VERITY
Asset Management

Getting the Most Out of Your Retirement Years

A COMPREHENSIVE PROCESS FOR PLANNING AND SUSTAINING YOUR RETIREMENT INCOME

verityinvest.com

Independent Thinking Meaningful Results

Pioneering thought in financial management

Getting the Most Out of Your Retirement Years

A COMPREHENSIVE PROCESS FOR PLANNING AND SUSTAINING YOUR RETIREMENT INCOME

For most of us, retirement is a one-time event. If you realize along the way you didn't properly prepare, it's pretty hard to go back and try again. So it's important to get it right the first time. In this resource, we want to examine the three key components needed to optimize your retirement income results:

1. A CAREFULLY DESIGNED PLANNING PROCESS
2. STRATEGIC POSITIONING OF YOUR RETIREMENT CAPITAL
3. A SUPERIOR SET OF TOOLS

1 A Carefully Designed Planning Process

Identifying an effective **process** is the crucial first step. In many ways, it's more important than financial products and strategies, because a thorough process is your guide every step of the way. The process helps you make wise decisions on the front end and identify appropriate adjustments as circumstances evolve.

Because of its importance, the process should be developed carefully, and it should be supported by three things:

- Extensive research
- Years of practical experience
- Specialized expertise to manage the components of your plan through changing economic conditions

Because the economic landscape continues to change, the process should also help you maintain the greatest possible control of your assets. At Verity, we have a specific process in place that addresses all of these factors.

Our Process

A DEVELOP A THOROUGH AND REALISTIC INITIAL ASSESSMENT AND ANALYSIS OF WHERE YOU STAND.

- Gather and organize all pertinent information.
- Discuss personal timetables, goals, circumstances – basically, everything that makes you, *you*.
- Carefully evaluate your Social Security election options. This can be simple, but not always. Without thorough planning, you could miss out on significant benefits.
- Determine what level of income your assets can reasonably provide over the rest of your life. This part is not simple. We typically illustrate a number of scenarios to help people consider possible variations in their personal circumstances.

B STRATEGICALLY PLAN THE ALLOCATION OF YOUR CAPITAL. WHAT SHOULD YOUR RETIREMENT INCOME PORTFOLIO LOOK LIKE?

An example of a possible framework is illustrated in the diagram on page 5.

C ESTABLISH A CLEAR STRATEGY FOR MINIMIZING YOUR TAX BURDEN.

Wise decisions regarding the ordering of annual withdrawals from various types of accounts could add years to your portfolio longevity (or give you more to spend), and the better choices are not always obvious.

D DEVELOP A BASIC SPENDING POLICY.

You'll want the peace of mind that comes with knowing you have a sound plan to smooth needed adjustments and guide you prudently should any challenges arise.

E CONDUCT PERIODIC REVIEWS, TO MONITOR AND ADJUST.

Getting the most out of your retirement income is a dynamic process that works best with timely modifications to your strategy.

The Research

We have developed this process over many years, and we continue to enhance it as we evaluate new research and uncover new and valuable insights and analytical tools. The process is a synthesis of considerable academic and professional research, all examined through the lens of our own decades of practical experience.

A generation ago, a larger percentage of the population retired with significant pension income from long-term employment with a single company. Today, that is less frequent, but research over the past twenty-plus years has yielded valuable insights into approaches that optimize the use of our current sources of retirement income.

The beginning of the "modern era" of research into retirement income planning might reasonably be traced to a 1994 *Journal of Financial Planning* article by William Bengen, who developed a methodology for finding a sustainable real withdrawal rate – the largest periodic income that can be withdrawn from an investment portfolio without depleting the assets – using historic data. His research produced the now-popular four percent rule of thumb for a sustainable initial withdrawal rate.

The adequacy of that rate under more recent financial market conditions has been evaluated by various researchers, including Bengen himself, with nearly all demonstrating that the four percent rate cannot be considered safe under the types of circumstances we have experienced in the first part of this century.

However, expanding upon Bengen's original research, Jack Gardner analyzed the effect of allocating the equity component of a retirement portfolio to high-dividend-paying stocks. His results, originally published in a 2008 article in *Investments and Wealth Monitor* (and updated through 2015), demonstrate that the use of high-dividend stocks had a clear and positive impact on both withdrawal rate and portfolio sustainability.

[CONTINUED ON NEXT PAGE]

2 Strategic Positioning of Your Retirement Capital

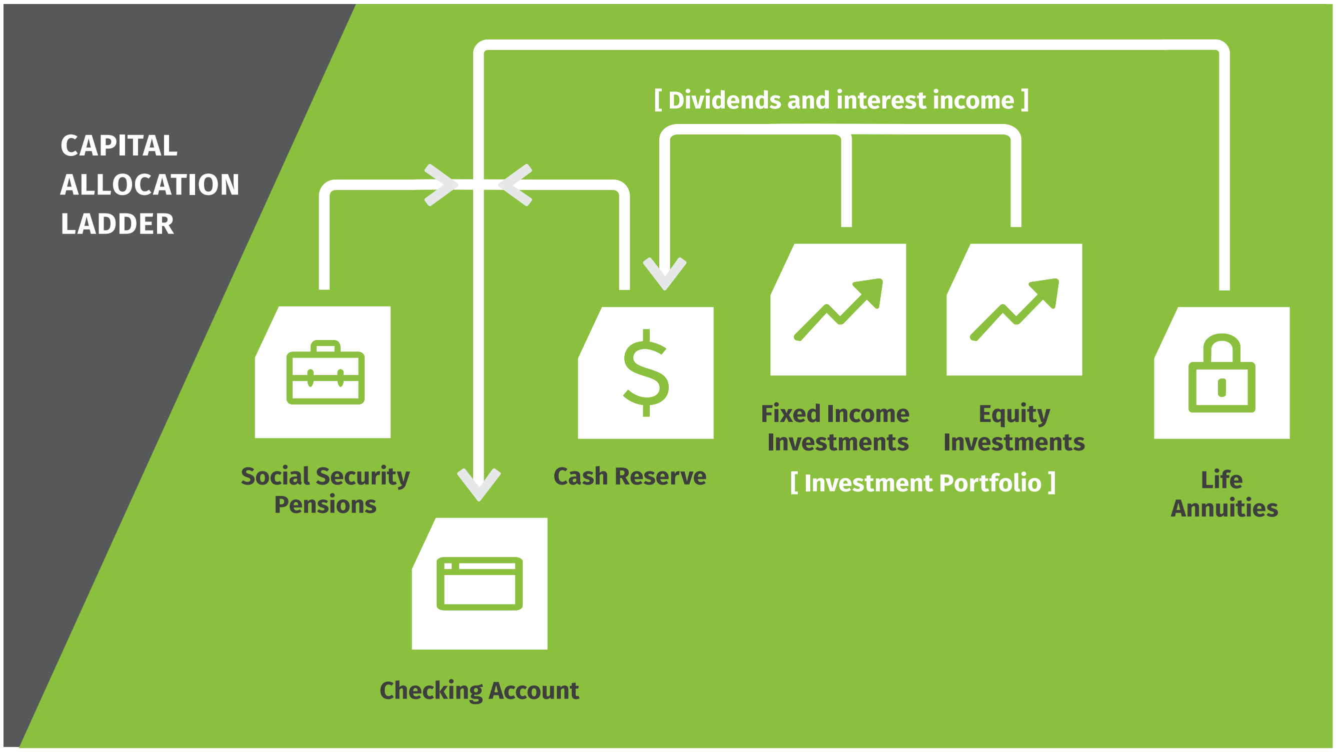
A baseline income for most retirees is provided by Social Security and/or employer pensions. In order to provide the balance of your income, a retirement portfolio should be carefully constructed and organized, as illustrated in the diagram below:

The goal is to shepherd and prolong the life of your capital while efficiently producing your monthy paycheck.

The Research

[CONTINUED]

In addition, research conducted independently by Jim Otar and a group led by Roger Ibbotson and Moshe Milevsky, among others, has demonstrated that longevity risk can be effectively hedged where needed by using a portion of the retirement assets to purchase life annuities.



SOCIAL SECURITY AND EMPLOYER PENSIONS

Most retirees draw monthly income from Social Security or an employer pension, and some draw both. There are often important decisions to be made before beginning to draw these benefits, but once initiated, these provide a baseline income.

These are but a few notable examples of the expanding research in this field. The result is growing insight into how best to integrate various analytical and financial tools to effectively customize a retirement income plan for each individual retiree.

Bengen, William P. 1994. "Determining Withdrawal Rates Using Historical Data." Journal of Financial Planning 7, 4 (October): 171-180. Gardner, Jack. Nov/Dec 2008 – "The Case for a High and Growing Dividend Stock Strategy in Retirement Portfolios" Investments & Wealth Monitor – Investment Management Consultants Association (IMCA). Ibbotson, Roger G., Moshe A. Milevsky, Peng Chen, and Kevin X. Zhu. 2007. Lifetime Financial Advice. The Research Foundation of CFA Institute. Otar, Jim C. 2009. Unveiling the Retirement Myth, Advanced Retirement Planning. Pfau, Wade D. 2011. "Can We Predict the Sustainable Withdrawal Rate for New Retirees?" Journal of Financial Planning 24, 5 (May): 42-50.

INVESTMENT PORTFOLIO

The investment portfolio will be specifically designed to provide the additional income needed above and beyond Social Security and any pension income. This typically includes a number of components tailored to your individual circumstances, including:

HIGH-DIVIDEND STOCKS

Research has demonstrated that one of the most reliable ways to draw a significant and growing retirement income from an investment portfolio may be by buying and holding a carefully selected portfolio of dividend-paying stocks. A key objective in using high-dividend stocks is their historical tendency to generate rising income over time rather than fixed income.

An additional benefit of high-dividend stocks is the potential for capital appreciation. The unique combination of potentially rising dividend income along with capital appreciation may provide both personal income and a more significant estate value, all while you retain full control of your assets.

The drawback of a stock portfolio is market risk, but volatility in share prices may have limited significance in a retirement portfolio as long as the dividend income stream continues without interruption.

Recent economic conditions have increased the demand for these types of stocks, bidding up the prices of many, so careful screening is of particular importance. We seek to avoid overpaying for any particular company, so portfolios may in some cases be built over time, as favorable pricing opportunities present themselves. Once acquired, the stocks are continually monitored for earnings quality, credit, valuation, changes in business model, and similar factors. Though the intent is to hold these stocks, dividend income is not guaranteed, so there is a process for replacement should conditions warrant.

All dividend income will flow into the Cash Reserve account.

BONDS AND OTHER INCOME-PRODUCING SECURITIES

Bonds and other income-producing securities serve two purposes: as an additional source of income and as a contributor to portfolio diversification. Where appropriate, municipal bonds can be used to provide income exempt from federal income taxes.

With interest rates low, holding individual bonds may carry an advantage over bond funds. Should rising interest rates temporarily reduce the value of the underlying principal, individual bonds can be held to maturity and redeemed at full value, avoiding any loss of principal while the flow of interest income proceeds as planned.*

A portfolio of bonds can be “laddered” with staggered maturities, allowing part of the portfolio to mature each year. Using this approach, the principal from maturing bonds can be reinvested in relatively longer term bonds, taking advantage of their typically higher rates of interest without great concern about the risk to principal from rising market rates.

Typically, credit risks and other factors must be considered in the selection and monitoring of a portfolio of income-producing securities, so it is valuable to have the specialized expertise needed to perform these functions.

All interest income will flow into the Cash Reserve account.

MANAGED STRATEGIES

A diverse selection of carefully managed equity, income, and alternative allocation strategies provides us the flexibility to tailor the portfolio to your personal circumstances and comfort levels. Even for retirees who want to concentrate more heavily in the dividend and fixed-income strategies described above, market conditions may not favor the full implementation of these strategies initially, making other strategies particularly useful in adjusting the portfolio to evolving conditions.

Any scheduled withdrawals of income from managed strategies will flow into the Cash Reserve account.

LIFE ANNUITIES

Life annuities may be used selectively, where needed. The unique value of a life annuity is that – by definition – you don't need to worry about outliving the income. The downside is that you normally give up control of the assets – you typically exchange your growth potential and estate value for the guarantee of an income stream as long as you live.**

In those cases where your income goals are greater than your assets can reliably sustain, selective purchases of life annuities with a portion of your retirement assets can guarantee part of your income stream for life, reducing the risk of a material shortfall. Buying an annuity effectively shifts the risk of outliving your income to an insurance company. This decision does not necessarily need to be made at the onset of retirement, and it can be advantageous to spread annuity purchases among several increments over a period of years, providing time for careful assessment of developing circumstances.

Not every retiree has a specific need for annuity options. If you have the assets to reasonably provide sufficient income without them, you will likely not want to convert assets to life annuities.

Life Annuity income will typically flow directly to your checking account.

CASH RESERVE

As previously noted, the interest and dividend income from your investment portfolio will flow directly into a Cash Reserve, where the assets are held earning interest in instruments such as short-term bonds and money market funds until needed for your personal income. This Cash Reserve serves as a buffer against temporary market declines. It will typically be designed to hold about two years worth of income, which can contribute greatly to peace of mind.

The monthly "paycheck" you have planned for yourself will flow from the Cash Reserve into your checking account.

CHECKING ACCOUNT

The monthly income from your Cash Reserve and any combination of Social Security, pension income, or annuity income will flow into your checking account, replacing your salary or other employment income.

3 A Superior Set of Tools

The ultimate goal of the process is to integrate your unique circumstances into a plan that makes the very best use of your resources, in the process, allowing you to enjoy your retirement with the confidence that comes from greater peace of mind.

It is all too easy to leave money on the table by taking the path of least resistance in retirement income planning. At the end of the day, we want to deliver a clear and simple plan for you. But behind the scenes, we are doing often complex calculations needed in the effort to get you the most out of your lifetime of work.

Your Support Team

Your personal advisor will be your primary consultant. He/she will guide you through the steps of this process to develop and maintain your personal plan. But your personal advisor will not work alone. He will orchestrate on your behalf the activities of a deeply experienced team of subject matter experts in addressing the various elements of your retirement portfolio.

The team that will support you behind the scenes provides specialized expertise in the key areas of dividend-paying stocks, fixed-income securities, diversified investment management and retirement income planning.

Malcolm Trevillian is a Chartered Financial Analyst who handles the analysis, selection, and monitoring of high-dividend stocks. Management of the dividend income strategy draws on his experience as a portfolio manager in the Trust Division of a major southeastern bank during the 1980s and 1990s and his work with accounts of high net worth clients in the period since.

Brad Corbett, an MBA graduate of UNC's Kenan-Flagler Business School, manages fixed income portfolios as well as alternative strategies focused on income and risk management. He began his career as a fixed-income securities trader at Barclays Capital in New York, and has deep experience managing institutional portfolios of income-producing securities for state retirement system accounts.

[CONTINUED ON NEXT PAGE]

Where appropriate, we employ sophisticated software solutions to address:

INCOME LONGEVITY PLANNING

It is critically important to begin your plan with the proper assumptions. There are innumerable software tools that address the probability of sustaining your desired income for life, but they are not all created equal. Over the course of more than three decades, we have studied different versions and have carefully selected those we are willing to use for these very important calculations. Even the best software is limited by the thoughtfulness of inputs, so we typically work with you to examine the potential effects of varying life situations – the death of a spouse, severe market downturns, maintaining vacation properties, and others – to help you consider how best to respond.

SOCIAL SECURITY ELECTIONS

Deciding what age to begin receiving Social Security benefits is sometimes simple, but failing to carefully evaluate a variety of strategies – particularly for a married couple – could be costly.

INCOME TAX CONSEQUENCES

An informed strategy from year to year on what amounts to withdraw from your taxable, tax-deferred, and tax-free accounts can make a significant difference in the tax impact over the course of your retirement. Simply minimizing taxes in any given year should not be the goal. Instead, the goal is to minimize taxes throughout all of your anticipated retirement years. Decisions which seem to make the most sense in the short term may prove costly in the longer term.

Your Support Team

[CONTINUED]

Brian Kurtzer is a former member of the Board of Governors of the New York Board of Trade who began his career as a commodities broker and trader. His extensive trading experience across a broad range of financial markets is applied to the management of equity and diversified allocation strategies.

Gordon Wegwart has studied and worked with the development of retirement planning strategy, software, and systems for over thirty years. He has devoted considerable intellectual energy to the study of the retirement income process and the identification of tools and processes to optimize retirement outcomes.

The process is further supported by a diverse group of other accomplished professionals – covering operations, information technology, regulatory compliance, and portfolio management – and a broad group of experienced client advisors who are collectively engaged in the identification of new ideas for improving our process and better serving our clients.

In addition, to protect your income longevity, we can, where appropriate, apply formulas designed to optimize:

LIFE ANNUITY PURCHASES

In those instances where life annuities may be needed as part of the retirement portfolio, there is a strategy behind the implementation process. We have analytical tools designed to identify both an appropriate amount for each purchase and the preferred timing for execution of such purchases as you progress through your retirement years.

SPENDING POLICY

In traditional retirement income planning, an initial withdrawal rate is often established and simply increased each year by the rate of inflation. However, to avoid portfolio depletion, it may be important during certain periods to allow for some income fluctuation based on changing economic and market conditions. We can apply a formula designed to help you smooth any desired income adjustments while still maintaining portfolio longevity. In similar fashion, periodic analysis may demonstrate an ability to increase your retirement income in response to more favorable conditions.

Once the full plan is in place, we want to be there to work with you on an ongoing basis, monitoring all aspects of your plan from year to year and making the adjustments needed to keep your income on track.

Things for Prospective Retirees to Consider

Be flexible – there will need to be adjustments.

If possible, maintain insurance against risks that can't be controlled (like health and long-term care needs).

This seems like stating the obvious, but it bears repeating: minimize debt.

Sometimes, it is valuable to consider "downshifting" employment if possible – don't completely stop work abruptly if you are able and open to doing something transitional for a while.

Carefully consider when to start receiving Social Security benefits.

Make it your mission to preserve your capital, particularly during the crucial first three to five years of retirement. Preserving capital in the early retirement years dramatically improves the potential longevity of a retirement portfolio.

Putting it all together

This has been only an overview, but as is clear by now, this is not a “one size fits all” approach to retirement income planning. At the end of the day, effectively managing a retirement income stream is a dynamic process. The ultimate plan should be customized to your personal situation and goals, and continually adjusted as appropriate to evolving circumstances.

There’s no need to fly blind. You can and should operate with step-by-step guidelines. We will work to put it all together with you in a manner that makes it clear and easy to implement, and we will guide you through the route adjustments you may need along the way.

BECAUSE EACH
INVESTOR MATTERS

** In addition to interest rate risk, bonds are also subject to other types of risk, including but not limited to credit risk.*

*** The guarantee is generally dependent on the insurance company’s ability to pay.*

Disclosures

This material contains forward-looking statements; there is no guarantee that suggested or illustrated outcomes will be achieved. The concepts illustrated and recommendations made using the described process are intended to provide well-reasoned retirement income guidelines based on experience, research, analysis, and software programs we deem to be reliable, and the process and its components are designed with the intent of enhancing the probabilities of successful outcomes. However, there is no guarantee that either single recommendations or the overall process will succeed in the manner intended. Furthermore, use of this process and the strategies and recommendations associated therein cannot guarantee that an individual will receive any desired or projected level of income throughout retirement.

Each individual should carefully consider his or her own personal circumstances and preferences and, to complement the professional investment management and retirement income planning services provided by Verity, should seek such professional tax and legal guidance as may be pertinent to individual circumstances. Verity Asset Management does not provide tax or legal advice; as a consequence, nothing in this process should be considered tax or legal advice.

All selected income strategies are subject to the effects of changing tax and Social Security rates and regulations, among other factors. All investing involves risk of loss, and there is no guarantee that investment strategies that may have been successful in the past will be similarly successful in the future. Following a dividend-focused strategy does not guarantee better performance and cannot eliminate the risk of loss.

Please see Verity’s Form ADV Part 2 for descriptions of investment management strategies and associated advisory fees.

02/09/2017

Verity Asset Management

280 South Mangum Street
550 Diamond View II
Durham, NC 27701

(800) 247-6717
info@verityinvest.com
verityinvest.com

VERITY
Asset Management