RETIREMENT RISK REPORT
Will You Outlive Your Money?

ROCKPORT GLOBAL

Retirement Risk Report: Will You Outlive Your Money?

In survey after survey, the top financial fears among older Americans are almost always the same. They include things like:

- Not having saved enough for retirement.
- Having high medical bills.
- Another stock market crash.

But for retirement savers and retirees alike, there is one worry that stands out above the rest: the possibility they may outlive their assets.

Retirees' biggest fear is outliving their assets

According to a 2023 report by research and consulting firm Cerulli Associates, that fear was tops among 58% of survey respondents, which included both Baby Boomers and Gen Xers.[1]

Things were no different a decade ago. A similar survey in 2014 revealed that the majority of Baby Boomers then were more afraid of outliving their money than they were of death itself.

This fear is so common because it happens far too often. But the reason it happens is not necessarily that investors haven't saved enough. It's simply that they haven't actively examined the potential risk of depleting their assets and taken the right steps ahead of time to reduce or even eliminate that risk.

Enter The Retirement Risk Report

Now, here is the good news. Learning all this important information is much easier than you might think. It can now be done by filling out a single form – a form we've created called the Retirement Risk Report.

Using your current financial statements, knowledge of your own retirement goals, and some other easily obtainable information, this one-page document can quickly help you determine whether you're carrying significant risks in your current financial strategy that may put you in jeopardy of outliving your money. It can also be the first step in helping you design a strategy to reduce your risk without sacrificing potential growth, and with potentially much more retirement income than you might get with your current strategy.

How? Essentially, the Retirement Risk Report concisely analyzes your current portfolio as it relates to your retirement goals to determine your tax risk, market exposure risk, and overall risk of not having the right combination of asset protection and reliable income generation you'll need to meet your goals.

But let's get into some specifics.

Identifying Your Financial Priorities

First, the Retirement Risk Report asks you to rank which of the following three objectives is most important to you when it comes to retirement:

1. Help generate enough income to meet or exceed your retirement goals.
2. Make sure your risk is appropriate for you.
3. Maximize growth for a large purchase.

The fact is that the majority of people end up ranking these three objectives in that very order. In other words, their lowest priority is to maximize growth for a major purchase, and their highest priority is to help generate sufficient and reliable income.

Why is that so important to know? Because, broadly speaking, everyone wants the same thing from their investments: maximum return with minimum risk. That's obvious, but it's important to go deeper by asking yourself this question: "Maximum return for what purpose?"

Ultimately, there are only three possible answers to that question:

1. To make a major purchase (like a boat or second home).
2. To leave a legacy (i.e., a large inheritance).
3. To have reliable and sufficient income throughout retirement.

For most people, number 3 is the right answer, which is why they almost always quickly choose income generation as their top priority when it comes to retirement planning.

Tax and Type

The Retirement Risk Report looks at your current diversification in terms of taxes. In other words, it examines how much you have now in tax-deferred accounts (like an IRA, 401k, or 403b), compared to tax-free accounts and taxable accounts. It adds up those assets and also calculates the amount of the first Required Minimum Distribution (RMD) you'll need to take at age 73.

RMDs start at just under 4% and increase every year as you get older. This makes preparing properly for your RMDs one of the most important elements in your retirement plan. Using the wrong strategy to satisfy their RMDs is one of the most common and costly mistakes retirees make. The goal should be to have a strategy that allows you to satisfy your RMDs from interest and dividend return without ever touching your principal – as we'll discuss further.

Next, the Report breaks down the diversification of those same assets by investment type. Namely, it looks at how much you have invested in instruments that are insured through direct contracts, compared to investments with less secure indirect contracts, and finally those with no contractual protections at all.

This is important because a goal for most people as they approach retirement should be to shift a certain percentage of their portfolio toward more conservative, contractual investments. The specific percentage will depend on your individual goals and personal risk tolerance.

Income Need vs. Allocation

The Retirement Risk Report asks you to determine your income goals in terms of what you know you'll need to cover your expenses, and in terms of what, ideally, you want to achieve your goals. It then calculates the pre-tax total for each of these.

The Report also seeks to identify all your retirement income sources. In addition to your projected gross interest and dividend yield from your investments, this may include income from a pension. For most people, this section will include your estimated Social Security benefits. This is important because coordinating your Social Security benefits with your overall retirement income plan is essential if you want to maximize your benefits.

Current Projected Income Sources	
Pension (John)	$6,000
Pension (Jane)	$8,000
SS (John)	$24,000
SS (Jane)	$12,000
Gross Investment Int/Div Yield	1.43 %
Annual Fee	1.24% as a $ 12400
Net Investment Int/Div Yield	0.19 %
Net Investment Int/Div	**$1,900**
Other	$5,000
Total Current Income	**$56,900**

The most important objective of this section of the Report is to determine what your total retirement income would be based on all the relevant factors, including, most importantly, your gross investment interest and dividend yield net of fees. It will help you determine if you are getting your money's worth for the fees you are paying.

The combination of interest and dividend return is your income – or at least they should be if you want to reduce or potentially eliminate the risks associated with using a withdrawal strategy that requires you to take income from your principal on a regular basis. For many reasons – from market volatility to RMDs to unforeseen life events – a withdrawal strategy can easily put you at risk of cannibalizing your principal and ultimately facing the very thing you may fear most: running out of money.

What most people realize upon completing the Retirement Risk Report, is that their current interest and dividend yield is insufficient to meet their income needs and goals. The good news is that the report then goes on to show you what your potential interest and dividend yield could be with a strategy specifically designed to prioritize interest and dividend return over portfolio growth and to generate that return at a rate of 4% or higher.

Potential Projected Income Sources	
Potential Current Income Yield	5 %
Potential Current Income	**$105,000**
Additional Investment Income	**$48,100**

For example, a portfolio containing $1M in total assets, invested for growth, might (with Social Security and additional income sources factored in) end up generating just under $57,000 in annual income based on its estimated interest/dividend yield of 0.19% net of fees.

That same portfolio, invested for income and with an estimated interest/dividend yield of 5% net of fees, would generate $105,000 in annual income – a difference of over $48,000!

The Stress Test

It's important to understand that creating a successful retirement strategy isn't just about reducing the risk of outliving your money. It's also about reducing the mental and emotional stress of worrying about your investments. That's why the Retirement Risk Report also includes a "stress test," which we designed to help better determine your personal risk tolerance.

As noted, when you invest for income, typically you're investing in contractual investments designed to help protect you from real losses due to market volatility. Still, when the markets do sink and/or interest rates rise, you will see losses to asset values reflected on your monthly statements. Although these are ultimately just paper losses when you have an income strategy, for some people they can still be stressful. That is why the Retirement Risk Report includes a stress test.

If 2008-like Bear Market were to happen again...

Current Portfolio
Expected Performance
RISK **74**
-$176K (-37.6%)

S&P 500 Index
Jan. 1, 2008 - Dec. 31, 2008
RISK **75**
-$172K (-36.8%)

If the Financial Crisis were to happen again...

Current Portfolio
Expected Performance
RISK **74**
-$252K (-53.9%)

S&P 500 Index
Oct. 15, 2007 - Mar. 2, 2009
RISK **75**
-$249K (-53.1%)

	Maximum Accepted Drawdown
Max accepted Drawdown (%)	-15 %
Maximum acceptable loss	-$150,000

First, we seek to determine what risk level – in terms of a percentage on paper – you would be comfortable with as a paper loss. Next, we take your current portfolio and run it through a software program to determine how much on paper you could lose if we had another major market downturn, like the one that occurred from 2007 to 2009. Typically, the resulting figure is not one most people are comfortable with. The goal isn't just to protect your money and help ensure you have a steadier retirement income. It is also to help ensure you enjoy your retirement with confidence and peace of mind.

Switching from the ‘G’ to the ‘I’

But here is the most important factor demonstrated by the Retirement Risk Report. A common misconception among investors is that to increase your investment return, you must increase your risk. But when it comes to investing for income, the exact opposite is true. That’s because total return doesn’t just refer to growth. Total return is actually a sum of two things: income and growth, as illustrated by this simple formula:

TR=I+G

While growth is measured in capital appreciation, income is generated in the form of interest and dividends. And when you shift your investment focus from growth to income, you’re invariably investing in products and strategies better designed to protect your principal so that it can continue generating those interest and dividends regardless of market conditions.

Nor does making this shift from growth to income mean that you need to sacrifice growth. You can continue growing your portfolio but also with less risk through strategic reinvestment of any interest and dividend return you don’t need for income. This is known as growing your portfolio organically, or “the old-fashioned way.”

Learn More

As the saying goes, the best way to conquer your fears is to face them. By the same token, the best way to avoid falling victim to a risk is to identify the severity of that risk and then take the necessary actions to greatly minimize or completely avoid it. Doing so is now easier than ever thanks to the Retirement Risk Report!

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