



## Pension Maximization and Volatility Buffer Retirement Straddles

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Are you prepared for retirement? Are you fully ready? Have you addressed all retirement issues and concerns? What have you done regarding the three stages of retirement (GoGo years; SlowGo years; NoGo years)? Will you run out of income before you run out of life? Will you run out of assets before you run out of life? Have you financially compromised your significant other? How will they cope? How will you cope?

If you're concerned about any of the above questions, then you must read on! The rules of engagement change between accumulation and distribution – accumulation is about rates of return and volatility; distribution is about guarantees and longevity planning while enhancing retirement benefits.

# Pension Maximization and Volatility Buffer Straddles

## I. Introduction

If you're scared about retirement – you should be! It is one of the most complex and controversial discussions I have with clients on a regular basis. For many of them, retirement is a nebulous arrangement of ideas, hopes, and dreams. Their simplistic view of how the financial world truly works in retirement will create enormous challenges which will be impossible to overcome unless they make a paradigm shift in economic thinking - but how can they change their economic thinking if they don't understand economics.

Over the past 25 years, the world of economics has taught me to question and peel the onion on everything. Additionally, it made me realize the following...”not everything that can be counted counts; not everything that counts can be counted”. Mark Twain said many years ago “there are lies, damn lies, and then statistics”, so when I run my new clients' ideas, hopes, dreams, desires, statistical internet-based self conducted retirement research through my economic models, they come to the realization that what they thought they new about money and finances was totally false and full of false pretenses.

## II. Retirement Pretenses

Most of my new clients look at retirement assets from a scarcity standpoint – “I need \$5,000 per month in order to make ends meet”...”I can live on \$3,500 per month while I work part-time doing odd jobs”...”I want to generate \$6,000 of monthly income in retirement for my spouse and I because it will be sufficient”...See, I have never had a client in the past 25 years tell me “I want maximum income”.

The reason is fairly simple from an economics standpoint – most retirees and/or pre-retirees have been working for their money all their lives, yet they don't know how to get their money to work for them in retirement. They have been following traditional planning recommendations from advisors that have no knowledge of economics and/or economic models – these advisors have been taught basic finance by the companies they represent, and as such, have a micro-management perspective based on the products and services that said institutions they work for want their advisors to sell – remember, never bring a knife to a gunfight! When conducting new client evaluations, here's what I normally find:

- They have most of their assets in qualified plans (IRAs, 401ks, or 403bs).
- They have basic term insurance and/or group life insurance equal to 1 time their salary.
- They are maximizing contributions to their qualified plans above and beyond the corporate match.
- Some may actually have a small corporate defined benefit or guaranteed pension plan.
- Except for a small amount in savings, most of their money is tight up in qualified plans.
- Some may own rental property but have no understanding of Net Operating Income issues and concerns.
- They expect to live off the interest their assets create in retirement.
- They are content in their lives and think they are a success to themselves and their families.
- They have no clue of current and/or future eroding factors that may destroy their income in retirement.
- They are living in a make-belief world of false pretenses while awaiting the economic perfect storm.
- Many of them are brainwashed and unable to adapt, adjust, and improvise their thinking process.
- Almost all of them will fail in the retirement game.

Being the financial contrarian that I am (doing the opposite of what everyone else does) has proved very successful to many of my clients over the past 25 years – every decision and/or recommendation I make to my clients is based on financial-economics risk management alternatives and techniques that are seldom discussed in the financial services community. Once all economic models are conducted and adhered to, my clients:

- Save 15% of their income annually in order to offset future eroding factors.
- Contribute sufficient money to their qualified plans to meet match requirements but never more than 7% of gross income.
- They own whole life insurance equal to 1 time the value of their assets and/or their economic human life value.
- They invest in Roth IRAs, Roth 401ks, municipal bonds, and permanent life insurance for retirement income.
- They invest in mortgages and/or real estate for maximum income.
- They invest in life settlements as accredited investors
- They use Cambridge recommended Self-Directed LLC IRAs in order to enhance diversification and control of qualified plan assets.

- They use Cambridge Pension Maximization techniques in order to increase their retirement income between 30% and 50% on a guaranteed basis.
- They use Cambridge Volatility Buffer straddles in order to reduce asset volatility and asset distribution in retirement.
- They reduce and/or eliminate taxes on all retirement income.
- They reduce and/or eliminate taxes on Social Security income.
- They have Social Security survivor benefits protection using the CCMS process
- They generate between 9 and 11 different income sources at retirement through our CCMS process...and
- They protect themselves and their families against the risks of dying too soon, living too long, living with a disability, and living with eroding factors (taxes, inflation, market and interest rate volatility, opportunity costs, and planned obsolescence and unforeseen expenditures).

### III. The Mount Everest Analogy

Retirement distribution planning is an art; it is not a bundle of financial products just waiting for activation by the American consumer – it requires monitoring, economic straddles of guaranteed outcomes, and the careful eye of an economic advisor capable of understanding economic principles and strategies – I am that advisor.

For the past 25 years, I have made it a point to use life analogies in order to explain and/or address financial dilemmas for many of my clients – some of them know me so well that they share those analogies with other family members and friends almost verbatim – they have heard me dozens of times.

The Mount Everest analogy is one of my favorite ones – it addresses the difference between pre-retiree accumulation and retiree distribution, which is paramount to retirement success.

Let's say you want to climb Mount Everest at some point in time in the future...what do you do? First,

- You would probably train and get in good climbing shape for at least 1 year
- You would find sponsors that would help you with the cost of travel and access to the mountain – average cost of climbing ranges from \$30,000 to \$55,000 depending on teams and required permits
- You're probably going to hire a guide/Sherpa in order to take you to the top of the mountain – average cost of \$8,000 to \$12,000
- You would acquire the best equipment for this trip as it is the climb of a lifetime

So far so good! Now let's address some factual information regarding Mount Everest...

- It is the highest mountain in the world at 29,029 ft
- Over the past few decades, 280 people have died on the mountain
- There are approximately 120 frozen bodies that have never been recovered from the mountain
- Almost 70% of all 280 deaths occurred on the way down, not on the way up

Excited...I knew that you would! Now, what if the Sherpa you're interviewing prior to the climb tells you that he can get you to the top of the mountain, but he's not so sure that he can get you down – would you hire him? Probably not! See, the goal for the majority of people climbing Mount Everest is to get to the summit, but that is only half the goal – the real goal is make it all the way down safely after reaching the summit.

Retirement planning works exactly the same as climbing Mount Everest. Climbing the mountain deals with the accumulation years 30 to 40 years prior to retirement – it is about savings rate, accumulation rate, investment diversification, and asset allocation. Reaching the summit equates retirement age – 62, 65, or 70. Coming down the mountain deals with retirement distribution, which may last 3 decades – it is about distribution rate, longevity planning, income guarantees, inflation hedging, risk management, and long term care planning. Notice that I did not mention rates of return, investment diversification, or asset allocation during critical retirement years.

As I have mentioned in several of my white papers, the rules of engagement totally change between accumulation and distribution years, yet the majority of American retirees continue to play the distribution game in the same manner in which they played the accumulation game – no wonder Americans are failing in retirement and thus dying half way down the mountain! Sadly enough, many of them reach the summit with a mere bottle of oxygen.

In other words, not enough accumulation of retirement assets in order to safely and comfortably make it through all the challenges and opportunities of retirement years. Please allow me to become your financial Sherpa for the remainder of

this white paper – one caveat, you are required to keep an open mind throughout the next several pages while maintaining the following question in the forefront of your thought process: If everything you’ve ever known about money was untrue, when would you want to find out?

#### **IV. Pension Maximization Straddle**

This distribution straddle is my favorite technique for climbers and/or clients wishing to make it to the bottom of the retirement mountain safely and efficiently – it involves the transfer of longevity risk from oneself to an insurance company. It utilizes 2 major retirement products – annuities and life insurance.

The annuity and/or annuitization portion of this Pension Maximization Straddle offers the following features...

- Provides for the purchase of guaranteed income for life thus avoiding death halfway down the mountain because you ran out of oxygen and/or income – that’s an annuity!
- If chosen, it will also provide for the purchase of survivor guaranteed income for the life of the surviving spouse – less desirable unless health becomes an underwriting issue at retirement
- It increases the asset distribution rate between 8% and 10% depending on income start date
- Therefore, a \$1 million portfolio can distribute between \$80,000 and \$100,000 annually for life
- Retiree and retiree’s survivor will not run out of money before he/she runs out of life
- If annuity owner is healthy, then annuitization based on 1 life offers the highest distribution rate possible
- It relieves the \$1 million portfolio from having to do what it is not capable of doing (providing income for both spouses, keeping ahead of inflation and other eroding factors, providing survivor benefits, providing for long term care benefits for both spouses if necessary, and offsetting future tax increases that deplete net income thus forcing retirees to invade principal)
- It allows for the use of the entire \$1 million portfolio via principal and interest distribution as opposed to traditional interest only distribution technique
- This technique requires the retiree to transfer the entire \$1 million asset to an insurance company for the purchase of a guaranteed income for life – think of it as purchasing a guaranteed pension and/or a guaranteed Social Security payment for life.
- An annuity is an insurance product that guarantees a distribution rate for retirees at retirement
- Most government and private pensions along with Social Security benefits in the United States are annuity-based benefits – you don’t have a right to the asset, but you have a right to the income
- Some annuities allow for a return of principal, but they are not as efficient as an immediate annuity
- Annuities are creditor protected in the State of Florida
- Wealth should not be measured by the amount of assets; it should be measured by the amount of income

If the annuity portion of the Pension Maximization Straddle is properly executed, then annuity payments would stop at the death of the first spouse – income is the greatest at this level! Do not worry if you’re concerned about the surviving spouse, because here comes the second half of this Pension Maximization Straddle – life insurance.

With this technique, life insurance becomes asset insurance, and thus provides the following features...

- Death benefit face amount should equal the value of the annuitized asset – a \$1 million annuity requires a \$1 million life insurance policy
- Permanent and guaranteed life insurance is the product of choice – no one ever dies at the right time, and the life insurance policy must be in place at time of death
- Death benefit proceeds replace the annuitized asset at death on behalf of the surviving spouse – since the life income option of the annuitized asset dies with the death of the first spouse, life insurance replaces that asset immediately on behalf of the surviving spouse on a tax free basis
- Surviving spouse has more flexibility – he/she has the ability to determine what percentage of the decedent’s spouse income he/she wishes to replace via an annuitization of the existing death benefit proceed
- For instance, if the first death occurs in the mid to late 70s, the surviving spouse may not need the entire \$1 million death benefit in order to replace the decedent’s spouse lost income – as you get older, the annuity distribution rate increases so less contribution is needed in order to accomplish the same income
- Since the death benefit is received by the surviving spouse tax free, he/she may end up with higher income due to the annuity exclusion ratio (a large percentage of the survivor’s income may be tax exempt due to a return of a portion of the after tax investment by the recipient due to the tax free benefit feature of the life insurance death benefit)

- Surviving spouse can choose what to do with the death benefit proceed – he/she can annuitize a portion, leave the rest of it in an interest bearing account in order to annuitize in later years, or utilize unused proceeds in order to purchase long term care insurance and/or other income producing products
- For clients not wishing to annuitize any portion of the assets, they can choose a pay-down strategy which allows the first and surviving spouse to generate higher income without relinquishing the \$1 million asset – yes, there may be a risk of running out of the \$1 million asset if client lives too long, but the life insurance cash value can replace said income on a tax free and guarantee basis

Here's an interesting example for your perusal...

- Interest Only Distribution (first 5 columns) depict traditional planning techniques whereby client "A" has already cancelled the term life insurance and must use an income only distribution option because he/she has no choice – this client can't touch his/her principal because it will disinherit the surviving spouse in the future – client "A" must live and die on the interest said asset generates...no more no less

Interest Only Distribution - No LI					Paydown/Annuitization Distribution - LI					
YEAR	Beg. Of Year Acct. Value	Earnings Rate	Gross Withdrawal	Net Spendable	Beg. Of Year Acct. Value	Earnings Rate	Gross Withdrawal	Net Spendable	Compare Dist.2-Dist.1	
1	1,000,000	6.00%	(60,000)	47,490	1,000,000	6.00%	(87,185)	74,675	27,185	
2	1,000,000	6.00%	(60,000)	47,490	972,815	6.00%	(87,185)	75,082	27,592	
3	1,000,000	6.00%	(60,000)	47,490	944,000	6.00%	(87,185)	75,515	28,025	
4	1,000,000	6.00%	(60,000)	47,490	913,455	6.00%	(87,185)	75,973	28,483	
5	1,000,000	6.00%	(60,000)	47,490	881,078	6.00%	(87,185)	76,458	28,968	
6	1,000,000	6.00%	(60,000)	47,490	846,758	6.00%	(87,185)	76,973	29,483	
7	1,000,000	6.00%	(60,000)	47,490	810,379	6.00%	(87,185)	77,519	30,029	
8	1,000,000	6.00%	(60,000)	47,490	771,817	6.00%	(87,185)	78,097	30,607	
9	1,000,000	6.00%	(60,000)	47,490	730,942	6.00%	(87,185)	78,711	31,220	
10	1,000,000	6.00%	(60,000)	47,490	687,614	6.00%	(87,185)	79,360	31,870	
11	1,000,000	6.00%	(60,000)	47,490	641,686	6.00%	(87,185)	80,049	32,559	
12	1,000,000	6.00%	(60,000)	47,490	593,003	6.00%	(87,185)	80,780	33,290	
13	1,000,000	6.00%	(60,000)	47,490	541,398	6.00%	(87,185)	81,554	34,064	
14	1,000,000	6.00%	(60,000)	47,490	486,697	6.00%	(87,185)	82,374	34,884	
15	1,000,000	6.00%	(60,000)	47,490	428,715	6.00%	(87,185)	83,244	35,754	
16	1,000,000	6.00%	(60,000)	47,490	367,253	6.00%	(87,185)	83,879	36,389	
17	1,000,000	6.00%	(60,000)	47,490	302,104	6.00%	(87,185)	84,466	36,976	
18	1,000,000	6.00%	(60,000)	47,490	233,045	6.00%	(87,185)	85,087	37,597	
19	1,000,000	6.00%	(60,000)	47,490	159,844	6.00%	(87,185)	85,746	38,256	
20	1,000,000	6.00%	(60,000)	47,490	82,250	6.00%	(87,185)	86,444	38,954	
<b>TOTAL</b>	<b>1,000,000</b>	<b>6.00%</b>	<b>1,200,000</b>	<b>(250,198)</b>	<b>0</b>	<b>6.00%</b>	<b>1,743,691</b>	<b>(141,704)</b>	<b>1,601,987</b>	<b>652,185</b>

- Column 1 depicts the \$1 million portfolio; column 2 depicts the 6% interest rate on the asset; column 3 depicts the gross income withdrawal of \$60,000; column 4 depicts the tax payment on the asset; and column 5 depicts the net annual income on the \$1 million portfolio asset
- A 65 year-old living 20 years in retirement would generate a net income of \$949,802 in income out of the \$1 million asset without touching and/or invading principal – not bad, but a lot of things can go wrong
- What if interest rate is not 6%...what if it is 3%...will the client be able to live on \$30,000 of gross income as opposed to \$67,216...will the client be forced to invade principal and/or increase risk in an attempt to gain a higher interest rate...pretty scary, but that's how American retirees do it everyday
- Paydown/Annuitization Distribution client B (second 5 columns) depict the Cambridge Capital Management Pension Maximization technique which allows the client to distribute principal and interest without risk due to ownership of permanent life insurance - in this exercise, life insurance becomes asset insurance
- Notice the Net Spendable columns between Interest Only Distribution – No LI (life insurance), and the Paydown/Annuitization Distribution – LI (life insurance) - \$47,490 versus \$74,675 in year 1, and \$949,802 versus \$1,601,987 over a 20 year period with the same amount of assets...that's a 63% difference just by owning asset insurance!!!!
- The buy-term and invest the difference traditional planning technique only benefits the financial institutions...it does nothing but harm to the average retiree

This is what Pension Maximization fortified with life insurance does at retirement...it allows retirees to enhance the distribution rate of existing assets without having to take additional investment risk. It allows for a \$1 million portfolio to spend as if it was worth \$1,601,987...now that's economic leverage! But what happens to interest rates on the asset of \$1 million at 3% as opposed to 6%.

Interest Only Distribution - No LI						Paydown/Annuitization Distribution - LI					
YEAR	Beg. Of Year Acct. Value	Earnings Rate	Gross Withdrawal	Tax Payment	Net Spendable	Beg. Of Year Acct. Value	Earnings Rate	Gross Withdrawal	Tax Payment	Net Spendable	Compare Dist.2-Dist.1
1	1,000,000	3.00%	(30,000)	(5,010)	24,990	1,000,000	3.00%	(67,216)	(5,010)	62,206	37,216
2	1,000,000	3.00%	(30,000)	(5,010)	24,990	962,784	3.00%	(67,216)	(4,731)	62,485	37,495
3	1,000,000	3.00%	(30,000)	(5,010)	24,990	924,452	3.00%	(67,216)	(4,443)	62,772	37,782
4	1,000,000	3.00%	(30,000)	(5,010)	24,990	884,970	3.00%	(67,216)	(4,147)	63,069	38,078
5	1,000,000	3.00%	(30,000)	(5,010)	24,990	844,303	3.00%	(67,216)	(3,842)	63,374	38,383
6	1,000,000	3.00%	(30,000)	(5,010)	24,990	802,417	3.00%	(67,216)	(3,611)	63,605	38,615
7	1,000,000	3.00%	(30,000)	(5,010)	24,990	759,274	3.00%	(67,216)	(3,417)	63,799	38,809
8	1,000,000	3.00%	(30,000)	(5,010)	24,990	714,836	3.00%	(67,216)	(3,217)	63,999	39,009
9	1,000,000	3.00%	(30,000)	(5,010)	24,990	669,065	3.00%	(67,216)	(3,011)	64,205	39,215
10	1,000,000	3.00%	(30,000)	(5,010)	24,990	621,922	3.00%	(67,216)	(2,799)	64,417	39,427
11	1,000,000	3.00%	(30,000)	(5,010)	24,990	573,364	3.00%	(67,216)	(2,580)	64,636	39,645
12	1,000,000	3.00%	(30,000)	(5,010)	24,990	523,349	3.00%	(67,216)	(2,355)	64,861	39,871
13	1,000,000	3.00%	(30,000)	(5,010)	24,990	471,834	3.00%	(67,216)	(2,123)	65,092	40,102
14	1,000,000	3.00%	(30,000)	(5,010)	24,990	418,773	3.00%	(67,216)	(1,884)	65,331	40,341
15	1,000,000	3.00%	(30,000)	(5,010)	24,990	364,120	3.00%	(67,216)	(1,639)	65,577	40,587
16	1,000,000	3.00%	(30,000)	(5,010)	24,990	307,828	3.00%	(67,216)	(1,385)	65,830	40,840
17	1,000,000	3.00%	(30,000)	(5,010)	24,990	249,847	3.00%	(67,216)	(1,124)	66,091	41,101
18	1,000,000	3.00%	(30,000)	(5,010)	24,990	190,127	3.00%	(67,216)	(856)	66,360	41,370
19	1,000,000	3.00%	(30,000)	(5,010)	24,990	128,615	3.00%	(67,216)	(579)	66,637	41,647
20	1,000,000	3.00%	(30,000)	(5,010)	24,990	65,258	3.00%	(67,216)	(294)	66,922	41,932
<b>TOTAL</b>	<b>1,000,000</b>	<b>3.00%</b>	<b>600,000</b>	<b>(100,198)</b>	<b>499,802</b>	<b>0</b>	<b>3.00%</b>	<b>1,344,314</b>	<b>(53,046)</b>	<b>1,291,268</b>	<b>791,466</b>

- Notice the Net Spendable columns between Interest Only Distribution – No LI client “A” (life insurance), and the Paydown/Annuitization Distribution – LI client “B” (life insurance) - \$24,990 versus \$62,206 in year 1, and \$499,802 versus \$1,291,268 over a 20 year period with the same amount of assets...that’s a 258% difference just by owning asset insurance!!!!
- Again, the Interest Only Distribution – No LI columns leave retirees no choice but to live off interest only and be at the mercy of interest rate governance by the Feds...if interest rates are low enough, these retirees may have no choice but to invade principal thus leaving surviving spouses in dire straits

As you apply economic principles to both sides of the ledger, you will realize that although I said that the left side showed a lower distribution rate for lack of asset insurance and/or life insurance, the following becomes an economic certainty:

- Both sides own life insurance – client “A” on the left side of the ledger decided to self-insure...this client chose term insurance that cancelled at age 65 because he/she felt that they didn’t need it. Client “B” on the right side of the ledger decides to keep his permanent life insurance as a way to straddle his distribution options at retirement
- The difference in distribution amounts between the Interest Only Distribution client “A” and the Pay-down/Annuitization Distribution client “B” is the actual cost to the Interest Only Distribution client...that’s an enormous cost! Client “A” may not have a premium payment, but he/she has a distribution cost
- Economic models allow retirees to pick and choose the best of certain retirement products in order to create viable and productive distribution strategies throughout lifetime. Moreover, it allows them to understand economic pairing and/or straddling while increasing higher distribution rates for both spouses in retirement

### The Volatility Buffer Concept

The Volatility Buffer Concept is a distribution straddle technique for clients wishing to preserve and enhance their retirement income while protecting existing assets from stock market erosion and sequencing of returns.

Most financial planners and advisors fail to educate their clients on the impact of market volatility and sequencing of returns when dealing with longevity planning – the Rules of Engagement totally change when clients shift from accumulation of assets to distribution of assets – during accumulation years, it is about the accumulation rate, but during retirement years, it is about the distribution rate and issues like taxation, inflation, asset volatility, and timing of market and interest rate losses can create havoc in traditional investment portfolios and retirement accounts.

For this reason, we at Cambridge consider volatility buffer and distribution straddle techniques a critical part of retirement planning. No one can forecast a financial outcome, so being prepared is key to financial independence for clients that may spend 20 to 30 years in retirement.

In the following two samples depicting sequencing of returns on identical accounts, you will notice that Option I and Option II have the same amount of assets, the same amount of income distribution, the same amount of market returns, and the same 15-year period, yet the outcome is completely different between the two options – in Option II, life insurance is not used for death benefit purposes, but it is used as asset insurance in order to protect against market volatility and distribution from retirement accounts during negative years.

The value of this client’s IRA at retirement is \$2,000,000! Do not be alarmed because the following concept will apply in every situation regardless of the asset amount and/or account value – obviously, client insurability is very important and the sooner the technique is implemented, the quicker the volatility buffer accelerated growth can position the client in an enviable retirement situation. Remember, retirement is about the distribution of assets and the ability to create distribution alternatives depending on interest rate and/or market situational performance on an ongoing basis.

### **Option I (No Asset Volatility Insurance):**

Age	Beginning Year IRA Value	Pre-Tax Distribution from IRA	IRA Value after Pre-Tax Distribution	Hypothetical Market Return	Year-End IRA Value
65	\$2,000,000	-\$150,000	\$1,850,000	-14.66%	\$1,578,790
66	\$1,578,790	-\$150,000	\$1,428,790	-26.47%	\$1,050,589
67	\$1,050,589	-\$150,000	\$900,589	37.20%	\$1,235,609
68	\$1,235,609	-\$150,000	\$1,085,609	23.84%	\$1,344,418
69	\$1,344,418	-\$150,000	\$1,194,418	-7.18%	\$1,108,658
70	\$1,108,658	-\$150,000	\$958,658	6.56%	\$1,021,546
71	\$1,021,546	-\$150,000	\$871,546	18.44%	\$1,032,260
72	\$1,032,260	-\$150,000	\$882,260	32.50%	\$1,168,994
73	\$1,168,994	-\$150,000	\$1,018,994	-4.92%	\$968,859
74	\$968,859	-\$150,000	\$818,859	21.55%	\$995,324
75	\$995,324	-\$150,000	\$845,324	22.56%	\$1,036,029
76	\$1,036,029	-\$150,000	\$886,029	6.27%	\$941,583
77	\$941,583	-\$150,000	\$791,583	31.73%	\$1,042,752
78	\$1,042,752	-\$150,000	\$892,752	18.67%	\$1,059,428
79	\$1,059,428	-\$150,000	\$909,428	5.25%	\$957,173
80	\$957,173	-\$150,000	\$807,173	16.61%	\$941,425

Although this client has been taking a nice distribution amount of his IRA annually (\$150,000), he/she has \$941,425 remaining in the IRA account at age 80. Certain questions arise at this point:

- How long with this client live? How about his/her spouse? If both spouses are alive at age 80, there is a 25% probability that one of them may be alive at age 95
- Will this client be able to continue to withdraw \$150,000 annually, or would he/she have to adjust income distribution and/or standard of living?
- What is the current health of this client and his/her spouse?
- What are current inflation rates in client’s personal economy? How much money are they spending?
- What is the current tax environment for this elderly couple?
- Are there long-term care needs and concerns for this couple? Are they prepared?

Please keep these questions in mind as you review this same client in the following page scenario utilizing the Cambridge Capital Management System Volatility Buffer Concept.

## Option II (Asset Volatility Insurance):

Age	Tax-Free Withdrawal from Whole Life Cash Value	Policy Death Benefit at Year-End	Pre-Tax Distribution from IRA	Hypothetical Market Return	Year End IRA Value
65	\$0	\$671,916	-\$150,000	-14.66%	\$1,578,790
66	-\$100,000	\$502,281	\$0	-26.47%	\$1,160,884
67	-\$100,000	\$333,527	\$0	37.20%	\$1,592,733
68	\$0	\$341,097	-\$150,000	23.84%	\$1,786,681
69	\$0	\$348,920	-\$150,000	-7.18%	\$1,519,167
70	-\$100,000	\$256,524	\$0	6.56%	\$618,825
71	\$0	\$259,076	-\$150,000	18.44%	\$1,739,676
72	\$0	\$261,670	-\$150,000	32.50%	\$2,106,320
73	\$0	\$264,317	-\$150,000	-4.92%	\$1,860,069
74	-\$48,410	\$218,417	-\$78,154	21.55%	\$2,165,918
75	\$0	\$218,438	-\$150,000	22.56%	\$2,470,709
76	\$0	\$218,349	-\$150,000	6.27%	\$2,466,218
77	\$0	\$218,154	-\$150,000	31.73%	\$3,051,153
78	\$0	\$217,871	-\$150,303	18.67%	\$3,442,439
79	\$0	\$217,519	-\$176,535	5.25%	\$3,437,364
80	\$0	\$217,096	-\$183,816	16.61%	\$3,793,962

You will notice that ending account values between Option I and Option II are enormously different – although the rates of returns and distribution amounts are the same, Option I has an ending account value at age 80 of \$941,425, where Option II has an ending account value at age 80 of \$3,793,962! How can that be possible? How can Option II have four times the account value that Option I has within the same time frame?

The answer is simple, yet it requires proper distribution planning – during negative years, this client is taking distribution out of his life insurance account since asset growth inside a whole life insurance policy is guaranteed – thus, client is allowing his IRA account to recover from previous year losses without having to compound the distribution problem. Once the IRA asset recovers during positive years, client commences distribution of said account again.

Please bear in mind that although client had a negative year at age 73 of 4.92% in the portfolio, client is required to take RMDs (Required Minimum Distributions) at age 70 ½, therefore, he took out \$78,154 from his IRA and the remainder of \$48,410 from his whole life insurance contract.

Moreover, a \$150,000 IRA distribution in a 33% federal income tax bracket produces \$100,000 of next income proceeds – a \$100,000 distribution from a whole life insurance policy is the equivalent of \$150,000 from an IRA since no taxes are assessed due to cost basis and/or loans.

During ages 78 through 80, the client is required to take more than \$150,000 because his IRS RMD (Required Minimum Distributions) calculations and account growth have increased his required distribution under the IRS code.

At the end of the day, retirement distribution and longevity living is predicated upon the right assets, producing the right amount of income, distributing at the right time, protecting against the risk of living too long, protecting against the risk of living with a disability, and creating the proper volatility buffer straddle to mitigate dire consequences while safeguarding loved ones with incremental survivor benefits.

The golf clubs seldom win a tournament if ever...it is always the swing and the management of the golf course that will guarantee success! Play the retirement game to win!

The main differences between the Pension Maximization option and the Volatility Buffer option are illustrated as follows:

- The Pension Maximization option transfers 100% of the longevity risk (living too long) to an insurance company based on the contributed amount (client gives up the asset, but gains guaranteed income for life regardless of market conditions and volatility)
- The Volatility Buffer option does not transfer the longevity risk (living too long) to an insurance company, but it does allow the client to maintain asset control while managing volatility using the straddle distribution options previously mentioned
- Most of my ultra-conservative clients choose the Pension Maximization option only; most of my moderate-aggressive clients choose the Volatility Buffer option only; and the majority of my moderate-conservative clients choose a combination of both (they annuitize all fixed retirement expenses through our Pension Maximization option, and they maintain control of remaining assets for all non-fixed retirement expenses utilizing a Volatility Buffer distribution economic model) – the best of both worlds!

As an Economics Advisor, I assist my clients in changing the way they see things, because when they change the way they see things, the things they see change.

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