENT", 2010.

Comparison of 2001, 2004, and 2008 Required Replacement Ratios, Adjusted for Inflation



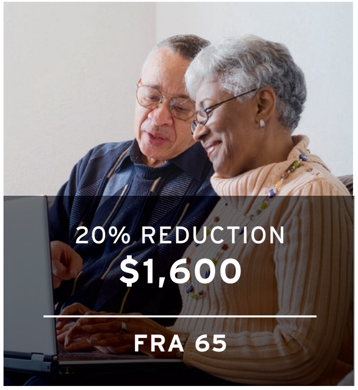
SOURCE: AON CONSULTING REPLACEMENT RATIO STUDY, 2008

Understanding the true costs of taking Social Security early

When is the right time to claim Social Security benefits? There's no one age that meets everyone's needs, and the right time is dictated by a person's health and financial resources.

That said, it's critical to recognize that deciding to claim benefits early—before a person has reached full retirement age (FRA)—has costs associated with it. For instance, for those born between 1946 and 1964 (Baby Boomers), FRA is 66 and those younger people currently face a FRA of 67. Anyone who chooses to retire early will face permanent reductions to their Social Security payments.

GREATER IMPACT WHEN STARTING PAYMENTS AT 62



SOURCE: SOCIAL SECURITY ADMINISTRATION

Things to consider when developing an asset management strategy

Understanding that longevity is the biggest risk consumers face in retirement: the longer they live, the more they're affected by income threats such as inflation, market volatility, increasing healthcare costs, and similar issues. FSPs can play a critical role in helping their clients navigate the challenges a long retirement can create. But to do so effectively, it's important for those offering financial advice to understand the following:

Not all "average returns" are the same

At first glance, the two accounts portrayed in the chart on page 7 are identical: they start off with the same level of accumulated assets and their average rate of return is the same over the 25 years.

But that's where the similarities end. Although both portfolios had an 8% average return on investment, the fact that Portfolio A's "good years" came early, while Portfolio B's "good years" came late, makes all the difference. While Portfolio A is still going strong at the 25-year mark, Portfolio B is wiped out after 16 years.

"When consumers see examples like this, they can be tempted to withdraw all their funds and put them someplace 'safe,' like a money market or CD," Hill says. "As their advisor, it's your job to help them understand that some risk is necessary. Seemingly safe investments like savings accounts are subject to inflation risk, which I call the 'silent killer' of the investment portfolio."

The key determinants of portfolio success in retirement: withdrawal rate and luck

When it's time to start withdrawing funds, what well-known financial analyst, Jim Otar, calls in his book *Unveiling the Retirement Myth*, the "luck factor" kicks in: luck related to the vagaries of the market and the timing of a person's retirement and luck related to inflation levels throughout retirement. Otar says luck is second only to the withdrawal rate when it comes to influencing a portfolio's success. While no one can control their "luck"—though they can prepare by planning to be unlucky and acting accordingly—they can control their withdrawal rate.

To help consumers determine the appropriate rate at which to withdraw their portfolio funds, Otar famously conducted a study he calls "aft-casting" (as opposed to forecasting): He calculated the return and depletion of a retirement portfolio using historical information from 1900 to 2009, on a rolling 30-year basis. Based on this research, Otar found that the sustainable amount a person could withdraw each year, if they wanted their assets to last 30 years, was 3.6%.

Unfortunately, a 3.6% withdrawal won't be sufficient for most people to have a desirable lifestyle in retirement. Bump that up to 4% and research indicates retirees should have a 90% probability of having sufficient funds to get through retirement. But should they be comfortable with a 90% level of certainty? That's where the magnitude of failure comes into play.

OTAR FOUND THAT THE SUSTAINABLE AMOUNT A PERSON COULD WITHDRAW EACH YEAR, IF THEY WANTED THEIR ASSETS TO LAST 30 YEARS, WAS **3.6%.**

The importance of the magnitude of failure

The magnitude of failure is just another way of describing the gap between retirement income and retirement expenses. If the gap is pretty small, a consumer will likely be satisfied with a 90% chance that their assets will be sufficient; if the gap is big, they'll be more nervous. A good analogy is to think of a tightrope: If a tightrope is six inches above the ground, a fall will be relatively painless and most people would take the risk of crossing, while if it's at skyscraper height, few people would be willing to. It's safe to consider a person who only has Social Security income to rely on would probably feel a lot less comfortable with that 90% chance (the skyscraper), while someone who has a variety of assets at their disposal (the six-inch fall) will likely find their risks to be more manageable.

Focus is on average returns
And asset allocation

Accumulation

START WITH $100,000 AND TAKE NO WITHDRAWALS FOR ANNUAL INCOME

	PORTFOLIO A		PORTFOLIO B	
	ANNUAL RETURN	YEAR-END VALUE	ANNUAL RETURN	YEAR-END VALUE
41	29%	$129,491	-12%	$87,695
42	18%	$152,281	-21%	$69,426
43	25%	$189,590	-14%	$59,707
44	-6%	$178,404	22%	$72,984
45	15%	$204,272	10%	$80,136
46	8%	$221,183	4%	$83,595
47	27%	$281,124	11%	$92,707
48	-2%	$274,939	3%	$95,210
49	15%	$315,355	-3%	$92,155
50	19%	$375,272	21%	$111,507
51	33%	$498,737	17%	$130,129
52	11%	$554,097	5%	$137,026
53	-10%	$499,795	-10%	$123,597
54	5%	$526,284	11%	$137,316
55	17%	$614,174	33%	$182,493
56	21%	$743,150	19%	$217,167
57	-3%	$719,305	15%	$249,091
58	3%	$738,726	-2%	$243,611
59	11%	$819,247	27%	$309,629
60	4%	$854,602	8%	$335,262
61	10%	$938,354	15%	$383,875
62	22%	$1,147,022	-6%	$361,226
63	-14%	$986,439	25%	$449,727
64	-21%	$780,941	18%	$528,878
65	-12%	$684,848	29%	$684,848
	8%	$684,848	8%	$684,848

Focus is on sequence of returns
and product allocation

Distribution

START WITH $684,848 AND TAKE 5% OF 1ST-YEAR VALUE ADJUSTED FOR INFLATION

	PORTFOLIO A		PORTFOLIO B	
	ANNUAL RETURN	YEAR-END VALUE	ANNUAL RETURN	YEAR-END VALUE
66	29%	$852,571	-12%	$566,337
67	18%	$967,355	-21%	$413,086
68	25%	$1,168,029	-14%	$318,927
69	-6%	$1,061,698	22%	$352,432
70	15%	$1,177,105	10%	$348,431
71	8%	$1,234,855	4%	$323,772
72	27%	$1,528,614	11%	$318,176
73	-2%	$1,452,871	3%	$284,653
74	15%	$1,623,066	-3%	$232,143
75	19%	$1,886,771	21%	$236,215
76	33%	$2,461,500	17%	$229,644
77	11%	$2,687,327	5%	$194,417
78	-10%	$2,375,148	-10%	$126,543
79	5%	$2,450,746	11%	$90,304
80	17%	$2,808,226	33%	$68,219
81	21%	$3,344,606	19%	$27,833
82	-3%	$3,182,338	15%	$0
83	3%	$3,211,664	-2%	$0
84	11%	$3,503,440	27%	$0
85	4%	$3,594,592	8%	$0
86	10%	$3,885,017	15%	$0
87	22%	$4,685,257	-6%	$0
88	-14%	$3,963,710	25%	$0
89	-21%	$3,070,398	18%	$0
90	-12%	$2,622,984	29%	$0
	8%	$2,622,984	8%	$0

[1] THIS EXAMPLE IS HYPOTHETICAL. IT IS DESIGNED FOR ILLUSTRATIVE PURPOSES ONLY AND DOES NOT REPRESENT ANY ACTUAL INVESTMENT.

MANAGING EXPENSES AND INCOME

- Although life could deal anyone a hard-to-plan for crisis like a stock market meltdown or a major health problem, consumers will typically have some control when it comes to managing their expenses and their income.

- For instance, they can control their expenses by purchasing long-term care insurance and limiting their discretionary spending; they can maintain some level of control over their retirement income based on their mix of assets.

- Although an experienced financial planner can help clients minimize the magnitude of failure in both areas, the focus here is on income management.

WHAT CAN DECREASE THE MAGNITUDE OF FAILURE?

A study in 2011 by Putnam Investments showed that with a 5% withdrawal rate, and using historical returns for various indexes and the Consumer Price Index historical inflation rates, all asset strategies had a good likelihood of providing sufficient assets for 20 years but showed wildly varying results at the 30- and 40-year mark.

But annuitize just 25% of a client's assets, leaving the remaining 75% in the same asset mix as above, and their likelihood of a protected asset stream jumps in most cases. The average consumer has a limited understanding of their long-term retirement needs and the impact various choices—such as when to sign up for Social Security and how much to withdraw each year—will have on their long-term financial stability. Offering a financial services program is a proven way to build an FSP's assets and greatly improves the likelihood clients will have the financial resources they need in retirement.

Protect the Income Stream

HISTORICAL SUCCESS OF THREE ASSET MIXES

ASSUMES 5% WITHDRAWAL RATE, INFLATED ANNUALLY AT CPI

	MIX	20 YRS	30 YRS	40 YRS
CONSERVATIVE	20% STOCKS 50% BONDS 30% CASH	88%	25%	4%
BALANCED	60% STOCKS 30% BONDS 10% CASH	96%	75%	56%
GROWTH	80% STOCKS 20% BONDS 0% CASH	96%	79%	71%

0-59% probability   60-79% probability   80-100% probability

Protect the Income Stream

HISTORICAL SUCCESS OF THREE ASSET MIXES - ANNUITIZE 25% OF PORTFOLIO

ASSUMES 5% WITHDRAWAL RATE, INFLATED ANNUALLY AT CPI

	MIX	20 YRS	30 YRS	40 YRS
CONSERVATIVE	20% STOCKS 50% BONDS 30% CASH	100%	46%	17%
BALANCED	60% STOCKS 30% BONDS 10% CASH	99%	94%	88%
GROWTH	80% STOCKS 20% BONDS 0% CASH	98%	94%	91%

0-59% probability   60-79% probability   80-100% probability

These illustrations are based on a rolling historical time period analysis and do not account for the effect of taxes, nor do they represent the performance of any product, which will fluctuate. These illustrations use the historical returns from 1926 to 2010 of stocks (as represented by an S&P 500 composite), bonds (as represented by a 20-year long-term government bond (50%) and a 20-year corporate bond (50%) and cash (U.S. 30-day T-bills) to determine how long a portfolio is likely to last given various withdrawal rates. A one-year rolling average is used to calculate performance of the 2-year bonds. Past performance is not a guarantee of future results. The S&P 500 index is an unmanaged index of common stock performance. You cannot invest directly in an index.

SOURCE | *Selling More By Planning More: Financial Planning can be Key to Growing Your Business,* Putnam Investments, March, 2011.

Financial planning tools: a critical way to improve clients' financial security

There are a number of respected resources currently available that make it easy to offer these programs, including the following*:

ADVISYS: Provides comprehensive client education, needs-based analysis, and presentation materials in one application. Also includes 600+ reports and calculators and 11 analysis modules to help financial institutions create a targeted retirement plan. Designed to be easy for the presenter to use and the consumer to understand.

MONEYGUIDEPRO®: A goals-based planning tool that takes a holistic, comprehensive approach to planning. MoneyGuidePro allows the advisor to label goal priorities as "needs," "wants," and "wishes" in order to create a more clearly defined retirement program. Incorporates "what if" scenario tools that allow the advisor and consumer to quickly understand the impact of various choices and assumptions.

MEMBERS RETIREMENT SOLUTIONS (MRS): This proprietary tool is offered only by MEMBERS Insurance and Investments through CUNA Brokerage Services and uses sophisticated Monte Carlo analysis. MRS allows the advisor to quickly evaluate many possible futures and come up with recommendations that deliver the best overall results with the highest degree of confidence. With MRS the advisor can examine both asset and product allocation when recommending asset strategies for the consumer and it's the only tool that incorporates annuities into its analysis process.

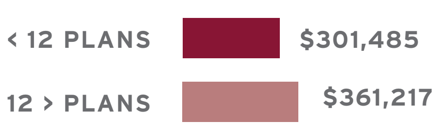
The proven benefits of written plans

When it comes to achieving goals, the benefits of putting something in writing are well established. Not surprisingly, this also holds true when it comes to financial planning. Studies done by MoneyGuidePro showed that firms had strong increases in both net assets and revenues when they worked with their clients to create written plans.

Firm Study #1 T-12 Revenue

56% GREATER REVENUE

Firm Study #2 T-12 Revenue



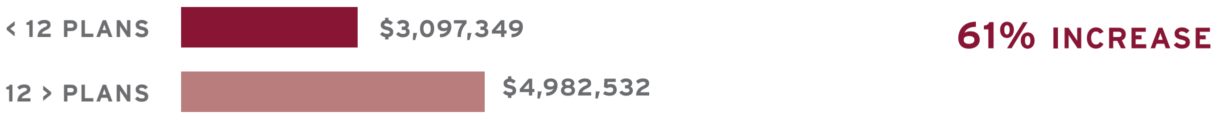
20% GREATER REVENUE

SOURCE | MONEYGUIDE PRO

*THESE RESOURCES ARE CURRENTLY OFFERED BY CUNA BROKERAGE SERVICES.

Firm Study #1 Net New Money

Firm Study #2 T-12 Net New Money



SOURCE | MONEYGUIDE PRO

In addition, a written plan can create additional benefits such as the following:

TRANSFORM THE FSP FROM AN ORDER-TAKER TO AN ADVISOR. "If a client comes in and you only do what they ask for—say, help them roll over their 401(k)—that's very limited," Hill says. "But if you sit down and create a written plan, that changes the equation."

REVEAL THE FULL RANGE OF CLIENT ASSETS. Using the same 401(k) example, putting together a written plan opens the door to a better understanding of the client's complete portfolio.

UNCOVER CLIENT NEEDS. The client may have a variety of goals and concerns that they were unaware their financial institution had resources to address. For instance, perhaps they're concerned about long-term healthcare costs and long-term care insurance would be a logical choice for them or are looking for ways to build savings for a child's education.

INCREASE THE LIKELIHOOD OF REFERRALS. According to MoneyGuidePro, without a written plan, clients had a 44% likelihood of referring a friend to their advisor; with a written plan they had a 75% probability. And, if another firm created the client's financial plan, the person was 26% less likely to refer a friend to their original advisor for planning assistance.

Conclusion

Increased longevity, changing expectations of what a "good" retirement looks like, and the transfer of retirement security from the employer to the employee mean the average consumer needs help to ensure their assets last throughout retirement. FSPs are uniquely positioned to offer the financial planning resources their clients need to feel secure in retirement. Doing so—especially in conjunction with personalized written plans—helps clients and is a proven way to grow institutional assets, revenues, and referrals.