# Retirement Income Navigator™

## Managing Money *During Retirement*

## Real Case Analyzed by One of Our Customers:

What I want to illustrate is a client starting out with about $343,225 in capital and desiring an income stream to supplement his Social Security income.

- Annual Income Desired:   $35,000
- Social Security Income:   $15,972
- Difference:                   $19,078

## Step 1: Basic Information

**Beginning Capital:** the client has $343,225.
**Annual Income Need:** $19,078
**Payment Period:** client wants to receive monthly income payments.
**Years in Scenario:** the client wants to project a 30-year retirement period.
**Anticipated Inflation:** the estimated average annual inflation rate used is 3.00%.

| | |
|---|---|
| Beginning Capital: | $343,225 |
| Annual Income Need: | $19,078 |
| Payment Period: | Monthly |
| Years in Scenario: | 30 |
| Anticipated Inflation: | 3.00% |

## Step 2: Initial Investment Allocation

- **Total Return** – the estimated average annual total return that can be achieved by holding the investments for the holding period.
- **Dividends** – can be used to support the investment income or can be reinvested.
- **Holding Periods** – the number of years that you can hold stocks without having to sell them. This does not mean that stocks will be held this long. If market conditions are favorable, it may be wise to sell some stocks earlier. The key is to give yourself some time so that you are not forced to sell stocks during a down market.

### Initial Investment Allocation

| | Defined | Yellow | Blue | Red |
|---|---|---|---|---|
| Total Return: | 3.31% | 4.00% | 7.00% | 8.00% |
| Dividends: | | 3.00% | 2.00% | 1.00% |
| Holding Period: | | 10 | 10 | 10 |
| Percentage: | 46% | 0% | 0% | 54% |
| Minimum Allowed: | 5% | | Edit Investment Names | |

- **Minimum Allowed** – the minimum percentage of Fixed Rate investments as compared to their originally allocated value. The Fixed Rate investments is always computed based on Adjusted Value Dollars and does not depend on whether Adjusted Value Dollars or Actual Dollars are selected in the View pull-down menu.
- **Edit Investment Names** – click on this button to specify names for the investments.

**Defined Withdrawals**
The green box, regardless of its name, is considered to be the liquid account. This is where your pay check comes from.

**Fixed Rate Return**
To ensure that investments will not have to be sold sooner than planned we need to make sure that income will be provided from defined withdrawals (fixed rate investments) during the holding periods. In this example, the 3.31% is the overall average rate of return for fixed rate investments with different yield rates and different maturities, such as *U.S. Treasuries, Certificates of Deposit, annuities,* etc. this is a weighted average since the investments that take longer to mature will contribute proportionately more to the overall average rate of return.

---

# Step 3: Optimize Investment Allocation

Click on

> 🖼️ **Optimize Investment Allocation**

The software will ─────────

**Meeting Your Goals**
In order to create the scenario that best fits your goals, we need to know what they are. Please select one of the following:

- ⦿ Reallocate for maximum ending capital.
- ○ Find the highest income available from the investments.
- ○ Find the lowest capital that will support the income needed.

**Investment Strategy**
Because ending capital is being maximized, there is no need to pick between consuming or preserving capital.
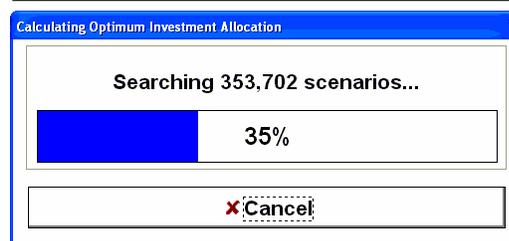
- ⦿ Preserve Capital
- ⦿ Consume Capital

**Optimization**
Searching for the optimum strategy can take a significant amount of time, especially if you are optimizing to maximize income. Select how precise you would like to be. A higher number is less precise, but quicker.
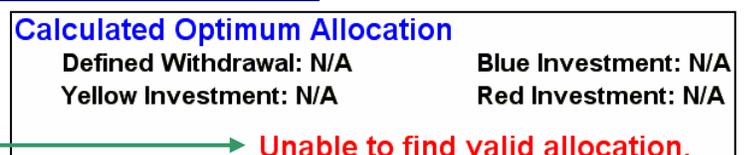
Allocate to Nearest: | 1%

> 📖 **Calculate Optimum Investment Allocation**

For this analysis, the software ran:

> **Calculating Optimum Investment Allocation**
>
> Searching 353,702 scenarios...
>
> | 35% |
>
> ✗ Cancel

to find these mathematical results:

> **Calculated Optimum Allocation**
> Defined Withdrawal: N/A          Blue Investment: N/A
> Yellow Investment: N/A          Red Investment: N/A

# Results ──────────────────────────→ **Unable to find valid allocation.**

This result indicates that the investments alone cannot support the amount needed by this client. We need to look at other options.

# Step 4: Check Custom Income Needs; then Edit:

We'll enter the following information:

**Living Expenses:** $19,078. We'll begin to require this amount from our investments in year 1 and continue through year 30. Also, we'll increase the amount required by 3% annually.

**Annuity:** $150,000. This is the cost of our 15 year annuity.

**Note:** Entering data on this screen overrides our entry on the main input screen (Step 1 – Annual Income Need.)

### Enter Income Needed From Investments

Enter up to five different streams of income to take from the investments. Values in overlapping years are added together. Check "Add Yearly Income Needs" to enter additional income needs on a year-by-year basis.

| Description | Income Needed | | | Annual |
| | Amount | First Yr | Last Yr | Increase |
|---|---|---|---|---|
| Living Expenses | $19,078 | 1 | 30 | 3.00% |
| Annuity | $150,000 | 1 | 1 | 0.00% |
| | $0 | 1 | 1 | 0.00% |
| | $0 | 1 | 25 | 3.00% |
| | $0 | 1 | 25 | 3.00% |
| | $0 | 1 | 25 | 3.00% |

☐ **Add Yearly Income Needs**

---

# Step 5: Check Other Sources of Income; then Edit

Enter the information pertaining to our annuity. In our example we are purchasing a $150,000 annuity, paying $19,078 annually for 15 years with 0% increase.

Remember to check the "Funds Entered on this Schedule are Used to Meet Income Needs" checkbox.

**Note:** If we "Optimized Investment Allocation" the results would again be "Unable to find valid allocation." The reason is because our annuity

### Enter Other Sources of Income (or Investment Contributions)

☑ **Funds Entered on this Schedule are Used to Meet Income Needs**

Enter up to 10 different sources of income such as Social Security, pensions, annuities, etc. It is assumed these funds are available at the beginning of every month. Values in overlapping years are added together. If funds on this schedule exceed desired income, they are invested as directed.

| Description | Annual Contribution | First Yr | Last Yr | Annual Increase | Defined Withdrawal | Yellow Investment | Blue Investment |
|---|---|---|---|---|---|---|---|
| Annuity | $19,078 | 1 | 15 | 0.00% | 100% | 0% | 0% |
| | $0 | 1 | 25 | 3.00% | 100% | 0% | 0% |
| | $0 | 1 | 25 | 3.00% | 100% | 0% | 0% |
| | $0 | 1 | 25 | 3.00% | 100% | 0% | 0% |
| | $0 | 1 | 25 | 3.00% | 100% | 0% | 0% |
| | $0 | 1 | 25 | 3.00% | 100% | 0% | 0% |

☐ **Add Yearly Amounts**

payout ends in 15 years. At that point we need to reallocate to generate the income for the next 15 years.

---

# Step 6: Check Multiple Allocations; then Edit

Because our annuity payment of $19,068 ends in year 15, we must reallocate at the end of year 15. We use this feature when we have a situation in which we want to shift capital from one type of investment to another. In this case, if we did not reallocate, we would not have enough in our Defined Withdrawal (Green) box.

Click OK

### Multiple Allocations

**List of Reallocations**

| Year | Defined | Yellow | Blue | Red |
|---|---|---|---|---|
| 0 | 46% | 0% | 0% | 54% |

✓OK  ?Help

➕Add A

**Selected**

**Enter Reallocation Year**

Enter year for reallocation: 15
(reallocations performed at end of year)

✓OK  ✗Cancel

| | | | | |
|---|---|---|---|---|
| Total Return: | 3.31% | 4.00% | 7.00% | 8.00% |
| Dividends: | | 3.00% | 2.00% | 1.00% |
| Holding Period: | | 10 | 10 | 10 |
| Percentage: | 46% | 0% | 0% | 54% |

☐ Fixed Reallocation (not changed when optimizing)

0

## Step 7:

Click the optimize button, and then optimize for ending capital.

| Optimize Investment Allocation |
| --- |

By reallocating in year 15, we can meet the income needed by our client.

**Calculated Optimum Allocation**

| Defined Withdrawal: 46% | Blue Investment: 0% |
| --- | --- |
| Yellow Investment: 0% | Red Investment: 54% |

## Results: ⟶ Ending Capital = $171,320

This also leaves us with ending capital in actual dollars of $171,320. By pressing F8, you can view the ending capital in inflation-adjusted dollars of $70,582.

---

## Summary:

By purchasing this 15 year annuity, we can meet the client's income requirements. In year 15, we had to reallocate the investments in order to meet the client's income needs for the next 15 year period.

---

## Reports:

To view the reports for this case, we have posted the following files:

- Annuity Case Report – Actual Dollars.pdf
- Annuity Case Report – Inflation Adjusted Dollars.pdf

at www.brentmark.com/reports.htm under the Retirement Income Navigator heading.

**Note:** Adobe Acrobat Reader is required to open or view these files.

Tutorials and Frequently Asked Questions are also available on Brentmark's web site:
www.brentmark.com/reports.htm

**Brentmark**
**S O F T W A R E**
SERVING PLANNING PROFESSIONALS SINCE 1985

Phone: 1-800-879-6665
Fax: 407-306-6107