



MDRT

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# MDRT Minute

## Why R.I.S.K. It: Addressing Six Retirement Risks

In mountain climbing, 80 percent of accidents happen on the descent. This is why focusing on the second half of the journey is vitally important. When it comes to retirement planning, many consumers today (and unfortunately, their advisors) are guilty of only considering the first half of the mountain: income accumulation. What they fail to realize is the risks they face saving for retirement are different from the risks they face once retirement begins. To help your clients safely climb and descend their retirement mountain, help them build their own Retirement Income Survival Kit, or RISK.

### Education

The first step is to help clients understand and plan for the six key risks to their income streams they will face during the distribution phase — coming back down the mountain:

1. **Market risk** — losing your savings
2. **Longevity risk** — outliving your assets
3. **Inflation risk** — uncertainty of changing inflation in areas of spending
4. **Liquidity risk** — flexibility to access cash
5. **Health risk** — health care expenses
6. **Legacy risk** — ability to pass on assets at death

### Exploration

Perform fact finding to begin building the client's custom retirement income plan. I recommend a condensed, two-page questionnaire designed for use over a cup of coffee. Page one should collect basic client information: name, date of birth, projected retirement age and other general assumptions, such as their tax rate, inflation assumptions and cost-of-living adjustment. Also include any current savings, projecting annual savings upon retirement and projected annual retirement spending. Complete it with sources of retirement income and any existing risk management strategies, such as life insurance or long-term care insurance policies. Page two asks the client to prioritize each of the six key risks they will face "coming back down the mountain." Take this a step further and ask them to answer whether their current investment portfolio adequately addresses each risk. This is where it becomes personal and meaningful for clients — nearly all clients answer no for each risk.

### Engineering

Use the information you have collected to build your client's retirement income allocation model. The model includes everything with traditional asset allocation, but it takes a step back to more efficiently address the six key risks. There is no single product that addresses the six key risks of retirement, so the idea is to diversify among different product sets during the retirement years to effectively address them all.

### Execution

Take the work you have done during the engineering phase and deliver it to clients in a way they will actually understand. A five-page "RISK Blueprint" is a simple yet detailed concept your clients will appreciate:

**Page 1:** Summary of the key information from the exploration process, including their priority for addressing the six key risks.

**Page 2:** Overview of the client's retirement income allocation model.

**Page 3:** Specific recommendation for how you propose the client shifts from the current asset allocation model to your proposed income allocation model.

**Page 4:** Cash-flow summary of how these various solutions in the income allocation model work together over time.

**Page 5:** Graphical representation of the income streams.

Your clients need a plan for climbing back down the mountain. When you deliver your recommendations to them in a clear, concise yet specific manner, you can differentiate your practice in a way your clients have never seen before.

**Caleb J. Callahan, CFP**, is chief marketing officer and vice president of ValMark Securities in Akron, Ohio, USA. His entire 2012 Annual Meeting presentation is available at [www.mdr.org](http://www.mdr.org). A summary of his presentation is also available in the July/August issue of *Round the Table* magazine.