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In 1985, Macchia founded NEIA Insurance Marketing Company, a Boston-based MGA. In 1998, he teamed with Brian Donahue to form Donahue-Macchia Insurance, a product wholesaling firm with new premium sales of more than \$250 million annually.

Since 1987, Macchia has been a marketing consultant to the life insurance industry and in 1999 founded Wealth2K, Inc., to focus on the creation of marketing programs designed to accelerate the sales of concept-oriented products. He has assisted numerous financial services organizations in furthering their own safe money-based sales initiatives, including National Life, ING, Life of the Southwest, Aviva Life Insurance Company, Security-Connecticut Life Insurance Company, E.F. Hutton Life Insurance Company, First Capital Life Insurance Company and PaineWebber.

A veteran of more than 1,000 public speaking appearances, Macchia has also authored many articles on retirement planning, insurance issues and annuity strategies. He has made numerous radio and television appearances and served as on-camera host for the Generations video series.

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# Retirement Distribution Planning:

## *Are You Ready?*

Tens of millions of prospects, trillions of dollars, investors looking for strategies—and few true experts. Knowledgeable advice and a systematic approach will make the difference—it's the sales opportunity of a lifetime. *Are you ready to take advantage of it?*

Retirement income distribution planning is fast becoming a huge need in the financial services marketplace. There are legions of accumulation specialists who have spent their careers helping clients build retirement wealth and savings. Yet there are few distribution specialists who understand the different economics, tax issues and logic that go along with income planning. The target market ranges from pre-retirees, age 55, and those currently in retirement, up to age 75.

This group is seeking a way to solve the "20-plus years in retirement dilemma." They have qualified pension plan income, social security income and other taxable income. They can figure out their monthly income from the pension and social security, but they struggle with how best to plan this income along with the taxable savings and investments. They know that they have a good chance of living 20 or more years in retirement and they fear outliving those assets. The last thing they want is to be dependent on their children. Just as important, many were burned by recent stock market declines as they watched their retirement money shrink. As a result, there is a good deal of emotional investment fear, especially among the older ages.

### **A New Type of ROI Is Needed**

Given all these factors, one of the basic differences between the accumulation mind-set and the distribution logic is ROI. In accumulation thinking, ROI is return on investment. In distribution thinking, it is a clear focus on reliability of income. The challenge of taking advantage of the golden opportunity of retirement income distribution planning will be providing clients with reliability of income that places a heavy emphasis on guarantees over a long period of time.

The guarantees help to remove the pervasive fears of outliving assets and losing money due to under-performing investments. Yet there still must be a steady, common sense approach to increasing income over time to combat inflation. One solution to the dilemma is an income for life model, which can provide brokers and their clients a proven approach that creates a durable stream of income for clients, a.k.a. distribution ROI.

The approach offers a level of psychological comfort for clients over their retirement assets. Once the client identifies the amount of money he wants to apportion to the model, you can allocate assets with the goal of producing increasing retirement income which is adjusted for inflation while keeping the aggressive assets invested over a long period of time.

### **Overview**

The model focuses on allocating a portion of retirement money to six "buckets" which are time-weighted. Each bucket targets a

**Table 1—\$500,000 Investment Strategy**

Bucket 1 \$138,705	Bucket 2 \$128,335	Bucket 3 \$101,155	Bucket 4 \$66,205	Bucket 5 \$36,185	Bucket 6 \$29,415
2% Target Single Premium Immediate Annuity	4% Target Fixed Annuity	6% Target Equity- Indexed Annuity	8% Target VA, Mutual Fund or Wrap Account	10% Target VA, Mutual Fund or Wrap Account	12% Target VA, Mutual Fund or Wrap Account
Immediate	5 Year Hold	10 Year Hold	15 Year Hold	20 Year Hold	25 Year Hold
\$2,358 Monthly Years 1-5	\$2,734 Monthly Years 6-10	\$3,169 Monthly Years 11-15	\$3,674 Monthly Years 16-20	\$4,259 Monthly Years 21-25	\$500,000

rate of return ranging from 2 percent for bucket 1 (very conservative) to 12 percent bucket 6 (aggressive), which is typically left to accumulate for a full 25 years. If the buckets yield their target rates of return, there will be sufficient assets accumulated to generate an increasing income based upon an annual inflation assumption of 3 percent.

Bucket 1 is typically invested in a fixed immediate annuity to guarantee a specific income stream for the first five years. Bucket 2, which is also relatively near-term money, is invested fairly conservatively in a fixed annuity or short term bond fund. After bucket 1 is paid out, the assets from bucket 2 purchase another annuity, which allows a new stream of guaranteed income to kick in for the next five years.

As each successive bucket matures, it is similarly converted to an immediate annuity with a guaranteed five year payout period. The most aggressively invested assets are allocated to buckets 5 and 6, as they can be invested over a longer time horizon and may be better able to weather the ups and downs of the equity market.

Table 1 shows an example of how the strategy may work using \$500,000 investment.

An income of \$2,358 per month is guaranteed over five years. While the client receives this payment, bucket 2 accumulates for five years at a target rate of 4 percent,

which will ensure that there are funds to purchase an immediate annuity that offers a slightly higher monthly payment for the next five years. This process repeats itself every five years with monthly income payments reaching a potential of more than \$4,000 a month by year 20. In addition, if bucket 6 performs as targeted at 12 percent, the client's investment will have grown to \$500,000, which can be used for more income or for a legacy for the heirs.

**Case Studies**

This approach to retirement income distribution can be used in many ways to meet a variety of client needs. For example, in one case study, Larry and Marta, both age 66, were concerned that their 401(k) plan had dropped in value. Larry had been taking \$20,000 per year in income from the account that, only five years earlier, had a balance of \$252,000. The account was now down to \$200,000. The \$20,000 a year income represented a 10 percent draw on Larry's and Marta's investment balance, which would eventually lead to the account running out of money. If the couple uses the distribution approach that focuses on reliability of income versus return on investment, the model would generate a little less than \$1,000 per month, but it would inflation-proof the income for the next 25 years. The clients decided that they wanted to trade off the higher monthly income that

may not last for lower payments that would be there for their entire lives. In this case, the investments chosen were an immediate annuity (bucket 1), a deferred annuity (bucket 2), an indexed annuity (bucket 3) and a professionally managed account for buckets 4, 5 and 6. The clients win because they now have steady, long term income and peace of mind. The plan in this case generated \$10,000 of gross dealer concessions for the broker.

In another recent case, Jerry, age 55, a school teacher, inherited \$400,000 from his parents. He planned to collect his pension early and invest the \$400,000 in tax-exempt bonds. His goal was to collect a tax-free income from the bonds while staying in a low tax bracket from his pension payments. The broker reminded Jerry that this strategy does not address the issue of inflation and that over time Jerry's purchasing power would be significantly less. The solution was to use all annuities in the model, which would offer potential growth beyond the bond investment in combination with the exclusion ratios that immediate annuities provide at the beginning of each phase. The income on the investments would be virtually tax-free and even though more of the income would become taxable over time, the steady increase in dollars far outweighed the small amount of additional tax he would have to pay. This model offers brokers a tax strategy for their clients with non-IRA money, and this particular case generated \$18,000 of gross dealer concessions.

**Conclusion**

The greatest sales opportunity of a lifetime awaits you. There are many challenges facing Americans today as they rush headlong into retirement. They need you to become the distribution specialist to help prepare them for financial security and reliability of income during their 20-plus years in retirement. By using a common sense, systematic approach, you will be able to help them achieve a dependable, inflation-adjusted income, remove investment fear from the planning process and, in many cases, create a legacy for their heirs. *Are you ready?* 🌐