

Retirement Mastery & The American Dream

A White Paper



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The New Face of Retirement

Over the past fifty years, visions of retirement have changed; social and economic factors have made retirement a time for personal growth with a dependence on less limited financial resources. Additionally, affluent Americans have built more wealth in their earlier working years and as a result, have chosen to retire earlier than most¹ or go into a consulting form of business on a part-time basis. These changes have corresponded to the increase in general affluence among middle to upper class Americans as well as an increase in millionaire status, which reached 8.9 million in 2005.² In fact, the affluent market is growing at a rate five times that of the general population.³ Hence, with more financial freedom, affluent retirees have been able to broaden their goals for retirement, and as a result, need a new strategy for retirement security.

Figure 1: Increase in Affluent Americans⁴

The number of U.S. millionaire households has gone from a negative increase in the early 21st century, to a positive, although fluctuating, increase in 2005 – these asset statistics correlate to the needed changes that such affluent clients need for their retirement plans.

	No. of U.S. Millionaire Households	Increase from Prior Year
2005	8.9 million	8%
2004	8.2 million	33%
2003	6.2 million	13%
2002	5.5 million	-9%
2001	6.0 million	-4%

A Look at the Affluent American

So, why have Americans been so financially successful? There are a few key reasons: for instance, the growth of innovation and technology has thrust the economy into the information age. With this influx of information and service-based businesses, the opportunities for small business growth have proliferated extensively. Indeed, the U.S. Small Business Administration indicates that small business ownership has been so successful that from 1995 to 2003, self-employment increased to a total of 15 million workers. Such economic ventures have led to an increased amount of savings and investing with a correlating decrease in general spending. Lower interest rates and rising property values have also had a positive impact on affluent households.⁵

A Need For Proper Wealth Management

Even though increased savings has been stronger over the past half century, proper management of assets by professionals is still vital to retirement security. A lingering reliance on Social Security and pension plan benefits for retirement expenses must change as those retiring now must rely more heavily on personal savings. Even more troubling is the notion that since many potential retirees now have longer life-

¹ The average retirement age in 2008 is 62.6 years old, McKinsey Global Institute

² TNS Financial Services' *Affluent Market Research Program*

³ Specter Group's *Affluent Market Research Program*

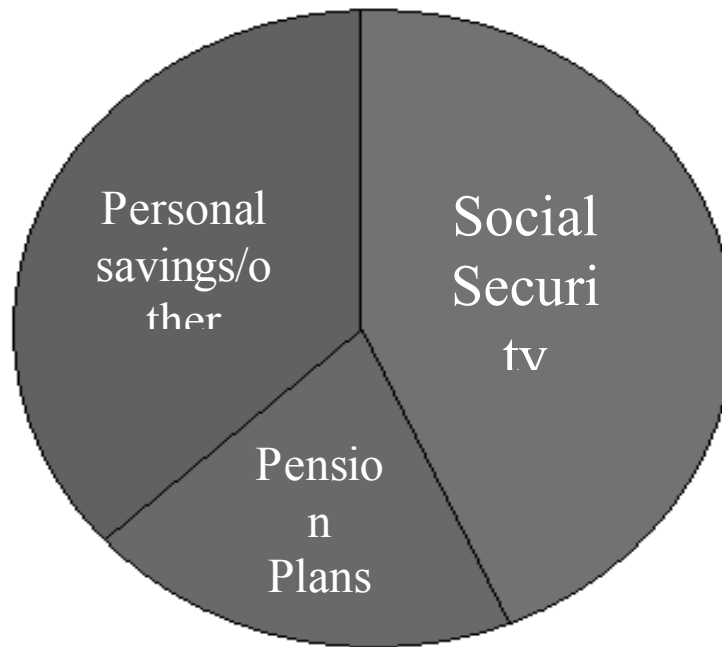
⁴ Millionaire Households Increase Each Year; Source: "U.S. Millionaires on the Rise," from *Advisor Today*

⁵ "Millionaires on the Rise," from *CNN Money*

spans, their personal retirement savings may not support their desired retirement lifestyles as planned. Modern retirees may now spend almost thirty years in retirement if they retire at age sixty-five. Couples in such a situation have a 50% chance of having one spouse live until age ninety-four and a 25% chance of one spouse reaching age one-hundred.⁶

Figure 2A: Retirement Source Expectations⁷

Retirees' expectations for financial resources still linger heavily on Social Security benefits with source expectations reaching almost fifty percent; although there has been an increase in personal savings, assets must be managed more carefully in the future for client success.

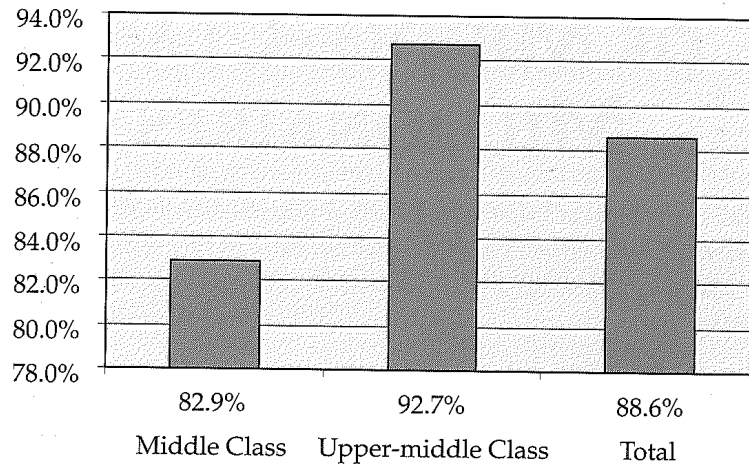


Ultimately, the reliance on personal savings has increased significantly. Yet, with the average affluent household having about \$3.375 million in investable assets⁸, there is a critical need to properly manage that large lump sum. In order to do this, a plan that is similar to a pension plan should be implemented so that the assets are managed for the long-term. However, when facing the idea of investing such a large lump sum, investors become less confident and increasingly concerned about losing their wealth. This situation calls for proper management by a wealth management team in order to relieve such commonplace anxieties among affluent clients. As can be seen in Figure 2B, the anxiety about losing their wealth is particularly common among affluent clients even more so than the average middle class American.

⁶ Transamerica Capital, Inc.

⁷ Average Expectations for Retirement Sources from Transamerica Capital, Inc.

⁸ Northern Trusts' *Wealth in America Study*, 2005

Figure 2B: Percentage of affluent who are worried about losing their wealth.⁹

An Underestimation of Costs

Keeping portfolios robust during retirement is highly important in order to maintain the wealth of affluent clients. However, there is a general underestimation of costs in regards to issues like inflation, wherein clients do not fully realize the effects of such hidden costs on their portfolios. From an investing point of view this can be very detrimental because staying safe with investments during a slowing economy with high inflation can be disastrous in the long-run due to stagflation¹⁰. For affluent clients with large lump sums, the effect of inflation is highly dependent on the type of securities and investments that are utilized, which also correlates to the withdrawal rates that need to be considered.

Risks and the Balancing Act

Monte Carlo Analysis

Despite any amount of investment planning and management, wealth managers can only predict so much. Risk assessment is an important factor in order to balance assets and cash flow when unexpected future issues should occur. Managers use a tool known as *Monte Carlo Analysis* to take certain probabilities into account while using thousands of iterations of possible returns to accurately predict whether clients' funds will sufficiently support their goals. This type of analysis avoids the use of average returns, which assume returns will remain static throughout different market trends, but takes into account sequence risk, which assumes the unpredictability of the sequence of returns. Although this may seem like a simple consideration, it can have a big impact upon long-term performance; for example, in general, losses in the early years of retirement are the most damaging as opposed to losses in the later years.¹¹

Wealth managers use Monte Carlo Analysis as a tool in order to assess and account for risk; however, because it is only a tool, the process of wealth management goes beyond this step and managers must take into account unsystematic risks like longer life spans, tax increases, goal alterations, appropriate withdrawal rates, and Social Security changes.

⁹ Source: Cultivating the Middle Class Millionaire, Prince & Geraciotti, 2005.

¹⁰ Stagflation: A condition of slow economic growth and relatively high unemployment - a time of stagnation - accompanied by a rise in prices, or inflation. *From Investopedia*

¹¹ Monte Carlo Mania, Chapter 8 of *Retirement Income Redesigned*

Important Concerns

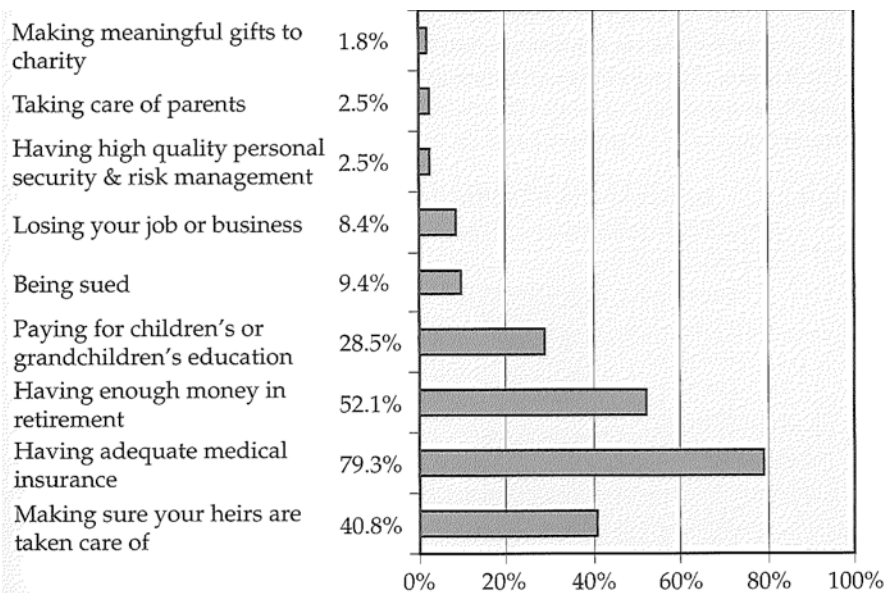
Although much has changed about retirement over the past fifty years, most retirees still have three main concerns when it comes to financial planning for retirement:

- Will my money last the rest of my life?
- What happens if I or my spouse become ill?
- Will I be able to pass my assets to my heirs?

One of the most evident concerns associated with these questions is the underestimation of healthcare costs. In a study conducted by the Employee Benefit Research Institute, 32 % of workers estimated that they and their spouse would need less than \$100,000 for healthcare in retirement and 52% said they would need less than \$250,000. However, the Employee Benefit Research Institute calculated that if Medicare benefits remain stationary, couples will need approximately \$300,000 to cover health expenses if they live until the average life expectancy¹² and up to \$550,000 if they live until age 95.

This daunting underestimation of costs in retirement is widespread and goes beyond healthcare estimates. A significant procrastination on planning for retirement in general has been widespread, particularly among small business owners. For example, the Family Firm Institute estimates that 25% of senior generation family business shareholders have not completed estate planning other than writing wills. So why is there a neglect to compensate for such circumstances? Just as for every other American, potential retirees' lives have become busier as years have passed. Although it may be very important to retirees, many times retirement planning takes a backseat to other matters such as supporting elderly parents and saving money for children and grandchildren. Work, family, and social responsibilities continue to dominate retirees' lives and retirement planning has suffered as a result. Figure 3 describes only some of the top financial concerns and responsibilities of potential retirees.

Figure 3: Multitude of Concerns and Responsibilities¹³



Retiree Investment Considerations

Even for those potential retirees who do seek advice on financial planning, there still exists a wariness about using a financial advisor and maintaining diversification. Concerns about part-time or

¹² About eighty-one for the average sixty-five year-old man and eighty-four for the average sixty-five year-old woman, according to the Federal Old Age Survivors Insurance and Disability Insurance trustees report.

¹³ Source: Cultivating the Middle Class Millionaire, Prince and Geraciotti, 2005.

consulting work during retirement may also become issues for those looking to maintain an income during retirement. However, across various affluent income levels it is apparent that the quality of the advisor's expertise is the most obvious concern, as can be seen in Figure 4 below.

Figure 4: Investment Management Concerns¹⁴

Concerns	\$500K to \$1M	\$1M to \$2M	\$2M to \$6M	TOTAL
Working with a high quality investment advisor	70.4%	73.7%	74.2%	72.7%
Diversifying investment portfolios	18.2%	11.2%	2.5%	11.9%

The reassurance that advisors are highly qualified, knowledgeable, and personally interested in clients' financial success relieves such anxieties when clients and managers maintain an honest rapport and agreement on goals and planning. This is quite visible in the affluent market, particularly because the majority of households believe that their financial status will stay intact and not improve; therefore, the reliance on a stable group of financial advisors is key.¹⁵

Fragmented Planning & The Wealth Management Solution

A significant problem with affluent retirees is the use of various financial advisors – many retirees tend to use more than one consultant or change their advisors in order to spread their wealth in various facets to protect themselves from risk; however, this ends up causing fragmented planning.¹⁶

The key to this problem is to eliminate this fragmented planning and achieve retirement lifestyle goals through wealth management by maintaining, protecting, and growing wealth with a single set of experts. This consultative process of meeting the needs and wants of affluent clients by providing the appropriate financial products and services through the use of a team of experts is both comprehensive and streamlined.¹⁷

Such a management team consists of expertise with investments, life insurance, and credit, among other issues. Wealth managers are concerned with clients' overall goals and what they feel is personally important; so, managers are ultimately able to provide corresponding financial products to clients in order to achieve their objectives. Additionally, because managers are not tied to a particular company's product, they can search for the appropriate products that meet client needs.

Why Use Wealth Management?

So, why use the wealth management strategy as opposed to other methods? What sets wealth management tactics apart from others? The answer is simple: *wealth management actually works*. Wealth management has proven effective for many affluent clients whose impending retirement transition may seem more like a roadblock rather than a bridge into their post-career life. Financially successful Americans with common aspirations yet many different goals, have watched wealth management not only increase and protect their wealth by working for them, but also increase their personal security and confidence – which means a more relaxed and pleasurable retirement.

¹⁴ Source: *Cultivating the Middle Class Millionaire*, Prince and Geraciotti, 2005.

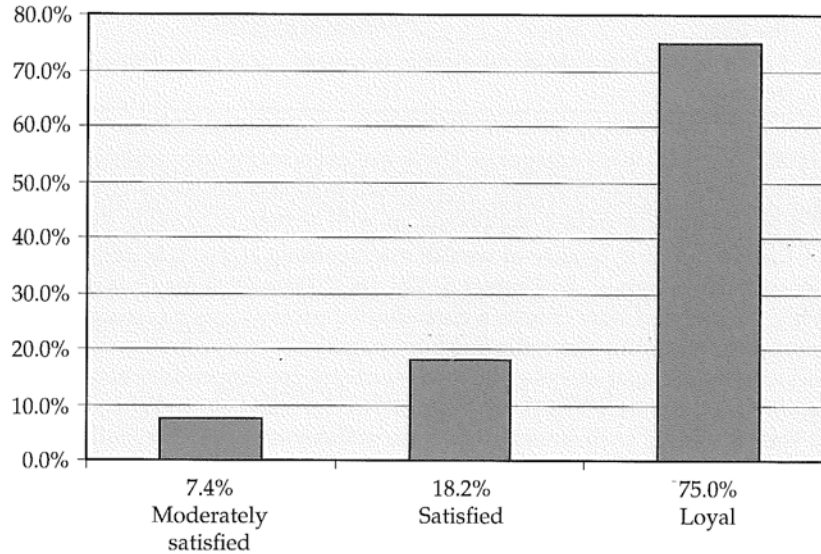
¹⁵ "Millionaires on the Rise," from *CNN Money*

¹⁶ "Find Your Own Inlet to the Affluent," from *National Underwriter/Life & Health Financial Services*

¹⁷ *Cultivating the Middle Class Millionaire*, 2005.

Figure 5: Loyalty & Wealth Management¹⁸

Wealth management strategies not only provide a more comprehensive process for financial management, but also foster loyalty between client and advisor, which helps maintain an honesty and forthrightness about financial goals and decisions.



The wealth management strategy is one that most affluent clients are satisfied with, as opposed to the use of individual financial planners or investors because a loyalty between manager and client is bonded as success and trust are built between the two. Additionally, the wide range of expertise that is offered in a wealth management setting is one that provides better solutions to many financial challenges.

The Right Route to Retirement

For those on the brink of retirement, the prospect of completely readjusting their financial plans is not only stressful, but also intimidating. Yet, despite the seeming vastness of such a shift, participation in a wealth management firm's retirement transition program will deplete such anxieties due to its in-depth and personalized steps.

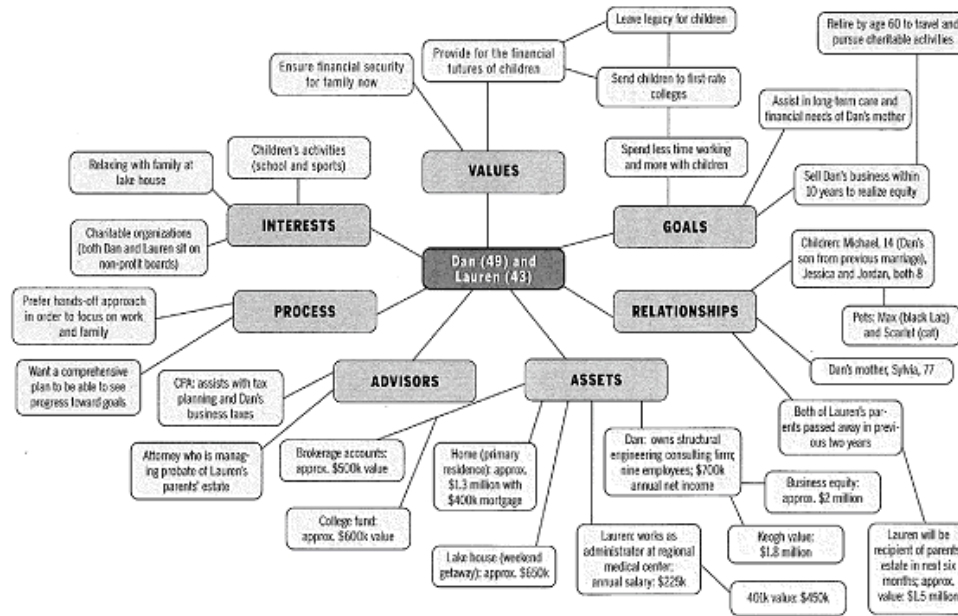
Although retirement programs differ significantly, there are three main steps within wealth management transition programs that remain static: (1) Client Discovery, (2) The Retirement Transition Plan, and (3) Retirement Mastery.

STEP ONE: Client Discovery

Getting to know a client's dreams and aspirations is vital to creating a corresponding financial route to retirement. A discussion about the client's personal and financial goals is charted through the use of the Mind Map (seen in Figure 6 below), a device that outlines interests, values, goals, relationships, assets, advisors, and process. Managers also use the Financial Review, which evaluates the hard facts about a client's financial history, including assets, income, and liabilities.

¹⁸ Cultivating the Middle Class Millionaire, Prince and Geraciotti, 2005.

Figure 6: Client Profile Example¹⁹



A Client Profile Interview Guide is also used (similar to Figure 7 below), which advisors use to ascertain particular values, goals, assets, and relationships about clients. These tools help wealth managers create a complete client profile with information to move forward with clear objectives for a financial plan that coincides with the client's lifestyle goals and income usage.

Figure 7: Sample Client Profile Questions

Total Client Profile Interview Guide

Values
(To uncover key values, use the values clarification process you learned as part of the CCM Process.)

- What's important to you about money?
- What is particular is important to you about that value?
- Is there anything more important than that value?

Goals

- What are your top accomplishments? What would you like them to be?
- What are your personal goals?
- What are your professional goals?
- What do you do (or want to do) for your children?
- What do you do (or want to do) for your parents?
- What do you do (or want to do) for other family members or close friends?
- What do you want to do for the world at large?
- Ideally, where would you like to be when you are 45? 55? 65? 75?
- What are your quality-of-life desires (houses, travel, boats, cars)?
- What would you like to achieve with your money?
- In dollar figures, how much money do you need or want?
- When you think about your money, what concerns, needs or feelings come to mind?
- If you didn't have to work anymore, what would you do?

Relationships

- What family-member relationships (spouse, children, siblings, parents, etc.) are the most important ones to you?
- How important are your relationships with people you work with?
- How important are your relationships with people in the community?
- What is your religious orientation? How important are you? How important are your relationships with these schools?

Assets

- What is your source of income (privately held business, employer, profession)?
- How do you make money today? How is that likely to change in the next three years?
- How do you save or set aside money to invest? How is that likely to change in the next three years?
- What are your investment holdings? Explain your strategy for handling your investments in the way you do.
- What benefits do you get from your work-place?

- Goals**
- What are your top accomplishments? What would you like them to be?
 - What are your personal goals?
 - What are your professional goals?
 - What do you do (or want to do) for your children?
 - What do you do (or want to do) for your parents?
 - What do you want to do for the world at large?

¹⁹ Source: Cultivating the Middle Class Millionaire, Prince and Geraciotti, 2005.

Wealth managers are also able to effectively communicate the entirety of the client's profile to other members of the wealth management team in order to address the client's issues and provide appropriate strategical solutions.

STEP TWO: The Retirement Transition Plan

After the Client Discovery process, managers analyze the client's total profile and must next complete a comprehensive examination of their current financial situation in order to provide several options for the investment approach. During Retirement Transition Planning, five areas of interest are focused on:

I – FINANCIAL X-RAY

The financial x-ray creates a status of the client's financial health and matches their assets and goals to produce a probability of their compatibility. It gives a basic idea to both client and manager concerning the likelihood that the client's financial resources will be enough to support their retirement plans.

II – INVESTMENT POLICY STATEMENT

The investment policy statement is the layout of the formal process for the management of investments and provides research as to why a particular approach to investments is appropriate for the client's future portfolio.

III – TAX REVIEW & PROJECTION

The tax review and projection look at the client's current tax situation and how it will change after their income level decreases. This step also highlights opportunities concerning whether or not it is best to sell large assets during retirement in order to mitigate taxation.

IV – ESTATE PLANNING

Recommendations for estate planning are also discussed at this stage; most commonly, wills/trusts, powers of attorney, healthcare directives, and living wills are proposed as documents that should be created and/or revised as retirement looms closer and circumstances change.

V – BENEFITS PLANNING

An investigation into the transition and privatization of benefits is conducted next. This is the stage in which managers and clients look into the time between the end of a client's employee benefits and the time when they can utilize government subsidized programs such as Social Security, Medicare, and Medicaid.

VI – CASH FLOW PLAN

Finally, the Retirement Transition Plan is also the time during which a cash flow transition plan is implemented in order to create a more streamlined process for personal funds. At this point other specific transitional issues are also discussed, which may include company stock, the sale of a business, deferred compensation payouts, and consulting engagements during retirement.

STEP THREE: Retirement Mastery

After the planning stages, the route to retirement will finally come to a close and actual retirement will begin. This is the stage in which clients' goals will become a reality as managers work to monitor retirement income and manage life goals in coherence with financial resources. Wealth managers work

with assets and client portfolios in order to create a steady monthly income as well as to ensure liquidity within the portfolio for ease of use. Connecting the money from the portfolio with the client's goals is very important during this stage. Monthly living expenses, new purchases, gifting, vacations, and home costs are all issues that are dealt with on a common basis as wealth managers utilize their unique skills to balance clients' needs and wishes with their portfolios' resources.

The art of mastering retirement is learned and fine-tuned as managers and clients work together like a well-oiled machine, yet are flexible enough to tackle unexpected obstacles. Lifestyle goals and the transition from a work-based life to a free time-based life combine to provide a fulfilling result for both client and manager.

At this point, retirement mastery becomes the retiree's post-career job – it is a full-time position that requires a holistic approach to the management of their personal success – a position they've been preparing to enjoy for years and one that will be accentuated with ease if surrounded by the right expertise and stratagem of a wealth management team.

What to Look For in a Management Firm

As stated before, while many things about retirement have changed over the past fifty years, there are certain aspects of retirement planning that have not. In particular, the considerations clients need to look at before selecting a wealth management team are very much the same as selecting different advisors for different areas of their financial planning. These considerations are very important not only because they will give clients a true picture of what the firm can offer in terms of products and services, but also because it will provide insight into the firm's financial philosophy and the relationships they build with clients. Some of the following are important points to remember when selecting a wealth management firm:

- Investment philosophy
- Strong network of professional connections
- Organization structure
- Service level and quality
- Past performance and consistency
- Independence
- Investment process

Above all, the success of a wealth management strategy is grounded in the cooperation between firm and client. The compatibility between the two is the key to addressing the issues and concerns of the client as well as the goals and aspirations that they desire to achieve by employing such a firm and attaining their individual American dream in retirement.

About Ortner, O'Brien & Ortner

Ortner, O'Brien & Ortner has over sixty years of combined experience in wealth management. The company has helped many clients achieve the peace of mind and financial security they want and need as they head into retirement by protecting, preserving, and growing their assets.

The partners at Ortner, O'Brien & Ortner provide clients with a team advisor philosophy to help meet clients' financial and wealth management goals. We believe that our clients deserve the highest levels of service in a variety of areas and that's why we employ a fee-based consultative process. In doing so, we utilize our independence from particular products in order to act as our clients' general managers – using inside and outside expertise in order to meet every client's individual needs.

We provide every client with a hands-on approach and methodology to ascertain their exact Wealth Management needs through Investment Consulting, Advanced Retirement Planning and Relationship Management.