Million Dollar Miner
Make More Money Your Money

The Million Dollar Miner process helps people ***understand***, ***build***, and ***live*** Optimized Retirement Income Plans. An Optimized Retirement Income Plan maximizes available income and minimizes risks that are unique to retirement.

- Most people have an 'investment' plan – where the primary goal is to build the biggest pile of money possible.
- Some have a 'retirement' plan that identifies income streams and a strategy for spending down assets.
- But very few have a truly ***Optimized Retirement Income Plan***.

Optimization can mean $1,000,000 or more of *additional* lifetime wealth/retirement income. That's why we say we can 'mine' an extra $1,000,000 or more from the money you already have (or are saving), and we can do so without asking clients to *save more, take on more risk, without inflating their rate of return*, or *using products or strategies that are unfamiliar or objectionable*.

We do so by identifying inefficiencies that plague sub-optimized investment and retirement plans, mapping out a strategy to extract ***all*** the 'juice' from the fruits of their lifetime savings.

What does an optimized retirement income plan look like? **Here are the seven elements that must be present in an Optimized Retirement Income Plan.**

1. **Motivational Alignment**. Whether we know our advisor by name, or they are anonymous (as is the case with most employer-sponsored plans), we

likely pay a percentage of our account balance each year to have our money managed.

If so, our advisors' compensation goes up when they add value to our account, and it goes down when they don't. There is 'motivational alignment' – both we and the advisor are motivated to grow our account balance.

But at retirement, our interest shifts from *growing* our pile, to taking as much income *from it* as possible (without increasing the risk of running out). But if the advisor's compensation is based on maintaining or growing the account balance, motivational alignment no longer exists, and there's a good chance we will not benefit from an Optimized Retirement Income Plan.

> Ask your advisor if/how their compensation will change in retirement, so you remain motivationally aligned. Don't accept anything short of a compensation structure that results in complete motivational alignment.

2. **<u>Drawdown Rate Optimization</u>**. Retirement signifies a transition from the '*accumulation*' phase of our financial lives (where the primary goal is building the account balance as large as it can be grown), to the '*distribution*' phase - where the primary goal is maximizing the amount of income your account balance will safely support for the rest of your life (whether you spend it all or not).

   Mainstream advisors almost universally recommend withdraw rates between 3-4% of the client's account balance each year. For the retiree, that limits annual withdrawals to $30,000 - $40,000 on a $1,000,000 retirement account – hardly supporting the lifestyle of a millionaire.

   Optimized Retirement Income Plans as much as double drawdown rates to 6-8% - while, at the same time, *reducing* the risk of running out of money. Doubling income to $60,000 - $80,000 from the exact same account balance makes a world of difference.

Ask your advisor how much they will recommend you take out of your retirement account each year as income. If the answer is not greater than 4%, you simply will not be able to live your best lifestyle.

3. **Withdraw Rate Risk**. So where does the 3-4% drawdown rate come from? What's the logic? And why the 'range?'

   It's called the '4% rule' and is based on computer simulations that suggests that by limiting annual withdrawals to 4%, there is a 90%+ chance that you won't run out of money.

   In today's market and interest rate climate – combined with increasing life expectancy, the inventor of the 4% rule, Bill Bengen, now retired himself, says the rule should be closer to 3%.

   The point is that there's a tradeoff between safety and income at each withdrawal rate.

   - To increase the odds of success (not running out of money), lower the annual withdraw rate (and live with lower income).
   - To increase income, choose a higher withdrawal rate (more income), but live with a higher risk of running out of money.

   So how can an *Optimized* Retirement Income Plan as much as double the drawdown rate ***and*** reduce the risk of running out of money at the same time?

   By applying *actuarial science*. Actuarial science allows us to shift the risk or running out of money from ourselves - to organizations who are in the business of assuming that risk.

   Social Security for example, employs actuarial science. They assume the risk that they may have to pay benefits to one retiree who lives into their 90s, but may pay very little for another who dies before – or shortly after beginning benefits.

An optimized retirement income plan applies actuarial science at an individual level to both allow a *higher* income drawdown rate and increases the certainty of never running out of money.

Insist that your advisor show you exactly what your odds of not running out of money are (using a Monte Carlo simulation). If there is even a small chance of running out, your retirement income plan has a built-in 'hedge' and cannot produce or sustain an optimized income stream.

4. **Tax-Rate Risk.** Among the major risks retirees face are increases in future income tax rates. Most retirees live on a relatively fixed income, so a tax increase requires them to shift income from their lifestyle – and send more of it off to Uncle Sam.

   Tax planning must be part of an optimized retirement income plan. One strategy might be to convert traditional tax qualified accounts like IRAs and 401ks – to the Roth versions of those plans.

   While conversion requires payment of the embedded tax liability at today's rate, Roth account owners never pay taxes on either the principal or any growth on that principal – ever again – thereby immunizing their future income from taxes and tax-rate increases.

   Roth conversions are somewhat controversial because they do require payment of taxes on the converted amount. However, we prove that Roth conversions don't leave you with less spendable money – they don't increase the risk of running out – and arguably they don't cost anything.

   Roth conversions have two additional benefits that are often overlooked. Income from traditional qualified accounts (IRAs, 401k, etc.) often trigger the taxation of a retiree's Social Security benefits. Income from Roth accounts does not. Therefore, a Roth conversion may immunize Social Security benefits from taxation. The lifetime value of tax-free Social Security can be substantial.

   Additionally, when the tax portion of an account balance is lopped of – the investing fees and commissions associates with that portion of the account balance also go away. These fee and commission savings over a retirement lifetime can also represent a substantial gain for the retiree, and cost nothing to capture.

Roth conversions are just one strategy to manage the tax exposure of one's retirement assets and income. There are others. But it is *impossible* to have an optimized retirement income plan without a serious tax-planning component.

Ask your advisor how much of your retirement income will be taxed – and what strategies they'll use to protect you from future tax rate increases? If you are exposed to the potential of higher future tax rates, you will not have an Optimized Retirement Income Plan.

5. **Fee and Commission Containment**. Investing fees and commissions are usually assessed as a percentage of one's account balance and range from a low of about 1% - to a high of perhaps 4%.

   If we assume a 1% annual fee and commission drain, and revisit the 4% rule we discussed before, it stands to reason that with no fees and commissions, a retiree could draw 5% of their account balance each year with no added risk of depleting their balance. And a 5% drawdown rate results in 25% more income than a 4% drawdown rate.

   - If fees were 2% of one's account balance, a fee-free withdrawal rate with the same depletion rate could be 6%, resulting in 50% more income.
   - And if fees were 4% of one's account balance, a fee-free withdrawal rate with the same depletion rate could be 8%, doubling the amount of available income with no corresponding increase in depletion risk.

   Fee and commission cost containment has a huge impact on the retirement income. That makes reducing fees, eliminating fees, or (at the very least) changing the way fees are assessed - a strategic imperative in retirement.

Combining the two strategies above – Roth Conversion and Fee/Commission cost containment – dramatically improve retirement outcomes.

Ask your advisor what strategies they will put in place to eliminate or reduce the fees and commissions you'll pay through retirement. A good answer moves you close to an Optimized Retirement Income Plan.

<u>Moving from Risk-based Investments – to Contractual Guarantees</u>.

When we're growing our money pre-retirement, we choose investments based on our assessment of their Risk and Reward characteristics. In retirement however, our financial goal shifts from building wealth to preserving wealth so we can maximize income.

That's because every dollar of wealth we have will either be spent – or passed on. There's no other possible destination for our money. And while some retirees have specific legacy aspirations, most want to spend as much as they can - they want to live their best possible retirement lifestyle.

To accomplish our new retirement goals of preservation and income – we must assess investments on the basis of their Income Capacity and Depletion Risk – meaning how much income can an asset support – and what is the risk of that investment running out of money.

We cannot rely on investments we chose on their risk-reward characteristics to like produce income and do so reliability over time.

A stock or mutual fund portfolio may be able to grow at double-digit rates in good times but can lose value just as fast in bad times. So while it may be a good growth vehicle, it has a lousy income capacity, and imposes far too much depletion risk.

When we contemplate the retirement goal of income maximization and sustainability, we need to shift our money mindset toward '*contractual*' guarantees. Contractual guarantees mean looking at assets with the greatest potential to generate income safely, reliably, and predictably.

Contractual guarantees do not ignore or sacrifice growth, rather they prioritize an asset's income generating capacity over its growth potential.

Ask your advisor how they intend to maximize retirement income; how they will ensure the reliability of that income; and what asset allocation changes will they make to move from at-risk investments to contractually guaranteed income.

6. **Long-term Care Risk**. While most retirees can absorb financial bumps along the road (a new roof, replacing a car, etc.), one cost that can be like hitting a brick wall, is long-term care.

   Today, long-term care averages $8,000 - $10,000 per month. There is a 70% chance each of us will have a need for long-term care at some point in our lives, meaning it is a statistical certainty for a couple.

   While those are frightening statistics, far too many advisors ignore long term care risk, or don't consider it within the scope of their planning responsibility. Most retirees therefore choose one of three paths:

   - Some purchase traditional 'use-it-or-lose-it' long-term care insurance - if they can get it and afford it,
   - Some 'self-insure' by setting-aside lump sums that can be accessed later for long-term care.
   - Far too many – the vast majority in fact – do neither. They *carry* the risk themselves without any kind of insurance or back-stop.

   All three options sub-optimized retirement income. The premium drain of traditional long-term care insurance reduces lifestyle income. A set-aside quarantines money that could otherwise be used to enhance retirement income. And ignoring the risk altogether jeopardizes the sustainability of income should LTC become a necessity.

   An Optimized Retirement Income Plan must include a contingency that provides extra money for long-term care with minimal (or no) impact on retirement income.

Ask your advisor what happens if you have a long-term care need? Will you be able to sustain your normal income draw? Where will the money come from for long-term care?

Conclusion

We've highlighted seven elements that must all exist concurrently to have an Optimized Retirement Income Plan. The goal of the Million Dollar Miner process is to help you understand the necessity of each, the interconnectivity of one to the other, and design an Optimized Retirement Income Plans that offer the best combination of each to meet your needs and help you realize your retirement dreams.

This discussion is designed to give you a roadmap of what an Optimized Retirement Income Plan is – what it looks like – how it is characterized – and gives you some key insights on how we approach the task of building them.

It will allow you to either confirm that you're on the right path with the right advisor(s) you employe now, or it may suggest that a 'second opinion' is worth seeking.

If it results in the former – congratulations - truly! If the latter, we're here for you and eager to go to work to see what your possibilities might be.

The Million Dollar Miner process is a service of Velomon, LLC, an Indianapolis-based firm focused exclusively on retirement optimization planning. The MDM process, conceived by company founder Jay Beattey, has proven valuable to hundreds of retirees and aspiring retirees nationwide. As a limited, 30-day engagement with no expectation of an ongoing relationship, the MDM process serves as an excellent opportunity for concerned retirees and aspiring retirees to secure a 'second opinion' that will either affirm their current retirement trajectory or reveal opportunities for optimization that can improve their outcome.