

Better Retirement Exit Strategies with Life Insurance

Presented by:

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Agenda

- Mountain Climbing
- Challenges of Current Thinking
- Solutions to Challenge Your thinking

What's Wrong with this Picture?

According to a May 2012 Financial Planning article, “**62% of uninsured individuals** responded that no one had ever offered to sell them a Life Insurance policy.”

Later in the same article, it was reported that “**56% of Financial Advisors** are so uncomfortable talking about Life Insurance that they never bring up the subject with their clients.

When asked why, their response “no process!”

May 21 & May 22, 2012 articles online at Financial Planning "Feeding America"

**What's the goal in
climbing a mountain?**

Mt. Everest

A low-angle photograph of Mount Everest, showing its snow-covered peaks and dark rock faces against a clear blue sky. The mountain's jagged ridges and steep slopes are covered in patches of snow and ice, with dark rock visible in the crevasses and along the ridges. The sky is a deep, clear blue.

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Get to the top?



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OR

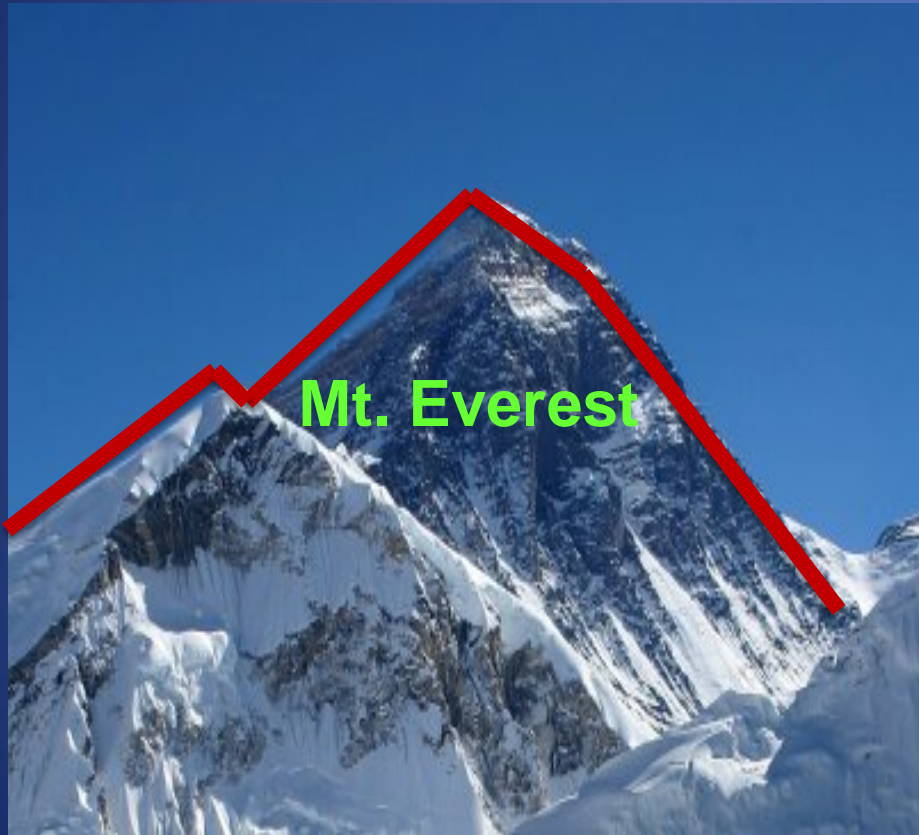
Get to the top

AND

**Get back down
safely?**

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The Danger of Not Understanding the Goal

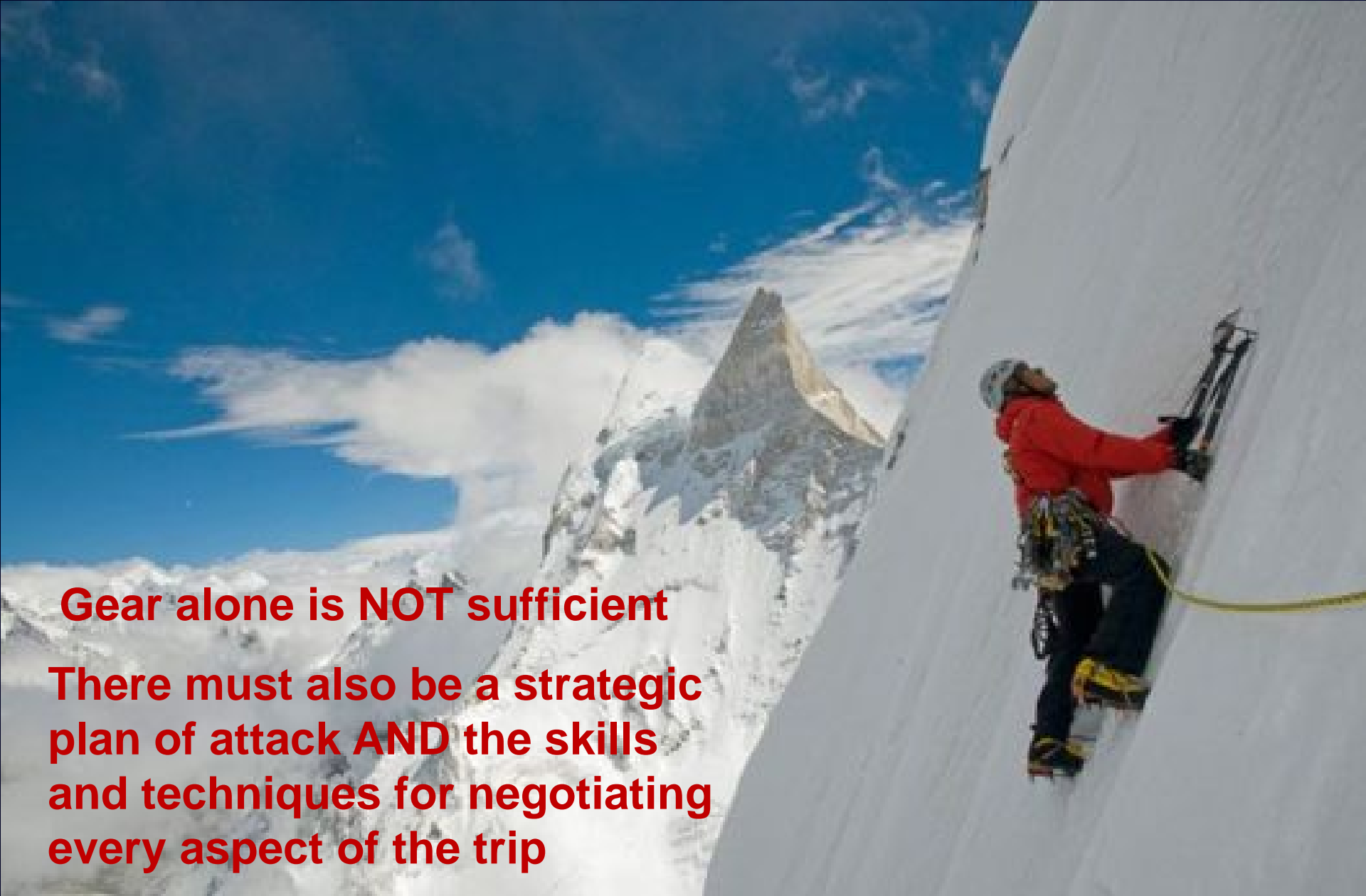


- Of the 4042 who have reached the summit, 265 have died
- 1 of 10 climbs results in a death
- Over 200 bodies remain on the slopes
- The majority have died on the way down



**The smart climber
packs his gear for the
entire trip while still in
base camp**

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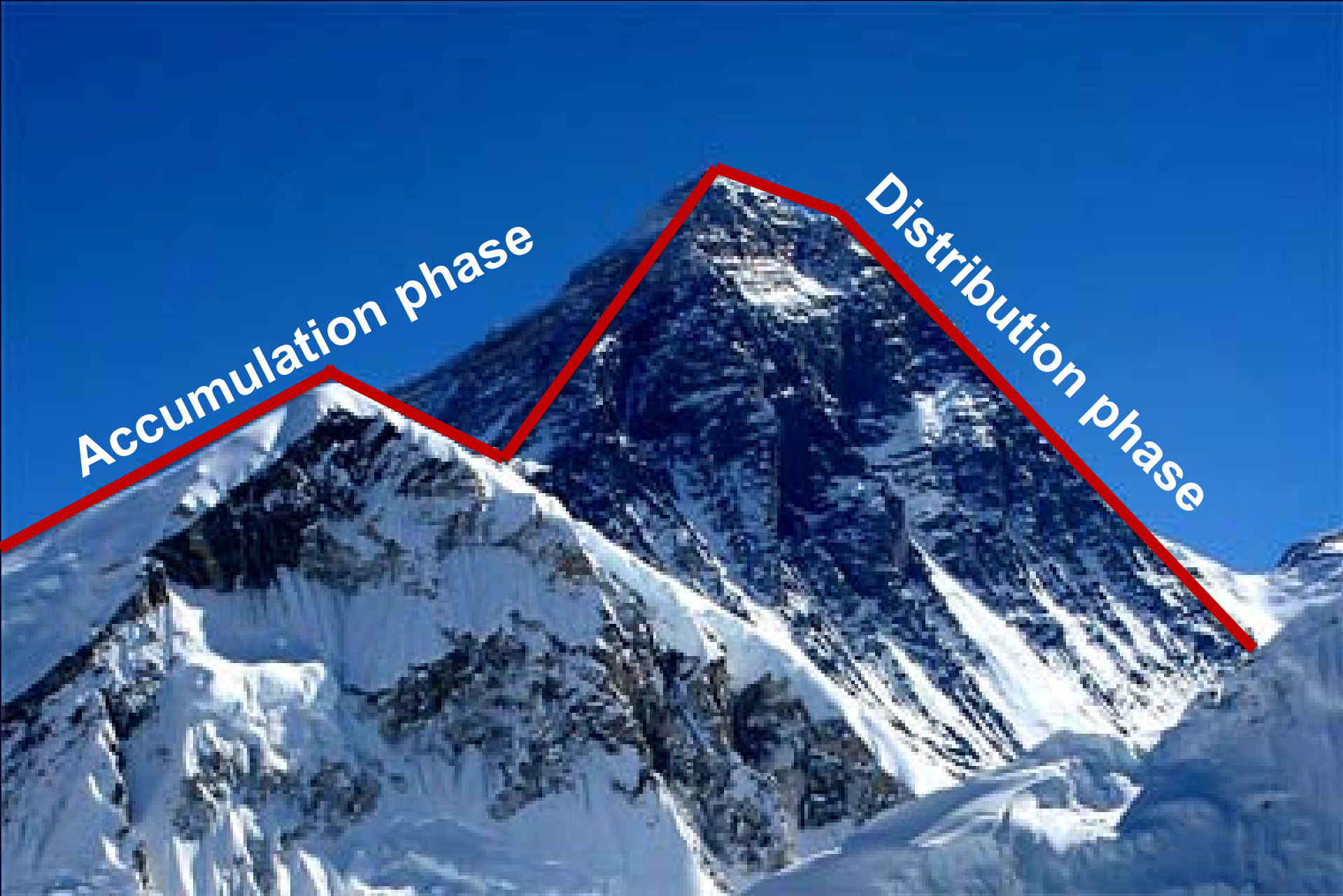
Gear alone is NOT sufficient

**There must also be a strategic
plan of attack AND the skills
and techniques for negotiating
every aspect of the trip**

How is mountain climbing similar to retirement planning?



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Accumulation phase

Distribution phase

The Danger of Not Understanding the Retirement Planning Goal



- Distribution discussion comes too late in the process
- Too few sources of income are created in advance
- Distribution strategies often severely limited
- Usually no back-up plan for wealth eroding factors
- Many “die” on the way down

Equipment & Tools



Financial Concepts & Products

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Skill & Technique



Equipment & Tools



Process &
Strategy

Dictate

Concepts &
Products

Retirement Planning Strategies



Must start with the end in mind!

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Challenges of Current Thinking

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Money is NOT Math!

- Why is reality so different from the myth?
 - \$X per month @ Y% X Z years = \$success
 - This is math
 - **Math = science**
 - If planning for financial success was a science, everyone would win the game!
 - **Planning = NOT science**
 - Money doesn't care about science!

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Current thinking

- The “safe withdrawal rate” on your assets in retirement is 3.5 – 4%

Really?

- Recent research* says a 4% initial real withdrawal rate has approximately a 50% probability of success over a 30 year period!

* “Low Bond Yields and Safe Portfolio Withdrawal Rates”
Blanchett, Finke, Pfau January 21, 2013, Morningstar Press

Really?

- Same research* says a person who wants a 90% probability of success over a 30 year period with a 40% equity portfolio should only have a **2.8% initial withdrawal rate (\$28,000 per million!)**

* “Low Bond Yields and Safe Portfolio Withdrawal Rates”
Blanchett, Finke, Pfau January 21, 2013, Morningstar Press

Suze and Dave Say...

- **Term is the Cheapest form of Life Insurance**
- **Permanent Life is a “Bad Investment”**
- **You Don't Need Life Insurance During Retirement**



Policy Info

INSURED

Client

Spouse

CLIENT AGE

45

SPOUSE AGE

42

DEATH BENEFIT

\$1,000,000

**Death Benefit
20-year Term**

TERM YEARS

**Male, Age 45
Preferred, NT****\$2,100
Premium**

People usually choose term life insurance because it's inexpensive

It seems to be a small amount of money for life insurance

It gives a good measure of protection and peace of mind

[< Back](#)[Next >](#)

Why is the life insurance company willing to place this bet?

**86.3% probability
of outliving the term**



Policy Info

INSURED

Client

Spouse

CLIENT AGE

45

SPOUSE AGE

42

DEATH BENEFIT

\$1,000,000

TERM YEARS

20

PREMIUM

\$2,100

Fixed

Varies

People usually choose term life insurance because it's inexpensive

It seems to be a small amount of money for life insurance

It gives a good measure of protection and peace of mind

[← Back](#)[Next →](#)

Premium Outlay

(\$42,000)

TOTAL PREMIUMS PAID

Calculated results are hypothetical and used for conceptual purposes only.



Opportunity Cost

COST OF MONEY

5.00%



You likely expect to still be alive at the end of the policy term

- That's why the premiums are so inexpensive
- A financial expenditure for which there was no financial benefit
- If you survive the policy term, your premiums become a pure cost
- You also will have lost what that stream of payments could have become if they were put to a potentially more efficient use

[← Back](#)

[Next →](#)

Feedback



Premium Outlay

(\$42,000)

TOTAL PREMIUMS PAID

Cost During Term

(\$72,910)

LOST OPPORTUNITY COST (LOC) ON PREMIUM PERIOD

86.30%

PROBABILITY TO OUTLIVE TERM

Life Horizon

START AGE

45

CLIENT



END AGE

85

START AGE

42

SPOUSE



END AGE

90

The cost of term insurance never ends!

- The cost of this decision continues beyond premium paying period
- Premium and LOCs continue through the life horizon of the surviving spouse
- Those costs could represent lost wealth to future generations

[< Back](#)[Next >](#)

Feedback



Premium Outlay

(\$42,000)

TOTAL PREMIUMS PAID

Cost During Term

(\$72,910)

LOST OPPORTUNITY COST (LOC) ON PREMIUM PERIOD

86.30%

PROBABILITY TO OUTLIVE TERM

Life Horizon Cost

(\$285,818)

LOC ON PREMIUMS TO SURVIVOR LIFE HORIZON



Death Benefit

DEATH BENEFIT



\$1,000,000

The largest lost opportunity cost

- Occurs after a policy expires
- The loss of the death benefit is a cost to the family
- This cost continues to the survivor's death and beyond

< Back

Next >



Feedback

Premium Outlay

(\$42,000)TOTAL PREMIUMS
PAID

Cost During Term

(\$72,910)LOST OPPORTUNITY
COST (LOC) ON
PREMIUM PERIOD **86.30%**PROBABILITY TO
OUTLIVE TERM

Life Horizon Cost

(\$285,818)LOC ON PREMIUMS
TO SURVIVOR LIFE
HORIZON

Death Benefit

(\$1,477,455)DEATH BENEFIT
LOC TO SURVIVOR
LIFE HORIZON



Death Benefit

DEATH BENEFIT



\$1,000,000

The total potential cost includes:

- All premiums paid
- Loss of a death benefit
- Opportunity costs on both to survivor's life horizon

< Back

Next >



Premium Outlay

(\$42,000)TOTAL PREMIUMS
PAID

Cost During Term

(\$72,910)LOST OPPORTUNITY
COST (LOC) ON
PREMIUM PERIOD **86.30%**PROBABILITY TO
OUTLIVE TERM

Life Horizon Cost

(\$285,818)LOC ON PREMIUMS
TO SURVIVOR LIFE
HORIZON

Death Benefit

(\$1,477,455)DEATH BENEFIT
LOC TO SURVIVOR
LIFE HORIZON

Total Results

(\$1,763,274)TOTAL PREMIUMS
AND DEATH
BENEFIT TO
SURVIVOR LIFE
HORIZON

Solutions to Challenge Your Thinking

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What do people want?

- More certainty of outcome
- Less exposure to risk & taxes
- More liquidity, use & control of their \$\$
- Maximize wealth potential
- Eliminate the possibility of failure

Game Plan, Coach & Scoreboard

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Protection First Planning!

Assets

**VEHICLE
INSURANCE**

**PROPERTY
INSURANCE**

**LIABILITY
INSURANCE**

**Assets +
Income**

**DISABILITY
INSURANCE**

**MEDICAL
INSURANCE**

**GOVERNMENT
PLANS**

**Assets +
Income +
Life**

**WILLS &
DOCUMENTS**

**TRUSTS &
OWNERSHIP**

**LIFE
INSURANCE**

**P
R
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N**

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Then Savings

Parking
Lot

Rules
Based



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Then Growth

Lender

GOVERNMENT
BONDS

CORPORATE
BONDS

MUNICIPAL
BONDS

Owner

PREFERRED
STOCKS

BLUE CHIP
STOCKS

GROWTH
STOCKS

Hard
Assets

COLLECTIBLES

REAL ESTATE

TAX
SHELTERED

G
R
O
W
T
H

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Create Multiple Sources of Income

Social Security

Trust Income

Life Insurance Dividends

Life Insurance Cash Values



Interest or interest & principal pay down

Roth income

IRA / QP income maximized

Annuity income



Dividends, interest, and/or pay down

Reverse mortgage

Rents

Business/tax shelter income



Ripple Effect of Permanent Life Insurance

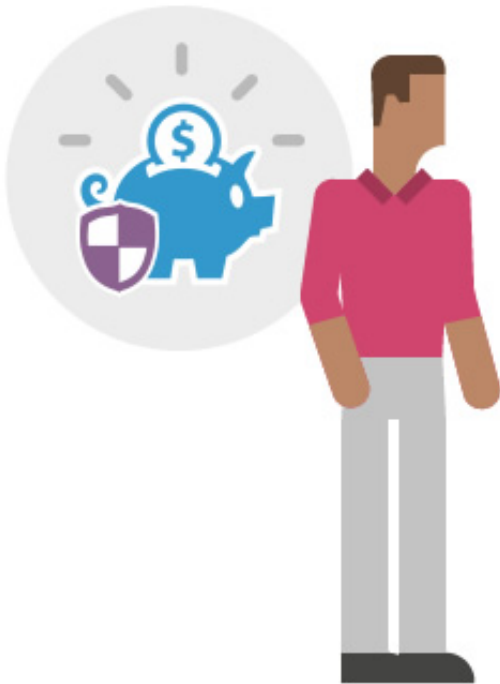
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**Person A
vs.
Person B
Example**

Person A Saving for Retirement



In order to save more money for retirement but still provide the family financial protection in the event of his death, Person A uses the following strategies:

- Saves and/or invests money for retirement and other distribution needs
- Seeks to grow a nest egg that will be large enough to be "self-insured"
- Buys low-cost term life insurance



What is
Term Life
Insurance?

Person A's Asset Accumulation and Retirement Income



Person A follows conventional wisdom

Person A has heard of Monte Carlo studies. They suggest that you shouldn't withdraw more than 2%-4% from accounts. That helps Person A's money last for the long term.

RETIREMENT AGE

65

EARNINGS RATE

5.00%

WITHDRAWAL RATE

3.00%

ACCOUNT VALUE

\$1,000,000

TAXES

28.00%

**If withdrawal rate is different than earnings rate then set withdrawal method on the next screen to specify.*

LIFE INSURANCE AT RETIREMENT

**Term Life Insurance
is no longer in force**

Person A

Term Insurance - Not In Force

Quick Edit

Age	Gross Withdrawals BOY	Account Value	Annual Tax	Tax % of Withdrawal	Net Income	Legacy Value
65	30,000	1,013,320	(13,580)	45%	21,600	1,013,320
66	30,400	1,026,817	(13,761)	45%	21,888	1,026,817
67	30,805	1,040,495	(13,944)	45%	22,179	1,040,495
68	31,215	1,054,354	(14,130)	45%	22,475	1,054,354
69	31,631	1,068,398	(14,318)	45%	22,774	1,068,398
70	32,052	1,082,629	(14,509)	45%	23,077	1,082,629
71	32,479	1,097,050	(14,702)	45%	23,385	1,097,050
72	32,911	1,111,662	(14,898)	45%	23,696	1,111,662
73	33,350	1,126,470	(15,096)	45%	24,012	1,126,470
74	33,794	1,141,474	(15,297)	45%	24,332	1,141,474
75	34,244	1,156,679	(15,501)	45%	24,656	1,156,679
Totals	682,350	1,302,964	(308,877)	45%	491,292	1,302,964



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Person A - Risks

☰ | 📊 | 📈 | **Quick Edit**

Term Insurance - Not In Force

Gross Withdrawals BOY	Account Value EOY	Earnings Rate	Annual Tax	Net Income	Legacy Value
30,000	1,012,210	5.00%	(16,490)	19,800	1,013,320
30,366	1,024,569	5.00%	(16,691)	20,042	1,026,817
30,737	1,037,079	5.00%	(16,895)	20,286	1,040,495
31,112	1,049,742	5.00%	(17,101)	20,534	1,054,354
31,492	1,062,559	5.00%	(17,310)	20,785	1,068,399
31,877	1,075,533	5.00%	(17,522)	21,039	1,082,621
32,266	1,088,665	5.00%	(17,736)	21,296	1,097,051
32,660	1,101,958	5.00%	(17,952)	21,556	1,111,662
674,971	1,274,713	5.00%	(371,009)	445,481	1,274,713

Feedback

**Tax rate Increase to
34%**

↔

Reset

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Person A - Risks

☰ | 📊 | 📈

Quick Edit

Term Insurance - Not In Force

Gross Withdrawals BOY	Account Value EOY	Earnings Rate	Annual Tax	Net * Income	Legacy Value
30,000	1,013,320	5.00%	(13,580)	21,600	1,013,320
30,400	1,026,817	5.00%	(13,761)	21,148	1,026,817
30,805	1,040,495	5.00%	(13,944)	20,705	1,040,495
31,215	1,054,354	5.00%	(14,130)	20,271	1,054,354
31,631	1,068,398	5.00%	(14,318)	19,846	1,068,398
32,052	1,082,629	5.00%	(14,509)	19,431	1,082,629
32,479	1,097,050	5.00%	(14,702)	19,024	1,097,050
32,911	1,111,662	5.00%	(14,898)	18,625	1,111,662
682,350	1,302,964	5.00%	(308,877)	355,938	1,302,964

Feedback

* INFLATION ADJUSTED

Inflation Increase to
3.5%

↔

Reset

Person A - Risks



Quick Edit

Term Insurance - Not In Force

Gross Withdrawals BOY	Account Value EOY	Earnings Rate	Annual Tax	Net * Income	Legacy Value
22,500	759,990	5.00%	(10,185)	16,200	1,013,320
22,800	770,113	5.00%	(10,321)	15,861	1,026,817
23,103	780,371	5.00%	(10,458)	15,528	1,040,495
23,411	790,766	5.00%	(10,597)	15,203	1,054,354
23,723	801,299	5.00%	(10,739)	14,885	1,068,399
24,039	811,972	5.00%	(10,882)	14,573	1,082,622
24,359	822,787	5.00%	(11,027)	14,268	1,097,051
24,684	833,747	5.00%	(11,173)	13,969	1,111,662
511,763	977,223	5.00%	(231,658)	266,953	977,223

Feedback

* INFLATION ADJUSTED

Principal Loss
25%



Reset

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Person B's Income in Retirement

Overcoming retirement risks

Person B made a key choice to alter their financial destiny. Person B has decided to not conserve principal like Person A, but rather employ an asset and income maximizing strategy.

- To receive more enjoyment of their wealth during their lifetime
- To overcome the Retirement Risks which plague conventional retirement income strategies
- He converted his term life insurance to permanent life insurance, the only change he made that was different from Person A



Person B Saving for Retirement

Here's Person B's retirement income details

Person B decided to not self insure, but instead to acquire a permanent life insurance policy that would act as the key to unlock the full value of their assets over their lifetime. They also figured out that, in most cases, they would be able to leave a large legacy to their heirs at the same time.

RETIREMENT AGE

65

EARNINGS RATE

5.00%

ACCOUNT VALUE

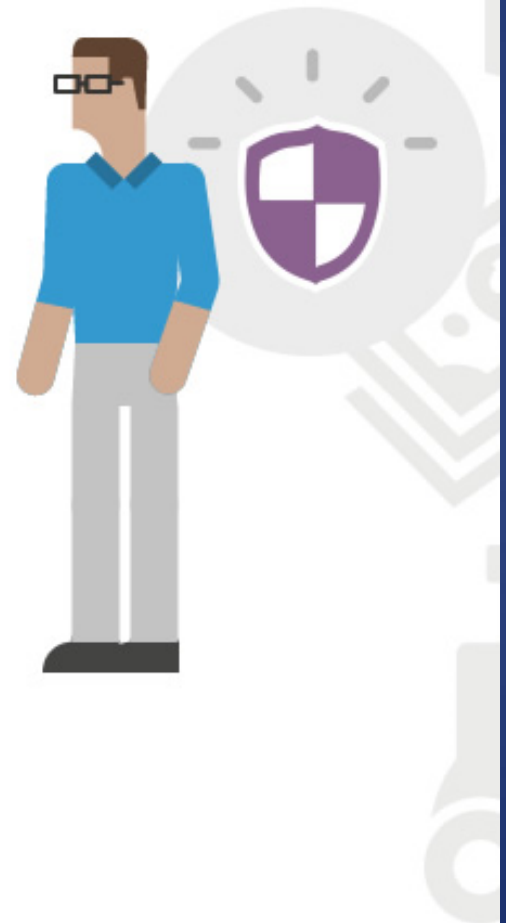
\$1,000,000

TAXES

28.00%

LIFE INSURANCE AT RETIREMENT

Permanent Death Benefit



Person B

[Quick Edit](#)

Permanent Insurance @ Retirement - \$1,000,000

Age	Gross Withdrawals BOY	Account Value	Annual Tax	Percent Tax	Net Income	Legacy Value
65	76,422	969,757	(12,930)	17%	63,491	1,969,757
66	76,422	938,003	(12,507)	16%	63,915	1,938,003
67	76,422	904,660	(12,062)	16%	64,359	1,904,660
68	76,422	869,651	(11,595)	15%	64,826	1,869,651
69	76,422	832,891	(11,105)	15%	65,316	1,832,891
70	76,422	794,293	(10,591)	14%	65,831	1,794,293
71	76,422	753,765	(10,050)	13%	66,371	1,753,765
72	76,422	711,210	(9,483)	12%	66,939	1,711,210
73	76,422	666,528	(8,887)	12%	67,534	1,666,528
74	76,422	619,612	(8,261)	11%	68,160	1,619,612
75	76,422	570,350	(7,605)	10%	68,817	1,570,350
Totals	1,528,430	0	(147,960)	0%	1,380,470	1,000,000



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Person B



Permanent Insurance @ Retirement -\$1,000,000

Gross Withdrawals BOY	Account Value EOY	Earnings Rate	Annual Tax	Net Income	Legacy Value
76,422	969,757	5.00%	(15,701)	60,721	1,969,757
76,422	938,003	5.00%	(15,187)	61,235	1,938,003
76,422	904,660	5.00%	(14,647)	61,775	1,904,660
76,422	869,651	5.00%	(14,080)	62,341	1,869,651
76,422	832,891	5.00%	(13,485)	62,937	1,832,891
76,422	794,293	5.00%	(12,860)	63,562	1,794,293
76,422	753,765	5.00%	(12,204)	64,218	1,753,765
76,422	711,210	5.00%	(11,515)	64,907	1,711,210
1,528,430	0	5.00%	(179,666)	1,348,764	1,000,000

Feedback

Person A Person B

Tax rate Increase to 34%



Reset

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Person B



Permanent Insurance @ Retirement -\$1,000,000

Gross Withdrawals BOY	Account Value EOY	Earnings Rate	Annual Tax	Net * Income	Legacy Value
76,422	969,757	5.00%	(12,930)	63,491	1,969,757
76,422	938,003	5.00%	(12,507)	61,753	1,938,003
76,422	904,660	5.00%	(12,062)	60,080	1,904,660
76,422	869,651	5.00%	(11,595)	58,469	1,869,651
76,422	832,891	5.00%	(11,105)	56,919	1,832,891
76,422	794,293	5.00%	(10,591)	55,428	1,794,293
76,422	753,765	5.00%	(10,050)	53,993	1,753,765
76,422	711,210	5.00%	(9,483)	52,613	1,711,210
1,528,430	0	5.00%	(147,960)	1,004,221	1,000,000

Feedback

* INFLATION ADJUSTED

Person A

Person B

Inflation Increases to 3.5%



Reset

Person B

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Permanent Insurance @ Retirement -\$1,000,000

Gross Withdrawals BOY	Account Value EOY	Earnings Rate	Annual Tax	Net Income	Legacy Value
57,316	727,318	5.00%	(9,698)	47,619	1,727,318
57,316	703,502	5.00%	(9,380)	47,936	1,703,502
57,316	678,495	5.00%	(9,047)	48,270	1,678,495
57,316	652,238	5.00%	(8,697)	48,620	1,652,238
57,316	624,668	5.00%	(8,329)	48,987	1,624,668
57,316	595,719	5.00%	(7,943)	49,373	1,595,719
57,316	565,323	5.00%	(7,538)	49,778	1,565,323
57,316	533,408	5.00%	(7,112)	50,204	1,533,408
1,146,323	0	5.00%	(110,970)	1,035,352	1,000,000

Feedback

Person A | **Person B**

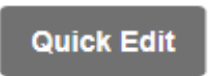
Principal Loss
25%

↔️

Reset

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Person B



Permanent Insurance @ Retirement - \$1,000,000

Gross Withdrawals BOY	Account Value EOY	Earnings Rate	Annual Tax	Net Income	Legacy Value
38,211	484,879	5.00%	(6,465)	31,746	1,484,879
38,211	469,001	5.00%	(6,253)	31,957	1,469,001
38,211	452,330	5.00%	(6,031)	32,180	1,452,330
38,211	434,825	5.00%	(5,798)	32,413	1,434,825
38,211	416,445	5.00%	(5,553)	32,658	1,416,445
38,211	397,146	5.00%	(5,295)	32,915	1,397,146
38,211	376,882	5.00%	(5,025)	33,186	1,376,882
38,211	355,605	5.00%	(4,741)	33,469	1,355,605
764,215	0	5.00%	(73,980)	690,235	1,000,000

Feedback

Person A Person B

Principal Loss
50%



Reset

Volatility Buffer

- In the retirement distribution phase ...
 - IF you are taking a fixed dollar amount or a fixed percentage from you retirement nest egg ...
 - What happens when the nest egg earns less than the projected ROR?
 - OR there is a 2008-type market correction
 - If you take the same fixed amount or % from a now reduced nest egg ...
 - Might you be putting the rest of your retirement success at risk?

Volatility Buffer

- There is usually more than one way to accomplish a desired result
- But let's look at just one way to offset the probability of a drop in return or market correction by creating a volatility buffer during retirement

Volatility Buffer

- How to offset that probability?
 - Have another money bucket that is not correlated to any other investment asset
 - Draw income from that bucket enabling the nest egg to recoup it's losses

What kind of asset is that?

Other Living Values of the Death Benefit

- Enable non-income producing assets to produce income
 - Reverse mortgage
 - Charitable Remainder Trust
- Make income producing assets provide greater income
 - Spend down rather than “safe withdrawal”
- Reduce income tax during retirement
 - The spend down strategy reduces principal, which reduces interest, etc, which reduces tax liability

Important Disclosures

The availability of access to benefit guarantees or values is not intended to provide long term care insurance. Life insurance benefit amounts are unrelated to the amount of charges incurred for the cost of care. Life insurance policies contain exclusions, limitations, reduction of benefits and terms for keeping them in force. Accessing cash values may result in surrender fees and charges, may require additional premium payments to maintain coverage, and will reduce the death benefit and policy values. Loans are income tax free as long as the policy is not a “modified endowment contract” (MEC) and the policy should not be surrendered, lapsed, or otherwise terminated during the lifetime of the insured. All guarantees are based upon the claims paying ability of the issuer.

Living Values of the Death Benefit of Permanent Life Insurance

- These are just a few of the Living Values of the Death Benefit of Permanent Life Insurance – there are many more.
- **However, not everyone gets to participate at the same level**
 - To buy life insurance you must qualify with your health, your occupation, your habits and your hobbies.
 - Some people are rated higher than others because of those factors and some can't qualify at all

Result for the Client

- More and better benefits
- Less exposure to risk & taxes
- More use & control of their money
- More retirement income on less capital

Important Disclosures

The views and opinions expressed are the registered representative's own and not necessarily those of HTK and there is no implied endorsement by the registered rep and HTK of any financial advice.