

Investment and Retirement Strategies for Estate Growth

Explore practical strategies for growing and preserving wealth across retirement and estate planning. From Roth conversion techniques—including two-step and three-step approaches—to retirement income planning using bucket strategies, annuities, and reverse mortgages, this course is packed with actionable tips. You'll also cover long-term care and insurance cost comparisons. Ideal for professionals advising clients on maximizing assets during their working years and structuring reliable income streams throughout retirement.

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize characteristics of annuities.
- Identify strategies to boost retirement cash flow.

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Chapter 1: INVESTMENT STRATEGIES FOR MAXIMIZING ESTATE GROWTH

Chapter Objective

After completing this chapter, you should be able to:

- Recognize characteristics of annuities.

Traditional investment philosophy suggests that as you get older you should invest more conservatively. Years ago, commonly accepted wisdom employed the following investment allocation formula as a rule of thumb: *100 minus your age equals the percentage of stocks you should have in your portfolio*. This means that a 70-year-old would have only a 30 percent allocation to stocks. While this strategy should reduce portfolio volatility, it also significantly reduces the long-term growth potential of your holdings. We believe this “old-age” way of approaching investing is out of touch with today’s world. Advances in medicine and biotechnology have allowed scientists to better understand the aging process and develop methods for enhancing longevity. Some scientists now believe the average 50-year-old will live to age 120. Talk about a need for growth in your portfolio! One of retirees’ greatest fears is that they will outlive their financial resources and become dependent on their children (or the government) for their financial support. In order to address the need for a portfolio that could provide significant long-term growth and income for retirees, my firm developed the Growth Strategy with a Safety Net®, which today represents one of the best solutions for the possibility of living too long. Here’s how it works.

The goals of the Growth Strategy with a Safety Net are as follows:

1. Protect your retirement income from stock market fluctuations.
2. Maximize your retirement cash flow.
3. Produce an ever-increasing income stream that will more than offset the ravages of inflation.
4. Provide for significant portfolio growth, ultimately providing a legacy for your heirs or favorite charitable organizations.

Sound impossible? Well, read on!

GROWTH STRATEGY WITH A SAFETY NET

First, you determine how much annual cash flow you need and multiply that number by the number of years that you want to protect your income. Be sure your annual withdrawal rate does not exceed

your risk tolerance (see the section on withdrawal rates later in this chapter). Use the following scale:

Conservative: 10 years or more

Moderate: 5–10 years

Aggressive: 2–5 years

Next, add an amount of money that represents a generous emergency fund. Your total here will be invested as follows:

1. Emergency fund plus your first year's income need is invested in a money market account.
2. The money that represents your remaining cash flow "safety net" will be invested in high-quality, short-term bond funds, a bond ladder using individual bonds, or certificates of deposit (CDs) maturing every 12 months. This completes your safety net.
3. Implement your growth strategy by investing the balance of your money in a diversified portfolio of stocks or stock mutual funds. Periodically, you will sell a portion of your appreciated stocks and use the proceeds to replenish your bond ladder.

In a year when stocks do poorly, you postpone sales and wait for the market to recover. Historically, one to three years is sufficient time for this to occur.

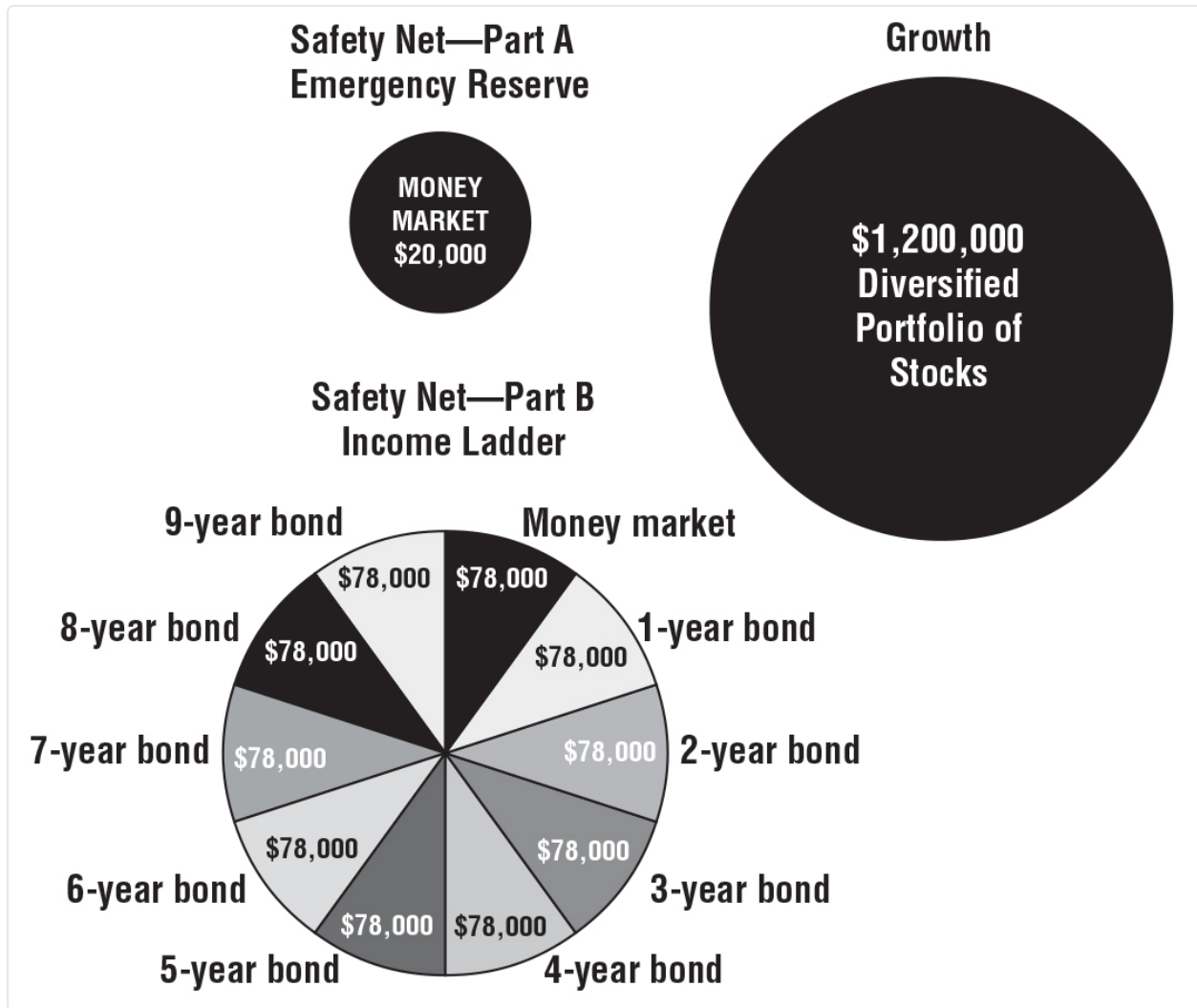
For example, assume you have \$2 million available to meet your retirement income needs. You decide that a \$20,000 emergency reserve account should be sufficient to cover any unforeseen financial emergencies and that initially you would like to draw \$78,000 per year (a 3.9 percent withdrawal rate) from your investment portfolio in addition to your other income sources, which include Social Security and pension from your employer. You consider yourself a conservative investor and therefore decide to protect this income for 10 years. Table 4.1 outlines how your safety net is set up initially.

TABLE 4.1 INITIAL SAFETY NET

\$ 20,000	Emergency reserves invested in a money market account
\$ 78,000	First year's income need invested in a money market account
\$ 78,000	Bond maturing end of year 1
\$ 78,000	Bond maturing end of year 2
\$ 78,000	Bond maturing end of year 3
\$ 78,000	Bond maturing end of year 4
\$ 78,000	Bond maturing end of year 5
\$ 78,000	Bond maturing end of year 6
\$ 78,000	Bond maturing end of year 7
\$ 78,000	Bond maturing end of year 8
\$ 78,000	Bond maturing end of year 9
\$800,000	Safety net total (40% of portfolio)

Each month you draw \$6,500 from your money market account along with Social Security and pension to cover your normal living expenses. If you have a financial emergency, you have an additional \$20,000 available in your money market emergency reserve account. Having your safety net in place guarantees that your income needs will be met for a total of 10 years. Note that the interest earnings on your bonds (or dividends on your stocks) can be either added to your money market account to provide an increasing income stream or reinvested as part of your growth strategy.

The balance of your portfolio (\$1,200,000) is invested in a diversified portfolio of stocks or stock mutual funds and will provide you with needed long-term growth. In years when the stock market does well, you will sell \$78,000 worth of stocks and buy another bond that matures in 10 years to replace the \$78,000 that you spent during the previous year. If the market does poorly in a given year, you will postpone selling stocks until there is a market recovery. You can take comfort in knowing that your income is totally secure for the next 9 years no matter what happens to the stock market. Figure 4.1 provides a visual illustration of what the Growth Strategy with a Safety Net looks like.

FIGURE 4.1 GROWTH STRATEGY WITH A SAFETY NET

In an unprecedented historical occurrence, we have had two generational bear markets within a single decade: one that lasted from 2000 to 2003 and one that began in 2008 and ended in March 2009. Both saw stock market indices drop more than 50 percent from the market peak to the market trough. In both cases, the stock market made a full recovery within approximately 5 years of the market bottom. It's instructive to put these two generational bear markets in the context of the only bear market that was worse—the Great Depression of 1929. More typically, you'll have a bear market, defined as a 20 percent decline within a 12-month period, once every 3 to 10 years (a full market cycle). The typical bear market lasts only about 14 months before recovery begins. Having a 5- to 10-year safety net should be more than sufficient to get you through a bear market while allocating enough money to growth investments (stocks or stock mutual funds) to allow your portfolio the opportunity to grow and offset the ongoing ravages of inflation.

This strategy allows you to allocate a large portion of your money in the stock market, where it can grow, while your income is protected during periods of poor market performance. We should add that this strategy is relatively tax efficient for taxable accounts because you have a portion of your portfolio producing taxable income in the form of interest (your safety net) and a portion of your portfolio whose distributions are subject to the lower long-term capital gains tax (the growth portion). Table 4.2 illustrates the power of this strategy over time. Not only are you maximizing your current income, but the potential growth of your stock portfolio allows both your income and portfolio values to rise over time.

TABLE 4.2 GROWTH STRATEGY WITH A SAFETY NET

Year	Beginning Balance	Annual Withdrawals	Cumulative Withdrawals	Growth at 5.6%^a	Ending Capital Account	Withdrawn Rate
1	2,000,000	80,000	80,000	107,520	2,027,520	4.00%
5	2,112,373	84,495	411,161	113,561	2,141,439	4.00%
10	2,261,759	90,470	851,398	121,592	2,292,881	4.00%
15	2,421,710	96,868	1,322,769	130,191	2,455,033	4.00%
20	2,592,972	103,719	1,827,475	139,398	2,628,652	4.00%
25	2,776,346	111,054	2,367,874	149,256	2,814,549	4.00%
30	2,972,688	118,908	2,946,490	159,812	3,013,593	4.00%
35	3,182,916	127,317	3,566,025	171,114	3,226,713	4.00%
40	3,408,010	136,320	4,229,374	183,215	3,454,904	4.00%
45	3,649,023	145,961	4,939,634	196,171	3,699,234	4.00%
50	3,907,081	156,283	5,700,123	210,045	3,960,842	4.00%
55	4,183,388	167,336	6,514,394	224,899	4,240,952	4.00%
60	4,479,236	179,169	7,386,250	240,804	4,540,870	4.00%

^aAssumptions: 5.6% blended rate of return (ROR) using a 60% stocks/40% bonds and money market asset.
Note: Historical long-term returns for stocks ranged between 9% and 11%. Historical returns for intermediate-term high-quality bonds have averaged 4.5% to 5.5%. Rates used in this example reflect more conservative return estimates based on the current interest rate and expected stock return environment.

Table 4.3 (next page) profiles the volatility and return characteristics of conservative, moderate, and aggressive portfolios based on the Growth Strategy with a Safety Net. It should be noted that while the one-year risk associated with investing in stocks or stock mutual funds is relatively high, that risk profile decreases substantially over time. The basis of the Growth Strategy with a Safety Net is allowing time for the stock market to recover. Table 4.3 indicates how stock market volatility dissipates over time.

TABLE 4.3 RETIREMENT PORTFOLIO EQUITY (STOCK) ALLOCATION GUIDELINES BASED ON GROWTH STRATEGY WITH A SAFETY NET

	Conservative	Moderate	Aggressive
One-year downside risk^a	–17%	–22%	–29%
10-year downside risk^a	+1.7%	+0.9%	–0.2%
20-year downside risk^a	+5.1%	+5.2%	+5.4%
Expected returns (10 years+)^b	+8.6%	+9.2%	+10.0%
<i>Investment Mix:</i>			
Equities (stocks)	60%	70%	85%
Fixed income (CDs, bonds, money market)^c	40%	30%	15%

^aOne-year, 10-year, and 20-year downside risks are based on historical returns from 1946 to 2022.

^bReturn assumptions are based as follows:

Equities 10.9%

Fixed Income 5.2%

Returns are approximated and based on annualized returns for large-cap stocks (equities) and intermediate-term government bonds from 1946 to 2022 (2023 Kroll[®]).

^cThe fixed income portion of the portfolio should be based on the Growth Strategy with a Safety Net. See pages 38–41.

Note: These portfolios are for postretirement investment accounts and should be used only as general guidelines. Asset allocation models might yield different risk objectives versus Growth Strategy with a Safety Net allocations. Consult with your financial adviser. Investment results are not guaranteed. Risks and returns are targets only. Statistics are based on historical data indicating possible calendar year losses for equities of 37% and losses for fixed income of 5%.

As your retirement date approaches, you should begin to build your safety net ahead of time. For example, let's assume you plan to retire in seven years and you have decided that you want to protect six years' worth of your income (safety net). Continuing with our example in Table 4.1, the next year you would sell \$78,000 worth of stocks (assuming the market is up!) and buy a bond that matures just before your retirement date. This will fund your first year's income. The following year, you will do the same thing: Sell \$78,000 of stocks and buy a bond that matures in five years. Using this strategy, by the time you retire, your safety net will be fully in place, and you will have maximized the growth potential of your investments until the time you need to begin drawing on them for your retirement income. Note that you can implement this same strategy using a short- to mid-term high-quality bond fund, such as the Vanguard Bond Market Index Fund (VBTLX).

Withdrawal Rates

At this point, it is important that you understand both the concept and the importance of the withdrawal rate (sometimes referred to as the withdrawal factor) as it relates to your portfolio.

Your withdrawal rate is equal to the percentage of dollars you are taking from your portfolio on an annual basis. For example, if you have \$1 million in your investment portfolio and you take out \$50,000 in a given year, your withdrawal rate is 5 percent ($\$50,000 \div \$1,000,000$). If your withdrawal rate is too high, you run the risk of depleting your investment account. Based on our experience, an appropriate withdrawal rate scale is as follows:

Conservative: 4 percent or less

Moderate: 5 percent

Aggressive: 6 percent or more

This scale is sometimes adjusted for age and health factors. For example, a 9 percent withdrawal rate might not be considered aggressive for someone who is 95 years old and in ill health. But for our purposes, we'll use the scale described above. The appropriate withdrawal rate for you will be determined based on your particular circumstances and risk tolerance.

PRIORITIZING YOUR INVESTMENT DOLLARS

How do you maximize the power of your estate accumulation program? We have already seen how retirees can use the Growth Strategy with a Safety Net to increase their retirement income while maintaining long-term growth. You can also significantly magnify the power of your estate accumulation program by choosing the best investment environment. The investment environment relates to whether the investment is a retirement account like a 401(k), traditional individual retirement account (IRA), or Roth IRA; a tax-deferred account such as an annuity or cash value life insurance; or a personal investment account. Each environment has its advantages and disadvantages, but some are better than others, particularly for accumulating money for your estate and retirement. By prioritizing where your investment dollars go, you can significantly enhance your long-term accumulation results. Let's begin with a review of your best options.

RETIREMENT PLANNING: CHOOSING THE BEST INVESTMENT ENVIRONMENTS

Under most circumstances, the best strategy for accumulating money for your retirement is through a qualified retirement plan. This may seem obvious, but you would be surprised at how often we find that people fail to understand this. For example, a new client was very concerned about saving for retirement. Every month he contributed 6 percent of his salary to a 401(k) plan, 50 percent of which was being matched by his employer. The plan allowed him to contribute up to 15 percent of his pay. When asked why he was not investing more money in his 401(k), he said he could not afford to contribute more. It turned out that he was paying several hundred dollars each month toward a whole life insurance policy. Through some rearranging of his life insurance, he was able to maintain the insurance policy without further premium payments and divert the insurance premiums into his 401(k). Not only would those life insurance premium dollars grow faster in his 401(k), but he got