Rethinking Retirement

WealthVest's Retirement Realities Study

NEW RETIREMENT REALITIES

The quest for a comfortable retirement has never been more challenging. Americans are living longer, healthcare costs are rising, and pension plans are disappearing. After almost a decade of economic upheaval, market volatility, and low interest rates, individual investors and their financial advisors are seeking solutions that can help make the idea of a comfortable retirement into a reality.

RETHINKING RETIREMENT 2015

The WealthVest Survey of Investors on Risk offers valuable insights for individual investors and financial professionals. The survey's results include:

- // **Discoveries** about investors' current attitudes toward risk and their approaches to investing.
- // **Misconceptions** about bond market risk, future market returns, and retirement income levels.
- // **Opportunities** to build portfolios that are better suited to risk tolerance and retirement income needs.

SURVEY DEMOGRAPHICS

This WealthVest survey included 1,387 respondents from across the United States and has a margin of error of +/- 3%. All respondents were ages 45 and older and were managing their personal assets. Fifty-eight percent were female, and forty-two percent were male. Thirty-six percent had been investing for fifteen or fewer years. The majority had been investing for longer. Fifty-one percent of respondents earned less than $100,000 each year, thirty-four percent earned more, and fifteen percent preferred not to provide an answer.

DISCOVERY #1: AMERICANS ARE MORE RISK AVERSE

In 2001, a quartet of psychologists published *Bad Is Stronger Than Good*, a research paper that explored the effects of positive and negative experiences. It concluded that people are more affected by bad outcomes than good ones, and they are more highly motivated to protect against failure than to pursue success.[1] It's a phenomenon that is currently playing out among investors in the United States.

Following almost a decade of negative economic and market events, Americans appear to have lost their appetite for risk.

77%

of investors are less comfortable with investment risk today than they were a decade ago.

Regardless of their investment experience, today's near retirees want less risk.

1. Baumeister, Roy F. Bratslavsky, Ellen. Finkenauer, Catrin. Vohs, Kathleen D. "Bad Is Stronger Than Good," Review of General Psychology 2001, p. 351 [http://bobsutton.typepad.com/files/bad-is-stronger-than-good.pdf]

The majority of people surveyed — regardless of investment experience, affluence, gender, or geographic area — indicated they were more risk averse today than a decade ago. In general, **the longer they'd been investing, the more likely it was their investment risk tolerance had declined**. To some extent, this may reflect a natural shift toward asset conservation as retirement nears. However, a percentage of respondents were a decade or so away from retirement, so increased risk aversion may also reflect negative market experiences.

Since 10,000 boomers are expected to retire every day through 2030,[2] increased risk aversion creates some significant retirement planning challenges.

71%
of Americans earning $200,000 or more are less comfortable with risk than they were a decade ago.

All income groups want less risk today than 10 years ago.

Q: HOW HAVE YOUR VIEWS OF RISK CHANGED DURING THE PAST DECADE?

LESS COMFORTABLE WITH INVESTMENT RISK	
71%	Household income **$200,000 and up**
73%	Household income **$175,000 - $199,999**
75%	Household income **$150,000 - $174,999**
73%	Household income **$125,000 - $149,999**
71%	Household income **$100,000 - $124,999**
78%	Household income **$75,000 - $99,999**
79%	Household income **$50,000 - $74,999**

2. Cohn, D'Vera. Taylor, Paul. "Baby Boomers Approach 65--Glumly," Pew Research Center, December 20, 2010 [http://www.pewsocialtrends.org/2010/12/20/baby-boomers-approach-65-glumly/]

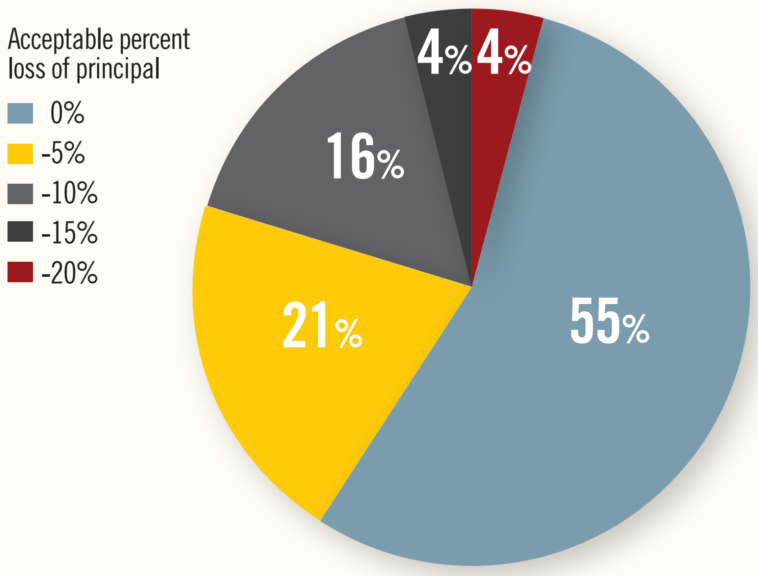
DISCOVERY #2: MANY INVESTORS WANT NO-RISK INVESTMENTS

Americans want to keep their retirement savings safe. About 55% of respondents would not be comfortable losing any of their retirement savings, and 21% were willing to lose 5% or less. Principal risk was slightly more palatable to respondents with higher earnings; however, **a significant percentage at each income level is unwilling to risk any savings at all.**

Risk and reward can be related, but during periods of market volatility, and for investors nearest retirement, risk can prove to be disruptive of retirement peace of mind and destructive of retirement assets.

55%
of investors want no retirement savings risk.

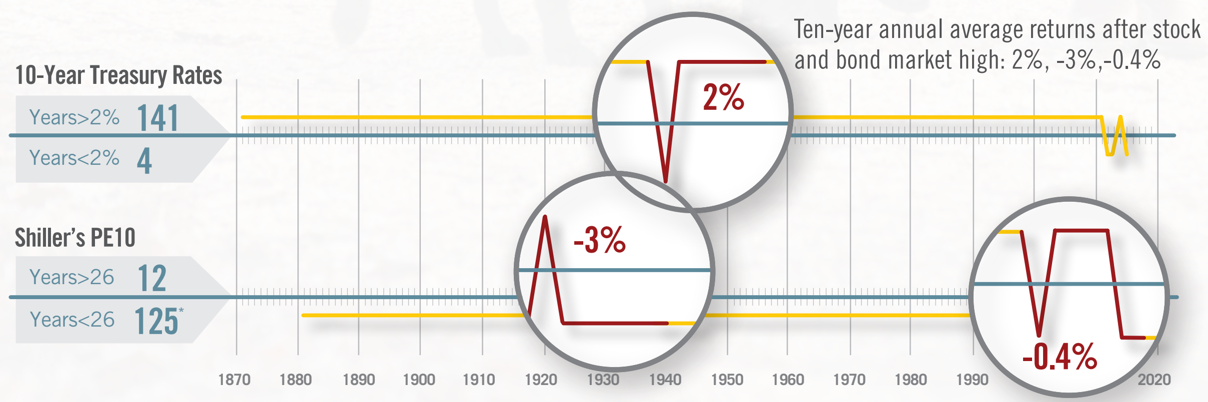
Q: WHAT AMOUNT OF YOUR RETIREMENT INVESTMENTS ARE YOU COMFORTABLE LOSING?



The current combination of high stock valuations (PE 10)[3] and low bond yields (10-year Treasury rates) is unprecedented in U.S. history. Stock valuations have reached these levels three times during the past 145 years, and bond yields have been this low just once before. Never during that period have both events occurred simultaneously. We're in uncharted territory.

Investors face the possibility that stock valuations may move lower, and interest rates may push higher. Because rising interest rates tend to lower the value of a bond portfolio, retirees now face a market environment where stocks and bonds may present a more than average level of risk.

FINANCIAL MARKET ENVIRONMENT AT THE START OF THE YEAR, 1871-2015



Over the past 145 years, interest rates have only been this low one previous period, in the 1940s. Stocks have been this expensive three other times in the past 145 years. Investors were deeply disappointed during the aftermath of each market high. The following ten years for each period resulted in low investment returns. Our recent bond and stock markets are the only time that both stocks and bonds have been this overvalued at the same time.

3. Yale professor Robert Shiller developed a price-to-earnings ratio that is based on average inflation-adjusted earnings from the previous decade. It is known as the Cyclically Adjusted PE Ratio (CAPE Ratio), Shiller PE Ratio, or PE 10. The higher the PE10, the more expensive stocks are relative to their 10 year average earnings. 2015 was one of only 12 years in U.S. stock market history when the PE10 began the calendar year above 26. The PE10 has averaged just 16.65 since 1881. Robert Shiller's data was used for this analysis and can be found here: http://www.econ.yale.edu/~shiller/data.htm

DISCOVERY #3:
MANY AMERICANS ARE INVESTED IN RISKY ASSETS

Despite investors' aversion to putting their savings at risk, the most widely held investments were stocks and stock mutual funds. More than one-half of investors who were risk averse and two-thirds who were willing to risk 5% of their portfolios, held stocks. Just 11% held bank CDs and 16% were invested in annuities — investment choices that normally are linked to principal protection.

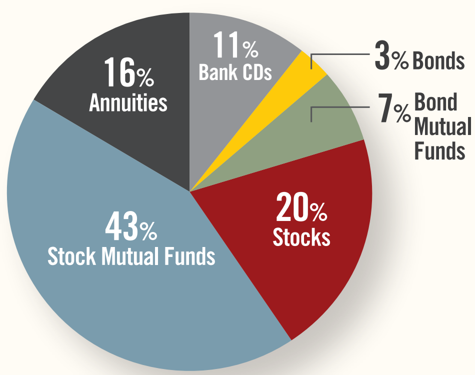
A diversified portfolio designed to minimize volatility may include stocks and bonds, but both are risk assets and both can fall in value. It also may include lower risk investments that offer guaranteed income streams during retirement.

Americans' current portfolios are not in concert with their fear of principal loss.

80%
of investors hold risky assets — investments that may lose value.

Q: WHAT TYPES OF INVESTMENTS DO YOU OWN?

Just 16% of respondents held annuities, which may offer principal or income guarantees.



Bank CDs are insured by the Federal Deposit Insurance Corporation and offer a fixed rate of return. Principle protection and income stream guarantees on annuities are backed by the financial strength and claims paying ability of the issuing company.

MISCONCEPTION #1: BONDS ARE SAFE EVEN WHEN INTEREST RATES RISE

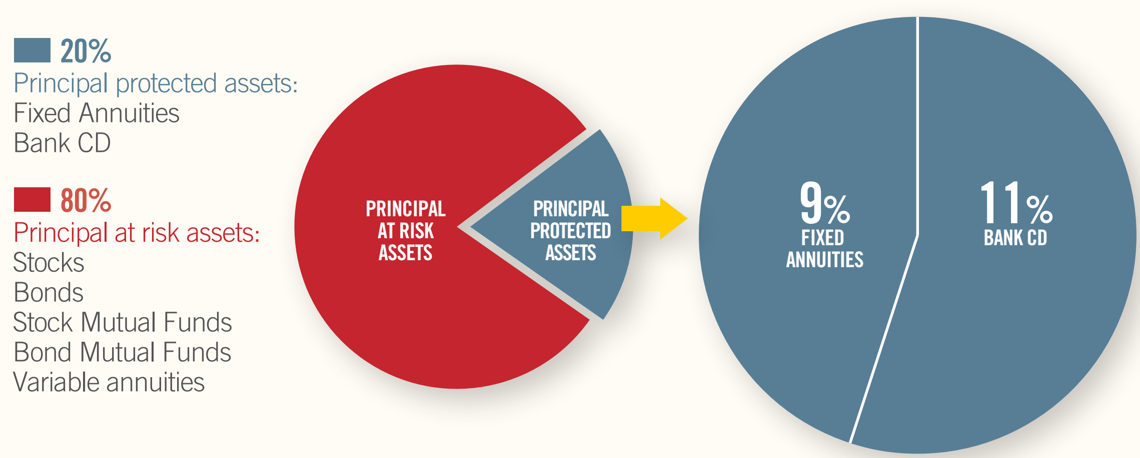
The bad news was that 80% of respondents didn’t realize bond values would decline when interest rates increased. There is an inverse relationship between interest rates and bond prices.

When rates rise, bond prices fall, and vice versa. The longer a bond’s maturity, the more its value may fall.[4]

The good news, since we may be in a rising interest rate environment for some time, was that relatively few respondents held bonds or bond mutual funds in their portfolios.

55% of respondents are completely risk averse, yet **73%** of them hold investments that can suffer declines in principal value.

PRINCIPAL PROTECTED VS. PRINCIPAL AT RISK



4. FINRA Investor Alert https://www.finra.org/newsroom/2013/finra-issues-new-investor-alert-duration%E2%80%94what-interest-rate-hike-could-do-your-bond

Bank CDs are insured by the Federal Deposit Insurance Corporation and offer a fixed rate of return. Principle protection and income stream guarantees on annuities are backed by the financial strength and claims paying ability of the issuing company.

MISCONCEPTION #2: INVESTORS OVERESTIMATE SAFE WITHDRAWAL RATES

About 82% of individual investors overestimate the amount of income their retirement savings will generate in retirement. One-third believes they'll be able to withdraw 8% or 10% of savings each year during retirement without depleting their assets!

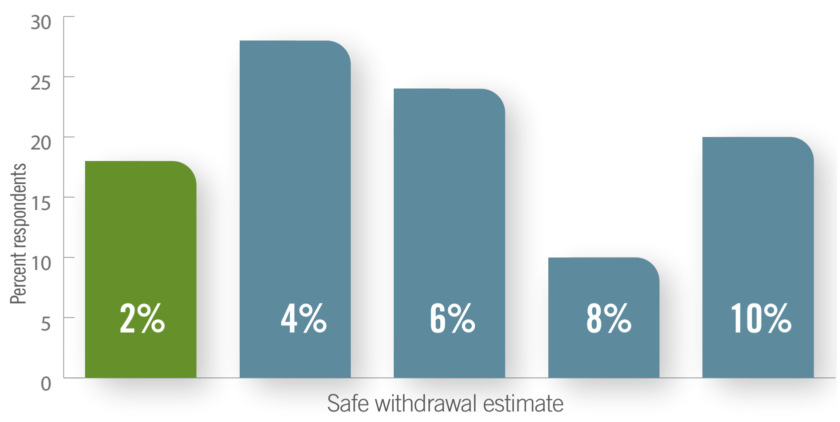
For many years common wisdom, supported by Bill Bengen's research, suggested that 4% was a safe withdrawal rate. If investors took no more than 4% of portfolio assets (adjusted annually for inflation) each year, they could generate income that would last throughout retirement.

Rapidly evolving economic and financial circumstances have affected that assumption. In fact, new analysis showed that a 1.7% withdrawal rate had a high probability of providing retirement income for 30 years without depleting assets (5% probability of failure), if 60% of a portfolio was invested in stocks.[5]

About 82% of investors overestimate the amount of income their retirement savings will generate in retirement.

For many years, the American public has believed that 4% is a sustainable annual withdrawal rate from their nest egg during retirement.

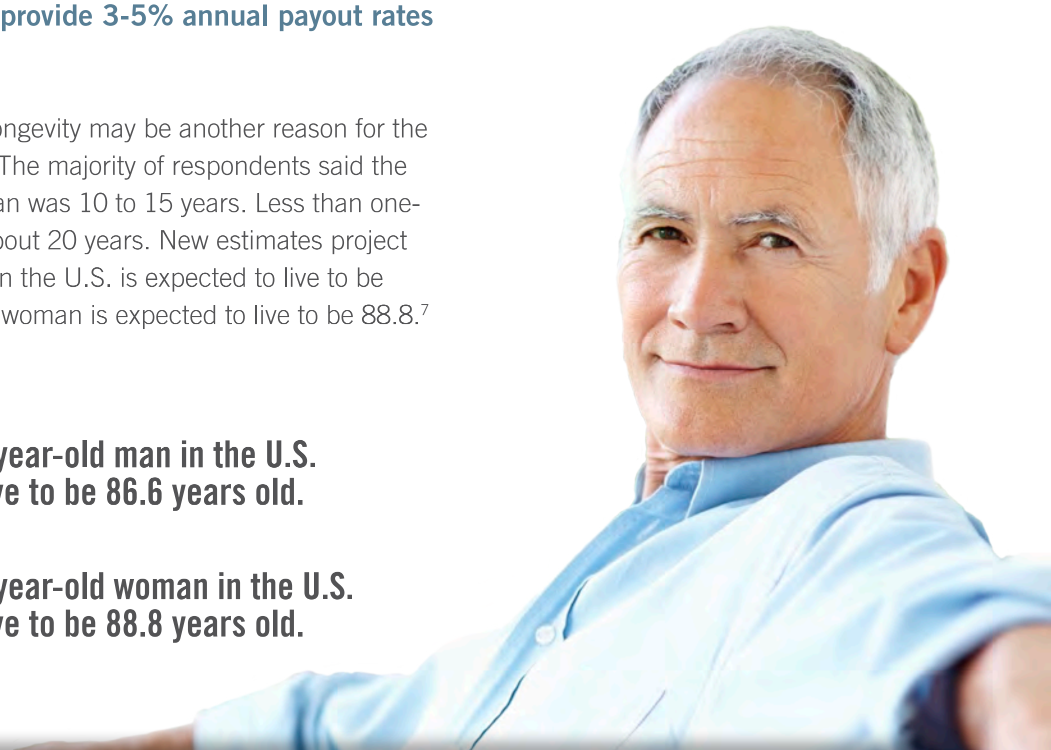
Q: WHEN YOU RETIRE, WHAT PERCENTAGE OF SAVINGS CAN YOU SPEND EACH YEAR WITHOUT OUTLIVING YOUR ASSETS?



5. Pfau, Wade, Dokken, Wade. "Rethinking Retirement: Sustainable Withdrawal Rates for New Retirees in 2015," Financial Advisor Magazine, August 28, 2015. [http://www.fa-mag.com/userfiles/stories/whitepapers/2015/WealthVest_Sept_2015_Whitepaper/12040-Pfau-Sustainable-Withdrawal-Rates-Whitepaper-.pdf]

Unfortunately, a 1.7% withdrawal rate might not provide enough income for many retirees. The research suggested that combining stocks with single-premium immediate annuities[6] and annuities (with guaranteed living benefit riders) could boost income levels significantly. **Guaranteed living benefits for retirees can provide 3-5% annual payout rates and lifetime income.**

Longevity Misconceptions about longevity may be another reason for the confusion about withdrawal rates. The majority of respondents said the life expectancy of a 65-year-old man was 10 to 15 years. Less than one-third knew the right answer was about 20 years. New estimates project that the average 65-year-old man in the U.S. is expected to live to be 86.6, and the average 65-year-old woman is expected to live to be 88.8.[7]



The average 65-year-old man in the U.S. is expected to live to be 86.6 years old.

The average 65-year-old woman in the U.S. is expected to live to be 88.8 years old.

However, new analysis showed that a 1.7% withdrawal rate had a high probability of providing retirement income for 30 years without depleting assets. Investors who spend more than 2% a year during retirement today, have a relatively high probability of running out of money.[8]

WealthVest's retirement survey shows that only 18% of respondents have realistic assumptions about safe retirement withdrawal rates after they retire.

6. A single-premium immediate annuity (SPIA) is an annuity that provides immediate, guaranteed payments, for a specified period of time or until death. In exchange the purchaser provides a lump some payment, or single premium, to an insurance carrier. As always, these guaranteed payments are backed by the strength and claims paying ability of the issuing company.
7. Fitzpatrick, Dan. "Rising U.S. Life Spans Spell Likely Pain for Pension Funds." The Wall Street Journal. October 27, 2014. [http://www.wsj.com/articles/rising-u-s-lifespans-spell-likely-pain-for-pension-funds-1414430683]
8. Pfau, Wade. "An Efficient Frontier for Retirement Income," Social Science Research Network, September 24, 2012. [http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2151259]

MISCONCEPTION #3: INVESTORS EXPECT HIGHER FUTURE RETURNS THAN ANALYSTS PREDICT

Investors' estimates for stock market returns over the next 10 years demonstrated their uncertainty about markets. One-half of respondents estimated that stock market returns would average 4% to 6% over the next decade. This may prove to be overly optimistic.

Many analysts believe the Shiller PE 10, which measures stock valuations, provides insight to future market performance. A low PE 10 suggests a higher future annualized return after inflation, while a high PE 10 suggests a lower expected return. Late in 2015, the PE 10 indicated a future annual return of -0.3% over the next eight years.[9]

Of course, no predictor is completely accurate. The table on the right shows the possible range of future returns. **If we are really lucky, returns could average 4.6% a year. If we are really unlucky, they could average -8.1% a year.**

Survey respondents predict a

4-6%

average annual return.

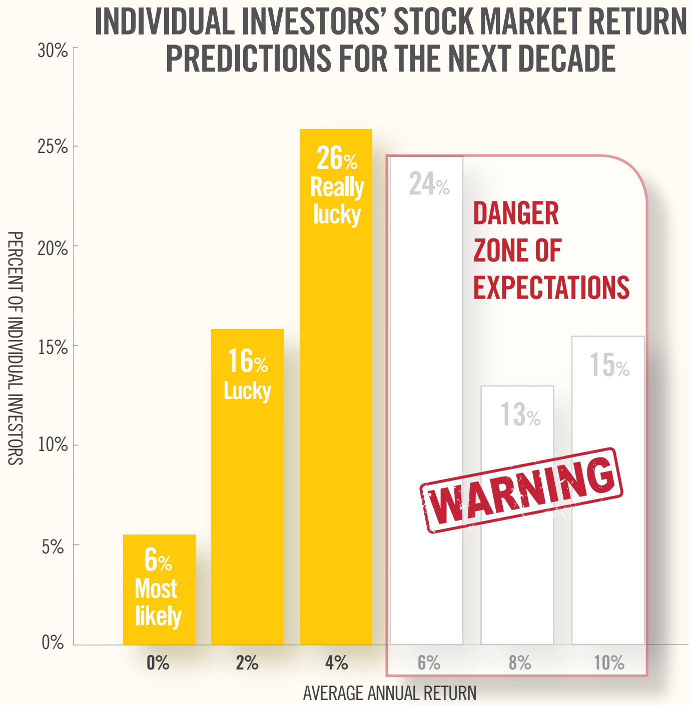
The Shiller PE 10 implies a

-0.3%

average annual return.

9. See footnote 3 on p. 7 for an explanation of Schiller's PE 10. Data used was from December 30, 2015. Actual PE 10 level for this date was 26.4.

Investors may be facing a period of lower-than-expected returns.



EXPERTS PREDICT STOCK MARKET RETURNS WILL BE QUITE A BIT LOWER

Scenario	Shiller P/E after eight yrs	Annual return from today
Really Lucky	Mean x 150%	4.6%
Lucky	Mean x 125%	2.4%
Reverse to the mean	Mean x 100%	-0.3%
Unlucky	Mean x 75%	-3.6%
Really unlucky	Mean x 50%	-8.1%

Nobel prize winner Robert Shiller developed a model to better understand when the U.S. equity market is in a period of long term over valuation, and what future returns are likely to look like. Considering today's higher PE 10 value, a return to historically average PE 10 valuations would result in a -0.3% annualized return over the next eight years. We can analyze the potential range of returns from this model by looking at returns that would be 50% above and below the anticipated return of -0.3% The key point is that during periods of higher Shiller PE 10 ratios, investors should plan on lower 1-10 year returns for stocks.

Past performance is no guarantee of future results.

OPPORTUNITY #1: CHOOSE PORTFOLIO OPTIONS WITH PRINCIPAL GUARANTEES

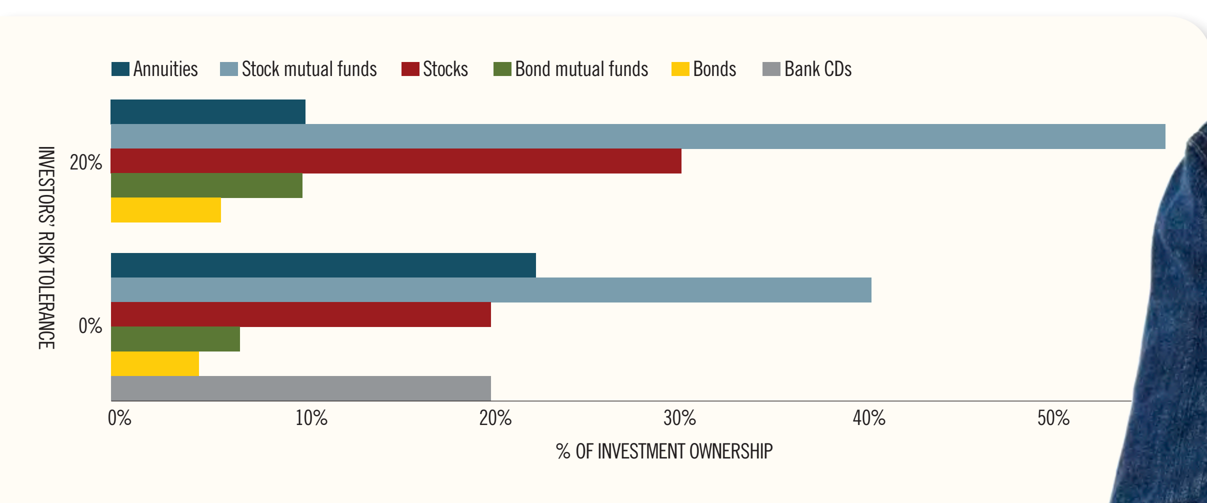
Investors are more conservative than they once were, and three-out-of-four are unwilling to put more than 5% of their savings at risk. Yet, many continue to hold stocks, stock mutual funds, bonds, and bond mutual funds without the principal protections that might be afforded by holding those investments inside an annuity.

Just one-in-five completely risk-averse participants owned an annuity. One in 10 of those who were willing to risk no more than 5% of their assets owned an annuity.

When you consider respondents' generally low risk tolerance, their proximity to retirement — 37% were age 60 or older — and the

Only 9% of respondents owned fixed or fixed index annuities, although **55%** were uncomfortable losing any of their retirement savings.

Q: WHAT TYPES OF INVESTMENTS DO YOU OWN?



Guarantees are backed by the financial strength and claims paying ability of the issuing company.

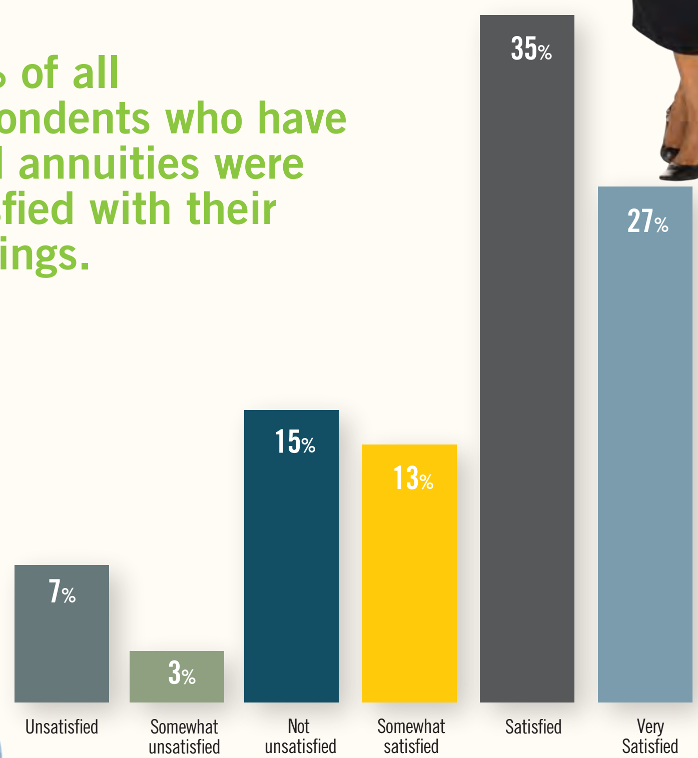
potentially low returns anticipated from U.S. stock and bond markets during the next decade, **annuities could be an attractive portfolio addition.**

That's especially true when you realize that 75% of all respondents who have fixed annuities said they were satisfied with their holdings.

> **Investors with low risk tolerance are satisfied with the guarantees provided by annuities.**

Q: HOW SATISFIED ARE YOU WITH THE FIXED ANNUITY?

75% of all respondents who have fixed annuities were satisfied with their holdings.



OPPORTUNITY #2: CHOOSE PORTFOLIO OPTIONS THAT PROVIDE LIFETIME INCOME

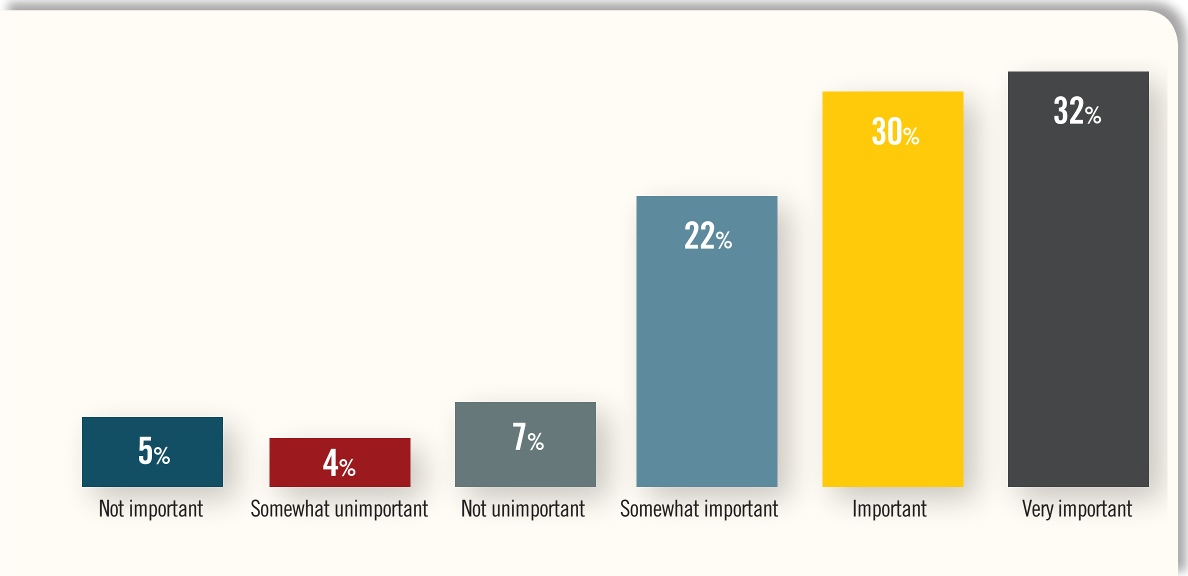
Stock markets are expected to deliver relatively low returns for years to come, and bond markets are vulnerable to rising interest rates. When investors' current holdings are balanced against their desire for guaranteed retirement income — 62% were interested in receiving a guaranteed stream of income for life — it appears that annuities may be a welcome portfolio addition.

Many investors want retirement income investments that grow with inflation and can never be outlived.

84%

of all survey respondents wanted retirement income they could not outlive and would increase with inflation.

Q: HOW IMPORTANT IS IT FOR A RETIREMENT INCOME INVESTMENT THAT YOU CAN NEVER OUTLIVE THE INCOME AND FOR THE INCOME TO GROW WITH INFLATION?



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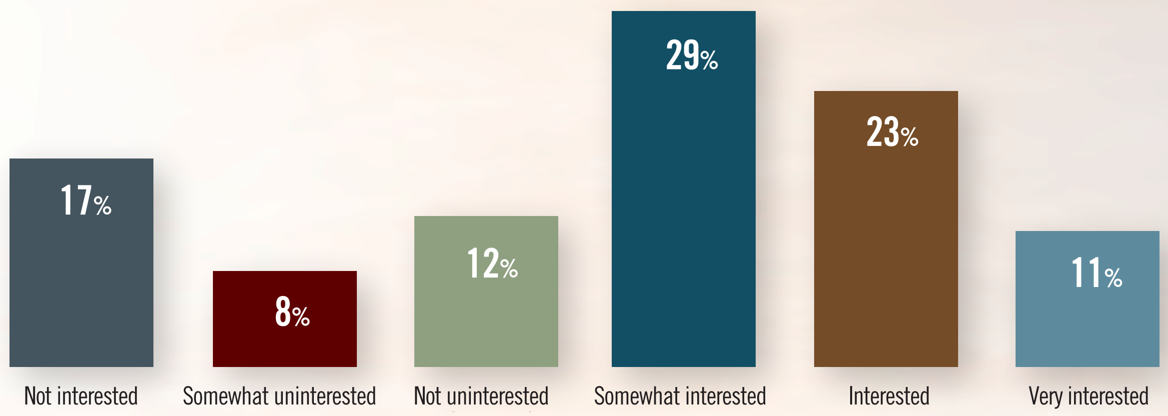
Fixed index annuities, which offer annual interest credits based upon different stock market indices and guaranteed living benefit features, may be well suited to the new risk profile of American investors, as well as the needs of Americans' who are transitioning into retirement.

The WealthVest survey clearly shows that Americans are asking for lower risk portfolio opportunities and are interested in retirement products that protect retirement savings and offer lifetime income options.

62%
of respondents were interested in receiving guaranteed income for life.

Q: IF A RETIREMENT INCOME INVESTMENT COULD GUARANTEE TO GROW YOUR RETIREMENT INCOME A MINIMUM OF 4% COMPOUNDED ANNUALLY, PLUS AN ADDITIONAL ANNUAL INTEREST RATE AVERAGING 5%, WOULD YOU BE INTERESTED?



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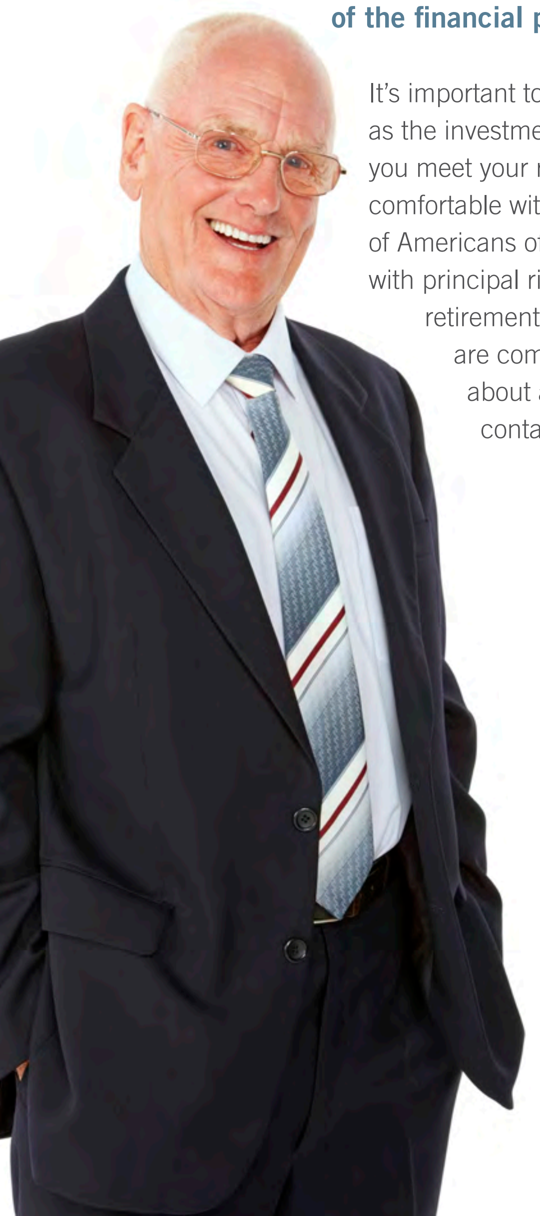
OPPORTUNITY #3: WORK WITH YOUR FINANCIAL PROFESSIONAL TO UNDERSTAND YOUR OPTIONS

Building a portfolio that can meet retirement income needs without taxing risk tolerance is a tall order. Today, it may be more complicated than ever before. Instead of relying on employers' pension plans to manage assets and provide steady streams of income throughout our retirements, **we must rely on our own knowledge and that of the financial professionals with whom we work.**



It's important to understand your risk tolerance, as well as the investment options that are available to help you meet your retirement goals. Different people are comfortable with different levels of risk, and the majority of Americans of retirement age are not comfortable with principal risk for their retirement assets. Find the retirement products that match the risks that are comfortable for you. If you have questions about a financial concept or investment option, contact your financial professional.

Survey showed that women were more conservative than men

BANK CDS	12%	9%
STOCKS	17%	25%
BONDS	3%	3%
STOCK MUTUAL FUNDS	42%	44%
BOND MUTUAL FUNDS	7%	7%
ANNUITIES	19%	12%

Bank CDs are insured by the Federal Deposit Insurance Corporation and offer a fixed rate of return. Securities and annuities are not guaranteed by the FDIC or any other government Agency.

Principal protection and income guarantees tied to annuities are subject to the financial strength and claims paying ability of the issuing company.

FIXED INDEXED ANNUITIES MAY PROVIDE:

PREMIUM PROTECTED

Your annuity value and all annual interest credits are protected from market loss.

INCOME SECURED

Income from your FIA can be guaranteed for life and is guaranteed to grow the longer you wait.

GROWTH OPTIMIZED

Adding FIAs to your portfolio adds safety, while preserving return.

TAX DEFERRED

Interest credits are tax-deferred during accumulation.

Annuities are designed to meet long-term needs for retirement income. They provide guarantees of premium and credited interest, subject to surrender charges, and a death benefit for beneficiaries.

The interest credited on an annuity contract may be affected by the performance of an external index. However, the annuity contract does not directly participate in the index or any equity or fixed interest investments. The annuity contract does not constitute buying shares of an index. The index value does not include the dividends paid on any equity investments underlying any equity index or any interest paid on any fixed income investments underlying any bond index. These dividends and interest are not reflected in the interest credited to the annuity contract. This material is intended for informational purposes only and is not intended to serve as the basis for any investment or purchasing decision.

Guarantees are backed by the financial strength and claims paying ability of the issuing company.

• Not FDIC insured • May lose value • No bank or credit union guarantee • Not a deposit • Not insured by any federal government agency or NCUA/NCUSIF

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WealthVest
2485 Manley Road, Suite A, Bozeman, MT, 59715, United States | 877.595.9325

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