Retirement Challenge:

Creating Income for the Life You Want to Live

SOVEREIGN
RETIREMENT SOLUTIONS

As you get close to retirement, the overwhelming concern for most people is making sure that the money they've saved will last them for the next several decades.

The way most people approach this is fairly straightforward: Take the total sum of money you've saved, figure out what you need to spend every year, and then implement a withdrawal plan based on specific percentage (usually around 4%) that will ensure your annual withdrawals plus inflation don't exceed your savings.

There are free online calculators that, if you input your age, your salary, your existing savings and your monthly contribution, will give you an exact figure for how much you need to save if you want to retire at full retirement age (usually 67, for social security purposes). They build in assumptions about how much your investments will throw off (which is usually a conservative figure), and how much you should drawdown, which is usually somewhere around 4%.

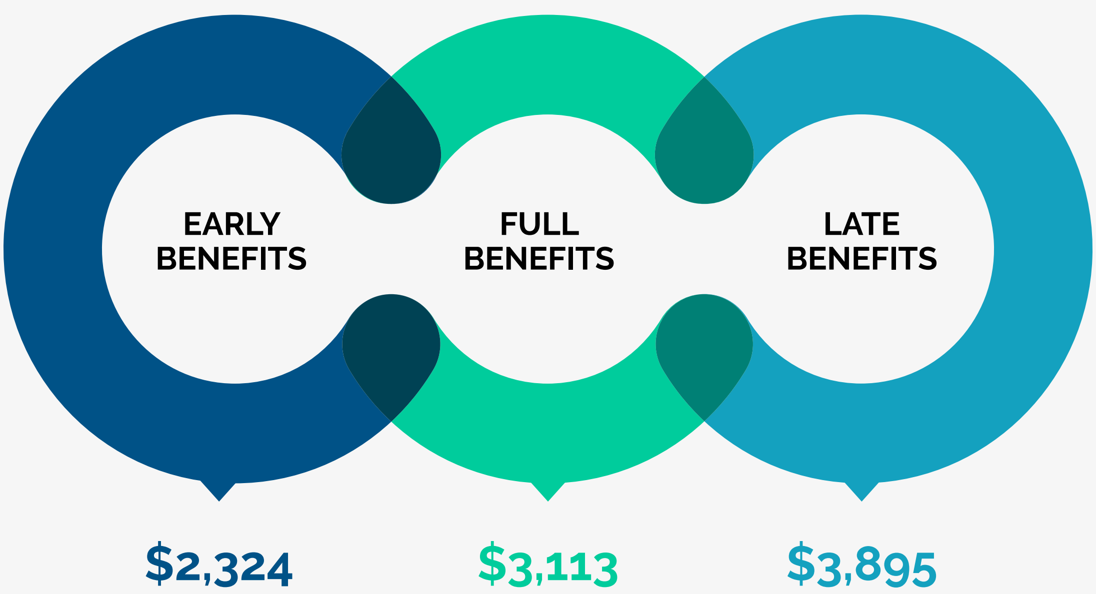
We're not saying they're wrong, exactly. We're just saying there's definitely a better way to go about it. We'll get into that, but first let's review the big questions that most people have about retirement. There may be some you haven't thought of yet, but you should.

Answering the Big Questions

WHEN TO TAKE SOCIAL SECURITY?

Having a pool of retirement savings allows you the flexibility to maximize the benefits of social security. But the decision isn't just about income – it can also have tax implications. The longer you wait to claim, the more you receive in annual payments. Factoring in life expectancy, which is different for everyone, it's usually a better idea to delay as long as possible.

SOCIAL SECURITY BENEFITS



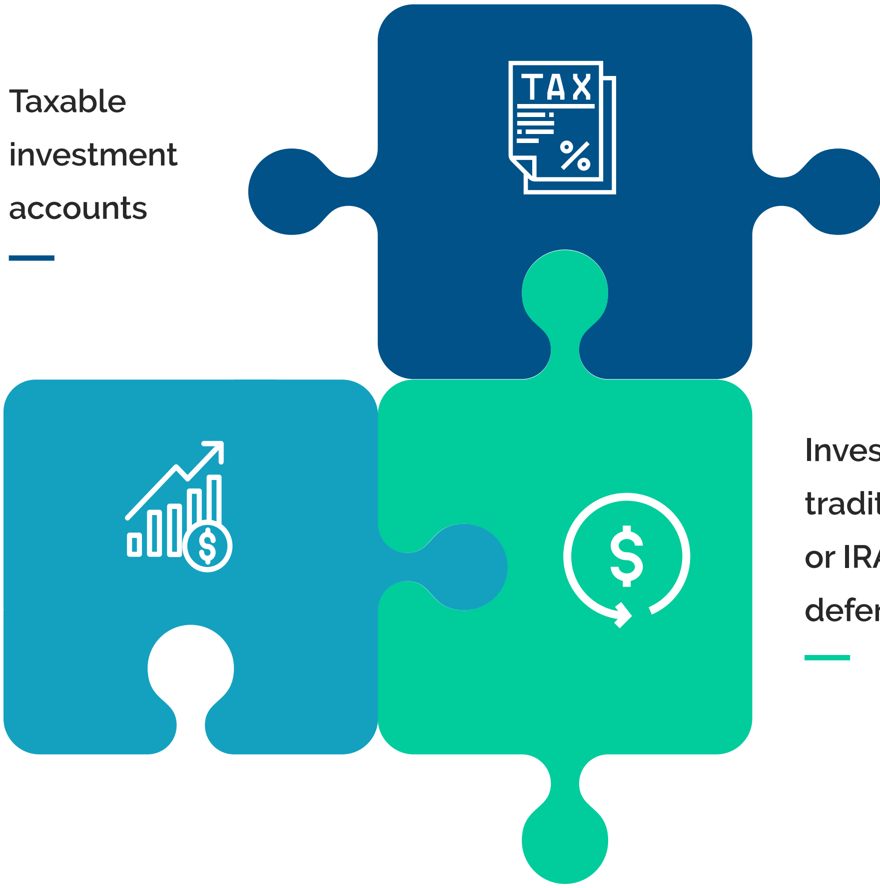
Claiming social security and retiring do not need to be simultaneous – there can actually be benefits beyond higher income that can accrue from postponing claiming social security until after full retirement age at 67. This doesn't mean you have to keep working – you just need a plan that can replace social security income until you start to draw it down. If you're taking that income from a retirement-designated fund, like an IRA, you'll be drawing down the total amount that will be subject to the Required Minimum Distribution, which will also be reduced. This will allow you flexibility on taxable income.

Minimizing Taxes: Where Your Assets Are Held Matters

When and how you access the various pools of money you've accumulated has a big impact on your taxes. Just like when you are generating income from work, keeping as much as possible in your pocket is important when your income comes from investments.

An investment plan that deploys a strategy to minimize taxes takes advantage of the different tax treatments of various types of investments. This determines what assets are held in tax deferred or exempt accounts, and which are held in taxable accounts. It's called "Asset Location".

Taxable investment accounts



Investments in Roth 401(k)s and IRAs (tax-exempt)

Investments in traditional 401(k)s or IRAs (tax deferred)

The concept is fairly simple, in hypothetical—investments that are tax-advantaged should go in taxable accounts, and the rest should be held in tax-deferred or tax exempt accounts. This means things like equity securities that either grow and produce capital gains or dividends (which are taxed at a rate lower than income), or decline and produce losses that can offset gains, should go into accounts that are taxable.

There's a Different Way

Pulling together a complete picture of your assets, and then determining when you'll retire and when you'll begin to claim social security is just the start. It's the data that forms the building blocks of the life you'll lead after retirement. Here's where our difference comes in.

We start by looking across your assets, your income, your liabilities, and most importantly – your life. What you want to do in retirement – and the commitments you want to make – are the most important determinants of an income plan.

We don't start with the total amount of assets you have and work backwards to get to an annual income figure. While that may be a serviceable approach, we know that retirement lasts a long time, and that over the course of those decades, your annual expenses are likely to vary from year-to-year. Sometimes by a lot. That's why we take a different approach.

Buying a Second Home

Starting a Business

Travel

Helping Children/ Grandchildren

Charitable Giving

Unexpected (?)

In setting up a comprehensive financial plan, we believe that the most important element is flexibility. We want you to feel that you can live the life you want in the active early years of your retirement, while feeling secure that your needs will be met as you age. And we want to build in the ability to change the plan if your life changes.

We've worked with clients that have opened new businesses, devoted themselves to active philanthropy, or decided to buy a second home closer to adult children and spend part of the year living somewhere. None of these clients thought of doing these things until after they had been retired for a few years.

What made it possible was that we built a plan from the beginning that was able to respond easily and efficiently to change. Creating a plan that works for your retirement shouldn't rely on products that lock you in to things long-term.

A customized approach isn't just about investing in a 60% stock, 40% bond portfolio at the beginning of your retirement and taking a set percentage out every year through either income or liquidating securities. There's a more comprehensive way to build a retirement plan.

ASSET ALLOCATION
AN INSTITUTIONAL APPROACH

We focus on retirement planning because we believe that by bringing institutional portfolio management products and strategies to this stage of financial planning, we can make a real difference in our clients lives. Making the switch from the accumulation stage to living on your assets shouldn't just be a one-time thing.

Our process is customized and adaptive from the outset, and we build in the ability to shift the income you'll draw if you need to make changes. Doing that requires creating a plan that doesn't just chug along no matter what the markets are doing – it's an active investment strategy that adapts to your needs and the dictates of the market.

We start with the risk profile that makes you the most comfortable. The most important thing is that you have peace of mind about your money. But we've learned that creating a portfolio that can track to a given level of risk doesn't have to include just stocks and bonds. We create a custom plan by looking beyond these assets and incorporating other financial products.

For example, we've found that replacing part of the bond allocation with bond alternatives can help you maintain your risk profile and protect capital, while providing higher income.

Hypothetical Adaptive Portfolio

For some clients, if their retired life plan means that more growth in their portfolio is desired, we can build on the structure by boosting the equity allocation to include more growth stocks, which will be offset by the lower risk of the bond alternatives.

Our approach to income is different too. We think about your income needs as a rolling three-year average. We may consider holding enough cash in the portfolio to meet your needs over this period. This insulates you from short-term market disruptions, while creating the flexibility to replenish cash at advantageous moments. If your needs change, creating more income can be done efficiently and does not disrupt your portfolio allocation.

The Bottom Line

There's a lot to think about when you retire. Our goal is to have you focused on what you want your retirement life to look like, while we create a holistic, flexible retirement plan that makes the most of your assets and can grow and change along with you on this stage of your journey.