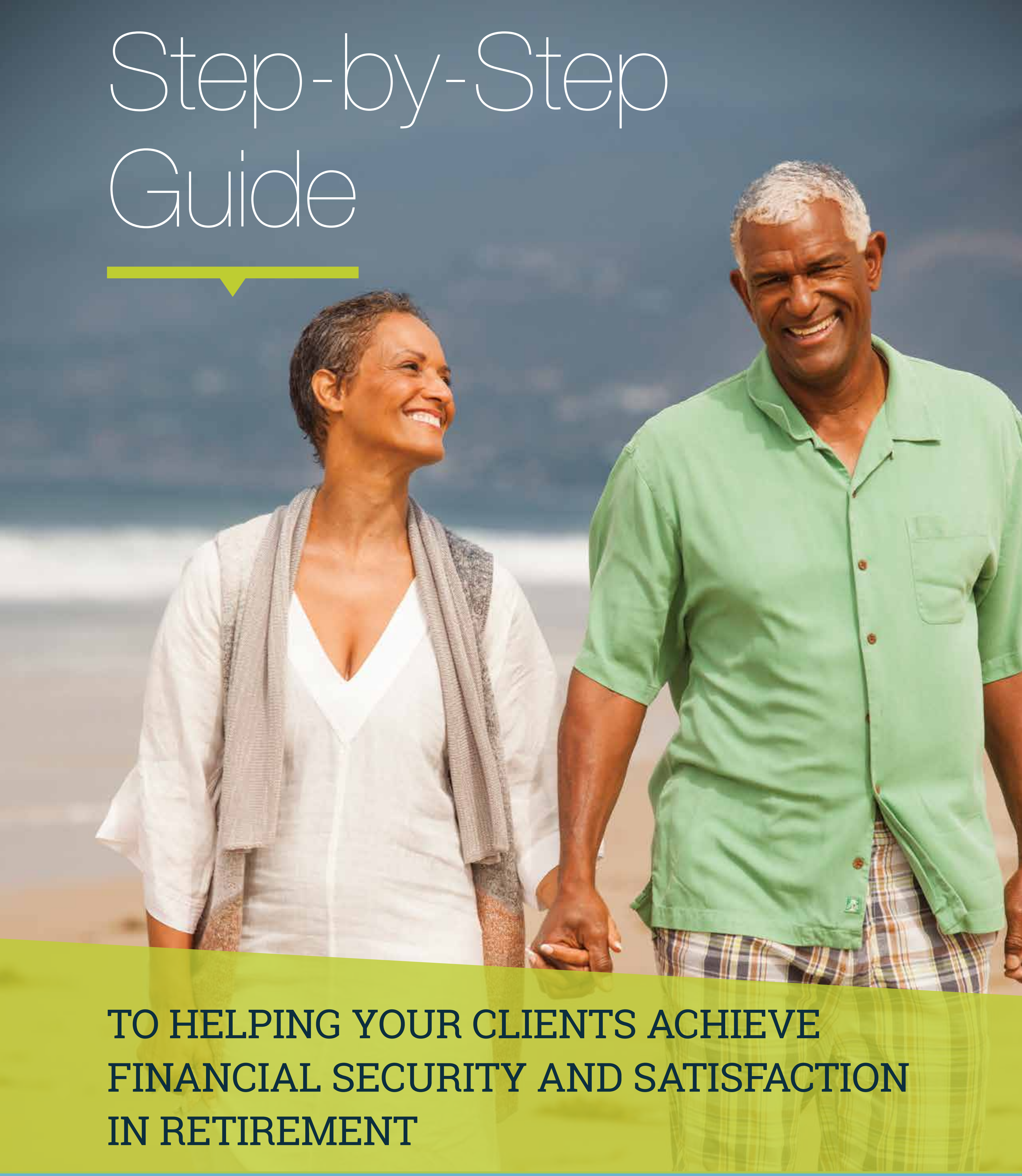
Step-by-Step Guide

TO HELPING YOUR CLIENTS ACHIEVE FINANCIAL SECURITY AND SATISFACTION IN RETIREMENT



CUNA MUTUAL GROUP

THESE SEVEN STEPS HELP GUIDE YOUR CLIENTS TO FINANCIAL SECURITY

Individuals who retire at age 65 have a good chance that retirement will last 20 years or more.[1] Advisors play a pivotal role in how clients prepare for and define these non-paycheck-acquiring years. Assisting clients in achieving a positive sense of independence, flexibility, and freedom is as important as addressing their fears of financial loss or health care concerns. To do so, follow these seven essential steps:

1 Help clients create or refine a financial plan and specifically, a budget

One of the best indicators of success in retirement is the presence of a financial plan. It outlines a sound spending plan that accurately reflects the expenses an individual will have and identifies the income sources available to cover them. It also anticipates health care expenses and factors in health insurance, and it incorporates emergency funds to make sure a health event or another unexpected challenge doesn't put savings at risk.

2 Help clients ensure bad timing doesn't undermine their retirement plans

An effective financial plan presumes that market events like the stock market downturn in 2008 and 2020 will happen. Further, it addresses these eventualities.

The timing of a market downturn can be a significant contributing factor to financial security in retirement. For instance, many individuals who retired in 2008 or 2009 and began withdrawing money experienced firsthand a sequence-of-returns reality. To protect against this risk, advisors should help individuals create a reserve in order to avoid selling investments at a steep loss during a downturn. Likewise, advisors who are more accessible or initiate purposeful outreach and communication throughout volatile market periods may help quell client anxieties and keep them from making rash decisions.

3 Build a portfolio with appropriate downside protection

Advisors play a critical role in helping clients create diversified portfolios that can generate steady returns over time. Traditionally, retirees invested their nest eggs in balanced portfolios with a mix of stocks and bonds. Now, with interest rates at historic lows, advisors may encourage clients to take on additional risk to realize meaningful returns.

For stock investors, too much risk brings stress and anxiety. For bond investors, rising interest rates can also create uneasiness. An advisor can help clients build a balanced and diversified portfolio of stocks and bonds to generate sufficient returns without undue risk.

Even so, these investments aren't guaranteed, as evidenced by 2008–09. Many retirees could face big losses during a significant market downturn. But are investors worried? According to CUNA Mutual Group Chief Economist Steven Rick, "Individuals are less fearful of specific risks but rather fear the unknown."

To help guard against the risk of market losses, advisors can help clients purchase investment products with insurance features that can provide downside protection. These strategies are worth considering for those clients who can't handle significant losses emotionally or financially.

MANAGING RISK — CAN INVESTORS ACHIEVE DOWNSIDE PROTECTION?

Investment risk takes many forms but, for many, it boils down to the potential for losing money. After years of building a nest egg for retirement, many clients worry most about loss of principal — they don't want to see their savings go down in value.

Avoiding risk completely often means putting money in extremely conservative investments or guaranteed savings vehicles that offer tiny returns. Clients are often forced to confront the question of how much risk they are willing to take to generate potentially higher returns. Put another way, they must determine how much they're willing to lose.

In addition to assessing risk tolerance and creating a balanced and diversified portfolio, some clients may also consider investment products that allow some upside participation in the stock market while offering more limited downside or even a guaranteed "floor" below which an investment will not fall.

Advisors should consider and explain the distinct variations between fixed, indexed, and variable annuities, partnering with clients to build a strategy that may keep their savings protected.

4 Identify sources of guaranteed income

A client's financial plan should identify sources of income that can support him or her over the course of retirement. Once there is an accurate estimate of expenses, the next step is to identify the sources of income available:

- Social Security will provide a monthly check that covers some expenses, but not all.
- Retirement savings such as 401(k)s, IRAs, or savings and investment accounts can be drawn upon, but account values typically fluctuate with market conditions, and there are no guarantees of not outliving the money.

For many, carving out a portion of a portfolio that can be used to generate reliable income for basic expenses can go a long way to creating more financial certainty. A study found 71% of people age 55-75 with at least $100,000 in household assets consider guaranteed lifetime income during retirement as a highly valuable addition to Social Security. Based on previous findings, consumer sentiment appears to rise when the market experiences sharp volatility.[2]

One way to create monthly pension-like income is to incorporate products like fixed or variable annuities into the portfolio to create guaranteed monthly income that will last throughout the client's retirement, but advisors may not be outlining income strategies as clearly as they think they are. According to the same study, 60% of advisors report that clients express higher interest in annuities with guaranteed lifetime income during market downturns, and 42% said that low interest rates also prompt heightened interest in annuities. With recent market volatility and interest rates at historic lows, advisors might see clients inquiring about guaranteed lifetime income even more.[2]

5 Plan for health care expenses

Advisors should help clients prepare for one of the biggest expenditures they will likely face in retirement: health care. It's imperative they understand potential costs and how to fund those costs by making sure appropriate insurance is in place. This coverage may be available from a former employer, a Medigap policy, or through an individual policy available on the federal health insurance exchanges.

Setting aside money in a health savings account (HSA), if available, can allow additional pre-tax savings for health care costs in retirement. In addition, long-term care insurance should be considered and discussed early in the planning process, as almost 70% of retirees will need some form of long-term care service in retirement.[3]

6 Anticipate spending and overspending

Advisors should encourage clients to think carefully about what they can afford to spend on a fixed income.

To do so, advisors can help clients identify events when they are called on to spend money — including family celebrations like weddings or significant anniversaries — and develop a plan to set aside money for these types of large expenditures.

Others may find that they want to spend money on major travel, a retirement home, vehicles or other significant purchases. An advisor can help clients plan for these expenditures and understand what they mean to their overall financial security.

The bottom line? It's critical to help clients prevent overspending the money they need for core living expenses.

ANNUITIZATION TO HELP ACHIEVE GUARANTEED INCOME

Even though fewer retirees are covered by defined benefit pension plans, the almost universal goal is to guarantee enough income to cover daily living expenses.

As you work with clients in strategizing guaranteed income throughout retirement, you may need to provide an introductory level explanation of annuitization, how it works, and the many products available today that simply didn't exist even five years ago.

For clients, the message is clear: Even without a traditional pension, achieving guaranteed monthly income is still possible through annuitization. Explain how a part of their savings can be converted into a lifetime income stream and that most products can be purchased with a lump sum or with periodic purchases over time.

Consider an illustrative example, like this: An individual may anticipate monthly expenses of $3,000 and is expecting to receive $1,400 a month in Social Security. An annuity can be purchased that will guarantee an additional income of $1,600 a month. Annuities come in many forms and bring many different features depending on an investor's goals or situation. They range from simple to complex and are not created equal.

For clients, this can bring a deeper feeling of security, as a guaranteed monthly income stream eases the most common fear in retirement: outliving one's money.

7 Do appropriate estate planning and avoid unnecessary taxation

Helping clients protect their portfolios from unnecessary taxation is vital. Before the situation occurs, advisors should ensure clients understand how withdrawing money from qualified or tax-advantaged accounts — or failing to take required distributions — can result in significant fees and penalties.

In addition, advisors should emphasize to clients the importance of making sure estate planning documents like wills and powers of attorney are in order and easy to locate and that family members are aware of their final wishes and directives. Also, outline the potential tax implications of final wishes as they relate to how a client's estate may be distributed. Advisors who make referrals to legal and tax professionals help clients understand the importance of this planning and also demonstrate true care and concern.

For more on building retirement portfolios with appropriate downside protection, call **877.345.GROW (4769) option 1** or visit **cmannuities.com** to learn more about MEMBERS® Zone and Horizon floor annuities from CUNA Mutual Group.

SOURCES

[1]Census.gov, *Living Longer: Historical and Projected Life Expectancy in the United States, 1960 to 2060*, February 2020

[2]CANNEX, *The Top 10 Key Findings — A Study Summary of the Sixth Annual Guaranteed Lifetime Income Study (GLIS) by Greenwald & Associates and CANNEX*, 2020

[3]LongTermCare.gov, *How Much Care Will You Need?,* Oct. 10, 2017

IMPORTANT DISCLOSURES

Annuities are long-term insurance products designed for retirement purposes. Clients should consider a variable annuity's investment objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information. Encourage clients to read it carefully.

All guarantees are backed by the claims-paying ability of the issuer and do not extend to the performance of the underlying accounts which can fluctuate with changes in market conditions.

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