

5 Bucket Retirement Income Strategy

Our Plan for Sustainable Lifetime Income

Whether you're already retired, in the final countdown or just want to retire someday, having a plan for sustainable lifetime income is important. The problem is - most Americans don't have a plan to make that happen. But there's a new reality that renders the old retirement rules virtually obsolete. There are many reasons for this new reality, but chief among them are the uncertainties of:

- Market Volatility
- Sequence of Returns
- Inflation
- Longevity
- Health Care Costs

That's why **Potomac Financial Group** developed the *5 Bucket Retirement Income Strategy*. While there is no surefire, one-size-fits-all strategy that guarantees long term financial success, we believe this strategy offers retirees a plan that optimizes their chances for providing sustainable lifetime income during their golden years.

Bucket	Investments	Retirement Income Strategy
#1. Cash/Fixed Income (Replenish Annually)	Immediate Annuities, Bonds, U.S. Treasuries, Certificates of Deposit	This bucket is filled with assets like <u>certificates of deposit, U.S. Treasuries</u> or other assets generally regarded as having a higher degree of safety. It contains enough money to sustain your net retirement <u>income needs for the next three to five years</u> . The actual sum needed is the difference between gross income required and the amount provided by Social Security and company pension plans. Having an adequate amount in the first bucket means that even during an extended recession or a major market decline, you shouldn't have to sell investment assets at a loss to provide current income. It gives you time to wait for a recovery.
#2. Investment Account(s)	Bonds, U.S. Treasuries, Stocks, Exchange Traded Funds, Fixed or Immediate Annuities	A <u>risk adjusted investment portfolio</u> fills bucket number two and could include stocks, bonds, mutual funds* and other investment assets which are balanced against your goals and objectives. The investments in bucket #2 will vary in risk and opportunity for return. As the need to replenish the assets in bucket #1 approaches, assets in bucket #2 are converted from long-term investments with greater risk of loss of principal, but with potential for greater return to short-term more conservative investments in order to reduce the risk for loss of principal. Since you're going to be retired a long time - maybe 25 to 30 years or more - an investment portfolio that gives you a chance to out-pace inflation over the long haul is important. <u>The stock to fixed income ratio advised is usually between 60/40% to 40/60%</u> depending on individual circumstances. Inflation adjusted withdrawals in excess of 4% to 5% are not recommended.
#3. Variable Annuity (With Living Benefit Rider)	Stock, Bond Fixed Income & Index Sub- Accounts	A <u>Variable Annuity* (VA)</u> is a long-term financial product designed for retirement purposes that offers four main features: (1) tax deferred earnings (2) guaranteed lifetime income options (3) guaranteed death benefit options prior to annuitization and (4) professionally managed investment options, which may fluctuate in value and can lose principal. For an additional charge, a <u>Living Benefit Rider (LBR) may be attached which can allow you to increase the amount of lifetime guaranteed income available by a minimum rate-of-return or locking in market advances</u> . The market gains locked in by the LBR are separate and apart from the underlying investment account which may be larger or smaller than the LBR account. <i>Continued on page 2.</i>
Buckets #4 & #5 and Additional Important Disclosures are on page 2.		

		When you retire and want guaranteed lifetime income you can choose between the income options in the base VA contract or the income options offered by the LBR. Early surrender of your contract can result in loss of this benefit and to possible loss of principal. <i>(Withdrawals from an annuity may be subject to federal income tax and if made prior to age 59 ½ may be subject to a 10% federal tax penalty. Rates are subject to change.)</i>
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#4. Insurance as a Retirement Asset	Long Term Care Insurance (LTCI) Policy	This asset bucket is filled with a <u>Long Term Care Insurance (LTCI)</u> policy. A typical policy with a 6 year benefit period might pay a <u>\$150 daily benefit for home health care or nursing home care creating a \$328,500 bucket of money.</u> A cost of living adjustment rider can be added so benefits keep pace with inflation. According to the U.S. Department of Health & Human Services (DHHS), “at least <u>70% of people over age 65 will require some long-term care services</u> at some point in their lives.” LTCI is an additional bucket of money that could help pay these expenses and preserve other precious retirement income producing assets. <i>Source: DHHS National Clearinghouse for Long Term Care Information, 10/22/08.</i>
#5. Home as a Retirement Asset	Home Equity	The last bucket is your <u>personal residence.</u> While you may not consider your home as an investment asset, you could be left with no alternative if your checking account comes up dry before the end of each month. Or you may need a lump sum of cash to buy a new car or some other major expense or purchase. It can really be your last line of financial defense toward the end of your life. There are numerous ways to tap the equity in your home including <u>equity loans, lines of credit, a reverse equity mortgage or a total refinance pulling out needed cash.</u>

All references to the word guarantee or guaranteed mean that the investment is backed by the claims paying ability of the issuing insurance company. Guarantees provided by a variable annuity contract do not apply to the underlying investment options of the annuity. All investment portfolios are subject to market risk and are not FDIC insured. There is no guarantee that the 5 Bucket Retirement Income Strategy will meet its stated objective.

**Mutual Funds and Variable Annuities are considered long-term investments and are sold by prospectus. Investors should carefully consider the investment objectives, risks, charges and expenses of mutual fund investments. They should also carefully consider the risks, charges, limitations and expenses of a variable annuity as well as the risks, charges, expenses of the investment options of the variable annuity. This and other important information concerning Mutual Funds and Variable Annuities is found in the prospectus for these products, which can be obtained from your financial advisor, or directly from the mutual fund company or the insurance company issuing the variable annuity.*

*This report has been prepared by James P. Ruth, CFP®, Registered Representative of **INVEST Financial Corporation.** Securities, advisory services and insurance products are offered through INVEST Financial Corporation (INVEST), member FINRA, SIPC, a registered investment adviser and affiliated insurance agencies. INVEST is not affiliated with Potomac Financial Group. This report is not intended for tax, lending, legal or other non-financial planning purposes and should not be relied upon by third parties. This report is produced for discussion purposes only for consultation with your financial advisor.*

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