The retirement landscape:

- In 2011, the oldest of the 78 million Baby Boomers turned 65\(^1\)
- The number of senior citizens will more than double between now and 2050\(^1\)
- Older Americans will become an increasing larger percentage of the population—from 13% today to 20% in 2050\(^1\)
- Investors ages 55 to 70 represent $11.5 trillion in investable assets\(^2\)

As a financial professional, these figures should underscore how important retirement planning services are to maintaining and building your business.

One way to build deeper relationships with clients is to offer targeted retirement planning strategies based on their needs. This program is specifically meant to help you build or enhance your retirement planning capabilities with clients who are transitioning to retirement. By transitioning, we mean pre-retirees who are still accumulating assets, while also preparing to use those assets to generate retirement income. Retirement planning for investors in the transition phase of retirement focuses on income planning.

\(^1\) U.S. Census Bureau
Income Planning for Clients Nearing Retirement is a self-paced, educational program for financial professionals. The overall program includes nine modules that cover the why, what and how of income planning. Each module also includes information on resources available to help you engage clients in the income planning process. The program is designed for you to review on demand and at your own pace.

You are about to begin Module 1, The Transition Phase of Retirement and Your Business, which should take you approximately 30 minutes.

By reviewing modules 1-3 and successfully completing an online exam, you can earn 1.5 continuing education (CE) credits for the Certified Financial Planner Board of Standards (CFP® Board), Investment Management Consultants Association (IMCA®) and Cannon Financial’s Certified Wealth Strategist® (CWS). Simply read the program modules, click the CE link online, fill out your information and take the exam. Please be sure to print out your final score for your own records.

You must achieve a score of 70% on the online exam to qualify for CE credit. Please allow 30-45 days for CFP Board and IMCA CE credits to appear in your diary. You must self report the CE credit you earn for CWS. If you have any questions filling out this form, please contact retirement@pershing.com.
Collectively, the modules in this program review key points about the what, why, where and how of helping clients who are nearing retirement. They should give you a better understanding of:

- Why focusing on the transition phase of retirement is important to your clients and the future of your business
- What the considerations are for those nearing retirement and the major activities and decisions faced by this client segment
- Where to find opportunities within your existing client base and how to use your experience in this phase of retirement planning to attract new clients
- How Pershing’s tools and resources can help you engage with clients and select the products to meet their needs as they approach retirement
Income planning represents a potential opportunity to grow the size and the profitability of your business for three reasons.

1. **Client Retention**: Investors in their early to mid-50s represent the beginning of the transition phase, which extends to age 70½, when retirement distributions from qualified plans and IRAs become mandatory. Clients in this age range are likely to need your help in understanding their options and making the switch from accumulating assets to using them as retirement income. Ensuring your business is in sync with your clients’ current and future concerns will help you better serve those clients.

2. **Asset Consolidation**: Investors often look to consolidate assets when they are preparing to rely on savings for income—and understanding their needs and helping to create a retirement income plan may make them more likely to consolidate with you. According to a 2011 Money Management Institute white paper, *An Emerging Category: Personal Retirement Income Solution Management*, the typical investor looking for help translating account values into optimal income has two to three financial professionals at multiple firms, owns two to six accounts at multiple firms opened over the course of many years and is inclined to consolidate, but is having difficulty choosing which financial professional and firm.

3. **New Business**: Learning to identify “money in motion” events, such as rollover and other asset consolidation opportunities, during the transition phase of retirement can help deepen existing client relationships and help you build new ones.
More than $17 trillion is held in retirement plans today, and a large amount of that total is expected to be “in motion” over the next several years. A significant portion of those retirement assets, $5.3 trillion, is held by investors between the ages of 55 and 59.
Much of this money-in-motion may belong to people who lack awareness of, or are confused by future retirement realities. The “vital statistics” shown here are excerpted from 2010 and 2011 surveys and studies by various third parties. They give you a small peek at the extent of the disconnect between individual expectations and reality.

Many of the surveys indicate a widespread lack of knowledge of where individual retirement finances stand today. In fact, 54% of individuals lack an understanding of what their income needs will be in retirement, the income their retirement savings can realistically generate or how to close a retirement income gap.

48% of individuals in these surveys have not updated their financial plans since the 2008 financial crisis. Meanwhile, expert projections continue to indicate that there are significant chances (47%) that Baby Boomers may outlive their assets in retirement.

The slight majority of individuals surveyed show confidence in having as good or better a lifestyle in retirement. Yet nearly half surveyed (42%) expect their standard of living will be lower in retirement.

Your opportunity lies in helping clients gain clarity among this chaos. During the transition phase, you can help them better understand the economic realities of retirement while preparing them mentally and financially to later adopt a retirement income strategy that fits their unique circumstances.
It is important to understand the emotional side of how clients make decisions. How people make financial decisions, like other decisions, is largely based upon how secure they feel during the decision-making process.

Consider Maslow’s hierarchy of needs: The basic premise is that there are certain foundational needs that must be satisfied before humans can work their way up the hierarchy and strive to meet higher-level needs.

At the very bottom are basic physiological needs—the basic physical necessities of day-to-day living. According to the hierarchy, an individual cannot pursue higher level needs until these basic needs are met. The next level is safety, which includes such essentials as a shelter (in other words, a home). Even at this level you can begin to see how someone who is worried about outliving their financial resources during retirement is likely to feel uncertainty and concern about how they will be able to cover even their most fundamental needs at some point in the future.

Further up the pyramid, are needs such as self-respect and self-esteem. Many high achievers who have worked hard for decades to build a career and a retirement nest egg often do not realize how much of their identity is or was tied up in their professions.

Maslow’s hierarchy has stood the test of time and is widely accepted. **Whether clients can articulate it or not, to a great extent, these are the types of factors that will be driving their decision-making processes as they begin the transition into retirement.**
There is a big shift in mindset that must occur both for financial professionals and for near retirees. In some ways, this shift happens intuitively for the near retiree. For financial professionals, however, the change in mindset will need to be a very conscious one.

The big focus for clients during the accumulation phase is on building their nest eggs—the bigger, the better. During the accumulation phase, clients tend to pursue an attractive market return within their own risk profile—"How can I get good returns and grow the biggest nest egg?"

During the transition into the decumulation phase, or income planning, that nest egg becomes the means to an end—the end being a form of happiness and financial security during retirement that each client has to define for himself or herself. Another way to look at it—referring back to Maslow’s hierarchy—is how the nest egg will be used to secure basic human needs at the various levels.

At this crucial juncture, the client’s needs shift from “Help me grow a big nest egg” to “I’ve got a nest egg.” The client needs you to help manage it and invest it in a way that will meet his or her crucial needs, not just for the next five to 10 years, but for the next 25 to 30.

Understanding this mindset shift, and the emotional influences factoring into your clients’ decision making processes, will help you deepen, enrich and strengthen the client relationships you have worked hard to build, while positioning you to attract new clients.
Aside from the emotional leap that is made by your clients, both you and your clients also must acknowledge that the accumulation stage and the decumulation stage of retirement planning do not look the same from a financial perspective.

First of all, the risks are different.

Among others, there are four key elements of risk that play a significant role in the retirement income planning process: longevity risk, market volatility risk, inflation risk and health care costs.
Module 1 The Transition Phase of Retirement and Your Business

Longevity Risk

Chances of Living Beyond Age 65

<table>
<thead>
<tr>
<th>To Age</th>
<th>Single Female</th>
<th>Single Male</th>
<th>At Least One Member of a Married Couple</th>
</tr>
</thead>
<tbody>
<tr>
<td>85</td>
<td>53%</td>
<td>41%</td>
<td>72%</td>
</tr>
<tr>
<td>90</td>
<td>32%</td>
<td>20%</td>
<td>45%</td>
</tr>
<tr>
<td>95</td>
<td>13%</td>
<td>6%</td>
<td>18%</td>
</tr>
</tbody>
</table>


As costly as it might be, modern medicine has paved the way for ever-increasing longevity. According to the Society of Actuaries, there is a 32% chance that a woman, who lives to age 65 and is healthy, will see age 90. For a man, the odds drop to 20%. And, for a married couple retiring at age 65, there is a 45% chance of at least one of them living to age 90 or beyond.

Longevity risk provides a clear example of how difficult it can be to measure risk properly when using traditional planning models. What’s the drawback to using an average life expectancy factor when helping a client design a retirement income plan? By its very definition, an average life expectancy factor means that 50% of your clients are likely to live fewer years and 50% of your clients are likely to live longer.

To complicate matters further, if you do not incorporate the reality of longevity risk into the retirement income planning process, you will likely miscalculate the implications of the other key risks. For example, what kind of an impact does longevity have on the amount of savings needed to fund retirement? If one is going to live longer in retirement, he or she is going to have to save more and invest appropriately.
Next, consider how market volatility risk takes on a new meaning during the “decumulation” or distribution phase of retirement.

While few investors or financial professionals are fans of a bear market, at least in the accumulation phase there is a bright side—when the market is down, one can buy at a discount. If not for the advantages of buying low, the principle of dollar cost averaging would not exist.

Consider what happens during periods of market downturn during the distribution phase. If a client has committed to a retirement income plan that requires the pre-scheduled liquidation of sufficient shares to produce $X per month or per quarter, then the client will not experience the benefits of dollar cost averaging, but, instead, the exact opposite. Rather than buying more shares when the market is down, a client may end up selling more shares when the market is down in order to provide a predetermined level of income. If this cycle continues for long, the impact to your client’s portfolio can be devastating.

One of the potential drawbacks of using conventional planning models is that they typically assume a flat, average rate of return over the entire period. While you may have several clients who each recognize an average return of 8% over a 20-year period, thanks to the impact of “dollar cost ravaging,” the results will be quite different for the client who realizes a disproportionate amount of this average return in the early years versus one who realizes it in the later years.
Although most planning models either assume a predetermined level of inflation or allow you to set an assumed rate of inflation, it is crucial that you help manage the potential risks associated with an extended period of above-average inflation.

For example, as this chart illustrates, the difference between a 3% annual rate of inflation and a 4% annual rate of inflation can equate to a five-year difference in the life expectancy of a client’s portfolio (based on a client taking inflation adjusted withdrawals and a level, 6% rate of return on investments).

Another factor that is often overlooked is the fact that many benefits from pensions and annuities are not adjusted for inflation. If your clients wish to maintain the same level of purchasing power throughout retirement, what are their options? If your client’s pensions and annuities are not adjusted for inflation, they will often have to adjust the amount withdrawn from their discretionary assets at a rate even greater than the inflation rate to compensate for the loss in purchasing power of their pension and annuity payments.
The last major risk is the cost of health care.

While living longer constitutes its own risk to retirement income planning, rising health care costs compound the problem. In recent years, health care costs have soared, representing a significant risk for retirees. According to the S&P Healthcare Economic Indices, healthcare covered by commercial insurance plans increased by an average of 7.73% over the 12 months ending February 2012, compared to a February annual inflation rate of 2.87%. (Sources: S&P Indices and United States Department of Labor, Bureau of Labor Statistics)

At the same time, the actual benefit that retirees receive from employer-sponsored health insurance is being significantly reduced and at times at an increased price to the retiree. As long as employers strive to slow the growth of their retiree health care obligations, the reduction in benefits and increased costs to the retiree is likely to continue. For example, among employers who currently offer retiree health benefits, many are terminating benefits for future retirees, some are increasing the amount of the retiree’s contribution toward premiums, while other employers are increasing the retiree’s cost sharing by adding co-payments, raising deductible limits and increasing out-of-pocket expense limits.

It is also important to remember that Medicare is not available to early retirees.
In a recent report, the Employee Benefits Research Institute (EBRI) estimated that a married couple, both of whom are currently age 65 and live until the average life expectancy, could need as much as $295,000 to cover premiums for health insurance coverage and out-of-pocket health care expenses during their retirement. (Source: Employee Benefits Research Institute, Issue Brief No. 295, July 2006).

Even with this research, it is probably safe to say that some, if not many, people will predict amounts that are far too low when budgeting for out-of-pocket medical expenses in retirement. What can be said with a fair amount of certainty is that many individuals and couples who are nearing retirement do not have a strategy in place to effectively deal with the types of health care expenses they are likely to encounter during their retirement.
In addition to the risks discussed so far, there are a number of additional risks that need to be taken into consideration as individuals start planning for the transition into retirement. **Four relatively common risks include unplanned early retirement, cutbacks in employer-provided benefits, changes in marital status and “sandwich generation” responsibilities.**

These are somewhat uncontrollable risks that could greatly impact your clients’ success in retirement. While your clients cannot always control these external forces, you can help clients plan for these risks and manage them once they reach retirement.
Clients want financial professionals to address topics like Social Security and Medicare. They also want their financial professionals to do so within a different framework of needs and expectations.

In the past, your client may have thought of their primary residence as separate and apart from their retirement portfolio. These days, if a client’s investment portfolio will be insufficient to meet retirement income needs, it will be important to know how to tap other assets, such as real estate assets and life insurance policies.

Tax efficiency will be increasingly important for all clients, regardless of their tax bracket.

Clients will need a clear understanding of their liabilities (or expenses) and a spending plan that distinguishes nondiscretionary and discretionary spending. That may be a monumental shift for free-spending Baby Boomers.

The “relative return” paradigm of the accumulation phase must give way to achieving the absolute return necessary to meet nondiscretionary liabilities.

What’s more, this meeting of liabilities must be done not “over time,” but time and again, through regular, sustainable withdrawals.
Module 1: The Transition Phase of Retirement and Your Business

Clients Want Integrated Retirement Income Plans

Factors Not Addressed in Retirement Income Plans

What does creating “a retirement income strategy fit to their needs” mean, practically speaking?

In November 2011, Investment Advisor released the findings of a retirement income study conducted by Cerulli Associates. According to the study, clients are looking for retirement income plans that are more holistic: plans that integrate Social Security income, address longevity and other risks, taxes, inflation, health care costs and estate considerations. Medicare benefits and costs also made the list. That’s not surprising, since the first of the Boomers became eligible for Medicare in 2011.

Given what clients are asking for, it is concerning to see the percentage of financial professionals who are not addressing these needs as part of a holistic retirement plan.

These elements should all be taken into account when creating plans for the transition phase of retirement.

As clients consider their resources more holistically as a means to an end—presumably within five to 10 years in advance of retirement, they will undoubtedly begin to see the personal benefits of consolidating those resources for more efficient management. The selection of a financial professional will likely be largely dependent upon two critical factors:

1. Competency of the financial professional
2. Degree to which they trust the financial professional

Financial professionals build trust by empathizing with clients around the emotional components of impending retirement, demonstrating expertise and taking a holistic approach to retirement income planning.
The 2011 Money Management Institute white paper, *An Emerging Category: Personal Retirement Income Solution Management*, identified proper retirement income planning requires coordination of data, technology, tools, client engagement and operational processes that help financial professionals help their clients achieve a sustainable income over 20 to 30 years in retirement.

Pershing offers a flexible, open-architecture, global investment platform with a comprehensive suite of retirement solutions—and the analytical and reporting tools, technology and marketing support you need to help your clients as they transition to retirement.

As your clients consider consolidating assets, they can also rely on our strength. Pershing has been a leading global provider of financial business solutions for more than 70 years and serves many of the world’s most respected financial organizations. Our parent company, BNY Mellon, has been in business for more than 220 years and is the world’s leading provider of securities services and a top global manager of assets.
This program includes integrated marketing resources from Pershing to help you take action to turn learning into opportunity. Links to materials and external resources relating to each module can be found on the campaign landing page and within each module.

In addition, we also encourage you to visit the Retirement Toolbox on Pershing’s retirement planning destination, www.retirementpowerplay.com.

Under Education for Financial Professionals, you will find relevant webcasts on retirement income.

Visit Tools and Calculators for access to useful calculators for transition planning, such as NUA, 72(t) and RMD calculators.

You can find investor materials under Marketing Resources, including brochures, sample client letters and mailing inserts.
Materials and tools as well as Pershing retirement product information can be accessed via Pershing’s NetX360®. You’ll find calculators in NetX360’s Retirement Center.

Printed client use materials can be ordered in the NetX360 Material Catalog under the Resources tab.

For specific Pershing retirement product and regulatory information, visit Resources under Financial Solutions and Retirement.
Key takeaways:

1. **The opportunity is market-driven and too large to ignore**—and clients need your help understanding the steps they need to take as they transition to retirement.

2. **You risk losing clients if you don’t focus on the transition phase of retirement**—clients are not only looking to consolidate assets, but they are also looking to consolidate with one primary financial professional who understands their holistic needs as they transition to retirement and beyond.

3. **Pershing is committed to supporting financial professionals who focus on a holistic approach to retirement planning**—we have created and continue to develop educational materials, marketing materials and sophisticated tools for client use.

The next two modules in this series are designed to help you understand the framework for retirement income planning and income resources and budgeting basics.

The following six modules will cover the major activities and decisions for this client segment, including advanced strategies for generating retirement income, and where to find opportunities within your existing client base. Each module also includes integrated marketing resources to help you immediately take action to turn learning into opportunity.
# Module 1

The Transition Phase of Retirement and Your Business

## Resources

<table>
<thead>
<tr>
<th>Industry Resources</th>
<th>Pershing Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>CFA Institute</td>
<td>Asset Inventory Worksheet</td>
</tr>
<tr>
<td>Financial Planning Association</td>
<td>Budgeting Tool Spreadsheet</td>
</tr>
<tr>
<td>LIMRA</td>
<td>Rollover IRA Brochure</td>
</tr>
<tr>
<td>Remember Roths?</td>
<td>Retirement Calculators (also in the Retirement Center under Tools in NetX360®)</td>
</tr>
<tr>
<td>The Trinity Study</td>
<td>Financial Professional Traditional IRA Fact Sheet</td>
</tr>
<tr>
<td>CFP Board</td>
<td>Financial Professional Stretch IRA Strategy Fact Sheet</td>
</tr>
<tr>
<td>IRS.gov</td>
<td>IRA Selector</td>
</tr>
<tr>
<td>Retirement Industry Association of America</td>
<td>Pershing Retirement Solutions Brochure</td>
</tr>
<tr>
<td>The 4% Rule—At What Price?</td>
<td>Pershing’s Client Profile Sheet for Retirement</td>
</tr>
</tbody>
</table>

Third party sites provided for convenience. Pershing does not endorse these sites or their content.

© 2012 Pershing LLC. Pershing LLC is licensed RIAs, WSPs, DCPs, an affiliate of The Bank of New York Mellon Corporation. Trademarks or service marks are owned or used under license. The information contained herein, including any attachments, is proprietary to, and constitutes confidential information of Pershing. It may not be reproduced, redistributed or reproduced in any manner without the express written consent of Pershing LLC.
Important Disclosure Information

> This presentation and the information or opinions contained herein is confidential and has been prepared by Pershing LLC for informational purposes only without reference to any specific person's investment objectives or financial situation and must not be forwarded, displayed or distributed to any other person or reproduced in any manner whatsoever. The presentation and the information are for reference purposes only and are not intended to be a recommendation with respect to, or solicitation or offer to buy or sell any particular security, financial instrument, or investment product, or to participate in any particular trading strategy in any jurisdiction in which such offer or solicitation, or trading strategy would be illegal. Pershing LLC and its affiliates do not intend to provide investment advice through this presentation and do not represent that the securities or services discussed are suitable for any investor. Pershing LLC and its affiliates do not, and this presentation does not intend to, render tax or legal advice.

> Tax laws are complex and subject to change. The information contained herein is based on current federal tax laws in effect at the time it was written. Pershing LLC and its affiliates do not provide tax or legal advice. The presentation and information provided herein were not intended nor written to be used for the purpose of avoiding tax or penalties that may be imposed on the taxpayer. Individuals are urged to consult their tax or legal advisors to understand the tax and related consequences of any actions or investments described herein.

> © 2012 Pershing LLC. Pershing LLC, member FINRA, NYSE, SIPC, is a subsidiary of The Bank of New York Mellon Corporation. Trademark(s) belong to their respective owners. It may not be reproduced, retransmitted or redistributed in any manner without the express written consent of Pershing.