Retirement Convos

Subject: *Portfolio Allocation*

Pre-retiree:

Here's my perspective on our portfolio: we are retiring at age 60 next year. Approx 85% is in tax deferred accounts. We have an advisor and have a future looking financial plan. Our asset allocation is 60/40. We both have pensions and Plans are to delay SS drawdown and also converting to Roth between age 60-72 to reduce the taxes on future RMDs.

Her Retirement:

Has your advisor suggested an option to the 40% in bonds? Bonds are at all time lows... he/she should be talking to you about alternatives. Check out this research/white paper: https://yourretirementadvisor.com/portfolio-stress-test

Pre-retiree:

I totally understand yes about bonds. Advisor is very aware and recommended we stay with this asset allocation. you have to see the bigger view regarding bonds. Bonds are there to provide ballast- it's also used for wealth preservation in the portfolio. Portfolio is in multiple seven figures. If the market crashes the bonds help protect from a bigger loss in retirement when you are needing the money to live on. It's not always about making more money, it's about preserving the portfolio we have built over the past 35 years. Does this help explain?

Her Retirement:

In today's interest rate environment, I believe (as does the research) that in order to create the "ballast" you mention there are much better low risk alternatives that can offer much more return than high quality short term bonds (10 year treasuries are at 1.35%)....near historical lows. Better safe money options exist. Why not have your cake and eat it too? I suspect that your advisor is a traditional advisor that only offers stocks and bonds? Check the research...many traditional advisors aren't well versed in retirement optimized portfolios.

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Pre-retiree:

Interesting comment. My fee only fiduciary financial advisor has been in the business for over 20 years so I'm not sure what you mean about him not being well versed. I'm intrigued by your alternative suggestions so would you please briefly explain these options you speak about?

Her Retirement:

I have just seen many financial advisors with many years experience who have focused on the accumulation phase of life and the traditional portfolio. Many are good at what they do, but the same strategies for accumulation phase don;t apply to the distribution phase of life. Just need an advisor who understands the nuances of retirement portfolios. Alternatives could include structured notes that offer higher potential returns with lower risk, offered by high quality investment bank firms. Bonds offer lower return and higher risk in today's low interest rate bond environment.

Pre-retiree:

Thanks actually my advisor was chosen specifically because he specializes in taxes and tax strategies in Retirement (which is what I need with a $3m Portfolio). I'll ask him about structured notes. Appreciate your thoughts.

PS, I just read a couple of articles on structured notes. Do you want to have this kind of risk of illiquidity?

Her Retirement:

Great. Tax planning in retirement is critical. There are ETF structured notes that offer 100% liquidity. No issues. If you have $1.2 million of your portfolio in low yielding bonds, you're leaving a lot on the table. Please do some additional research. Also check out Fixed Indexed Annuities and Guaranteed Annuities as they are another way to create efficiencies in your portfolio and create the ballast. It's all in the retirement research
by the likes of Wade Pfau. and Moshe Milevsky and the white paper I linked above.

P.S. Even a $400,000 variable annuity could be purchased at 65 paying a guaranteed lifetime joint income of $16,000/year vs. 1.3% yield on a government bond, yielding $16,320. For the same "guaranteed" income for the rest of your life, you'd only invest $400,000 of your $1.2 and have another $800,000 in the market. Just some other ideas to explore. I recommend hybrid advisors like Your Retirement Advisor because they can offer investments, structured notes, insurance, tax planning and so much more. Best of luck. You're in a great position to consider options to best optimize what you have for retirement.

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Pre-retiree:

Are the variable annuities you mentioned purchased with after tax dollars or can I use pretax investments (bonds) to purchase the variable annuity you mentioned? If I recall variable annuities have upper limit caps?. If I were to purchase a $400k variable annuity I would need to pull out more than $400k to pay income taxes on the withdrawal of tax deferred investments. Correct?

Her Retirement:

You can transfer the $400k and purchase the VA tax free assuming the money is in a tax deferred account. You can utilize the FIA or VA with an income rider attached also. But be very careful to make sure your advisor has experience with these products (insurance licensed) because they can be complex and selecting from the many options prudently is essential to getting the right solution for you. I would test your advisor on all of this and if he/she doesn't know about these strategies or poo poo's them then consider if he has a lack of retirement strategy knowledge or a bias. I'm a little concerned that he hasn't already discussed these alternative to bond strategies with you. He should. Perhaps you can benefit from a chat with Your Retirement Advisor as a 2nd opinion? No harm. No fowl in my book. Hope this all helps and definitely do your due diligence. I like to say when you know more, you can have more.

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More Secure. Let's "Get Her Done."