Episode #216: The Three-Legged Stool: Achieving Financial Peace of Mind

Video Transcription

Hello, everybody, and 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 and for attending this episode.

Today, we're going to be talking about *The Three-Legged Stool: Achieving Financial Peace of Mind*. I want to talk about this topic today and relate it to the three-legged stool because it means balance. Without one of the stool's legs, your whole plan falls apart. So, everything you set up for this plan, you want to make sure each leg is accounted for.

What we're going to be talking about today is the three secure solutions, that three-legged stool approach to retirement planning, and the potential risks, the four main risks you want to protect yourself from in retirement. So, with that being said, let's get started. We're going to start with the risks, the four potential risks.

The first one is stock market volatility, and stock market volatility is a fancy phrase for losing money to negative market returns. When a lot of people look at their retirement plans, they look at their whole portfolio. A majority of it is going to be tied to the market, meaning that, when you lose money like we did in 2020 and 2008, your whole plan loses money with that.

So, when we're approaching retirement, when I'm saying approaching, I mean 10 to 15 to 20 years out of retirement, we want to take that risk completely off the table; make sure this nest egg you created is completely protected from losing money to volatility, meaning that 0% floor. So, we'll be talking about that in the three solutions, and how to incorporate those products.

The next risk we want to talk about is inflation. A couple of videos ago, my partner, Luke Geller, referred to inflation as the "stealth tax." You've seen the reports lately; right now we're at a 5% inflation rate. Typically, we're looking at between 1.5% to 2%.

In the range of 2% to 5%, if you're not accounting for inflation, each year in retirement in this 30-year plan you've created, you're losing buying power. In the secure solutions and lifetime protected income section, we'll be talking about how to incorporate products that have increasing income to account for inflation and keep your buying power strong.

The next risk is the sequence of returns. How dependent are you in your retirement plan on the sequence of returns? Have you ever stress-tested that? What if you threw a negative sequence of returns in the beginning, middle, or end of your plan; how would that affect it?

That topic of conversation leads directly to the last risk, and that's longevity. Longevity means outliving your plan. In the three secure solutions, we'll be talking about how to never outlive your plan and have some contractual guarantees in there; this whole plan, this retirement plan that you've created to last at least 30-plus years, you'll never be able to outlive it.

We've talked about the risk, volatility, sequence of returns, inflation, and longevity. Let's take a look at the three-legged stool approach. We boiled down the three-legged stool approach to the first tool being lifetime protected income.

What does that really mean? Lifetime protected income means it's a stream of income that you'll never be able to outlive. There are only three sources that offer this, the first one being Social Security. Don't worry, if you're already paying taxes, if you get a paycheck, you're already paying into Social Security right now. This is the stream of income given to you by the government and government entities.

The next section of lifetime protected income is a pension. I'm not going to spend too much time on here, because pensions are only offered by certain employers. It's the benefit from an employer of a stream of income that you'll never be able to outlive, like a Social Security plan; it mirrors that plan.

Lastly, and the main one I want to focus on, is annuities. Annuities act like a Social Security plan or a pension, but it comes directly from an insurance carrier, and everyone has access to this through financial suitability. We like annuities a lot because not only do they protect your money from stock market volatility, it's money you can't outlive, it doesn't focus solely on the sequence of returns but incorporates increasing income.

Each year, as long as you don't get a zero, your income will increase each year. Your first paycheck is always going to be your worst paycheck. Not only do we structure it for inflation, but this can be structured on a joint income basis. Instead of leaving your spouse a death benefit, we're leaving her an income benefit, an income benefit she can't outlive.

We've talked about lifetime protected income, let's get into the tax conversation. I'll ask you another question. When you're looking at your whole portfolio, how much of it is qualified for taxes? I would say the majority of it is.

If you haven't watched a video like this, the majority of our portfolios are 401(k)s, IRAs, and money in the market. There are typical accounts and portfolios we see, but what we're doing in these tax-deferred accounts, we're not just deferring paying the taxes down the road, we're also deferring the tax calculation.

I may not be in the same tax bracket, or the tax brackets can be completely different in 30 years. What I want to do is take a portion, take at least a third of our portfolio, and put it in something that gets me access to tax-free income. That solution is cash value life insurance, indexed universal life insurance.

Not only does it get you access to a stream of income that's completely tax-free, but it gives you that stock market volatility protection, your principles always protect it. You're also giving your family a benefit. This will give you and your family a tax-free death benefit so that when you're gone, you're out of the picture, they have the capital to continue and maintain their lifestyle.

Now that we've talked about the protected income portion and we minimized our tax bill in retirement, the last step is investing the surplus, peeling off a portion that makes you feel comfortable to put in the market. What we want to do is actually grow the surplus, swing a little harder for the fences so that way you do get the gains you want and deserve; you're building a nest egg for any major capital purchases, creating another bank for yourself in the market that you can use for anything you want in retirement.

Let's recap with this three-legged stool. We've talked about the lifetime protected income, we've minimized our taxes, we have this invested surplus, and we've protected ourselves from the four main risks in retirement.

If you're watching this video, and this all seems kind of new to you, you haven't talked about this before, now would be a great time to contact your financial advisor and ask him, "How can we talk about this three-legged stool approach and give me financial peace of mind for retirement?"

My name is Michael Clementi, and I want to thank you for today. We'll see you next week.