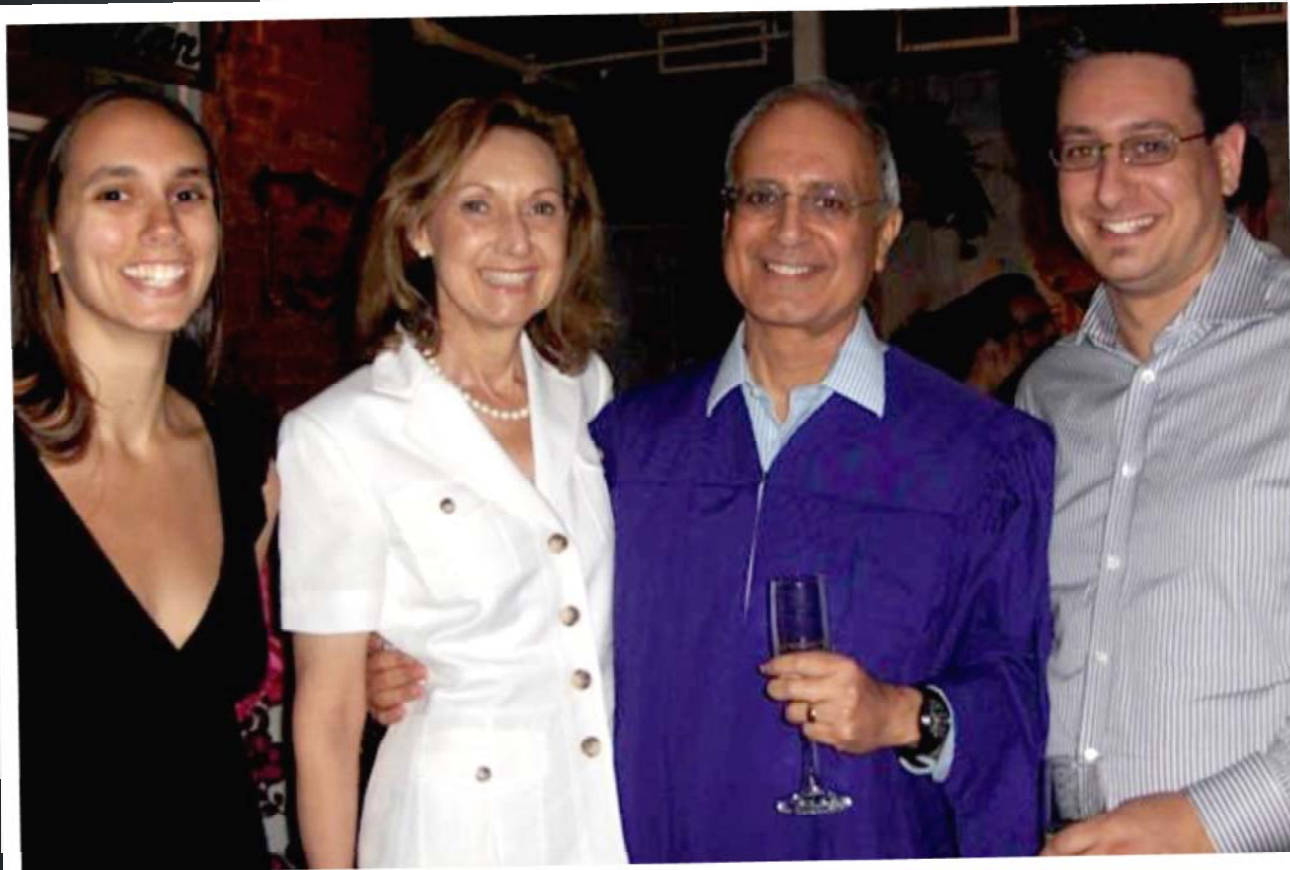


Graduation

Don Ezra
Co-Chair, Global Consulting



Dedicated to Woody Allen

“I’m not seeking immortality through my work... I want to achieve it by not dying.”

– Woody Allen

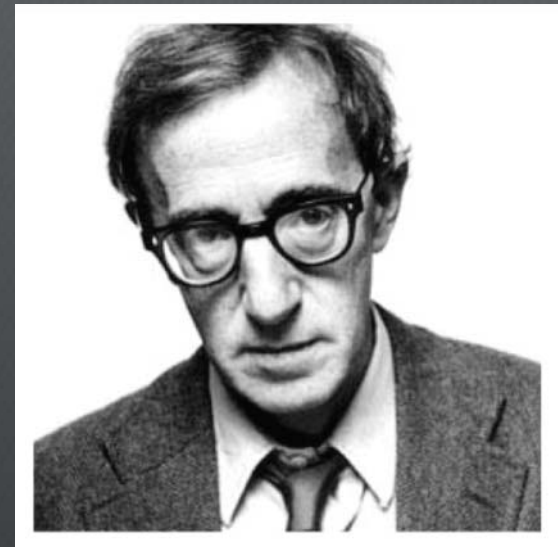


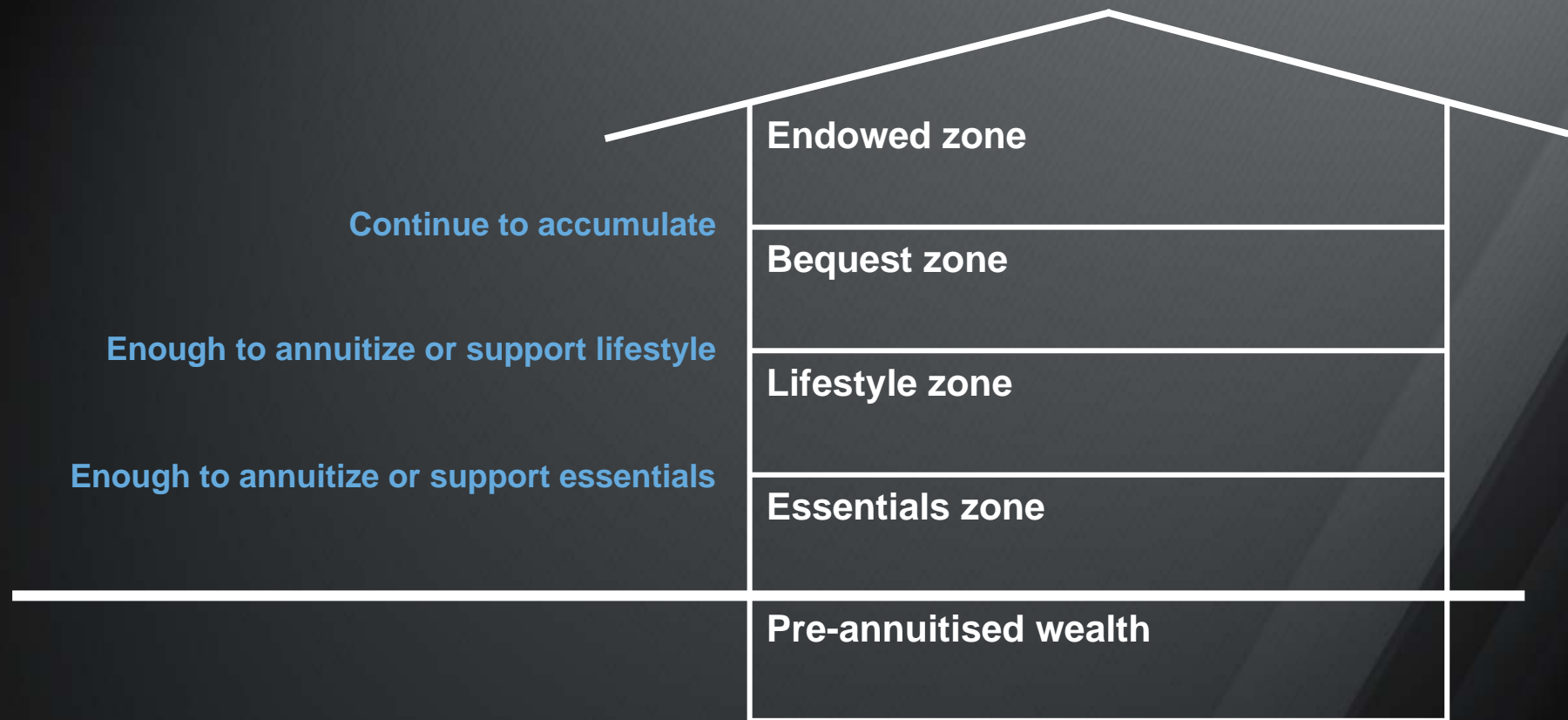
Image credit: Woody Allen: Swirc/MPA/Retna

Quoted in Edward Lax, “Woody Allen and His Comedy”, Da Capo Press Cambridge, MA, updated edition 2000.

Decumulation is the most important financial phase of life

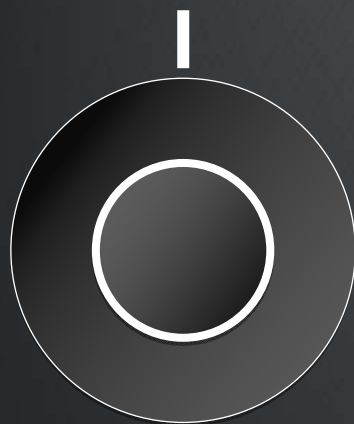
- The 10/30/60 rule demonstrates it
- And it's potentially the most enjoyable phase too

Think of several “wealth zones”

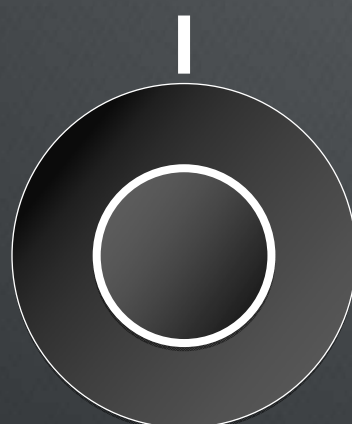


We all have three dials to turn

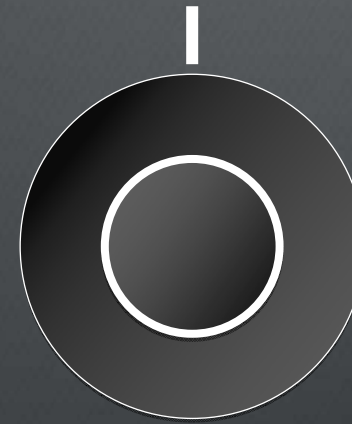
Three dials to turn



Spending



Investment
risk



Longevity
risk

Insight #1

Question: When can we *afford* to retire?

Answer: When our personal funded ratio exceeds 100%

“**Liability**” = annuitised value of desired lifestyle spending,
minus annuitised value of pre-annuitised wealth

“**Assets**” = liquid assets (we ignored property and reverse
mortgages)

Some interesting numbers

- At our ages, at a 2.5% p.a. real discount rate, the present value of a joint and last survivor annuity of \$1 p.a. is 20.4
 - At 2% it's 21.8
 - At 2.5%, joint and two-thirds survivor is 17.8
- **Basically, the \$20 rule lives!**

Oops, a problem!

Our solution

- **Work part-time until age 70**
- **Release 25% of property value**
 - Increase assets
 - Reduce property-related portion of liability
- **Projects to 110% funded at age 70**

Insight #2

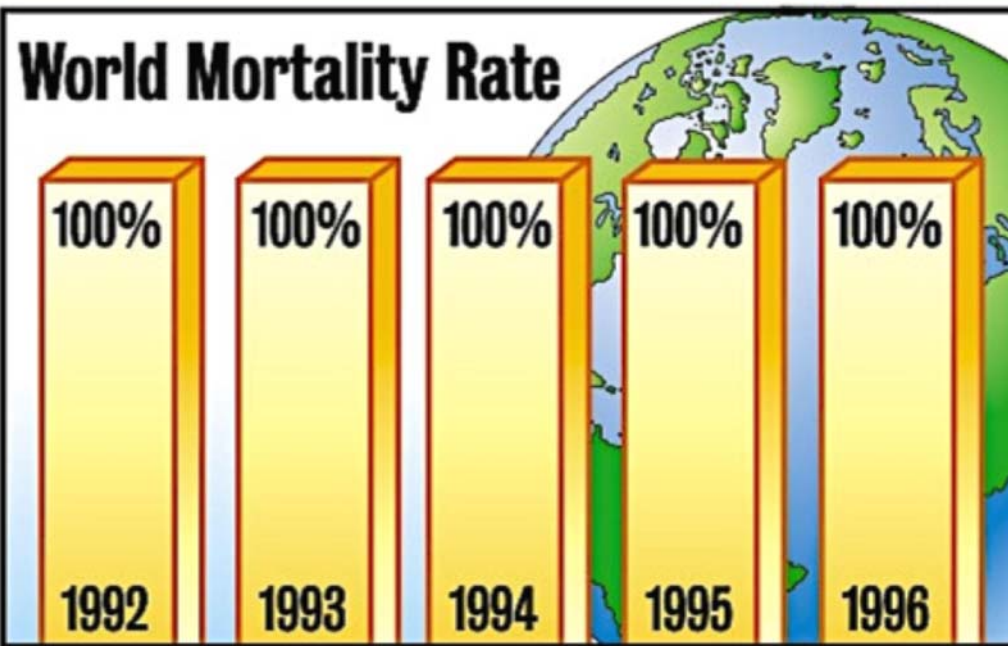
Essentials/Lifestyle/Estate doesn't always play out cleanly

- We'd rather leave the kids something, even if it means turning down the lifestyle spending dial
- We'd like to give the kids something while we're alive and they're young enough to benefit from it

Insight #3

Being 100% funded isn't high enough

- Unless we buy an annuity
- Otherwise even being 125% funded only gives us 95% longevity protection



Death rates since 1992

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New insights, #4

Investment risk aversion after retirement

- **“All change is loss, and all loss must be mourned”**

Harry Levinson, *Psychological Man* (1976, The Levinson Institute)

- **Transition is a stage between accumulation and decumulation**

Russ Hill, President, Halbert Hargrove

- **Avoid irreversible commitments**

- **Retirees are five times as risk-averse as workers**

Geoff Davey, Co-Founder & Director, FinaMetrica, AICPA presentation, January 2011

Building your retirement portfolio

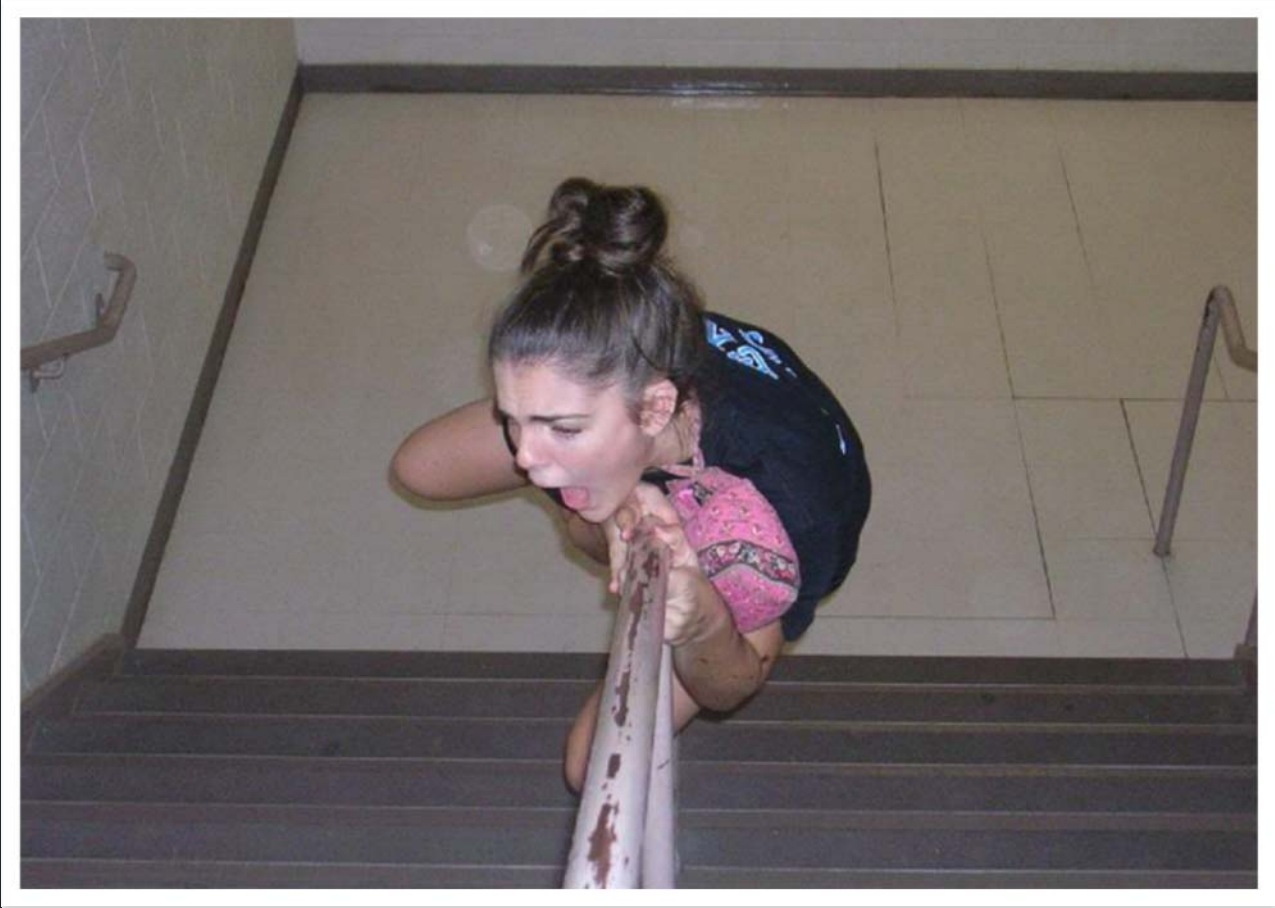
Three-part portfolio

- Laddered bond portfolio for (say) 5 years: predictability
- Diversified equities: growth potential
- Deferred annuity: longevity protection

Each part has its own mission statement

Irish Blessing

☘ As you slide down ☘
the bannister of life,
may the splinters NEVER
point the WRONG way.



Insight #5

What can derail the plan?

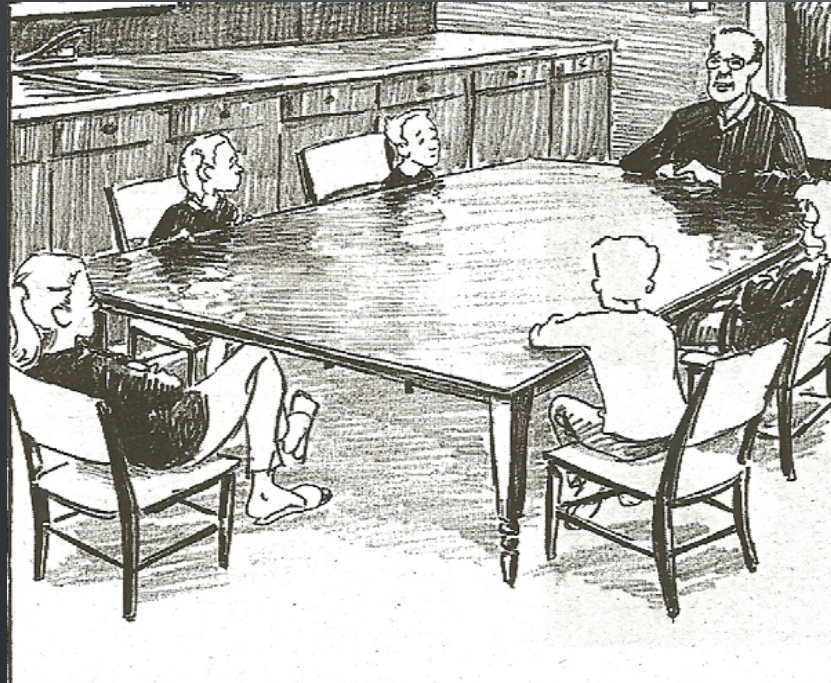
- **Outliving assets: deferred annuity**
- **Becoming very sick: long-term care insurance**
- **Outliving the ability to think clearly**

“The age of reason” peaks

- At 53.3*
- Higher for us, I think
- Tell the kids about goals and plans

*Agarwal, Driscoll, Gabaix, Laibson, The age of reason (Brookings Papers on Economic Activity, Oct 2009)

Dad's Decumulation Talk



“Before we begin this family meeting, how about we go around and say our names and a little something about ourselves”

Two final thoughts

- **Take-away:** You have to start understanding these issues, not just for yourselves but for your participants
- This is the best of life, for which the rest was made

The life abundance portfolio

- Family or significant others
- Work
- Health
- Community or social life
- Spirituality or religion
- Recreation
- Finances

Edward Jacobson, High-Impact Client review Meetings [TM], Planner (July/August 2010, AICPA)

THANK YOU!



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