To EIPP, Or Not to EIPP?

A Guide for Telecom Employees

Stop Worrying. Start Planning.

To EIPP or Not to EIPP?

Taking the Steps to
Making Your Retirement Decision

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I. TO EIPP OR NOT TO EIPP?

Taking the Steps To
Making Your Retirement Decision

It's an opportunity, and one way or another you are going to make a decision. You probably already know the basic facts about the EIPP (Enhanced Income Protection Plan), but you may not know where you stand. It is really no more than a formalized severance package—an offer designed to sweeten your pot if you qualify and are willing to retire early—perhaps earlier than you had expected or planned. It sounds good, but even so, you may be wondering if you are ready to retire—wondering if you can *afford* to retire. The decision is yours, of course, but there are a lot of things to consider as an offer comes and then goes. There have been many offers in the past, yet you still have to wonder…will there be another one? You may even wonder how you would make the decision.

We've already helped many telecom workers and their families who have faced this decision. We've used our experience to create this guide that outlines the steps you may want to take and to share some facts you should know. These steps and facts should make the decision making process clearer. We can't cover everything that could possibly be relevant within the pages of this booklet, but we hope it will provide a solid track to run on so you won't have to simply wing it.

You are facing a decision that is both financial and emotional. When you joined Verizon, a decision like this one was probably the last thing on your mind, and while you realize there *is* life after Verizon, maybe you can't imagine what it will be. Well, no one knows the future, but we do know that good decisions are possible—not perfect decisions perhaps—but good ones.

So…how do you make the big decision about whether to retire or separate from service and work someplace else? And how do you make the numbers work? We think you'll have a clear shot at the answer to the first question by the end of this booklet. The second question—making the numbers work—is where the story begins.

But first, let's review the standard EIPP offer.

II. EIPP FACTS IN A NUTSHELL

According to your current IBEW contract, if you decide to accept an EIPP offer, you are eligible to receive $2,200 for every year of your service time (net credited service— NCS). This is not counting any possible enhancements or “sweeteners” that may be separately negotiated if the company is motivated to do so. The EIPP is basically a pre-negotiated severance package. If you qualify and if your pre-tax payout would be more than $10,000, you have a choice of how you may take the payout. You can elect to have the whole thing paid out over 48 months *or* you can choose to take half in a lump sum up front and spread the remainder over 48 months. What you can’t do is get it all up front—unless it totals less than $10,000 (or if you are close to or at age 67); if it does, that’s the only way you would get it. The formula is capped at a maximum of 30 years of service or $66,000. After taxes, this figure typically averages to a little over $1,200 a month for four years. *Note: In retirement, most income comes in monthly form instead of weekly, every other week or bi-monthly.* And finally, if you were to die before receiving all the money to which you’re entitled, the remainder will be paid to your estate. A few things to keep in mind to be eligible for an offer: You must have at least one year of net credited service with Verizon of New England, be covered by an IBEW bargained contract, and be within a job title currently declared surplus in your work location. Once you choose a payment option, your decision is irrevocable. Each payment is taxable at the state and federal rates. There are certain non-compete and rehire agreements that apply. You may or may not be eligible for unemployment benefits if you take this offer.

In choosing to accept an EIPP, your pension eligibility should be carefully considered. The difference between being service pension-eligible and ineligible can translate into a very significant amount of money you would be leaving on the table. Maybe you aren’t even close to pension eligibility and you figure that the EIPP gives you the perfect base for making a career change. That’s fine, but if you are nearing pension eligibility please consider the difference between your service pension value and the much smaller deferred vested pension you would receive if you didn’t meet the eligibility requirements. It may pay to wait—in some cases that means even if you don’t benefit from an offer.

The same applies from the medical angle. It is our understanding that under the current contract, those who are service pension eligible would receive full retiree medical benefits until age 65, and a Medicare supplement plan thereafter. However, those who aren’t yet service pension eligible would only receive six months of the company health plan and thereafter would be eligible for C.O.B.R.A benefits which they will have to fund out of pocket. At many companies, pension eligibility is determined by something called the rule of 75, meaning that if your age and years of service added together equaled or exceeded the number 75, then you are pension eligible. Your pension works a little differently however; it is only “something like” the rule of 75. If you have 30 years of service you are fully service pension eligible at any age. (So in theory if you were 20 years old with 30 years of service you would be fully pension eligible.) If you are age 60 with 15 years, or age 55 with 20 years, or age 50

with 25 years, you are also eligible. This may seem like the rule of 75 applies, but what if you were 56 years old with 19 years of service? Nope. So it isn't quite the rule of 75, but you probably get the idea.

If you are under age 55 and qualify but don't yet have 30 years, then you would be subject to something called "age discounts" which reduce your pension by half of one percent for every month you are under age 55. The reduction is capped at no more than 30% total reduction. This is an attempt to make the pension more fair as people who retire at an earlier age with the same pension amount would tend to live longer and receive more pension checks than an older worker who received the same pension amount.

So, in a nutshell, the EIPP gives you a severance of $2,200 for every year of company service time up to your first 30 years of service.

III. HERE'S WHAT LIFE IN RETIREMENT LOOKS LIKE

What it usually comes down to is this question: "If I retire will I run out of money?" Or "If I retire, how do I make sure I *don't* run out of money."

IF I RETIRE WILL I RUN OUT OF MONEY?

Let's look at a model of your current income stream in (Fig. 1). The company is at the top paying out your gross pay. That includes everything, even overtime. There's a bucket of money at the bottom. That's your checking account or whatever account you use to pay the bills. As the money goes from Verizon to your checking account, the amount gets smaller as various deductions drain out of the income stream and the money filters down from your *gross* paycheck to your *net* pay. Net pay is the money you then use to pay your bills and support your lifestyle.

As you look at your paycheck stub, (take one out and check it out if you have one around), you might see deductions for medical expenses, life insurance, union dues, company savings plans, maybe credit union contributions, and you will certainly see deductions for various taxes.

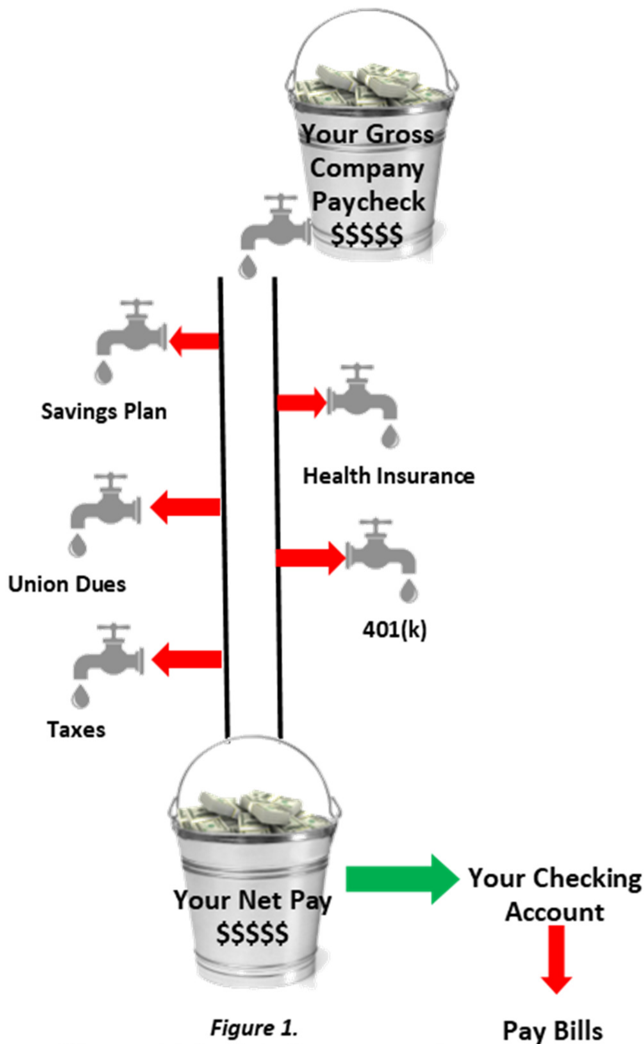


Figure 1.
This example is for illustration purposes only

Now once you leave the company, all of those deductions dry up—except for taxes, of course. And instead of a single paycheck from a single source—the company— you'll hope to start receiving income from several potential sources. (See Fig. 2.)

Instead of the company providing you with a paycheck, this illustration shows that your own money—your nest egg funds—will provide a supplemental income. Since it is only a *supplemental* income, it should be helped by other sources, and because there are so many fewer deductions, you won't need nearly as much *gross* income to get the same *net* pay you had while you were working. This is good news—but you still need to make sure you have enough to get the job done.

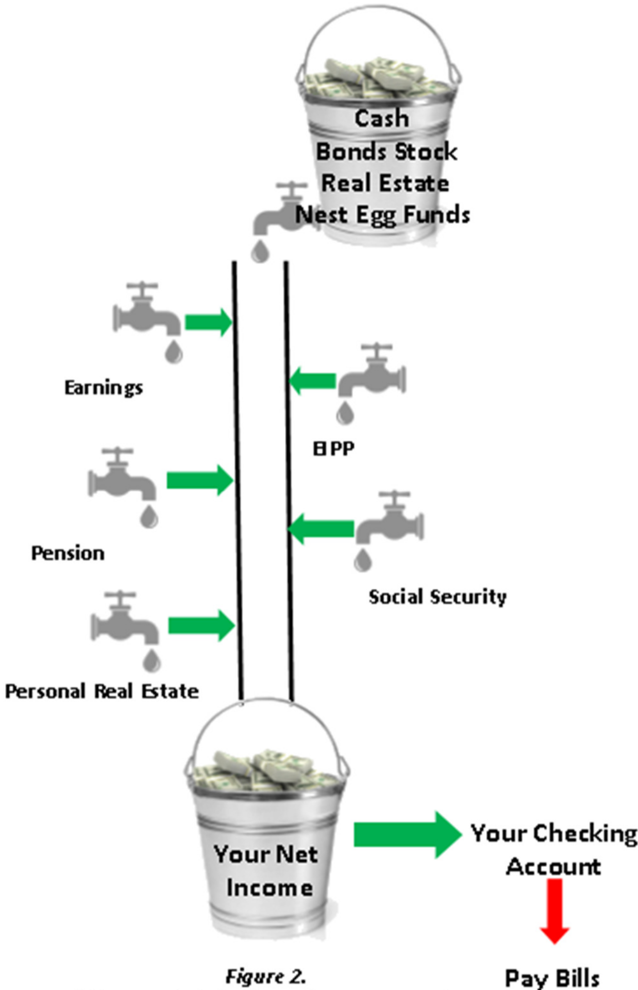


Figure 2.
This example is for illustration purposes only

As you look at Fig. 2, you'll see the faucets are all dripping funds *into* the bucket instead of bleeding money off of the pipeline. Your company pension may be there or maybe you traded it in for a lump sum buyout. You'll eventually be getting Social Security checks every month, starting some time between age 62 and 70. If wanted or needed, your personal real estate (i.e. your house)

can supply funds through a reverse mortgage, a refinance or a home equity line of credit (HELOC). [*Note: The proceeds from a reverse mortgage are not intended for investment purposes*. *They may be used to create a supplemental income source if the circumstances are correct. If such a strategy were potentially advisable it would be critical to consult with a qualified reverse mortgage specialist.*]

A significant number of retired people take on new jobs, (hopefully because they want to not because they need to), which supply post- retirement earnings. And finally you have the nest egg funds—that's the big deal.

So what is in the nest egg?

If you've saved money on your own, have built up the company savings plan—Verizon's 401(k)—opened an IRA, or gathered any investments, all of it is considered nest egg money as long as you aren't planning on spending it on some major purchase soon and as long as its purpose is to create a lifelong income that offsets the *need* to work.

If you do decide to take your pension in a lump sum buyout, you could put that into an IRA (avoiding any taxes—if it's properly done—until you actually needed to spend the money.) That would show up in the nest egg basket too. More on that later.

The point of these models is simply to show that you can still be financially okay in retirement, even without a regular company paycheck—as long as your nest egg is large enough and can safely provide a lifetime of cost- of-living adjusted income.

But you still need to get a handle on what your expenses are and what they're likely to be in the future. What changes are likely to happen? For instance, will a mortgage be paid off at some date? Will certain things slow down as you age? And the big question: what will inflation do over your lifetime…and your spouse's?

IV. DRAWING YOUR OWN FINANCIAL PICTURE OF RETIREMENT

DEFINE YOUR EXPENSES. This is the first task. It may require no more than pencil and paper to inventory your expense list. You might write down things like mortgage payments, car payments, credit card expenses, groceries—well, you get the idea—all the stuff for which you customarily write checks. However, a number of your present expenses will vanish or be reduced in retirement. Expenses like some transportation or maybe the cost of lunches. You probably you won't go through as much clothing and regular stops at Dunkin Donuts on the way to work may be fewer.

Two tricks might make the inventory task easier:

1) If you pay everything out of a single checkbook, including whatever credit card expenses you have every month, get copies of the last six statements for that credit card account and add up the total amount; then double the answer, (but make sure you include any bill you pay only once a year and exclude any one-time major expenses).

2) Now, if you feel you are living within your means, multiply your monthly take-home pay by the number of paychecks you get every year and add in any money you have sent to a credit union or other savings, but do not include the company savings plan or any IRA contributions. Also, be conscious of the overtime.

Best yet, if you are willing to, do all of these things, you'll get the most accurate idea of what you really can afford to spend. You won't—and can't—be exact, but you need to get close. Remember that from time to time, you will have certain big expenses like buying a car or replacing a roof, but these should already be averaged into your normal expenses. When you buy a

car, you either save up for it over time or pay it off over time from your normal paycheck- generated cash flow, right?

If you don't think you are living within your means, then do the same exercise, but figure out roughly how much your debt has risen in either credit card balances or home equity financing on average over the last several years (not counting things you probably wouldn't do in retirement like major remodeling or building an addition). Divide that figure by 12 to get a monthly amount and add it to the base expenses you calculated above. Now you have a pretty solid idea of what your pre-retirement expenses are. They are likely to drop in retirement, but for planning purposes this is a good start.

DEFINE WHAT MIGHT CHANGE IN YOUR FUTURE AND TRY TO FIGURE OUT HOW THOSE CHANGES COULD AFFECT YOUR RESOURCES. The list might include paying off a mortgage, making a move to someplace warmer, or seeing the end of college tuition expenses for the kids. Write down anything you can think of that could affect your retirement spending and adjust the amount calculated above. So you might have one expense level for the next six years, for example, because of the remaining mortgage and the last wedding you have to pay for, but then it might drop down to a lower level after that.

DEFINE WHAT IS IN YOUR NEST EGG. This is another inventory exercise and it is also not very hard. How much do you currently have between your own savings, your company savings plan and what would be available if you chose the lump sum buyout form of your pension?

Actually, whether or not to take the lump sum is a critically important decision in and of itself. If you take the lump sum buyout, it will be included in your nest egg funds. If you opt for the monthly pension it would be a separate income source. There

are both financial and emotional issues that come into play here. Since the lump sum is calculated by adding up all the monthly pension checks you are likely to receive based on your life expectancy, and by then adjusting for the interest the company would earn while they held it for you, you can use interest rates to determine how good or bad a deal the amount might be.

In simple terms, when interest rates are high, lump sums get much smaller since the company wouldn't have to put as much in the pot due to high future earned interest. On the other hand if interest rates are low, lump sums get bigger since the company can't expect as much to be covered by the interest it earns on the money. So as of this writing, interest rates are historically low making lump sums historically high. In fact this has become such a problem for companies like Verizon and others, that they successfully lobbied for a new law—now being phased in—that tries, in effect, to change the way the interest rates are calculated so the companies won't have to pay such large lump sum buyout amounts in the future. Your age is another consideration; the younger you are, the longer you are likely to live. Therefore the lump sum is larger because it would have to cover more years of paychecks; as you get older, that fact works against the size of the lump sum.

On the flip side, the monthly pension can be simpler to deal with as long as you can find a way to manage the rising costs that come with potential inflation and provided you can take care of leaving an income to your spouse in the event you predeceased him or her. The pension most likely will also address the longevity challenge, because if it works as promised, it will last your entire lifetime and possibly that of your spouse. There is some risk of pension failure; we've seen it happen with some large employers like Polaroid and several airlines. You have to leave it up to current and future company management to make good decisions and keep looking out for your best interests. A government-

sanctioned insurance company called the Pension Benefit Guarantee Corporation guarantees some percentage of your monthly pension, although they are currently facing serious financial issues. We would like to assume that promises will be kept, but as the world and corporate priorities change, it is possible that problems could arise.

Here's one strategy you could use if you want a predictable pension income but are concerned about underfunding or other issues connected with a Verizon- provided pension: you could take the lump sum buyout, then create a potentially more secure income by placing the money with several highly-rated and well-capitalized insurance companies through a fixed annuity. This could be especially effective if you believe that the current interest rates, which are historically low, are likely to rise in the future. This strategy would let you make automatic monthly withdrawals from these funds while you waited for a time in the future when you could turn the remaining funds into a potentially much larger pension-like annuity stream. This is something you should fully understand and another area where expert advice could be beneficial. The guarantees of an annuity contract, including fixed returns, payouts, and death benefit guarantees are contingent upon the claims-paying ability at the issuing insurance company. With either systematic withdrawals or free withdrawals you will still be subject to regular income taxes, as well as the 10% tax penalty on early withdrawals prior to age 59-1/2. You may also incur surrender charges on amounts withdrawn in the early years of the contract.

If you wish your spouse to receive continued pension payments in case you predecease him or her, you will give up some of your pension each month while you are both alive. This is referred to as a joint-and-survivor annuity, and it offers several levels of remainder income for the spouse depending on how much the two of you are willing to give up while you are both around. If you

are healthy you may be able to get a better deal than the pension can provide by using private insurance from one or more high quality companies because life insurance payouts are tax-free and the pension is not.

A potentially easier way to provide income for the family may be by taking the lump sum buyout and creating an income that both replaces the pension income and may leave assets for any designated heirs. Of course you will still need to make sound choices with the buyout; you'll need to strike a balance between making prudent choices and earning enough to get the job done, while at the same time, taking no more risk than you need to. (More about this in the next section.) You also may want to insure the income in some manner. There are options available to do this, and you can learn more about them from a professional financial advisor.

While you are inventorying the funds available to you in retirement, there are several things to know about the company savings plan and the pension buyout. If you choose that route, you should understand the options well before you proceed.

First, you may wonder how these funds move from the company into your nest egg. There are several options, but if you wish to avoid heavy taxation and potential penalties, there is a way for taking control of the money. You or your advisor would open an account called a "self- directed IRA" (Individual Retirement Arrangement.)

An IRA is not an investment; instead it is an account that can hold different kinds of investments. You open it with some provider institution, and its status as an IRA allows you to continue to defer any tax bill on what you earn within the account. You only pay taxes on what you take out in the year you take it out. It should be your own account and you should have control. Never give away

control of your money to someone else in retirement. Good advisors don’t need possession of the funds to help you, and they typically need very little control.

You should be aware that these IRA tax advantages come with strings attached, although the trade off may well be worth avoiding the potentially huge, immediate tax bill. If you withdraw money from an IRA before you have reached age 59 and six months, you will not only pay the taxes on what you take, but you’ll pay a 10% penalty too. There are several ways to avoid the penalty if you want to start income prior to 59-1/2, including 72(t) distribution plans. Once you reach age 70-1/2, you will be required to start taking at least a certain minimum amount each year so that Uncle Sam can start getting taxes in case you didn’t yet need the money. This is called Required Minimum Distribution (RMD). IRS Rev. Rule 2002-62 allows for penalty-free withdrawals from an IRA prior to age 59-1/2 when there would otherwise be a 10% penalty on early withdrawal. Withdrawals are taxed at your income rate. Payments must continue for the longer of five years or the attainment of 59-1/2. Therefore, once started, these become required mandatory distributions subject to the early withdrawal penalty if ceased. Investors should take into consideration the possibility of depleting their retirement account well before the end of their life expectancy.

By spending down your retirement income now, this can help to increase what is available to you out of social security. Please keep in mind that there is no guarantee that social security income will be available in the future.

Once you’ve established the IRA account, you or your advisor can perform a process called a “Direct Rollover” for your company savings plan, your lump sum pension buyout or both, which will result in the company sending you a check or checks made out to your IRA account for your benefit. The check should read

something like: "Such-and-Such IRA f/b/o Joseph H. Smith." Because the check is made out to an IRA and not to you personally, no taxes or penalties will apply, and you can then deposit the amount into your IRA account and maintain ownership and control without Uncle Sam or any state getting a cut—yet. Don't mess this up though, because it could mean the biggest and most damaging tax bill you have ever seen. We would be happy to help you make sure you do this correctly.

One point to note about your company savings plan: If you separate from service within the year you turn 55 up to age 59-1/2, you may want to leave some or all of your savings plan within the company. Even though the plan is very limited in investment options and not very user friendly for a retirement income, you can still make annual withdrawals that avoid the additional 10% penalty that would apply to an IRA prior to age 59-1/2.

DEFINE THE AMOUNT YOU WILL HAVE TO DRAW FROM YOUR NEST EGG FUNDS. We can assume you'll probably see a shortfall between your other income sources and your expenses; this shortfall amount is important. Once you've determined the figure for different time periods, there are two questions to ask: 1) Is this a reasonable amount to expect my nest egg to provide? 2) Can I work with this amount?

The answer is simply a math calculation. But for some of us, this is the place where we stumble, so it may be where the help of an objective and competent financial professional is much appreciated. Our firm also provides this service to any and all telecom employees and their spouses.

A word of caution: if you find yourself getting hung up at some point in this process—and this is a common hang-up point—it sometimes feels easier not to think about the issue. But this is probably not the best time to just hope for the best or bury your

head in the sand, and remember, whether you actively make a decision or not, you are making a decision either way which could be a really big one in your family's life.

V. UNDERSTAND THE CHALLENGES THAT ARE PRESENT IN RETIREMENT

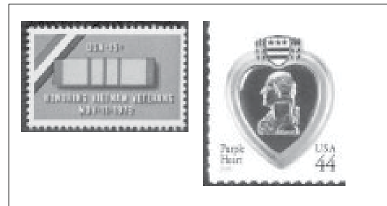
There is some risk in almost everything in life but most risks can be considerably reduced when you understand them. So be aware of the main challenges to your financial health you are likely to face in retirement. You don't need to fear them as long as you understand how to deal with them—and as long as you act rationally as the future unfolds.

IF A COUPLE REACHES AGE 60,THERE'S A GREATER THAN 40% CHANCE THAT ONE OF THEM WILL REACH AGE 95

Annuity Tables, Society of Actuaries

LONGEVITY. If you aren't going to live very long, making your retirement dollars stretch over your lifetime isn't much of a challenge. But few of us know how long we will live, although statistics are showing that life spans are increasing. If a non-smoking couple reaches age 60, there is now a greater than 50% chance that at least one of them will reach age 90 or beyond. So the challenge is to make your retirement money last as long as you do, even though you don't know what your lifespan will be. Longevity is obviously not a problem to be solved, just an uncertain challenge that must be accounted for.

INFLATION. If you are going to be around a long time then it is very possible that your biggest long-term risk will be price inflation. Consider these U.S. postage stamps; they are from 1979 and 2009 and give a good idea about inflation. In the 30 years from 1979 to 2009 the price to mail a letter in this country went from 15 cents to 44 cents— it almost tripled. And that is only about a 3.6% average inflation rate. So to put it in perspective, if the same level of inflation happens during your retirement years, the lifestyle that $50,000 provides today would require $146,000 to



feel the same thirty years from now. To put it another way, it would feel like your pay dropped from $50,000 to about $17,000. Inflation may be the single biggest challenge retirees of today will face.

So the challenge is to protect your purchasing power by keeping ahead of inflation. A CD paying 1.5% may not be able to do it on its own. You will need to also find investments that are designed to outpace inflation.

Remember that we said there is no risk-free choice for retirement income funds? A simple example would be mistaking stability for safety with respect to Certificates of Deposit. Sure, they're FDIC insured, and yes, they address the risk of price fluctuations, but they can't protect a retiree's principal even if they work properly. *What!* That seems crazy right? But what happens if interest rates drop while inflation increases your bills to the point where there's just not enough interest available to pay those bills?

You might think that you would just spend less in this situation. And maybe that's what you'd do—for a while. But you would be a rare person indeed if you could do that for very long. It is more likely that you'd start spending the very principal you were trying to protect with FDIC insurance. Then, in the future, if interest rates started to climb again, you have less principal and maybe still not enough interest—against potentially even more inflated costs of living. Not to knock CDs. They can be an excellent component of your strategy; they're just not the *only* component if you are trying to be as secure as you can be for the long run. This isn't limited to CDs either. Pick any investment you want and you can find its flaw. Both principal and yield of investment securities carry risks of fluctuation with changes in market conditions—a risk that does not affect CDs.

We believe that the most important thing to protect in retirement

is not your principal but your purchasing power. How safe would your principal be if a bagel and a cup of coffee cost $30? How safe would it be if you handed over $300 each time you wanted to fill your gas tank?

TAXES. We can't do much about longevity or inflation, and we certainly can't do much about taxes either. Taxes are brought down upon us by forces not of our own making. However, there are techniques for helping manage taxes to minimize, to some extent, their burdens on us. The challenge is to find those techniques and put them in place. And frankly, this is another area where a financial professional can earn his or her keep. Depending on what you have in your nest egg funds, it may be possible to engineer a more tax efficient income— leaving more of your money in your accounts in order to potentially deliver retirement income. It is important though to keep in mind here the difference between *tax avoidance* and *tax evasion*. … It can be about 20 years …

VI. THERE ARE TOOLS TO MEET THE CHALLENGES

When looking at your nest egg, you will ultimately have to decide how to best hold or invest the money in order to address the challenges of longevity, inflation and taxes and get your reliable paycheck at the same time. Much has been written on investing to accumulate wealth; we won't try to cover all of it here—the brief investment discussion in this booklet focuses on investing for retirement income which has significant differences. The investment world is starting to wake up to these differences and beginning to recognize that it is important to make good decisions while understanding how to address these challenges.

To get some perspective, consider that most Mount Everest climbers who perish do so on the way *down*. If you go to Google and search for "How to climb Mount Everest", notice how many results you get. Then change your question to "How to *descend* Mount Everest" and notice how much smaller the number is—get the idea? As the baby boom generation rolls into retirement, financial experts who have focused on the ascent, are starting to realize how important the retirement area is.

Please don't misconstrue this basic overview for any specific recommendation to act on. Beyond the basic background provided here, you may already have enough expertise to make good decisions, or you can educate yourself further.

One book we highly recommend is *Simple Wealth, Inevitable Wealth* by Nick Murray. In fact, we will provide telecom workers with a copy (at our cost) if they agree to read it and pass it on to someone else who could benefit from it. Just send us an email requesting the Nick Murray book, along with your name, address, work location and NCS date to info@cprp.com.

THERE ARE NO RISK FREE INVESTMENT CHOICES AVAILABLE

Although we are biased, we truly believe your best bet would be to seek out a competent advisor who can educate you as to what might best fit your situation. The most important thing an advisor can bring to the table in this area that you can't is objectivity, which can prove extremely valuable.

You should first understand that for someone who needs to take a reliable income from his or her nest egg there are no risk-free investment choices available. It doesn't matter if you put cash in the mattress or in a coffee can. It doesn't matter if you take the company pension, or use government bonds, gold, or whatever. Every choice— every single choice—has at least one or more significant risks that are likely to show up over the course of a long retirement. So you must accept that you will absolutely be exposed to several different types of risk and no single investment choice can address them all. However, this is not an insurmountable problem, and it can be dealt with. We are big proponents of using a whole toolbox of diversified investment tools working together in order to provide the most reliable income possible—a well constructed system.

We can boil down the main—or core—investment choices available for providing retirement income; there are only four categories: cash, bonds, stocks, and real estate (this, by the way, is investment real estate, not the personal kind that includes your residence).

CASH. This isn't just the stuff in your wallet or the ATM. We're talking here about the money you hand over with the expectation that it will be returned to you along with some amount of interest. It could be any choice where the

principal is stable if held to maturity, but interest rates fluctuate or are set at zero (think checking or savings accounts, certificates of deposit, or money market funds). The powerful advantages of cash holdings are day-to-day stability and relatively more liquidity (that means it's available to take back when you want, but make sure you're aware of any early withdrawal penalties before investing.)

The disadvantage is simple too: cash holdings, whether CDs, government T-Bills, or savings accounts, may not earn enough, over a 30-year retirement period, to maintain a significant income after taxes and inflation. You can pick any 30-year period since 1802 and figure out what amount of steady inflation-adjusted monthly income you could have taken without the money running out. The answer will probably not impress you, and you may conclude: "I can't live on that!"

Conversely, if you take what you most likely need, you would probably run out of money before you "ran out of time." It is a question of a "withdrawal rate" or how much must you take each year to pay the bills? Unless you have what most people would consider to be a truly huge amount of money, you may not get the job done with just cash investments.

BONDS. Bonds operate the opposite way from cash. While cash maintains stable principal even though interest rates fluctuate, bonds typically have fixed interest rates—even for long periods of time—but the principal value can fluctuate when the bond is bought or sold. Cash and bonds are both loan investments and are collectively referred to as "fixed income" investments. When anyone buys a bond, it is a loan of some money against a promise to pay back the loan in the future with interest. So, put it in simple terms, bonds and cash investments are basically a form of an IOU.

In fact, the U.S. dollar bill literally used to be an IOU for an amount of gold until the Nixon administration took us off of the gold standard. In the case of bonds, you can buy or sell the IOU before it comes due. We don't necessarily mean individual bonds, although that is a possibility, but we're speaking here of owning pieces of many different types of bonds from many different issuers. Fixed investments are subject to market risk, interest rate risk, and credit risk. Such investments are subject to market fluctuation and may be worth less than the original cost upon maturity. High-yielding, non-investment grade bonds are considered to have speculative elements and involve higher risk than investment grade bonds. Adverse conditions may affect the issuer's ability to pay interest and principal on these securities.

COMMON STOCK. Stock and real estate are "equity" investments where you own instead of loan. To be clear, when we talk about stock, we don't mean the stock market which is an institution for buying and selling stock. We also aren't talking about gambling on the short- term price fluctuations of some individual company. Instead, we mean owning pieces of the businesses of many, even thousands, of the great companies of the world as lifetime business owners – not as speculators. This would include businesses of every size and type and in every industry—plugging into the world's economy.

REAL ESTATE. Investment real estate (as distinct from personal real estate) helps you to build further diversity into your portfolio either through buying and managing your own pieces of real estate or by participating in a packaged or pooled investment approach such as a real estate investment trust (REIT) or some sort of fund dedicated to or which includes real estate in its mix.

While past performance doesn't guarantee future results, you can take a lot from the lessons of history in understanding the characteristics of the different choices. Here is something very

important. When considering the four core investment choices, it is important to understand how their strengths and weaknesses relate to each other so you will understand how to blend them.

The most fundamental thing to understand is that historically the intrinsic value of fluctuating assets, like stocks for instance, stays much steadier than you might realize. The daily market price may fluctuate dramatically—cycling up and down around the intrinsic value. And while past performance cannot guarantee future results, looking back to 1801, we find market price has always cycled around this historically increasing internal value.

In short, there are no risk-free investment choices available. So where's the good news? The good news is that when you blend these things together, you can create something where the whole is designed to be greater than the sum of its parts. Basically from the advisor's point of view, you build your retirement "vehicle" using equity investments to provide the horsepower and the drive train while using fixed income to give you a stable chassis and suspension system. They work together and without either, your portfolio may not fit your situation.

There are several ways to build a diversified mix of investments in your nest egg accounts. You can own individual shares of stock, bonds, and CDs, but managing to own enough of them in the mix is probably impractical for an individual; you would likely be better served using what we call packaged products such as mutual funds, exchange traded funds (ETFs) or deferred fixed and variable annuities.

Make sure you really understand how they work and how you pay for them. This is also an area where professional advisors may help you cut through the clutter and teach you quite a bit very quickly. Before making the decision to use vehicles that are sold by prospectus and that have differing advantages and trade-offs, make sure you thoroughly understand them. This is another area where a professional advisor can add value.

Many of our retired clients feel like the money they have in

their nest egg should be treated like a “golden goose.” Instead of eating the goose, they want to live on a lifetime supply of golden eggs. The idea is to keep the goose healthy so it can provide a steady supply of ever bigger eggs, but if you start to cut off a wing or a drumstick by treating the nest egg like a slush fund, you risk running out of eggs entirely during your retirement, and the goose is probably going to die.

VII. APPLYING THE TOOLS—THE FUNDAMENTAL STRATEGIES

While a well- balanced nest egg portfolio contains some of each of the four core investments, it should be noted that we believe that there are two strategies for working with these tools assuming you don't expect to ever be able to predict future market movements and you want to try to earn enough without taking any more risk than you need to. They are called asset allocation and rebalancing.

ASSET ALLOCATION. This is simply the business of selecting a mix of the core choices that you believe will meet your return needs with as little overall risk as you can tolerate. More equities (company stock and real estate) equals more potential return but more potential price volatility (ups and downs). More fixed income equals less potential return but less potential volatility. You need to determine where the proper mix is for you based on your income need (withdrawal rate) and your personal risk tolerance. Asset allocations do not guarantee a gain or protect against a loss. Instead, the process attempts to narrow the range of possible outcomes in an attempt to increase predictability of results.

REBALANCING**.** Once the asset allocation mix is created, we believe it is best tended by a process called "rebalancing" which attempts to manage or optimize the risk relationship vs. your potential results. The purpose is to make a so-called "deal with heaven" by trying to trade off doing really well when the economy and markets are strong in order to protect your results in bad times when markets perform poorly. Rebalancing doesn't guarantee better performance, instead, it is intended to narrow the range of possible outcomes—so in certain circumstances you may have done better, but in others it helps keep you from doing

as poorly.

To rebalance, you periodically readjust the mix, which fluctuating prices have caused to drift out of balance. You bring it back to the same mix you started with and felt was appropriate (back into balance)—without having to figure out when to do it. You just keep doing it on some set schedule—quarterly, semi-annually or annually, for instance. By doing this, you tend to be moving some money from areas of your mix that are becoming more expensive and therefore more likely to cycle down and into areas that are less expensive relative to your other holdings. Then when the big wheel of the economy spins around causing, more expensive things to become cheaper and vice-versa, you have been stocking up on the cheaper stuff and paring down the more expensive stuff.
Asset allocation and rebalancing isn't perfect, and there are things you should understand about this process before you commit to it. A competent professional advisor can educate you about benefits and limitations of rebalancing or you can do some research on your own. But we suggest that either way you find an acceptable and realistic strategy that you believe has the best chance of protecting you against the challenges that a long retirement will throw your way.

When you are investing for a reliable retirement income, there is a unique but fundamental challenge called "sequence of returns risk" that can lead to retirement shortfalls. This is a challenge for retirees who are trying to earn enough to offset the affect of inflation and taxes while taking a significant amount of income each year from their nest egg.

The problem happens when an investment portfolio on its own would have earned enough *on average* over the retiree's lifetime, but unfortunately, more of the "better" performance happens

later in life while more of the “poorer” performance happens early on in retirement. The result is that too much principal is used up while waiting for better days, which only come too late, causing the retiree to run out of money prematurely. This is not unlike the example used earlier to describe what the difficulty with relying exclusively on CDs in a rising inflation scenario. The first level of defense against this problem is the asset allocation strategy—which is then coupled with a program of disciplined rebalancing. Both approaches attempt to manage volatility while trying to keep the potential for enough earnings.

Of course, all of this only matters if you are, or if you will be, taking an income from your nest egg money. In this case, the level of income is obviously very important. Be careful that you aren’t asking too much in terms of what your portfolio can safely provide each month by setting a reasonable draw rate.

VIII. DRAW RATE.

A general rule of thumb, known as the "4% Rule", for what most would consider a traditional balanced portfolio of investments might run this way: if you retire between ages 50 and 60, a 4% draw each year, ($4,000 for each $100,000 you have) is widely considered to be a safe enough rate, and would give you a high probability of not running out based on history. Certain exceptionally negative scenarios may still call for your being able to reduce this level and the possibility should be part of your action plan unless you choose to strengthen your downside protection by using an alternative. Each subsequent decade then raises that safe draw amount by a percentage point, so between 60 and 70 it would be 5%.

GENERAL RULE OF THUMB FOR DRAW RATES

BETWEEN 50 - 60 = 4%
BETWEEN 60 - 70 = 5%
BETWEEN 70 - 80 = 6%
BETWEEN 80 - 90 = 7%

Unfortunately when we view the past 200+ years we find there are many times in history this approach would have failed in one of two ways. While most think of running out of money as the only failure we also need to consider the other end of spectrum, individuals who could have afforded to withdraw more, and in some cases much more, than 4%. Those who limit themselves to a 4% withdrawal rate in times when it is unnecessary could be making needless sacrifices to their lifestyle (upside failure). Conversely, in cases where 4% is too much the risk of running out early becomes a very real possibility.

Using data from some of the world's leading economists we see there are times when 4% would have resulted in a successful retirement but many times 4% resulted in either upside or downside failure. With this data we have developed the TRU

Method, a new valuation tool allowing us to calculate the internal value (rather than daily market price) of a given portfolio and the income generating power its investments have for a given retiree.

As we see with the “4% Rule” there is no one size fits all approach to the withdrawal question in retirement. The TRU Method allows us to calculate an individual withdrawal rate for each portfolio and account for many of the variables retirees face. As mentioned earlier daily market price may fluctuate dramatically but historically cycles back to its intrinsic value. So rather than using the daily market value to determine withdrawal rates we need to find the internal value of a given portfolio which the TRU Method is designed to do. When applied historically the TRU Method eliminates all downside failure (running out of money early) and greatly mitigates upside failure (drawing less than one can afford). Furthermore the TRU Method is used to drive asset allocation to the area’s that are priced below intrinsic value creating more potential for growth in the portfolio and a potentially larger retirement paycheck.

IX. POINTS OF ACTION.

The retirement decision can feel like you're standing at the end of a high diving board. And there are important, and yes, even complicated, choices to make. You can decide to retire. You can decide *not* to retire. Or you can decide not to make a decision. This may sound like there are three choices but there are really only two. The decision not to decide is really a no vote. You can kick the can down the road, but there will still be a can down the road.

YOU CAN KICK THE CAN DOWN THE ROAD BUT THERE'S STILL A CAN DOWN THE ROAD

There's one more decision: do you want to build your financial retirement team?

Many folks handle their retirement issues on their own and many do it successfully. But for others, both the issues and choices seem overwhelming or a bad decision down the line derails them. For these people, the services of an experienced professional retirement income advisor can be valuable. If you are considering tapping into the value a professional can bring, understand that you should have a conversation with that individual and that you should feel comfortable with him or her.

Consider this an invitation to make an appointment with Compass Point Retirement Planning, Inc. to ask your questions. We have been independent retirement income advisors for over 20 years, which means we aren't affiliated with any particular financial product company and can give you independent advice tailored to your specific needs. We specialize in helping telecom families well beyond these retirement decisions, and our clients expect lifelong help and guidance. We have already helped hundreds of telecom families and retirees all over New England make the successful

transition into retirement. Our team approach is unusual in this industry as is our unique focus which is on retirement income planning— specifically on securing a retirement income stream in the face of inflation, lifetime income in the face of inflation, taxes and challenge that an unfortunate sequence of market returns brings.

The best part may be that because you work for the phone company we won't charge you to figure all of this out. You will only compensate us if and when you choose to have us become your trusted advisor—and that choice will be totally up to you and your comfort level. And if you already have a relationship with an advisor, why not take advantage of a second opinion? There's no cost to do so, and you might learn something interesting.

To request your consultation, call us at 800.246.1433 and ask for a Verizon employee initial consultation or email to info@cprp.com with your name and preferred contact information. We will set up an initial telephone appointment to learn more about you, then set the next steps in motion. There is no cost for this review, and it is obligation free. We hope to hear from you soon!

Should I Accept an EIPP Offer?