Episode #202: What If You Could Boost Your Retirement Assets with Less Risk?

Video Transcription

Hello, and welcome to another episode of "Money Script Monday." My name is Luke Geller. Today, we are going to talk about what if you can boost your retirement assets with less risk. That sounds too good to be true. However, what we are going to do is we're going to go over some of the ways to do that, which is with the fundamentals. What I mean by the fundamentals is we're going to be looking at three things. We are going to be looking at minimizing market risk, keeping upside potential, and giving yourself flexibility. Keep those three things in mind while I go through this presentation here, I will keep referring to that as well. What we're going to talk about and what I'm going to do is- normally, when I'm giving this presentation to a client, I'm sitting down face-to-face, I'm drawing it out on my iPad, or writing it down on a piece of paper.

However, what we are going to do today is we have it already drawn up on the whiteboard and we are going to go through it step-by-step together. Here we have a case scenario where the client is age 65. Let us call him John Doe, he is age 65. He has $750,000 that he has saved his entire life. What does he know? With this $750,000, he needs at least $40,000 of income at retirement, at age 70, to feel comfortable during retirement. He needs at least $40,000 a year to feel comfortable in retirement from the $750,000. How we're going to get there and how we're going to utilize that is we're going to use what's called the 4% Rule. What the 4% Rule states is that a while ago someone came up with a thought that, "Hey, if you just withdraw 4% from your retirement accounts based on what you average in those retirement accounts, you should be able to live off of that money for the rest of your life."

We are not going to debate if that's correct or not right here today. I will save that for another day. What we're going to do is we're going to utilize that as a way to say that if he saves his money- if he saves $750,000, on the next five years, if he can save a million dollars based on that 4% Rule- he's going to get that $40,000 a year that he needs in retirement to feel comfortable and safe, to be able to pay for his bills, be able to go travel, do the things he needs to do. To do that, he just needs the average almost a 6% rate of return, 5.92%. 5.92% isn't very much.

If you were to go to someone that manages your money and ask him, "Hey, do you think can average about 6% or slightly less than 6% with my money over the next five years?" They'd feel pretty confident they could. I want you to keep that in mind. We're growing $750,000 to a million. We need to average at least 5.92% to do that. We're going to take a look at a different way to do it. Instead of just putting all your money into one portfolio in the market with one money manager, what we're going to do is we're going to split that money up. We're going to take $225,000 of that $750,000 and we're going to put it in what's called a protected income account.

We're going to use what's called an annuity to do that. Inside this annuity, what that does is basically we're creating our own pension, our own social security within this $750,000. We're giving ourselves that income floor basically by putting your money, this $225,000, inside this protected income product. We know that we're going to be able to, at age 70, take out $16,694. That $16,694 is going to be guaranteed for the rest of your entire life.

That is huge. What that allows you to do is then take the remaining amount, this remaining $525,000, and now we know that if we already have $16,694, then all we need is $23,306 to get to this $40,000 income amount that our client needs to feel comfortable in retirement. To do that based on this 4% Rule, we need to grow this $525,000 to $582,650. When you look at this, all we need to earn is 2.2% inside this account with that $525,000 to do so. If you look at this, we went from needing to average almost 6% to just needing 2.2%. What we did right there is we just minimized their market risk. We only need 2.2% versus about 6%. On top of that, we're keeping our upside potential. How are we keeping our upside potential?

We only need 2.2%, but the money manager we were talking to said he is pretty confident he can get 6%. If he averages 6% inside this portfolio instead of 2.2%, this $582,000 grows, this $23,000 grows, and this $40,000 number grows. Mr. John Doe here has more money in retirement, has more ability to go on more vacations, spend time with his grandkids, do the things that he worked his entire life, 30-plus years to get. That's because we were able to keep that upside potential. On top of that, we're able to give some flexibility as well. He's given himself the flexibility to say, "Hey, by putting a portion of my money inside a protected income account inside an annuity, I'm able to take this $525,000, this remaining portion, and now I could put it in more aggressive funds. I could be more conservative because all I need is 2.2%. If I want to try and average more and I don't get there and I have some down years, but, as long as I average 2.2%, I'm going to be golden. That's because I have this income floor here now of $16,694."

What we did today and what we went over today is a strategy. It's just the basics. Instead of putting all your money with one manager, let's take that sum, a portion of your funds, put it in what we call protected income. Give yourself your own pension, create your own pension, your own social security that's guaranteed for the rest of your life. You've minimized your market risk, you still have your upside potential, and you're giving yourself that flexibility to live the retirement that you want. That's the most important thing that we're trying to do here. Thank you for watching today. I hope that you were able to take something from this presentation that I went over with you today and try to implement it in your retirement in your own life to just make yourself less stressed while in retirement and be able to have a happy, enjoyable life after work. Thank you for attending our "Money Script Monday," and I hope to see you next time.