



THE R.I.S.K. PROCESS™

RETIREMENT INCOME SURVIVAL KIT

THE  
O'NEILL  
COMPANY, INC.

*Engineering the Development of Financial & Economic Literacy...*



R.I.S.K.<sup>™</sup>



THE R.I.S.K. PROCESS™ | AN EFFECTIVE WAY TO BUILD YOUR RETIREMENT INCOME SURVIVAL KIT™

RETHINKING INCOME  
SIMPLIFYING COMPLEXITY





## 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 this 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").

As we begin this second half of our journey, we are faced with unique and potentially devastating risks such as market, sequence of returns, inflation, liquidity, longevity, taxation, health and legacy risks. Just like climbing a mountain, those who acknowledge and address these risks will be most likely to safely and successfully complete their journey.

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 R.I.S.K. 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™.



## THE R.I.S.K. PRINCIPLES™

1. INCOME ALLOCATION
2. WITHDRAWAL PERCENTAGE
3. ADDRESS RISK

# THE R.I.S.K. PROCESS™ IS BASED ON THREE R.I.S.K. PRINCIPLES™

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. So before we begin, it is essential to understand that The R.I.S.K. Process™ relies on three fundamentals (The R.I.S.K. Principles™) to guide you through the process of building your personal Retirement Income Survival Kit™.

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

### ADDRESS RISK

Ensure that your annual income streams are protected against the key risks you will face during retirement.



## THE R.I.S.K. PRINCIPLES™

### 1. INCOME ALLOCATION

2. WITHDRAWAL PERCENTAGE

3. ADDRESS RISK

# 1 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 R.I.S.K. Process™ helps you:

- Reassess your available assets
- Redeploy them most efficiently into various income solutions 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."*

## RETIREMENT

### 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.

## ACCUMULATION

## DISTRIBUTION

# 2

## DETERMINING A SUSTAINABLE WITHDRAWAL PERCENTAGE

### THE R.I.S.K. PRINCIPLES™

1. INCOME ALLOCATION
2. WITHDRAWAL PERCENTAGE
3. ADDRESS RISK

# 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 R.I.S.K. 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.

**WHAT ARE THE CHANCES MY MONEY WILL LAST THROUGHOUT RETIREMENT?**

		ASSET ALLOCATION				
		100/0	80/20	60/40	40/60	20/80
ANNUAL WITHDRAWAL RATE	3%	94%	97%	98%	99%	99%
	4%	83%	86%	89%	91%	92%
	5%	67%	69%	68%	63%	49%
	6%	50%	49%	<b>42%</b>	29%	10%
	7%	35%	31%	22%	9%	1%
	8%	24%	18%	10%	2%	0%

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.

### CASE EXAMPLE: \$ VERSUS %

- “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 42% chance that their money will last the entire 30 years (SEE CHART AT LEFT).
- The key to determining Jane and Ed’s retirement success is not the \$1 million dollars 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 42% chance that their money will last throughout retirement.
- This is where The R.I.S.K Process™ can make a difference – by helping to increase the chances that savings will last throughout retirement.**

THE R.I.S.K. PRINCIPLES™

1. INCOME ALLOCATION
2. WITHDRAWAL PERCENTAGE
- 3. ADDRESS RISK**

3

ENSURE THAT INCOME STREAMS ARE PROTECTED AGAINST KEY RETIREMENT RISKS

After we complete the process of ensuring that income streams are efficiently allocated and based on sustainable withdrawal rates, the final step is to insulate them against key retirement risks (see table at right).

Building a personal *Retirement Income Survival Kit™* involves analyzing our exposure to these risks and making a decision as to how we wish to address each of them. Generally, these decisions fall into four categories:

<b>AVOID</b> (ELIMINATE, WITHDRAW)	<b>RETAIN</b> (ACCEPT & BUDGET)
<b>REDUCE</b> (OPTIMIZE, MITIGATE)	<b>TRANSFER</b> (SHARE OR INSURE)

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, technology and health awareness are allowing people to live longer. Therefore, your retirement plan should include a component that provides for lifetime income, not just income for life expectancy. This is important because roughly half of all individuals will live beyond their life expectancy.
MARKET	The risk of losing all or a significant portion of my money invested in the market	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.
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)	Once we retire and begin withdrawing income from our investments, average returns are not as important. What matters in retirement is the sequence of returns. For example, experiencing negative returns early in retirement may cause premature depletion of the entire portfolio. Retirees need to avoid being in the position of having to sell assets to facilitate an income withdrawal during down markets.
INFLATION	The risk that costs of goods and services will increase over time	Inflation has superseded health care risk as the top concern of retirees, with the majority expressing concern that the value of their savings and investments might not keep pace with inflation. <sup>1</sup>
HEALTH	The risk of being forced to deplete a significant portion of my assets to pay for long term care	Two-thirds of retirees age 65 and older will need some form of long term care in their lifetime. <sup>2</sup> About 75% of single people and 50% of all couples deplete all of their savings within one year of entering a nursing home. <sup>3</sup> Leaving such a risk unaddressed can have a devastating impact on the surviving spouse and family, both financially and emotionally.
LEGACY	The risk of not being able to leave a financial legacy to the people or organizations I care about most	Perhaps no risk is greater than failing to provide for, or leaving a lasting impression on, those who are most important to us. By prioritizing a legacy as one of our financial goals, we can balance funding for retirement income with provisions for those we care about most.
TAXATION	The risk that tax laws could change, causing a negative impact on the resources used to fund my income needs	Taxation risk can impact all other areas of income planning. The decisions we make today can either create or remove opportunities to effectively mitigate taxes in the future. Addressing tax risk "later" will likely be too late.

1. 2009 Risk and Process of Retirement Survey Report Findings (Sponsored by The Society of Actuaries. Prepared by Matthew Greenwald & Associates, Inc. and the Employee Benefit Research Institute.)  
 2. 2007 AARP Public Policy Institute Fact Sheet  
 3. 2009 Kaiser Commission on Medicaid and longtermcareinsurancetree.com

# THE R.I.S.K. MODELS

## RETIREMENT'S NEW RISK SPECTRUM

ASSET MANAGEMENT

EQUITY INCOME GUARANTEES

LONGEVITY INSURANCE

INFLATION PROTECTION

LONG TERM CARE COVERAGE

DEATH BENEFITS

	UNADDRESSED ← → ADDRESSED				
KEY RETIREMENT RISKS					
LIQUIDITY					
LONGEVITY					
MARKET					
SEQUENCE OF RETURNS					
INFLATION					
HEALTH					
LEGACY					
TAXATION	Taxation risk is highly dependent upon individual circumstances (i.e., basis in current assets, the amount of qualified money, state and local tax rates, etc.). The R.I.S.K. Process™ works in tandem with your professional tax advisors to ensure that individual income allocations are designed to manage your taxation risk in the most efficient manner.				

The R.I.S.K. Process™ helps insulate your income against key retirement risks by constructing an individualized risk-focused portfolio comprised of various income solutions.

The income solutions within each custom portfolio are uniquely designed to work together to provide specialized benefits such as asset accumulation, lifetime income, inflation protection, tax efficiency, long term care coverage and death benefits.

The sample models (at left) are hypothetical in nature and are intended to illustrate how combinations of various income solutions work together to address key retirement risks.



# THE R.I.S.K. PROCESS™

A SIX-STEP TURN-KEY PROGRAM FOR BUILDING YOUR RETIREMENT INCOME SURVIVAL KIT™

## 1. EDUCATE

The first step of The R.I.S.K. Process™ is a proper education about the various risks that exist in retirement and the solutions offered within The R.I.S.K. Process™.

**TOOL: Addressing R.I.S.K. Presentation™**

## 2. ENGAGE

In the second step, you and your Advisor, as well as any desired third parties, may enter into an agreement that clearly defines the commitments and responsibilities of each party.

**TOOL: The R.I.S.K. Engagement Letter™**

## 3. EXPLORE

The third step is to explore your retirement objectives and current resources to determine what steps are necessary to build your Retirement Income Survival Kit™.

**TOOL: The R.I.S.K. Questionnaire™**

## 4. ENGINEER

The fourth step is to use the information gathered in the exploration process to engineer a custom R.I.S.K. Model™. The Model will contain different allocations of income solutions to address your specific objectives and risks.

**TOOL: The R.I.S.K. Portfolio Models™**

## 5. EXECUTE

The fifth step involves the design of The R.I.S.K. 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.

**TOOL: The R.I.S.K. Blueprint™**

## 6. EVALUATE

The sixth step is to provide ongoing review and evaluation of your Retirement Income Survival Kit™.

**TOOL: The R.I.S.K. Snapshot™**



## TAKE CONTROL OF YOUR RETIREMENT FUTURE

Now that you have the critical information needed to take the first step, are you ready to begin building your personal Retirement Income Survival Kit™?





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