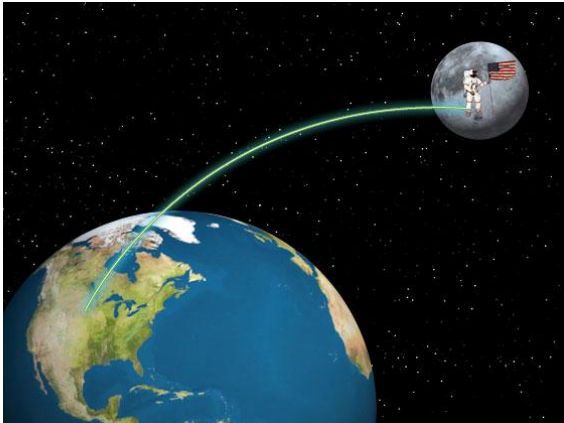
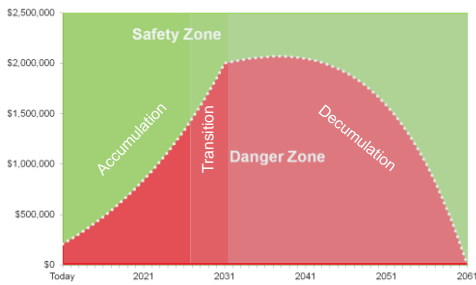




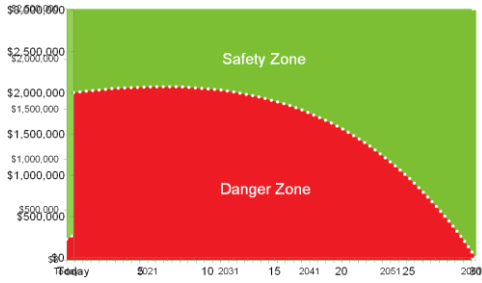
INCOME MATCHING
FPA NCA 2012 WINTER EDUCATIONAL SYMPOSIUM



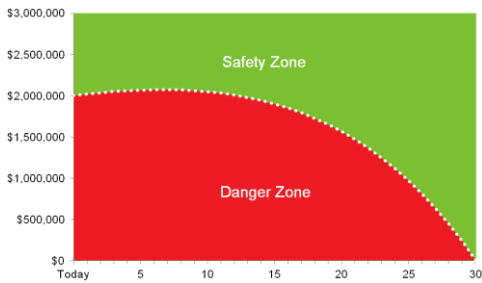
LIFETIME CRITICAL PATH®



LIFETIME CRITICAL PATH®



RETIREMENT CRITICAL PATH®



Portfolio

Financial Plan

Portfolio

Income
Portfolio

Growth
Portfolio

Protected Principal
and
Predictable Income

Protected Principal
and
Predictable Income

Protected Principal
and
Predictable Income

Higher Expected Return
but
Short-term Volatility

Protected Principal
and
Predictable Income

Higher Expected Return
but
Short-term Volatility



PARTIAL INCOME MATCHING

THE BEST OF BOTH WORLDS

- Best of Income Matching – Predictable cash flows protected from interest rate risk
- Best of Total Return – Higher long term expected return



BEHAVIORAL BENEFITS

1. Mental accounting
2. Dedicate assets to the purpose they best serve
3. Tie portfolio performance to the goals outlined in the financial plan



DE-RISKING THE PORTFOLIO

1. Protect Principal
2. Reduce uncertainty of funding spending needs
3. Reduce sensitivity to market risks
 - Interest rate risk
 - Equity market risk



CASE STUDIES

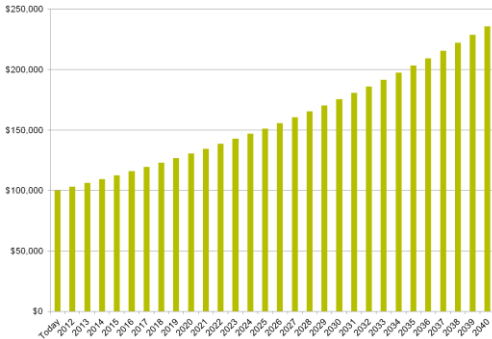


Helen and George:
Age: 67
Assets: \$2,000,000
Income need: \$100,000
Expected Inflation: 3%
Plan Horizon: 30 Years

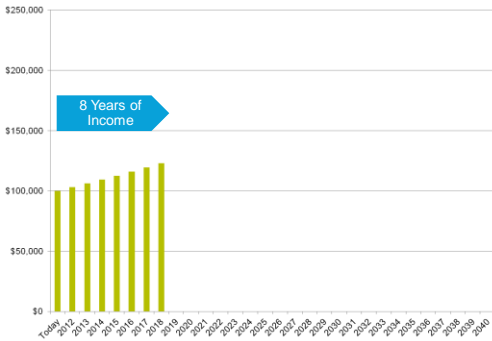
**Systematically transfer
uncertainty of equities to
predictability of bonds to reduce
the volatility of funding
retirement spending.**



LIFETIME SPENDING NEEDS
\$2MM PORTFOLIO, \$100K/YR, 3% INFLATION



INITIAL 8 YEARS OF SPENDING NEEDS
YEAR 1



BUILDING AN INCOME MATCHING PORTFOLIO

Year	Issue	Principal	Interest	Portfolio Cash Flows	Target Cash Flows
2012	CD	\$77,000	\$22,905	\$99,905	\$100,000
2013	CD	\$82,000	\$21,416	\$103,416	\$103,000
2014	CD	\$86,000	\$20,035	\$106,035	\$106,090
2015	CD	\$91,000	\$17,818	\$108,818	\$109,273
2016	CD	\$98,000	\$14,855	\$112,855	\$112,551
2017	CD	\$104,000	\$11,713	\$115,713	\$115,927
2018	CD	\$112,000	\$7,455	\$119,455	\$119,405
2019	Agency Bond	\$121,000	\$2,496	\$123,496	\$122,987
				\$889,692	\$889,234

Quotes: 9/6/2011

TARGET INCOME STREAM

Year	Issue	Principal	Interest	Portfolio Cash Flows	Target Cash Flows
2012	CD	\$77,000	\$22,905	\$99,905	\$100,000
2013	CD	\$82,000	\$21,416	\$103,416	\$103,000
2014	CD	\$86,000	\$20,035	\$106,035	\$106,090
2015	CD	\$91,000	\$17,818	\$108,818	\$109,273
2016	CD	\$98,000	\$14,855	\$112,855	\$112,551
2017	CD	\$104,000	\$11,713	\$115,713	\$115,927
2018	CD	\$112,000	\$7,455	\$119,455	\$119,405
2019	Agency Bond	\$121,000	\$2,496	\$123,496	\$122,987
				\$889,692	\$889,234

Quotes: 9/6/2011

MATCHING CASH FLOWS TO SPENDING NEEDS

Year	Issue	Principal	Interest	Portfolio Cash Flows	Target Cash Flows
2012	CD	\$77,000	\$22,905	\$99,905	\$100,000
2013	CD	\$82,000	\$21,416	\$103,416	\$103,000
2014	CD	\$86,000	\$20,035	\$106,035	\$106,090
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2019	Agency Bond	\$121,000	\$2,496	\$123,496	\$122,987
				\$889,692	\$889,234

Quotes: 9/6/2011

PORTFOLIO COSTS

8 Years = \$829,656 (60/40)

10 Years = \$1,035,495 (50/50)

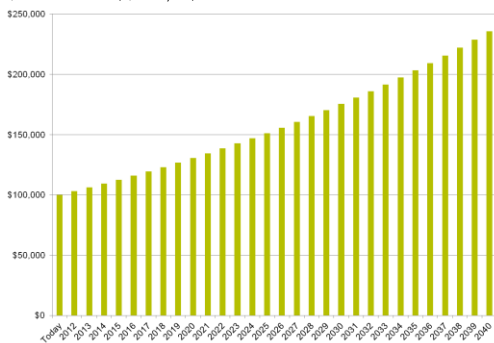
30 Years = \$2,753,814 (0/100)

30-year portfolio exceeds resources

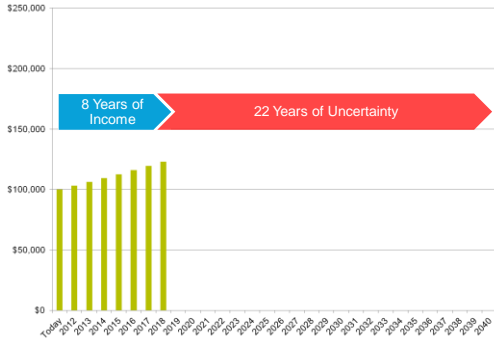
Quotes: 9/6/2011



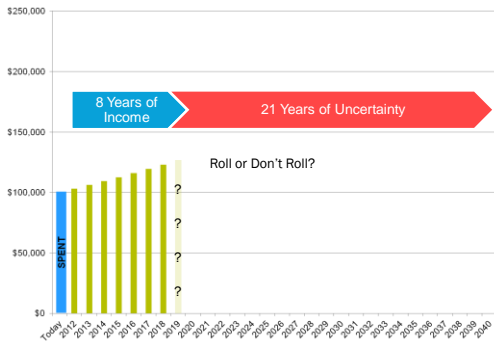
LIFETIME SPENDING NEEDS \$2MM PORTFOLIO, \$100K/YR, 3% INFLATION



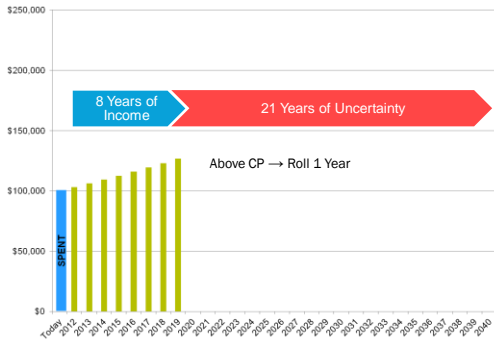
YEAR 1



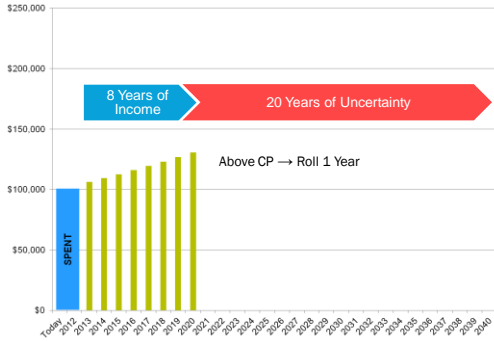
YEAR 2



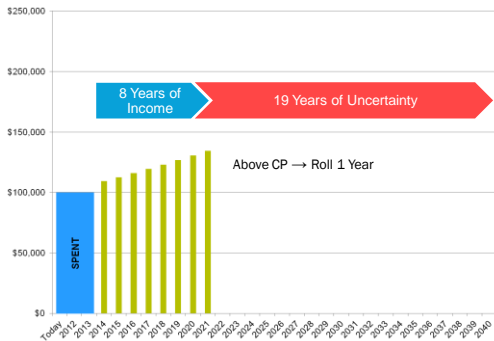
YEAR 2



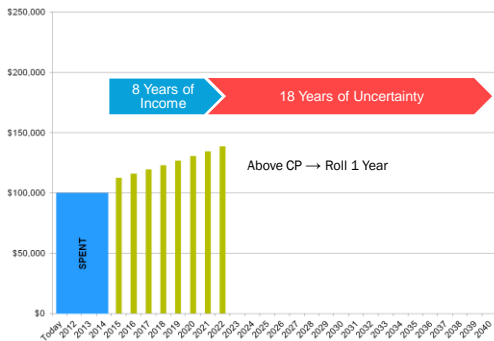
YEAR 3



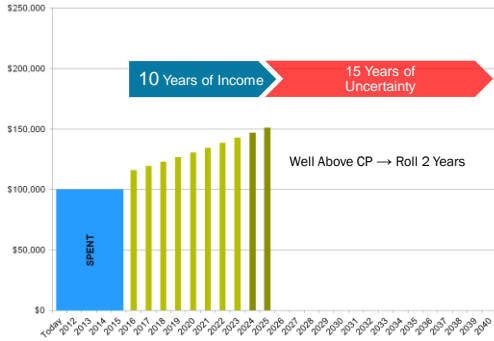
YEAR 4



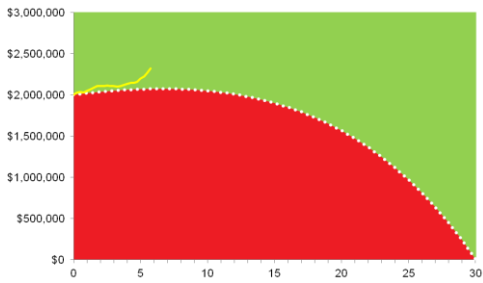
YEAR 5



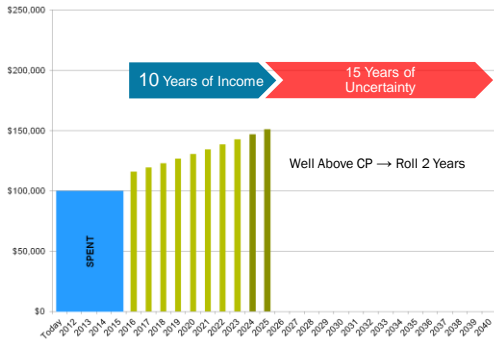
YEAR 6



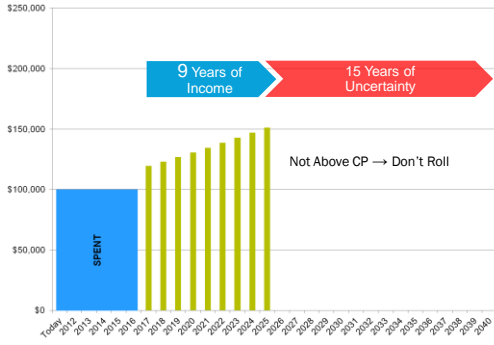
WELL ABOVE CRITICAL PATH



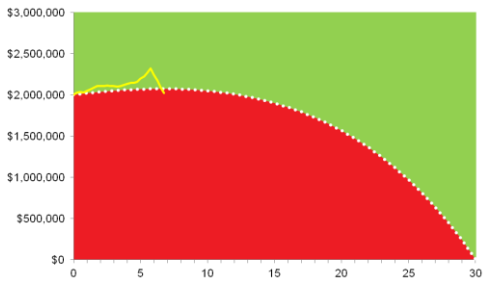
YEAR 6



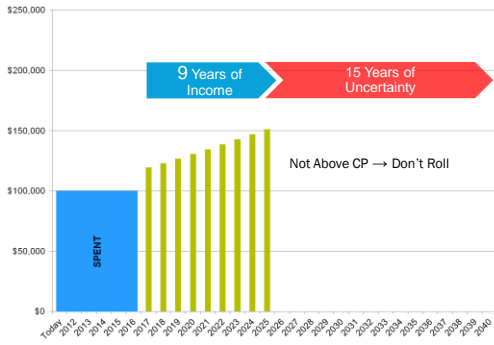
YEAR 7



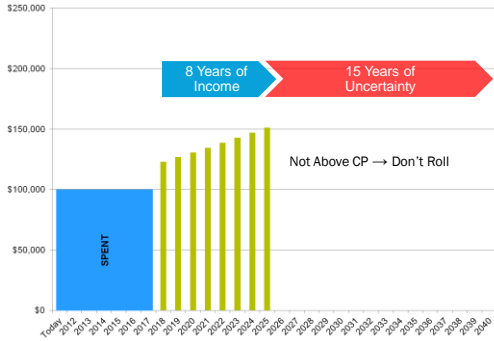
BELOW CRITICAL PATH



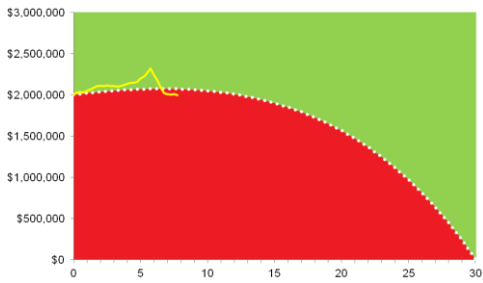
YEAR 7



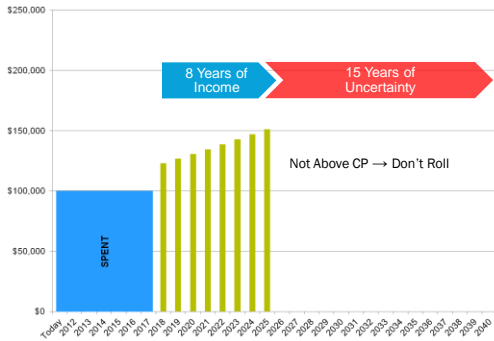
YEAR 8



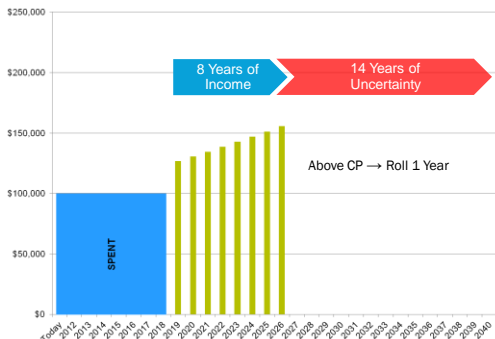
STILL BELOW



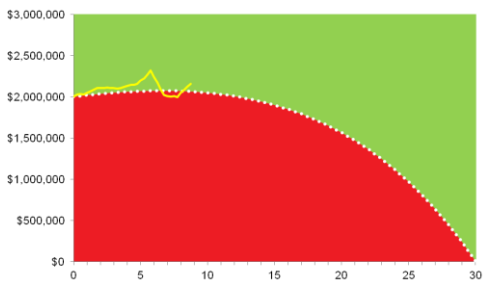
YEAR 8



YEAR 9



BACK ABOVE CRITICAL PATH



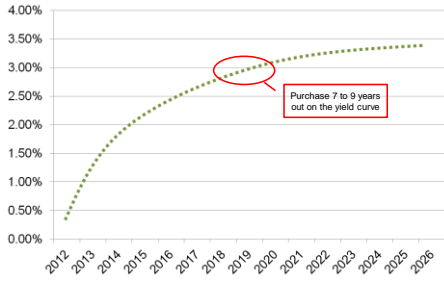
LONG-TERM PROBABILITY OF SUCCESS

Expected Return Over Rolling 30 Year Periods Since:

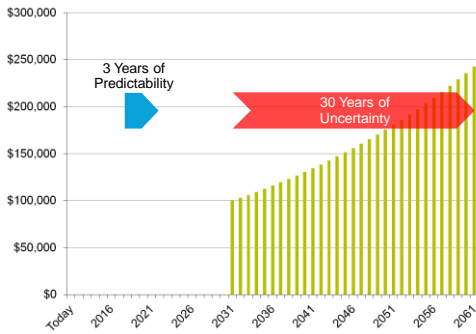
	1927	1947
Average Return*	7.7%	9.4%
Minimum Return*	0.0%	7.1%
Maximum Return	13.3%	13.3%
Average Longevity (Years)	28	30
Minimum Longevity	13	30
Maximum Longevity	30	30
Probability Portfolio Lasts 30 Years or more	83.6%	100.0%
Prob. Portfolio Above Critical Path Target After 30 Years	83.6%	100.0%

8-year Income Portfolio of US Treasury Bond, Growth Portfolio allocation to CRSP 1-10 Total US Market

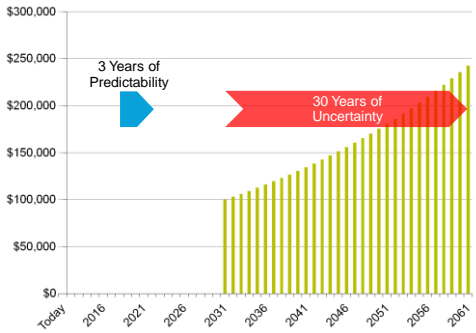
INITIAL BOND BRIDGE
EXTEND OUT THE YIELD CURVE



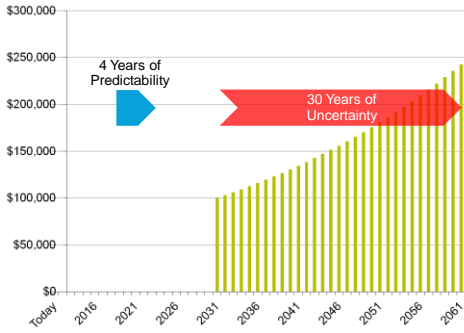
BUILDING TO RETIREMENT



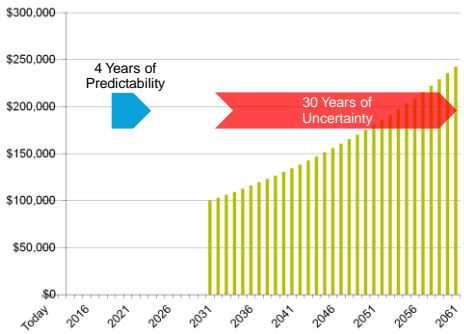
BUILDING TO RETIREMENT



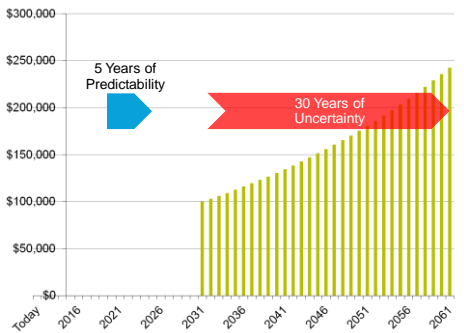
BUILDING TO RETIREMENT



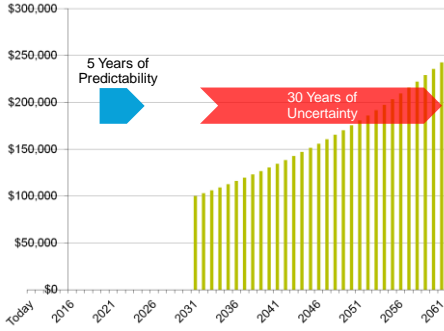
BUILDING TO RETIREMENT



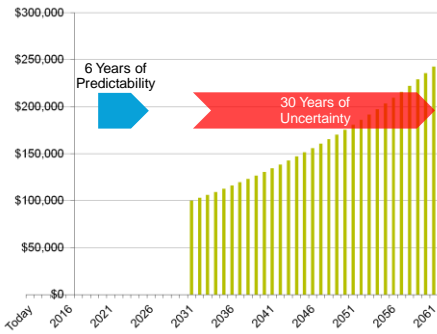
BUILDING TO RETIREMENT



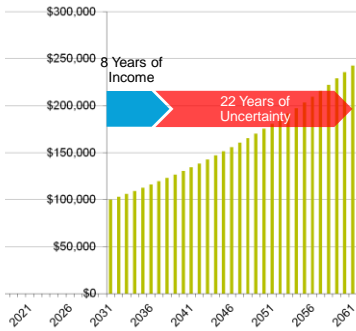
BUILDING TO RETIREMENT



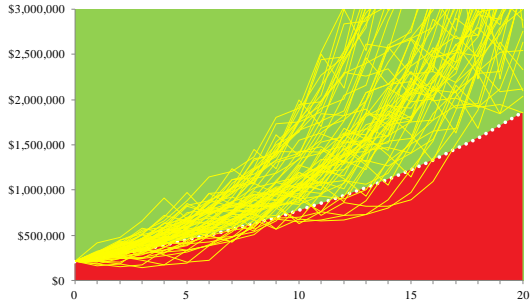
BUILDING TO RETIREMENT



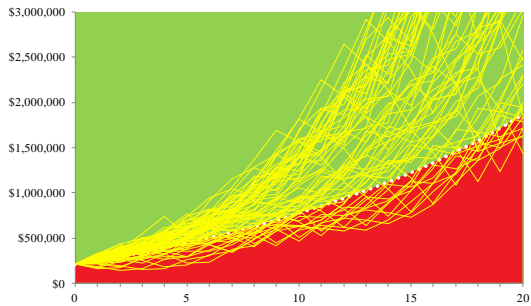
BUILDING TO RETIREMENT



REACHING RETIREMENT



THE S&P 500



Celia and Henry:

Age: 57

Assets: \$843,402

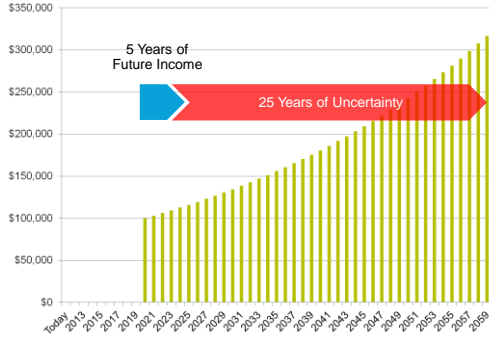
Annual Savings: \$35,000

Planned Retirement: 30 Years

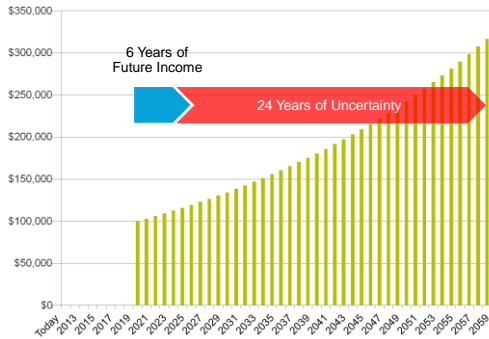
Plan Horizon: 40 Years



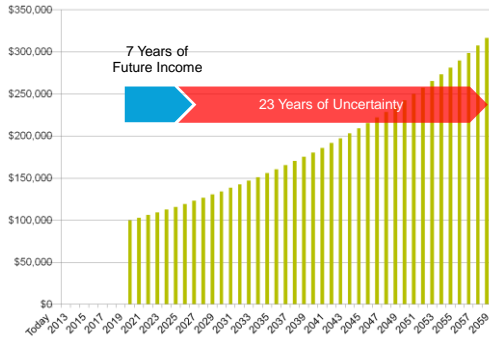
BUILDING TO RETIREMENT



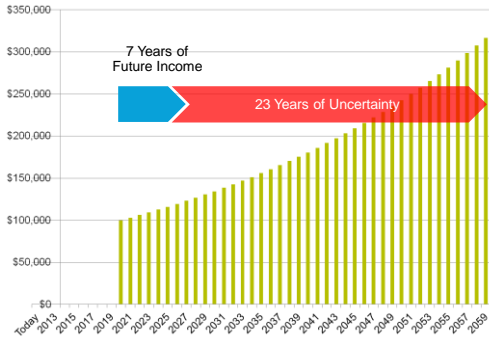
BUILDING TO RETIREMENT



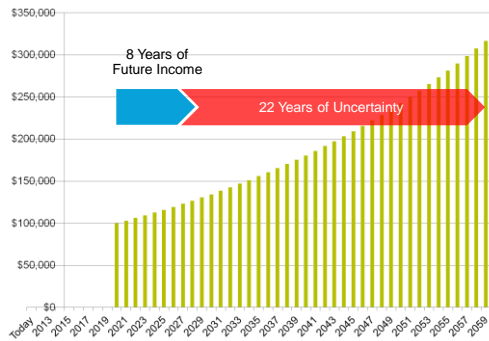
BUILDING TO RETIREMENT



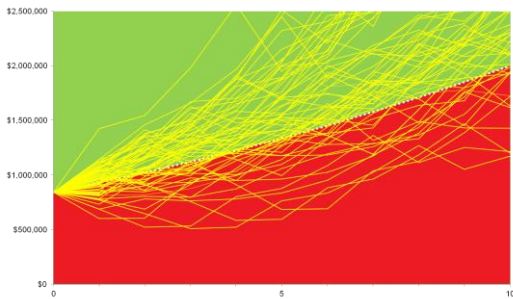
BUILDING TO RETIREMENT



BUILDING TO RETIREMENT



NOT A CERTAIN RETIREMENT TARGET DATE

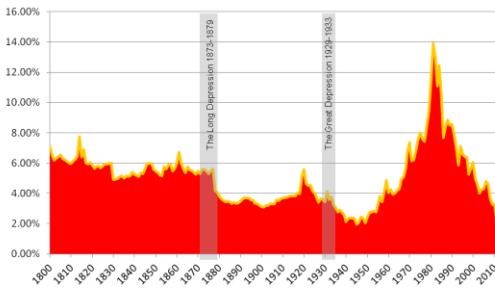


WHY NOT A BOND FUND?

- 1. Volatility around funding
- 2. Sensitivity to rising interest rates

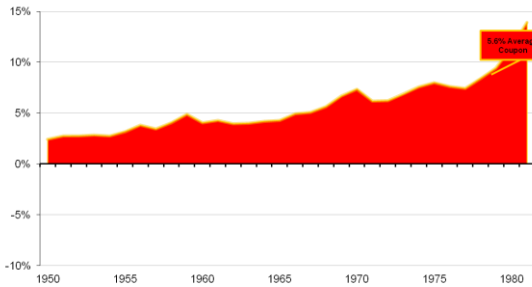


10 YEAR US TREASURY BOND YIELDS 1800-2010



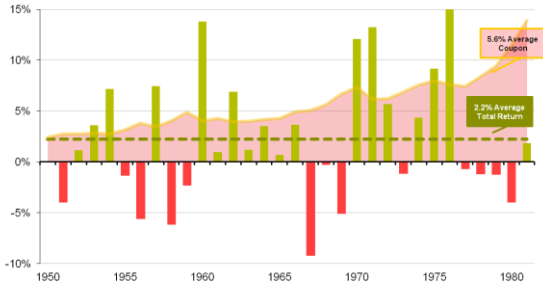
Source: Asset Dedication, U.S. Treasury, and Global Financial Data. Data through 8/17/2011

BOND FUND VOLATILITY REVEALED RISING INTEREST RATES 1950-1981



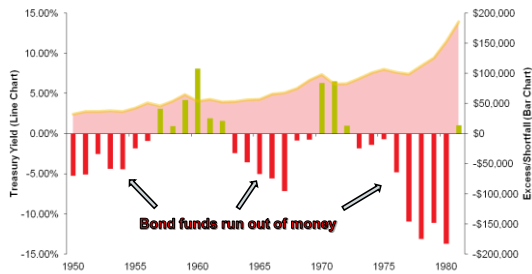
10-year Treasury Index is the proxy for high quality bond funds

BOND FUND VOLATILITY REVEALED
RISING INTEREST RATES 1950-1981



10-year Treasury Index is the proxy for high quality bond funds

BOND FUND INCOME VARIABILITY/SHORTFALL
COMPARISON OVER 8-YEAR HORIZONS 1950-1981



Starting value = cost of 8-year Income Portfolio for each year. Target cash flows = \$100,000/year plus 3% inflation. 10-year Treasury Index is the proxy for high quality bond funds

WHY NOT A BOND LADDER?

1. Cash flows are not tied to actual needs
2. Income is more expensive



In 2008, AIG was the largest issuer of fixed annuities.

US Government capital infusion = \$182 billion



Which is safer?

- 1. FDIC Insured CDs and Government Agency bonds
- OR
- 2. Insurance companies







QUESTIONS?
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WRITE PAPERS
