Welcome to InFRE's December, 2015 Issue of Retirement Insight and Trends

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December, 2015 InFRE Update: In Respectful and Appreciative Memory of John David Davenport

retirement-insight.com/december-2015-infre-update-respectful-appreciative-memory-john-david-davenport/

J. David Davenport, the co-founder and Chairman of the Board of the International Foundation for Retirement Education (InFRE) died on December 2, 2015 at the Oklahoma City Heart Hospital. He was passionate about helping American workers improve their retirement readiness.

Davenport's name in the retirement savings industry is synonymous with Thomas Edison in the world of invention. While Edison is credited with the creation of the light bulb, phonograph, and film projector, so also Davenport wrote the first legislation to secure retirement benefits for city, county and state employees, created new and innovative investment savings products used today by virtually all large investment management firms, and launched one of the first financial savings programs distributed through banks.

How people in the United States plan for a secure retirement remains one of the most important issues and highest priorities in our society today. As a result of scientific and medical discoveries, people are living longer than ever before, and there is uncertainty and concern about adequate funding for Social Security and many retirement plans. As chairman and managing partner of Davenport Financial Group in Oklahoma City, Davenport was the epitome of an industry innovator and entrepreneur whose vision, creativity, and passion have helped millions of people throughout our nation successfully address this critical issue and establish a better position to enjoy a secure retirement.

Over the past 40 years, Davenport conceived, developed, and successfully implemented three separate national financial service business initiatives that became the standard for new business trends, product concepts, and marketing strategies within the nation's financial services marketplace. By doing so, he helped over an estimated 150 million people throughout the country enjoy the latter years of their lives in retirement.

Davenport's first venture was the creation of Public Employees Benefit Services Corporation (PEBSCO), which was started in Oklahoma City in 1972, and from which his business partner, Bud Wilkinson, became Chairman. It became the nation's first company to develop and secure IRS approval to allow state, city, and county governments to provide employees with voluntary tax-advantaged deferred compensation programs. As a result, individual employee's deferred savings can be invested and accumulated tax-free until retirement. In 1978 Davenport led the effort to enact federal legislation for government employees known as Section 457, which laid the groundwork for 40l (k) plans with the same type benefits for private sector employees throughout the country. In addition, through Davenport's leadership, the State of Oklahoma was one of the first states to initiate this kind of program for its employees.

PEBSCO eventually set up similar programs for 12 states and two national associations – the U. S. Conference of Mayors and the National Association of Counties – that offered these same benefits to their 2.5 million city and county employees in over 6,000 plans throughout the country. Oklahoma City and Oklahoma County are examples of jurisdictions that provide this voluntary benefit to its employees to help them prepare for retirement. PEBSCO became the largest Sec. 457 administrator in the U.S. and was purchased by Nationwide Insurance of Columbus, Ohio, in 1982. Davenport remained as Chairman until 1987.

In a second venture in 1976, Davenport designed a new financial product – an annuity that for the first time included independent families of mutual funds for distribution through the Wall Street brokerage marketplace. Unlike PEBSCO, this new product provided new and innovative deferred investments for the individual investor, separate and different from an employer-sponsored plan. Today this product is used by virtually every mutual fund company, investment management firm, and life insurance company that offers individual tax deferred financial products.

A third Davenport venture was the development of Landmark Financial Service Corporation which launched one of the first national marketing companies for distribution of mutual funds and annuities in the bank marketplace throughout the country. This Oklahoma City firm based its business model on Davenport's belief that many consumers prefer to transact all personal financial transactions through a local bank. The company was later sold to Nationwide.

Davenport was appointed by President Ronald Reagan, and confirmed by the U.S. Senate in 1987, as a founding member of the five person Federal Retirement Thrift Investment Board and served until 1994. The board provides fiduciary oversight for the nation's largest defined contribution supplemental retirement program serving 4.7 million federal employees.[1] As of the end of 2014, the Investment Company Institute estimates 457 plans and the Federal Thrift Plan held a combined $700 billion in assets.[2]

Davenport has been chairman of Quail Creek National Bank in Oklahoma City since 1983. Through his leadership the bank has ranked in the top 1% of all 8,100 community banks in the nation according to the American Bankers Association Journal.

Davenport has endowed several scholarships for students who are interested in pursuing careers in governmental or financial services. He has also contributed to many charitable organizations.

He was preceded in death by his three daughters: Alexis Lee (42), Lisa Alane (49) and Patricia Lee (38). He is survived by his wife of over 60 years, Pat; his son, David Mark Davenport; and four granddaughters.

[1] *The Federal Thrift Savings Plan: Can It Be Duplicated? Investment Company Institute, September, 2015*

[2] *The Investment Company Institute 2015 Fact Book*

The Silver Tsunami and Long-Term Care

retirement-insight.com/silver-tsunami-long-term-care/

By ***Nyal Bischoff, Independent Long Term Care Specialist***

Editor's note:
This presentation was delivered in live webinar format in 2015. Nyal's comments have been edited for clarity and length.

You can view a ***YouTube*** *brief of the original presentation here.*

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Nyal Bischoff – Independent Long Term Care Specialist

Some of you may recall that just a few years back right around Christmastime there was a huge tsunami in Malaysia and Indonesia that caused enormous damage and hundreds of thousands of lives, literally. In looking at this huge baby boom population the question might become: where do you want to be if that tsunami hits? Do you want to be on top of that wave or on the bottom getting swept away?

I can remember watching Dragnet many years ago. Sergeant Joe Friday had a saying that he immortalized and made famous. He would always say, "Just the facts, ma'am – just the facts." So here are some key facts about long-term care:

1. Two-thirds of individual long-term care claims start with folks at age 80 or older.
2. 70 percent of the people that are over 65 are going to need some form of care before they leave this world.
3. A little bit more than half of Baby Boomers believe that Medicare would cover their long-term care.
4. 47 percent of the adults in their 40s and 50s have a parent 65 years of age or older now.
5. 21 percent of boomers right now provide financial support for a parent who is 65 years of age or older.
6. Of the nine Baby Boomer retirement regrets, understanding life expectancy was number eight and last, but not least, number nine was not planning for long-term care expenses.

A lot of people ask me what was the number one regret of Baby Boomers? Their number one regret is lack of savings and an unrealistic understanding of how much will be needed in retirement. Their number four regret – this is another important one – was withdrawing money from tax-deferred IRAs too early.

These are critical issues that we'll come back to.

The Costs of Long-term Care

With the probability of these facts, let's look at what care costs are today. The median nursing home costs in the state of Michigan, where I'm from, are just under $100,000 a year to be in a private room. If you multiply that times what Kiplinger Magazine declares as the average stay in a facility, which is 2.4 years, today's average cost hovers just a little bit under $250,000 if someone winds up in a nursing home. By the way, that does not include time that

may have first been spent getting care at home and/or in an assisted living facility.

Now, let's look at future costs. Let's take that average 2.4 year stay, multiply it times a 4.2 percent inflation factor, take today's average age applicant for long-term care insurance, which is 57, and project that out 25 years. This cost that today is $237,000 will hover over $600,000 by the time they get to what is called cluster age in our industry. That's a pretty scary number. This future cost however is very often dismissed.

Now let's talk about the big issue here, the hidden costs. Too often we have folks that don't understand what comes along with the issues of aging. Nearly 60 percent of the people who care for Alzheimer's and senility folks wind up having huge issues with emotional stress as a result of that caregiving. Fully one-third of them report depression. Unfortunately what is rarely talked about are the consequences to the spouse and the family, which by the way are the first line of defense when this issue arises. Folks don't have a strategy for what happens when care is needed and very often the family takes the brunt of that abuse.

There's a saying in our business that caregiving does not bring families together. It tears them apart. This hidden cost frankly is every bit as difficult to cope with as the financial cost. It's like a one-two punch. It's bad enough that you wind up needing care unexpectedly. The only thing worse is having to pay for it.

With this high cost and the high probability of folks needing care, why do you suppose people haven't made plans or taken this issue into consideration? It's called denial. Let's go what denial sounds like when you're having a conversation with folks about this topic.

1. *"It won't happen to me."* My response might be; are you prepared to risk everything you are worth in case it does happen?
2. *"We're heart attack people."* That's the good news. The bad news is most people who suffer from heart attacks go on to an emergency room and live with subsequent stents or bypass surgery and ironically live many, many more years than they would have had they not had that heart attack.
3. *"My parents died quickly."* The road to needing care is paved, literally paved, with tens of thousands of people whose parents died quickly and they thought they were going to get the same wish as their parents.
4. *"I've heard this costs a fortune."* They think they're talking about the costs for the protection. No, this does cost a fortune. In fact, the cost in Michigan is about $100,000 a year. You need to get them thinking about what the cost is of *not* having coverage.
5. *"My kids will take care of me."* Which one would be the first to put their lives and their job and their career on hold, board a plane and fly halfway across the country to take care of you? Not many people want that to happen.
6. *"I'm in great health right now."* I stole this saying from my doctor; my doctor says we're all healthy until the day we're not and the day we're not healthy the rules change.
7. *"I'm a veteran; I've got VA benefits."* You need to understand that if you're a veteran it's no different from private pay. If you have assets you must pay for your care with those assets and only when you're out of money do you qualify for any benefits.
8. *"I need to pray about this."* Who do you think sent me?
9. *"I have enough money. I can self-insure."* That's the very exact reason why we need to talk about this, because the bottom line folks are focused on the wrong issue (called denial).

Health Changes are Equal Opportunity Offenders

Health changes cross both genders, all races, and every possible life status you can imagine. Let's talk about some notable people with various diseases.

Multiple sclerosis: The first one that comes to mind is Annette Funicello, who was in the Mickey Mouse Club when we grew up. She was diagnosed with multiple sclerosis in her 40s. The point here is getting old isn't the key to needing care. You can have the misfortune of having a diagnosis of one of these things that can cause a huge financial and emotional life change for you. Richard Pryor, a comedian, also had multiple sclerosis.

Lou Gehrig's disease (ALS): The most notable one there is Stephen Hawking, theoretical physicist, probably the greatest scientific mind in our generation since Albert Einstein. Stephen Hawking was diagnosed with MS at age 21. Here is an astonishing fact about Stephen Hawking: he has required 24-7 care since 1985. Put a pencil to what kind of cost that must be.

Huntington's disease: Woody Guthrie, Arlo Guthrie's father – a folk singer – had Huntington's disease.

Parkinson's disease: here locally in Michigan, Mohammad Ali – a/k/a Cassius Clay – from Muskegon, was diagnosed at age 42 in 1984 with Parkinson's disease. The Reverend Billy Graham was diagnosed at age 70 in 1992, and Michael J. Fox, actor, was diagnosed at age 30 in 1998.

Alzheimer's disease: Probably the most famous one is Ronald Reagan, former president. Here in Detroit, Rosa Parks and Charlton Heston, actor. Glen Campbell was diagnosed with Alzheimer's disease. Women are probably almost twice as likely to get Alzheimer's disease as to get breast cancer and that's a fact right out of the Alzheimer's Association.

Strokes: A lot of people think that if you have a stroke you're going to die quickly and certainly we can bring people to mind where that has happened, like Franklin D. Rosevelt and Winston Churchill. Kirk Douglas wound up having a stroke and his good fortune was he lived to talk about it and went on to even be able to act in some movies; so a stroke doesn't necessarily end your life.

Accidents. Christopher Reeve is the easiest one that comes to mind: a horseback riding accident. Again, the key issue with health change is you cannot control what happens and if it happens, there's going to be a huge issue as it relates to what it can do to people financially and emotionally.

On the accident side I can remember years ago in my early career I met a family. The gentleman had just retired. He had been in retirement for six months. He was working one afternoon in the ceiling of his garage rearranging some insulation, fell through, sustained a head injury and is a paraplegic. Anything can happen at any age and that gives folks pause to think about what can happen.

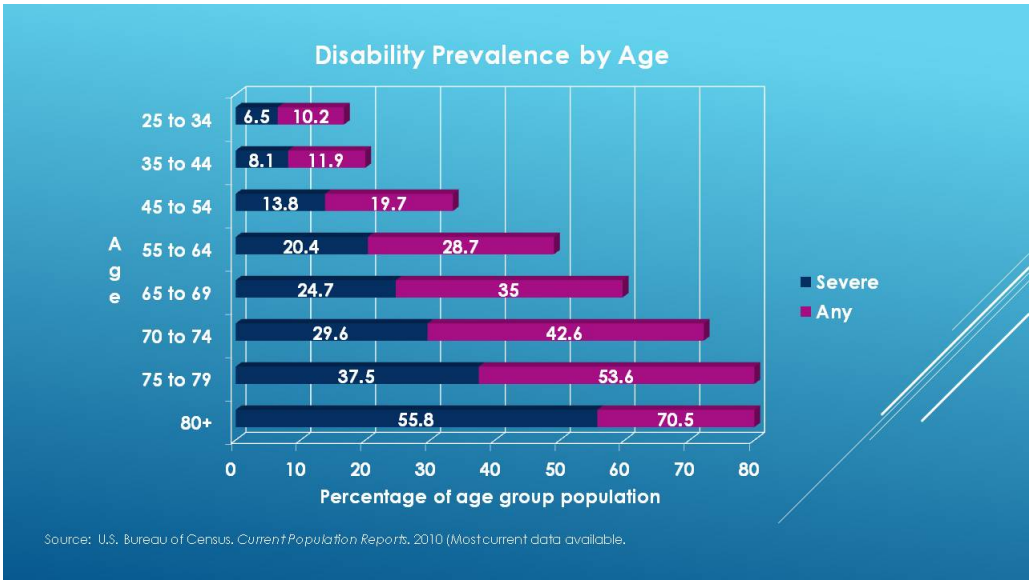
Aging and Healthcare Risks

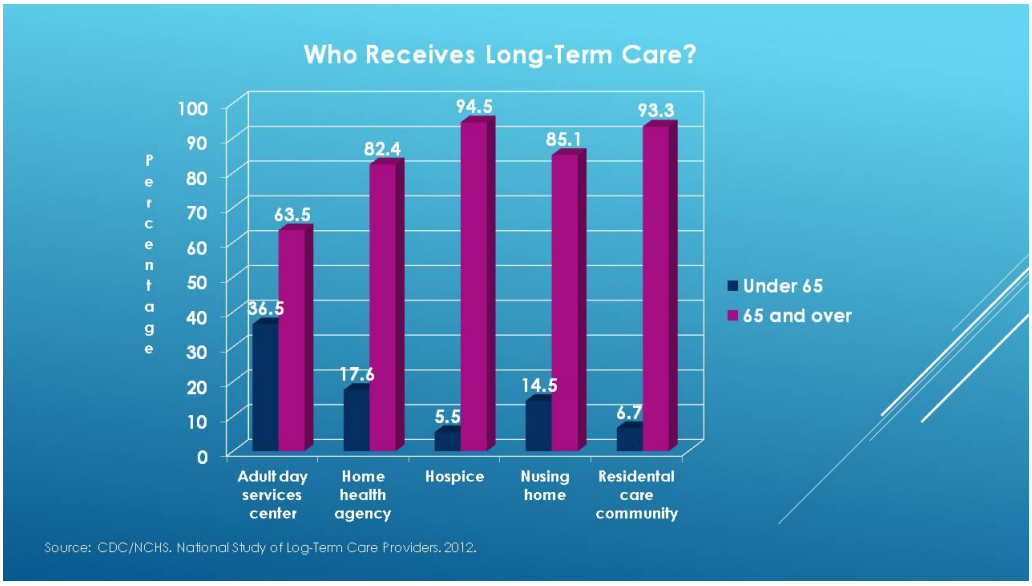
As we get older things begin to change. Do you weigh the same amount today that you did when you graduated either from high school or college or when you got married? As you get a little older, in your 30s and 40s pretty soon that weight gain causes the doctor to sound the alarm bells because your cholesterol levels are up so you go on a cholesterol pill and a high blood pressure pill comes along.

For men, we have something called BPH, Benign Prostate Hypertrophy, called an enlarged prostate. Women on that same order get osteopenia which sometimes can lead to osteoporosis, the thinning of the bones, fractures and issues as such. Then the parts don't work like they used to. We need to get the hips or the knees replaced. At some point we get an elevated A1C reading with the doctor and now we get onto a pre-diabetic medication or a diabetic medication. Folks with diabetes have multiple incidents of TIA, transient ischemic attack, or strokes. Ultimately memory loss occurs.

When you ask people what would happen if one of these events were to occur, guess what the normal response is? Well, I hope it won't happen to me. Hope is not a strategy and this can be a very, very important issue to take charge of while you're in good health and have a strategy to manage that.

Below you see that of those 80 years of age or older, already half of them – more than half – have a severe disability, and another graph with the type of care needed. You also don't want to not pay attention to what's going on with younger clients because you don't have to wait until you become old to need care.





What are the Options for Addressing Long Term Care Risk?

Only 30 percent of your clients have a pension. This should be a red flag. There's a huge amount of risk involved if the amount they're paying for long-term care will be at full retail plus their tax bracket. This turns out to be an emotional and financial wreck.

There are solutions to all of this:

1. You can have health insurance, which we know only covers short-term acute care.
2. Medicare only pays for a maximum of 100 days.
3. You have to be broke to be on Medicaid.
4. Your personal savings and assets are at risk and most of the time the personal savings that are used wind up being 401(k) money
5. The last option is to transfer the risk.

What would your response be if 25 years from now an $800,000 loss could stare you in the face? What instructions would you give me? Here's how we get to that $800,000 loss. We add a 28 percent tax bracket to the cost 25 years out, so they're not just taking out $665,000; they've got to take out enough money to pay the taxes on that. Now we're buffering something that is in the $850,000 range. That's why you put this topic on the table for folks.

What are the solutions to all of this? Well, early in my career I learned something called "pennies on the dollar." You don't know if your clients will ever need care. Neither do they; and neither does the insurance company; nor neither do you, but most certainly if they need care this is a guaranteed equation to happen. For every dollar of care they need they have to get $1 of their assets or income to pay for it. It's a very stark one-to-one relationship.

By using leverage and creating a wholesale opportunity for this instead of a retail opportunity you can literally take a portion of their investment interest income to put a huge pool of money around their assets so that in the event they need care there's a lot of dollars to pay for it.

There are hybrid plans available that will allow them to get their money back if they don't use it. If they need care, they've got money to pay for it for pennies on the dollar, and if they change their mind they can get money back. It solves all of it. The best advice is to use a portion of their interest income; if they don't need their interest income to live on, this is a perfect financial solution.

What if they do need their investment earnings to live on? With medicine and science keeping folks alive longer today than ever before, if the husband and wife are the same age, statistically men are going to need care first.

If the man needs care first, and like Pac-Man gobbles through a significant portion of savings – and remember, we're probably paying for it at full retail plus their tax bracket – what happens if that man uses a high percentage of these assets, pre-deceases his wife and now she lives another 15 or 20 years beyond his passing? What kind of lifestyle will she live on and what kind of reduced lifestyle and income will she have as a result of not having a plan and going by the strategy called hope? Bottom line: you can protect all of those monies by going into a program that will give you leveraged dollars to pay for care.

Is Home Care the Answer?

Ironically, one of the common responses you get when you want to talk to people about this is, "Hey, I don't want to go into a nursing home. It's going to take two doctors and six big guys to get me in a nursing home. I'm never going into one of those places." What's the preferred setting? Home care.

I have in my career met more than a dozen people who have spent in excess of $1 million paying for care in a combination of home and facility.

Years ago I had a client as an insured. I did not have his second wife as an insured. He called me one afternoon and said, "I want to buy more insurance." I looked at a file and I said, "Sir, I don't think you need any more." He said, "I want to buy more insurance." With that I made a trip to his home and within five seconds before I realized why he called me. His second wife had cancer. Fortunately for that household money was no object. I learned from him that he was paying on an annual basis $250,000 for care for his wife. It won't take long at $250,000 to erase what most people have spent working their entire lifetime for. Even though we obviously couldn't do anything for her, he wanted to beef up the insurance that he had with me.

Takeaways for Advisors

1. Even though you manage risks every day, maybe wear that hat a little differently today because under it all you're really a risk manager.
2. Roughly 30 percent of your clients have a pension and most of their assets are tax-qualified, meaning they'll be taxed upon withdrawal.

3. We all age in place and aging in place has an inverse relationship to our investment portfolio. The longer we live, the more money we accumulate, and the more those assets are at risk.
4. Denial is not a strategy. There's a price tag for people who are in denial. They might think they have enough money, or their rationale is very strong. The price tag for denial is paying full retail plus your tax bracket.
5. You can protect their portfolio by using some of their earnings and leveraging for pennies on the dollar.

Takeaways for Clients

1. Most people prefer to pay wholesale versus full retail.
2. Very few people take into account what the future and the hidden costs are. The consequence of not having insurance, the consequence of not having a plan, the consequence of leaving your family at bay to solve this issue can have catastrophic emotional consequences as well as the financial costs that we've already talked about.
3. We're all aging in place. Every day that we get a little older, the parts don't work like they used to before and at some point they start to disassemble in a way that we would not prefer. The key is to go out quickly.
4. Unexpected health events can have a dire financial and emotional impact on everyone.
5. Simply using a portion of your portfolio earnings can resolve this issue for pennies on the dollar.

About the author:

Nyal Bischoff *is an independent long-term care insurance specialist located in Troy, Michigan. Nyal has been in the financial services industry since 1982. Since 1988 he has specialized exclusively in long term care insurance helping thousands of people in Michigan protect their life savings from the high cost of care. As an independent agent he represents all the top carriers in both the traditional and hybrid long term care markets and is skilled at helping people navigate this complex area critical to a complete financial plan.*

Because of his expertise, success and speaking skills he has often been the first choice as the lead presenter for product and group presentations for large audiences.

He was contracted with one of the largest insurance companies in the USA to train their Michigan agents about the nuances of this protection and is a sales consultant to several Wall Street brokerage firms for long term care for their financial advisors. He has been featured on radio talk show programs and has been referenced in newspaper articles about this subject. Thus far in his career he has personally sold approximately $4,000,000 of coverage.

Nyal Bischoff – Independent Long Term Care Specialist

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Pensionizing Your (Client's) Nest Eggs: What, How and Why?

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*By **Alexandra Macqueen, CFP®**, Personal Finance Expert and co-author of **"Pensionize Your Nest Egg: How to Use Product Allocation to Create a Guaranteed Income for Life"** with Moshe A. Milesky, Ph.D.*

Editor's note:
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Alexandra Macqueen, CFP® – Personal Finance Author & Expert

Why do we need to consider "pensionizing" a portion of our savings?

Whether you're retiring today or whether you're looking at retiring 5, 10, 15 years in the future, why would you need to consider pensionizing your nest egg?

What was retirement like 40, 50, 60 years ago? You might have a job with a traditional defined benefit (DB) pension. When you retired, you transitioned smoothly from a work paycheck to a retirement paycheck and you didn't have to worry about making sure that that income would last as long as you did. You didn't have to worry about protecting it from market volatility, and if you were lucky, you didn't even have to worry about ensuring that it was meeting inflation because it might be inflation adjusted.

But what we've seen over the last 20, 30 years is the decline of traditional DB pensions, those true pensions that provided a guaranteed income for life. We do have other kinds of pensionized income that workers earn through mandatory old age pensions such as Social Security. But the replacement rate from those programs in retirement is low, and expressed as a fraction of income the replacement rate gets lower as your income increases.

"Pensionized" Income in Retirement from Public and Mandatory Private Sources

(Exhibit 14.2 in PYNE)

	Total Public and Mandatory Private Pension Income in Retirement		
	If you Earn 50% of the Median Wage	If you Earn the Median Wage	If you Earn 150% of the Median Wage
	Percentage of Individual Earnings Replaced in Retirement (%)		
United States	49.5	38.3	33.4
United Kingdom	55.2	32.6	22.5
Canada	63.1	39.2	26.1
Australia	91.1	52.3	39.4
New Zealand	81.1	40.6	27.0

So if you earn approximately the median of what your peers are earning in the workforce, retire and collect Social Security and any other mandatory private pension income sources defined by the OECD, you might get as much as 52 percent – that's from Australia – of your pre-retirement income replaced from those public and mandatory private sources. If you earn 50 percent of the median wage the proportion of your pre-retirement income that's covered by those mandatory sources increases, in fact, all the way up to over 90 percent in Australia.

In the chart above, in red we see if you earn 150 percent of the median wage, the fraction of retirement income that you can get in retirement from Social Security drops down – in fact, it's the lowest in the U.K. – but the United States is put at the top as the most populous of all these countries. This is the sector of the population for whom pensionizing is an issue.

If I might get 50 percent, 60 percent, even 90 percent of my pre-retirement income replaced by virtue of programs overseas based on my participation in the workforce, or my age if it's an old age pension, I'm not going to worry too much about this. But take a look at the other side of the ledger; I'm going to worry a lot if that replacement rate is one-third or one-fifth of what I've been receiving prior to leaving the workforce.

In sum, we've lost for the most part these traditional defined benefit pension plans where only 14 percent of workers in the United States now have a defined benefit plan, and what we know is that those pensions provide protection against risks that we don't face in the accumulation stage of life.

What are these new retirement risks?

There are three basic retirement risks. The first one is longevity which, of course, is just the risk that you run out of money before you run out of life.

We often think that life expectancy is from birth, so we might see a number like 80 or 84. However, if we calculate life expectancy at the age of 65, it will always be a longer timeframe than life expectancy at birth.

If you are U.S. male and you have made it to age 65 you might expect to live 17 years, and there's a standard deviation around that average of 8.65 years. You might live 17 more years, but you also might live 17 minus 8 years or 17 plus 8 years.

For U.S. females, they can expect to live to a later median age and a later absolute age. There're a lot of additional years that females on average might live as a group.

The second risk is sequence of returns risk. Let's assume we have a retiree starting at age 65 with a portfolio that's earning a 7 percent annual rate of return.

"Pensionizing" Your (Client's) Nest Eggs: What, How and Why?

Sequence of Returns Risk

(Exhibit 3.6 in PYNE)

Return Sequence	Ruin Age	+/- Months
+7%, +7%, +7% ...	86.5	–
+7%, ***-13%***, +27% ...	83.3	-38
+7%, +27%, ***-13%*** ...	89.5	36
-13%, +7%, +27% ...	81.1	-65
+27%, +7%, ***-13%*** ...	94.9	101

Alexandra Macqueen, CFP®, co-author (with Dr. Moshe Milevsky) of Pensionize Your Nest Egg 19

When do we run out of money which we define as the "rule in age," when the portfolio worth zero? At age 86.5 if we receive smooth predictable 7 percent returns.

Let's think about the ways in which a 7 percent return can be calculated mathematically. To illustrate this concept in the second return sequence above we have returns of 7 percent minus 13 percent, and plus 27 percent. Mathematically these sum to a 7 percent average return. However in this case we run out of money 38 months prior to the smooth 7 percent return first example. As we work our way down the table, we see the impact of the sequence in which these returns are earned can have on the longevity of the portfolio. In our bottom row, we can see that if we earn strongly positive returns in the first year of withdrawals, we run out of money at almost 95 years of age, compared to 86.5 years of age in our first scenario.

The point is that a portfolio producing the same average return but varying those returns in when they are earned – the sequence of returns – and making no other changes to the portfolio, will cause us to run out of money faster if we started withdrawing in a year of negative returns.

Our third retirement risk is inflation. In the U.K. inflation might be 5.4 percent, in the U.S. 3.9 percent; there is still tremendous variation both within the countries by year and across the countries. The highest single rate is the United Kingdom was 25 percent in 1975, but wasn't actually mirrored in any of the other major countries.

We can be fooled by low numbers. We need to think about how to protect retirement income from inflation and we need to think about how inflation ebbs and flows across time periods. We can become indifferent to it in long periods of low inflation such as we have experienced recently, but the risk of inflation can be quite dramatic and is real over the long term.

How Does "Pensionizing" Provide Protection from Retirement Risks?

Product allocation is the process of deciding how much of your nest egg should be invested in financial instruments that protect against these three risks; longevity risk, sequence of returns risk, and inflation risk. An optimum product allocation strategy is driven by diametrically opposed priorities: the security and sustainability of desired income for a retiree versus the estate value for their heirs and beneficiaries.

We can think about product allocation as conceptually similar to asset allocation in the accumulation stage where we support risk versus return tradeoffs. In retirement product allocation, we tradeoff income today versus a financial legacy in the future.

Our product allocation frontier is plotted along a frontier which we call the Retirement Sustainability Quotient (RSQ), which is a measure of the likelihood that a given mix of products and assets will provide desired lifetime income in retirement, or the expected bequest of a financial legacy value, in today's dollars. Product allocation can protect against retirement risks by mixing and matching different financial products.

Let's think about the available products to provide income in retirement and how we might compare and contrast them in terms of how they can protect against these risks for retirees.

"Pensionizing" Your (Client's) Nest Eggs: What, How and Why?

Income Product Features

PRODUCTS	LONGEVITY	SEQUENCE OF RETURNS	INFLATION	LIQUIDITY	LEGACY	FEES & EXPENSES
SWiP / Investments	✗	✗	✓	✓	✓	MED
Lifetime Annuity (Immediate / Deferred)	✓	✓	–	✗	✗	LOW
Hybrid (VA / FIA with GLiB)	✓	✓	✗	–	✓	HIGH

Source: QWeMA (division of CANNEX)

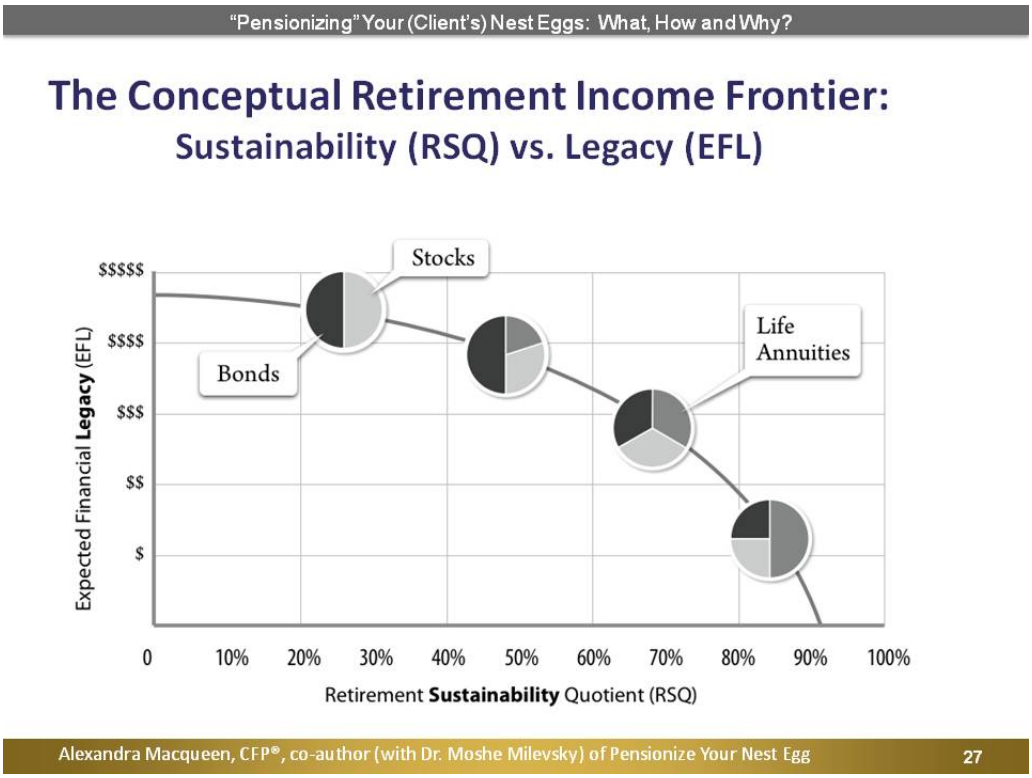
- No single product dominates across all risk features
- Each product partially / fully hedges risks
- Each product offers differing cost/benefit trade-offs
- How best to allocate client's investable wealth across these products?

Alexandra Macqueen, CFP®, co-author (with Dr. Moshe Milevsky) of Pensionize Your Nest Egg 24

In the above chart, our first product category is "Systematic Withdrawal Plan" or just "Investments." We can see how it scales in terms of protecting for longevity, sequence, inflation, liquidity, legacy, and fees and expenses, compared to using a lifetime annuity, whether immediate or deferred. We can see that the annuity provides longevity protection and provides sequence of returns protection, compared to the investment portfolio which provides neither.

Our last product category is the products that are a hybrid of the investment portfolio and the lifetime annuity, so we can think about the available product categories as existing on a spectrum or in three silos. The annuity provides lifetime guaranteed income at the expense of liquidity and the expense of legacy. The investment portfolio provides inflation protection on liquidity and a legacy value at the expense of longevity protection and sequence of returns protection. In the middle we have this hybrid sector which attempts to provide some benefits across the spectrum. So we have longevity protection, sequence of returns protection, and we've retained legacy value. In sum, there is no single product or category of product that dominates across all the risk features. Each product partially or fully hedges risks, each product offers different costs and as tradeoffs.

So how do you allocate a client's investable wealth across these products? We can plot product allocation along a frontier, which is similar to the asset location frontier.



On the bottom axis, or the X-axis, we have the RSQ which measures the likelihood that the client's retirement income plan is sustainable over their expected lifetime. On the Y-axis we have something called the Expected Financial Legacy (EFL) which is a dollar figure that is the value today of a client's plan.

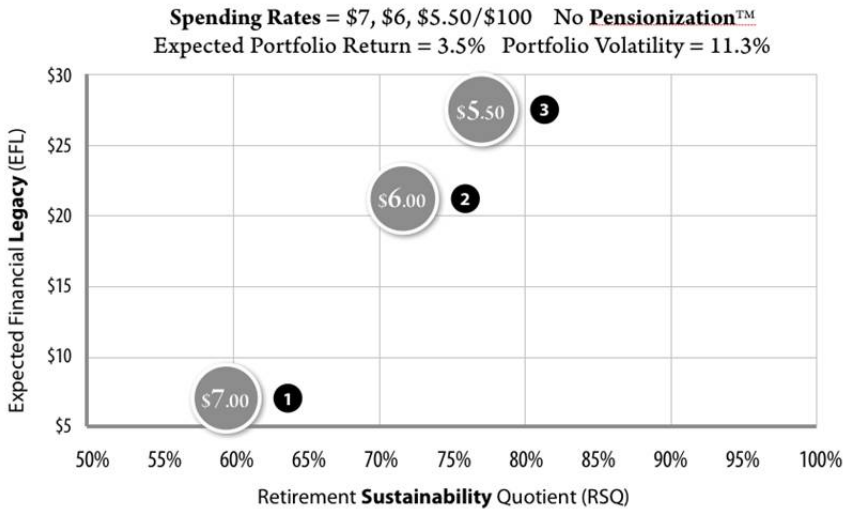
We can see that on the top left the allocation is only between stocks and bonds; as we progress right, we start to add annuities. As we add annuities to the retirement income plan, thus sustainability of the plan is increased. So we're moving up the RSQ scale at the expense of the EFL.

In mathematical terms, an expected value is what we think of as a probability weighted average of all possible values. So expected value doesn't mean guaranteed value; we're not using it colloquially, but saying this is the value that the plan has if the client was to take into account all probabilities around their survival over their expected lifetime. It's generated by an algorithm.

Case Studies for Pensionizing a Nest Egg

Say we have a retiree with three potential retirement income plans.

The Conceptual Retirement Income Frontier:
The Impact of Varying Spending Rates



First, we're going to focus on spending rates. In Case No. 1, if our retiree plans to spend 7 percent per year, the sustainability value of that plan is just around 60 percent, or essentially a 40 percent chance of failure. In other words, the EFL for this case is quite low.

In Case No. 2 the impact of spending 6 percent per year instead of 7 percent moves the expected financial legacy up to just over $20 per $100 of portfolio, and the sustainability value jumps up to over 70 percent. In our third case, spending is bumped down to $5.50 per $100 of portfolio, and you can see the impact on both the sustainability quotient and the EFL.

The point of showing these is to demonstrate that spending rates are very foundational in determining the sustainability of a portfolio. There is no magic that you or I can do to make a portfolio sustainable when given a high spending rate.

In Cases 4-10, by allocating 10, 20, 25, 30, 35, and 40 percent of the portfolio to a lifetime annuity, you increase the client's sustainability value, but at the expense of their expected financial legacy. This slide demonstrates the impacts of adding annuitized income on the sustainability and the legacy value of different retirement income plans.

The Conceptual Retirement Income Frontier: Cases 1 - 10

Spending Rate = $7.00 to $5.50 Pensionize™ 0–40% of Nest Egg
Expected Return = 3.5 (or 5%) Volatility = 11.3% (or 16%)

Spending Rate per $100 ($)		Percent of Nest Egg that Is Pensionized	RSQ (%)	EFL ($)
7.00	Case 1	–	59.47	7.36
6.00	Case 2	–	71.37	21.33
5.50	Case 3	–	77.45	27.99
5.50	Case 4	10	81.47	26.66
5.50	Case 5	20	85.39	25.31
5.50	Case 6	25	87.30	24.62
5.50	Case 7	30	89.16	23.94
5.50	Case 8	35	90.97	23.25
5.50	Case 9	40	92.70	22.55
5.50	Case 10	40	92.72	23.84

When we add annuitized income to a portfolio, which is the definition of pensionizing a portfolio, you can then reposition the remaining assets to take on more risk. The sustainability value moves from approximately 60 percent up to approximately 93 percent, leaving a financial legacy value of 24%. All we've done is used product allocation to allocate varying amounts of those dollars in their nest egg to financial products that provide a sustainable income over their expected lifetime at a cost to their financial legacy.

The Implied Longevity Yield

What choices and behaviors increase sustainability? Remember, longevity is a risk that is present for retirees who do not have guaranteed retirement income, where we live a very long time beyond what we've planned for, beyond what our assets might support, depending on your withdrawal rate.

That risk is growing. So the choices and behaviors that increase sustainability are:

1. Spend less. So we've showed mathematically the impact of a lower spending rate on a sustainability and legacy of the portfolio, and
2. Consider pensionizing a portion of the portfolio. The implications of pensionizing on the asset allocation of the remaining portfolio are you get more legacy and you get more sustainability once you've pensionized a sufficient fraction of the nest egg, allowing you to take more risk with the remainder of the portfolio.

Said another way, if the floor income is secure, the remaining portfolio can be repositioned for higher legacy values at no cost to that sustainability value. This is an attempt to tradeoff mathematically or model mathematically if I buy an annuity now or if I buy an annuity later. In other words, what is the yield I need to receive on my invested portfolio that preserves my ability to buy the same annuity income at a later date?

If I'm 65, I don't want to buy an annuity now, although I am retiring. I want to think about buying an annuity at age 70. What is the rate of return I need on my invested assets to ensure that I preserve my capacity to buy the stream of annuitized income that I would like at age 70? What if interest rates change during the time that I'm waiting to buy the annuity?

On the site PensionizeYourNestEgg.com or if you are registered with CANNEX the annuity quoting service

(CANNEX.com), there is a tool called, “What if I Wait,” which models the impact of interest rate changes on annuity payouts as well as a tool for calculating the implied longevity yield. There’s also a third tool for illustrating the cost benefit analysis across benefit tradeoffs of pensionizing, which allows you to project if a client buys an annuity at age 65 and lives to an age which is the crossing point between the income a client receives from the annuity that offsets the cost to her estate of purchasing that income. In other words, how many years need to elapse before I have now earned back the income that I received from the annuity which completely replaces the estate value that I expended when I first bought the annuity? It also describes or calculates the probability of living to that age.

There are some deeper dives in the book **Pensionize Your Nest Egg** that go beyond the concepts that we’ve described here that will allow you to explore more analytic explorations of the value of annuity given changing conditions, given interest rate changes, given the cost of the estate, given survival probability. You may want to explore them more for yourself.

Takeaways for Advisors for Pensionizing Nest Eggs

1. Traditional defined benefit pension plans are disappearing. What that means is that you and your clients are increasingly relying on do-it-yourself retirement income solutions.
2. The solutions that worked when you were building nest eggs in accumulation are unlikely to be the solutions that will work in decumulation. There may be are scenarios where you don’t need to adjust anything; you can just kind of smoothly move over to withdrawals from a nest egg. However, it’s unlikely.
3. Longevity is increasing but it is still highly variable. You can help clients protect themselves from longevity risk. Longevity insurance comes in the form of a lifetime annuity income, but at a cost.
4. Consider framing retirement income planning along the frontier which demonstrates the tradeoff between legacy versus sustainability. Have the conversation with your clients that allow them to distinguish what they want to maximize income for as long as they are alive, or if they want to maximize an estate value.
5. Analytic tools are available to help you explore and deliver these conversations with clients. Use the tools on the PensionizeYourNestEgg.com site to plot a plan that is suitable for your clients based on their preferences and their choices.

About the author:

Alexandra MacQueen *is a co-author with Moshe Milevsky of* ***“Pensionize Your Nest Egg: How to Use Product Allocation to Create a Guaranteed Income for Life”, 2nd Edition, published by Wiley.***

She is from Toronto, Ontario, Canada, and teaches personal finance at York University, one of the most prestigious universities in Canada. She holds the CFP designation and has worked in multiple facets of the wealth management industry in Canada, including as a registered advisor and more recently in marketing and strategic planning.

Alexandra provides comprehensive and authoritative financial writing and editing for academic and industry publications, and is known for her expert-level knowledge of:

- Annuities, annuitization, and longevity-guaranteed income streams;
- “Pensionizing” portfolios for retirement income;
- What’s happening with current and developing retirement income products;
- Risks in retirement (longevity, survival probabilities, sequence of returns, inflation);
- Tradeoffs between financial legacy and bequest motivations.

Alexandra Macqueen, CFP® – Personal Finance Author & Expert

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Finding the Gold in Gray: Keys to Serving Boomers and Older Clients

retirement-insight.com/finding-gold-gray-keys-serving-boomers-older-clients/

By Michael Sullivan, Retirement Communications Expert

Editor's note:
This presentation was delivered in live webinar format in 2015. Michael's comments have been edited for clarity and length.

*You can view a **YouTube** brief of the original presentation here.*

You may also choose to take the **full length course** and earn 1 CRC®, CFP®, and/or PACE CE credit.

Michael Sullivan – Retirement Communications Expert

Peter Drucker, management consultant, said, "If you want to know what the future is going to be like, look at the demographics." Look at the trend in aging that we have in this country. Are you old? Do you consider yourself old? No, not really. Old is for that little old lady sitting in the back room of the healthcare center. It's not me.

Nobody wants to be old. Aging is not popular. Youthfulness is. The messages that come to us in all sorts of advertising don't say to have fun as you get older. They say to think young. Betty Davis, the actress, had a phrase, "Aging is not for sissies." Some of us are learning that may be the issue. We'll be talking about aging and the five senses, and how to use right brain communications from the right hemisphere of the brain with a series of communications techniques that you ought to be using, if you're not already.

First, Some Stats

1. What percentage of those over age 60 have some form of arthritis? It's about 48 percent. Not all of it is chronic, but two-thirds of women have chronic arthritis. You need to be careful when you're dealing with people of age, starting with the handshake. You can't use a gorilla grip with people of age. I'd suggest you use a two-handed handshake. I know, that's for politicians. Well, why do you think they use it? They use it because it's really helpful in terms of sending a message that you care about the person.

2. What percentage of your clients over 60 are grandparents? I'll bet you it's about 80 percent plus. The national average is 82 percent. You need to understand that grandparenting is a powerful, motivational tool for you when you're dealing with people of age. Ask for a picture of the grandkids. Then ask for their age. This gives you a lot of information that you, as a retirement financial planner, can use in your work in dealing with them.

3. What percentage of women over age 65 are widows? It's 50 percent, and a really important number is that widows outnumber widowers 5 to 1. You will learn how to be more effective explaining and communicating things with widows and widowers and others.

4. Four out of five boomers 55 and over, about 70 percent, have at least one living parent. You may need to show

people how to make decisions about the caregiving issue.

5. *What percentage of boomers work in retirement?* It's about a third. Boomers have admitted that the biggest regret they have is not working longer.

6. *Have you looked at the assets that are held by the boomer generation? About 40 percent have nothing; they didn't take the time to save, but you're not going to be dealing with that group.* You will be dealing with those with some substance, where you can help them with their retirement planning. Two of ten wealthy baby boomers plan to work in retirement, some because they have their own businesses, and some are just because they want to get on with it. Working in retirement doesn't mean necessarily working. It may also mean volunteering, something that you need to consider.

Defining Generational Characteristics

I've seen recently that somebody has proposed that we're going to spend more time in retirement than any generation ever. We've got the longevity bonus. That means that we have extended lives. Over the last 100 years, we've extended life by 25 years. It's not your grandparents' retirement, especially with boomers. I saw a boomer quote that says, "We don't expect to die. We expect to be cured." You have to communicate in a different way with them. And don't forget – your staff, your associates, have to communicate. The younger people, the people who are working on so many of the various things in your organization, they too have to communicate differently.

Let's look at how and why each generation is different: matures (ages 69 and older), and baby boomers (ages 51 to 68) at this point in time. A generation is usually about 18 years long. Boomers are the largest generation that we've experienced to date at the older levels. You and I are linked to the shared life experiences of our formative years, late teens and early 20's. You may think that's not affecting you today, but it really is. History makes older people different than younger people. While the boomer generation may not have experienced World War II and the Depression, but they still have a sense of the family passing on the stories about how it was in World War II, life with no jobs, and how to figure out ways to create money for the family. Boomers had the Vietnam War, prosperity, the assassination of President Kennedy, and being able to experience the bull market and think that it's always going to be better.

Let's look at each generation more closely. *The Greatest Generation* is the title of the book by Tom Brokow, the television newscaster. It highlights all the good this generation did and the kinds of things that have happened to them. If you're looking at the Greatest Generation, what's important to them? They have, undeniably, a respect for authority. Whether that's you, whether that's their priest, whether that's this rabbi or whomever, they respect authority more than others. They're also very frugal. Frugality is important to them, and they show it in different kinds of ways. They're cautious and conservative.

They have self sacrificed for their families. That's critical. They're seeking guarantees – a key word. You can look at the kinds of investments they've made, the banking services they've had. A guarantee has been pretty darn significant to them. So how do you serve the greatest generation? You establish trust first. Authenticity is particularly critical to the Greatest Generation.

You need to show the Greatest Generation that your value system matches their value system. Don't call them senior citizens. The research I've seen says that about one-third of them don't like the term. You might say this when you're trying to refer to their age, "People like yourself…." They understand you're talking about their generation. It's really helpful to display pictures of your children or grandchildren. This is all part of the connectivity.

Allow your clients to come in and bring with them a photo of their grandchildren, which you can put in the entrance of your the lobby. That sends out a signal to other people who come into your office that you really treasure grandparenting and great grandparenting. Displaying patriotic symbols is also a very powerful means of dealing with

people of age. And so that's important in terms of showing things that are really symbolic to you.

Let's explore some things about the boomers. First of all, there's Neil Armstrong's walking on the moon. What was the signal to boomers who might have been at a younger age at that point in time? The signal was we can do anything. Nobody ever has walked on the moon, but our generation has. And the youthfulness and the liveliness of people of age and all the characters that have come forward in their lifetime who many people have been compared to the Woodstock generation, the gathering of thousands of people for a week or two weeks, whatever it was, and all the major music groups playing for them, and the counterculture, the Woodstock generation as some have called it. But they had problems, too.

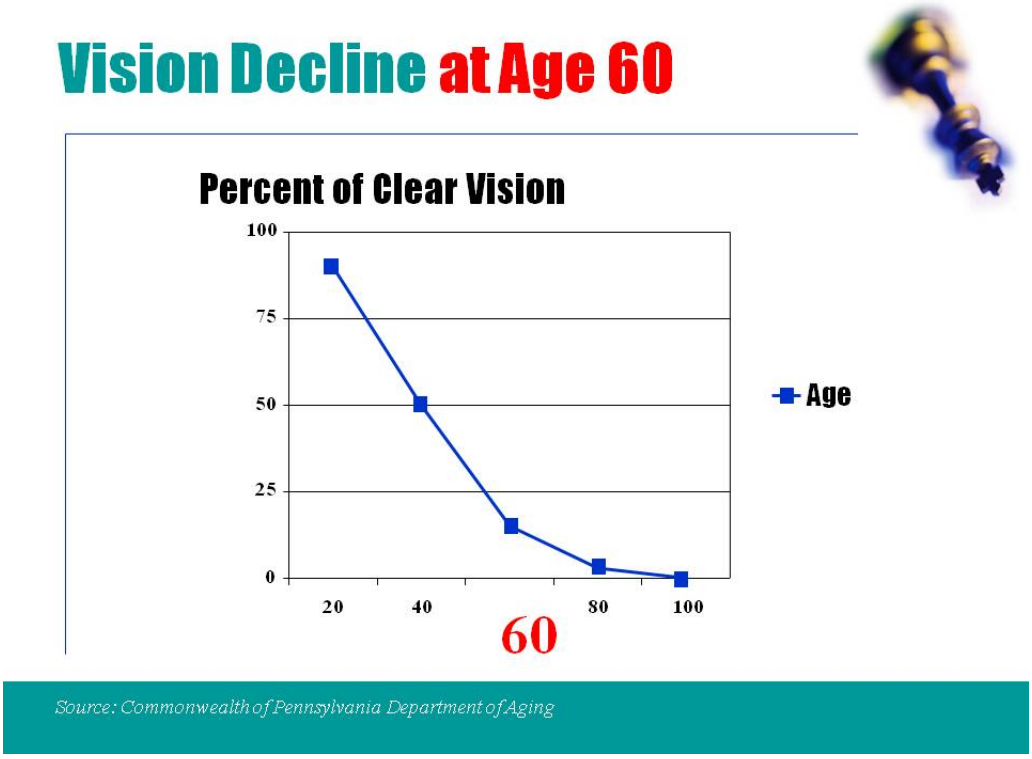
The Vietnam War was something where many boomers were forced to be in a war that wasn't very popular, and divided our countries in many ways. Another icon for that period of time is Richard Nixon who, while president for quite a number of years, ended up with him leaving the White House with his famous saying was, "I am not a crook."

There are some **boomerisms**, which I think you might find interesting. "Forever young" – we don't want to be old. Boomers think they're going to die before they get old. They want to control things. In fact, that has affected our politics. It has affected our current presidential campaigns. And they want to save the world. They really have a penchant for doing good works relative to if you think of all of the situations with all the nonprofit organizations that have come out that are helpful for the involvement, for so many different kinds of things.

Boomers focus on themselves. They distrust authority. "Don't trust anyone over 30." "Make love not war." "Turn on, tune in, and drop out." And, "hell no, we won't go." These sayings summarize the boomer difference, a focus on themselves, with a distrust of authority while dealing with stressful lives that have begged for simplification. That's something that you are part of when you are dealing with people of age. We're going to look at the physical changes, the psychological changes, and the emotional changes that have occurred with aging.

What Happens to Our Five Senses with Age?

Touch, taste, and smell are what are considered the proximate senses, or "close in" senses. Vision and hearing are the remote senses. We need to look at the changes that occur with aging. Take a look at this diagram.



75 percent of our vision decline occurs by age 60 to 70. It's one of the things that we have to deal with and have to understand. As we get into our 60's and 70's and 80's we need more light. A 50-year-old needs twice as much lighting as a 25-year-old, and an 80-year-old needs three times as much lighting. So you need to think about your office situation.

In your outer office, do you have all the varnish and all the dark kinds of things because it exudes a sense of affluence? Maybe you need to think that through and do an audit of your premises to see what kinds of things you're doing. Do you need more lighting, more lamps, various kinds of things to make them feel at ease? Seeing near objects is a problem with depth perception. Why does an older person, when he or she goes to sit down in a chair, puts their hand on the chair often times? Because they want to know how far they've got to sit down into.

Glare is a big issue. What are some of the issues around visual decline in person face to face? Sit facing them if you can. And don't use the desk. Get over on the other side of the desk and face up to them. Some of that is related to their ability to hear you better. But they want to observe you. It's sort of like you're on a television screen like the people being interviewed. They're really looking at you the same way. They're looking at you, your face, and your gestures.

You need to use hand gestures to emphasize points at times and shorter sentences. You need to drop off prepositional phrases, which are so heavy in your business. They lose track of what you're referring to using in this and that prepositional phrase. Break them up. Speak slower, more slowly, when you're dealing with them. Don't be patronizing, but slow down your speaking to them. Avoid distracting movements because it is distracting to them when you jump up, or you move around, or you run from one thing to another.

Slow your movement down. One of the things that happens when we deal with people of age is it takes more time to deal with them. Using some of these techniques will help you be able to shorten the amount of time it takes to deal with them, to help them recall better what it is that you've said, and remember things. Say, "Since we talked here about face to face, let's look at written or printed materials or website information." Printed material is more credible with people of age because they can reread if they missed something, and it's tangible. There's credibility for people of age to having a piece of paper in their hands. Use 12 to 14 point type faces. Avoid italics, especially in printed material Shorten your sentence length and paragraphs. Go to the *USA Today* and study how they have their front page. They've gone to a larger type face. They know that they're dealing with older people sometimes, but more importantly, with people on the move who want to get through that publication because they're travelers. Look at how they use color on the weather page and how they describe the United States in different color tones. When we travel, we look at our part of the country. You can just see it. *USA Today* is a great model for you to be able to use in terms of your communicating to your clients.

Another important part of all of this is hearing. There's a difference between male and female at age 55 to 60. Older males' hearing tends to decline, and it's the same level that we have with vision, but it's greater for males than for females. Older males didn't want to show that they had hearing difficulties so they tended to lip read, so it's important when you're setting up that you be face to face. The telephone is really interesting because the normal ear has an ability to hear at 20,000 cycles. On the telephone, it drops to 600 cycles. It's important that you realize, when you're on the telephone, you need to eliminate background noises or you're susceptible to having people misunderstanding words. Ask them if they understood what you just said.

With age, we don't get as much sleep, which causes disorders. In fact, one of my suggestions is you try to meet with older people in the morning because that's when they're at their best. The 9:00 to 12:00 range is really helpful to them because they're sharper then.

Look directly at the person, lower your pitch, stay in a logical sequence. Often times, people will miss a word, but they'll pick it up because of the sequence that they're hearing. Repeat or paraphrase occasionally. Say it another way when you say it back to them. Don't change the topic abruptly. That causes issues. Your model for hearing issues and helping older clients is talk show hosts. Listen to how they say things, how they respond to questioning,

and how they simplify the communications process.

- Signal visually before speaking.
- Look directly at the person.
- Lower your pitch.
- Stay in a logical sequence.

Changes in Emotional Language and Information Processing

Let's move on to something that's pretty important — the emotional language. Motivational values are the drivers of personal needs, the things we value, and the values that motivate us. Understanding motivational values allows us to communicate better.

Here are the five most important adult motivational values, coming from my guru, David Wolf, and his publication *Serving the Ageless Market*.

- Autonomy and independence,
- Connectivity to family, friends, and society,
- Altruism or giving back,
- Personal growth, spiritual and mental, revitalization, rest and relaxation,
- Change of pace and travel to be able to allow us to go and use those other motivational values to be with family or others.

The most important one of all is autonomy or independence. Independence tends to be taken away from us with age. Connectivity to family, friends, and society is a really, really powerful, motivational value. Altruism or giving back is really a big issue for boomers. I just saw a study that came out of Age Waves that said that boomers over the next 20 years are going to be contributing $8 trillion to nonprofit organizations, and $8 trillion in the next 20 years. They're breaking it down to the $6.6 trillion in cash and $1.4 trillion in volunteer services. Wow. Maybe you sit with your clients and help them decide what's important to them and which nonprofit organizations they should be involved in.

I know you've seen the recent study that organized religions are declining in popularity. But guess what? Spirituality isn't. In fact, there have been a lot of boomers who have insisted that their children participate in some form of organized religion so that they can understand spirituality at a young age. That does not mean that they don't leave their relationship with the church after some period of the time.

Revitalization, rest and relaxation, change of pace, hobbies and travel. Very powerful motivators. Make sure that you indicate your clients' hobbies in your records. It's allowing them to be able to revitalize themselves, to be able to understand that they're helping themselves by participating in those kinds of things.

Clients 50 and older also process information and make decisions differently. Gerontologists and psychologists have taught us that today's communication styles are based on how younger minds work, but older minds work differently. We're looking at fluid intelligence and crystallized intelligence. Both of them are in play at the same time. Fluid intelligence is how we learn the things in school by rote or other practices, by our studying and so forth, at a much younger age. Fluid intelligence is words and numbers, and tends to be logical, linear, and analytical. Crystallized intelligence relies on your experience and cultural acquired information. It's our life knowledge. It tends to be impressionistic, intuitive, and experimental. Fluid intelligence peaks at age 25 and declines. Crystallized intelligence does not decline. In fact, it strengthens. And so as we said, it's the culturally acquired information. But

as we get older, we simply cannot fully comprehend new information with age.

Let's look at another important way to deal with emotional connection. As people mature, cognition patterns become more right brain oriented where memories and emotions reside. Memories and emotions are the mind's access to experience and, therefore, to the evaluation of you. In the second half of the life, our cognition patterns become less left brain but more right brain oriented. And the right brain lead is more effective in getting a favorable response.

If you want to have a little fun, go online and take a right brain/left brain test to see which you are and people in your office. It would be a good way for you to introduce, in a training session, the difference between right and left brain and how it's important to people of age. The left brain is logic, sequence, linear, semantics, words, reading, and analytical. It's yes or no, right or wrong, black or white. It's order and time orientation. It's precise.

On the right side of the brain we're dealing with issues such as problem solving, patterns, fantasy, images, demonstration, faces. Remember, when you see a face, and you go, "I recognize the face, but what's the name?" The reason you might not be getting it is partially because the picture is stored in a different part of your brain than the name of the person. You have to understand there is not necessarily a connection that's tied in. Actually, the right and left side of the brain, the corpus callosum is the connector that sends images flashing back and forth between both sides of the brain.

Experimental psychologist, Roger **Sperry**, introduced this concept to us. Are wpmen right or left brain dominant? They tend to be more right brain dominant. I have observed that women do a better job of dealing with older people because of this right brain dominance, which also is balanced by their good ability on the left side of the brain. We need to understand as we explain things that we need to use metaphors and similes that deal with the right side of the brain.

We talked about independence as being so important. For matures, independence means continuing to live like I do now, making my own decisions, not be dependent on government or my children when I get older. For boomers, it's about living the way I want to, doing the things I want to do, and independence as an aspiration.

Ten Tips for Dealing with People of Age

1. It's about life. With age, the things we care about change. Financial issues are less important. Life issues are more important. It's yesterday's experiences, not today's. Important experiences occur during their formative years and their teens and early 20's. That may be 40 or 50 or 60 years older than you or your staff.
2. Push relationships not products. They want to be treated as people. They want to be able to trust you.
3. Make them comfortable in your office. Use a couch pillow in plain sight.
4. Maybe have reader glasses on your conference table or nearby because they forgot their glasses. A large barrel pen is a lot more helpful to them in signing documents.
5. Don't call them senior citizens. Call them, "People like yourself whom I deal with."
6. Pictures, not numbers. Numbers are processed on the left side of the brain. Pictures are processed on the right side of the brain.
7. Places in the heart. Decisions are made on the basis of feelings not intellect. Intellect is used to understand. Feelings are used to decide to out their thinking about what it is that you had proposed to them in terms of action to be taken.
8. It's about the family, grandkids.

9. Use analogies, not analysis. Use symbols triggering right brain values, icons combined with key words, stories, and fables that mirror their value system.

10. Treat them as individuals. Avoid hyperbole and exaggeration. Infallibility is okay with people of age. In fact, they will treasure you more if you're infallible on certain kinds of things. Use adult motivational values that we've talked about and suggest to them some things that you think they'll be particularly interested in.

George Burns, who has lived to age 99, said about aging, "It's mind over matter. If you don't mind, it don't matter."

About the author:

Michael Sullivan – Retirement Communications Expert

Michael Sullivan, CEO, 50-Plus Communications Consulting is a foremost expert at training sales staffs how to sell more to Boomers and older clients.

Michael Sullivan has spoken and conducted training for more than one million professionals in investment services and wealth management firms, including a keynote presentation to The Million Dollar Roundtable annual meeting. Mike lists among his specialties:

- Sales force training and coaching
- Call center agent training
- "Seniors-friendly" certification of agents and customer contact personnel
- Creating sales scripts
- Producing professional lead-generation seminars
- Speaking at due diligence and regional meetings and public relations training

Michael Sullivan works with firms using lifestyle issues relating to selling and servicing Boomers and older clients. He is CEO of 50-Plus Communications Consulting, specializing in helping make financial advisors wiser, more compassionate and significantly more effective advisors.
Major clients include the Bank of America, Wells Fargo, Citibank, Goldman Sachs, MetLife, The Hartford. Mike served as head of Corporate Communications, First Union National Bank (now Wells Fargo) in Charlotte. Mike's speaking credentials are listed on the National Speakers Association website www.nsaspeaker.org. Audiences include:

- Financial services
- Trust department executives
- Active retirement communities
- Travel companies
- Healthcare firms
- Aging-in-place technology firms
- Corporate human resource directors

Retirement Speakers Bureau

Mike has written seven how-to books, e-manuals and guides for selling to Boomers, including *101 Easy Ways to Increase Business with Boomerplus Clients* and *Banking*

on the Mature Market. He is a monthly columnist for www.retirementhomes.com where you can find more than 60 of Mike's columns. He also serves as a member of GRANDmagazine Advisory Board, the on-line magazine for grandparents.

State Savings Programs for Non-Government Employees*

retirement-insight.com/state-savings-programs-non-government-employees/

At the 2015 White House Conference on Aging, the President directed the Department of Labor to publish guidance to support the efforts of a growing number of states trying to promote broader access to workplace retirement saving opportunities for America's middle class workers.

The Employee Benefits Security Administration (EBSA) published in the Federal Register a proposed regulation describing a safe-harbor for state laws that require employers to facilitate enrollment in state-administered payroll deduction individual retirement accounts (IRAs).

The proposed regulation under the Employee Retirement Income Security Act of 1974 (ERISA) sets forth a safe harbor describing circumstances in which a payroll deduction savings program, including one with automatic enrollment, would not give rise to an employee pension benefit plan under ERISA. A program described in this proposal would be established and maintained by a state government, and state law would require certain private-sector employers to make the program available to their employees.

Several states are considering or have adopted measures to increase access to payroll deduction savings for individuals employed or residing in their jurisdictions. By making clear that state payroll deduction savings programs with automatic enrollment that conform to the safe harbor in this proposal do not establish ERISA plans, the objective of the safe harbor is to reduce the risk of such state programs being preempted if they were ever challenged. If adopted, this rule would affect individuals and employers subject to such laws.

EBSA has also released an Interpretive Bulletin regarding certain state laws designed to expand the retirement savings options available to their private sector workers through ERISA-covered retirement plans.

I. Background

Approximately 68 million US employees do not have access to a retirement savings plan through their employers. For older Americans, inadequate retirement savings can mean sacrificing or skimping on food, housing, health care, transportation, and other necessities, and places stress on social welfare programs as a source of income and economic security for older Americans. To address this problem, some states have adopted or are considering retirement savings programs for their private sector workers. Some have passed laws that would require employers not offering workplace plans to automatically enroll employees in payroll deduction IRAs administered by the states, which are also called "auto-IRA" laws. Other states are considering alternatives in which the states sponsor or facilitate plans covered by ERISA, such as state marketplaces, prototype plans, and multiple employer plans. A serious impediment to wider adoption of such state measures is uncertainty about the effect of ERISA's broad preemption of state laws that "relate to" private sector employee benefit plans and its prohibition on requiring employers to offer ERISA plans.

II. Proposed Regulation

The proposed regulation describes circumstances under which a state-required payroll deduction savings IRA program would not give rise to an employee pension benefit plan under ERISA and, therefore, should not be preempted by ERISA.

State Law and Role of the State — The principal conditions of the proposed safe harbor focus on the role of the state. The state program must be established and administered by a state pursuant to state law. The state must be responsible for investing the employee savings or for selecting investment alternatives from which employees may choose. The state must be responsible for the security of payroll deductions and employee savings. The state also must adopt measures to ensure that employees are notified of their rights under the program, and create a

mechanism for enforcement of those rights. The state may administer its program or contract with private-sector providers to administer the state program.

Additional Conditions — Other conditions of the proposed safe harbor focus on the role and rights of employees. For example, participation in the program must be voluntary for employees. Thus, if the program requires automatic enrollment, employees must be given appropriate notice and have the right to opt out. Moreover, since employees own their IRAs, they must have the ability to withdraw their money under normal IRA rules without any other cost or penalties.

Limited Role of Employer — Under the proposal, the employer's activities must be limited to ministerial activities such as collecting payroll deductions and remitting them to the program; providing program information to employees; maintaining records of payroll deductions and remittance of payments; and providing information to the state necessary to the operation of the program. The employer may have no discretionary authority or control over the employees' IRAs or the operation of the IRA program. Employers cannot contribute employer funds to the IRAs.

Public Notice and Comment — The proposed regulation has a 60-day comment period. Comments can be submitted electronically by email to e-ORI@dol.gov or by using the Federal eRulemaking portal at www.regulations.gov. All comments will be available to the public, without charge, online at www.regulations.gov and www.dol.gov/ebsa, and at the EBSA Public Disclosure Room.

III. Interpretive Bulletin

Today the Department also issued an Interpretive Bulletin to assist states interested in helping employers establish ERISA-covered plans for their employees. Under one approach, the state would establish a marketplace to connect eligible employers with retirement plans available in the private sector market. The marketplace would not itself be an ERISA-covered plan, and the arrangements available to employers through the marketplace could include ERISA-covered plans and other non-ERISA savings arrangements. Under another approach, the state would make available a "prototype plan" that individual employers could adopt. Each employer that adopts the prototype would sponsor an ERISA plan for its employees, and the state or a designated third-party could assume responsibility for most administrative and asset management functions of an employer's prototype plan. Under a third approach, a state would establish a "multiple-employer plan" or MEP that eligible employers could join rather than establishing their own separate plan. The MEP would be run by the state or a designated third-party.

Because ERISA broadly preempts most state laws that relate to employee benefit plans covered by the Act, some states may have been deterred from enacting measures to facilitate the establishment of such plans because of legal uncertainty about their status. The Department is issuing an interpretive bulletin explaining its view that the state law approaches described above should not be preempted by ERISA.

1. *Preemption*. The interpretive bulletin makes clear the Department's view that ERISA preemption principles leave room for states to encourage greater access to ERISA-based retirement savings options, as long as employers participate voluntarily and ERISA's requirements, liability provisions, and remedies fully apply to plans established through the state Such state actions do not undermine the primacy of federal regulation with respect to covered employee benefit plans. They do not require employers to adopt or participate in ERISA plans, or mandate any particular benefit structure. Instead, they merely give employers an additional option for providing benefits to their employees in a way that is fully subject to ERISA's regulations, obligations, and remedies.

2. *Multiple Employer Plans*. The interpretive bulletin also makes clear that a state is able to sponsor and administer a multiple employer plan for the state's private sector employers ("state MEP"). The interpretive bulletin explains that, unlike financial institutions that sell retirement plan products to employers, a state can indirectly act in the interest of the employers and sponsor a MEP under ERISA because the state is tied to the contributing employers and their employees by a special representational interest in the health and welfare of

its citizens. The state is standing in the shoes of the employers in sponsoring the plan.

3. *Scope*. The interpretive bulletin sets forth the Department's views of sections 3(2), 3(5), and 514 of ERISA as applied only to the three approaches described The interpretive bulletin does not deal with state payroll deduction savings IRA programs that would be covered by the proposed regulatory safe harbor discussed in Section II above. States would have the option of requiring IRA programs under that safe harbor, facilitating or sponsoring ERISA- covered plans in accordance with this interpretive bulletin, or both.

**Fact Sheet, U.S. Department of Labor, Employee Benefits Security Administration November 16, 2015*

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