Episode #206: How to Generate More Income for Less Risk

Video Transcription

Hello, everyone. Welcome to another episode of "Money Script Monday". My name is Michael Clementi. First of all, I want to thank you for your time today. The topic of discussion is how to generate more retirement income for less risk. The reason I chose this topic is one word, and that word is time. Time being the most valuable thing, especially when we're talking about relating it to retirement. How much time do you have until you need to take action on a plan you created? Being young within 20 to 30 years, you have a little more time to experience the highs and the lows of the market so you can see the swing backs. This video isn't for those types of people. This video is for people who have 5, 10, possibly 15 years left until they need to take advantage of the plan they made.

We can't see those swing backs, so we are going to take away as much risk as possible from their plan. Before we talk about some of the products and vehicles that can generate more retirement income, let's define some of the risks we talk about. We hear this all the time. Risk mitigation strategies, taking away risk off the table. We've broken it down to four main risks that we focus on. The first one being stock market volatility. Realistically, this means losing money to negative stock market returns. What we want to do is take that off the table completely because we can't lose any more money, especially when we have less than 15 years before we take advantage of this plan. In the next few minutes, we'll talk about some products that give you that 0% floor to lose no money to stock market volatility.

Next, inflation. This has been a hot button topic lately, especially with the country reopening. We're seeing not just 2% inflation; we're floating up to more 4% and 5%. Let's take even numbers out of the equation. Inflation means that each year costs go up. If we don't account for some sort of increasing payout, increasing income to ourselves, then each year in retirement you're losing your buying power. You won't be able to afford as much. To mitigate this risk, we're gonna talk about some ways that you can have increasing paycheck come to you each year.

Next is sequence of returns. Especially when we're talking about investments, you look at your portfolios, it's all about sequence of returns. All we wanna see is big returns which are going to add more money to my account. What does it look like when you're within that 10-year period and we throw in some negatives into the mix? How does that not only affect your cash account balance but what income stream you can predict out of that? We'll talk about that in a little bit as well.

Lastly, longevity. We define this as the risk multiplier. The longer you live, the more subject you are to stock market volatility, the more subject you are to higher inflation rates, as well as negative sequence of returns. Living longer which we all are living longer as of lately, this is going to be huge for the fact that you don't wanna outlive your money. Within the next few minutes, we'll talk about some products that we'll never be able to outlive. Let's get into that right now actually.

We've defined this as protected retirement income. It's broken down to four different products. Social security, more of a plan right now and if you're already paying taxes, you don't have to worry about this. You're paying in the social security plan, but the next step is to see how you can maximize that social security. To have a plan in place where you can delay it as long as you can to maximize the benefit payout you're gonna get. The next one we're gonna see is a pension. Pensions act as a social security plan in the fact that you can't outlive the money. It's guaranteed retirement income payments. It's not going to come from the government, though. This is coming directly from an employer and almost exclusive employers. We see this mostly in police officers, teachers, firefighters, more government-mandated jobs. If you have one, I would say you're lucky. If not, it's time to look into another pension alternative which is the next product we're discussing - an annuity. This acts as the same type of product, but this is not from the government or your employer, this is coming directly from a life insurance company through financial suitability.

The reason we use annuities is not only it's gonna be an increasing paycheck, you're getting your money back as soon as you can from the insurance carrier but you're living off the insurance carrier's dime. You're living off the income riders we put into place, and this also accounts for increasing income. We're accounting for inflation, so each year as long as you don't get a zero, your money's always protected plus, your income stream will rise each year.

Lastly, an indexed universal life policy. Not only is this life insurance, but you also want to be protected and so is your family protected. The main reason we use indexed universal life is the access to tax-free income. Majority of your retirement accounts, you'll notice, are either taxable right now or tax deferred. Meaning you'll pay taxes when you access it in retirement. In your big plan, you wanna know how much of that money really belongs to you. When you use an indexed universal life policy, all the money belongs to you. All the income you're accessing is completely tax-free, and when you pass away, you have a tax-free death benefit.

These four strategies and vehicles, we want to see how we can maximize these vehicles so you're living mostly off of your protected income resources. And we broke that down into three different categories of how we do this. So, what we wanna start with is your desired retirement income. If you look at your life, what are you going to need each month and year from 65 all the way to 100? Even maybe add to 110, just to stress-test this. And if you break down your buckets into three different buckets, first one being the blue bucket, that's your protected income resources. You wanna maximize your social security benefit by trying to delay it as much as possible. Also, seeing what your pension payout is, how can you delay this, how can you structure this to get the maximum payout? And also, your annuity income. Now, this is a third source of retirement guaranteed income you can't outlive. So, making these as much as possible paying for your essential income. And then lastly, your indexed universal life policy. When do you wanna take those tax-free distributions? When's the most optimal time for you to start accessing this tax-free income?

Then we break it down to your green bucket. This is going to be all of your other assets that are completely tied to the market. They're not protected but we wanna make sure we're gaining the surplus. We wanna grow that as much as possible. And then from there, we wanna minimize the withdrawals from the green bucket. Most of it's gonna come from protected income, and the difference that we can't cover is gonna be coming directly from withdrawals from your assets. And the goal is to limit the amount of withdrawals as much as possible.

I know this is very general information, but to take this into practice, we actually have a factfinder below the link in this video. It's called a wealth assessment. And what this does, it gives you almost a roadmap. Where you are today, where you wanna be, and what resources do you have to get there? So, if you're concerned about your lifetime retirement income, how you can take as much risk off the table for your plan, I suggest to you, download that factfinder, work with a financial advisor, and figure out how you can take as much risk off the table and generate the most retirement income.

Again, my name is Michael Clementi. I want to thank you for your time today, and we'll see you next week.