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Title: How to Deal With Retiring Clients

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## **How to Deal With Retiring Clients**

Clay Gillespie, CFP

What I wanted to go through is the process I deal with. Because I believe, to be successful, you have to have a process and treat it as a process, so the client understands the process and also understands the market I'm in. I deal with close-to-retired in my market and the people I deal with are in the upper middle class or middle class. My definition of that is people who are going to use a significant amount of their financial assets through their lifetimes. There's a risk they're going to run out of money. I don't deal with the high net worth market where we're worried about just preserving capital. I'm worried about preserving the income.

I deal with this part of the market because there are a lot of people here, and I believe they're underserved, and they're not well known. There seems like we hear a lot of discussion about it, but many advisors just don't spend the time to understand how this market is different than the accumulation market. And it's completely different. For me, a prospect is someone who is five years from retirement. I do not grow clients; I acquire them when they contemplate retiring.

In addition, and we've heard the countless things against this: I do not pursue the children of my clients. They have a whole set of needs. They have a whole set of problems that I know nothing about. And I'm not smart enough to know all that, so I focus on one market. Now the problem with this is I deal with the retiring clientele, which is good because they have a significant amount of assets, but I lose about \$6 to \$12 million a year because of the death of my clients. That tends to happen in January and February, for some unknown reason.

In addition, my practice pays out approximately \$12 million a year in payments, not including fixed annuities. So there's a lot of money that goes out of the door that really has nothing to do with me.

So, the first part you have to understand is the definition of retirement. The definition of retirement has changed. It now means having the ability to do what you want, when you want to do it, but not for income reasons. It is when your pension entitlements and investment assets can maintain your standard of living for the remainder of your lifetime. This does not necessarily mean that you quit working. Quite to the contrary, there are a lot of people working long beyond the point where they could financially retire. They're past the definition of retirement. That's how it's changing. It just may change what type of work you do and how you do it and how much grief you'll take at any particular job.

The other thing that people don't realize in our industry is how difficult retirement is. It's important to understand and emphasize with your prospects and clients that retirement is actually a very, very traumatic time. Many people do not initially realize how much of their social life and personal sense of worth is tied up in their profession or job. For many people, their job is their identity. From my experience, people who retire slowly enjoy a significantly better retirement than people who retire suddenly. I don't have any hard and fast rules, but it seems that people who work to age 65 and retire suddenly, are dead five years later. The people who tend to live a long time tend to do something with their lives. I believe you have to have some reason to

get up in the morning. So, we encourage people to try to retire slowly. We encourage them to work a couple of days a week, develop a retirement lifestyle so work just gets in the way of their retirement.

Many individuals take a great deal of satisfaction from being able to support their families through their hard work. It is very difficult for many individuals to all of a sudden come to grips with the fact that it's no longer their personal abilities that will maintain their lifestyle and their income, but it will come from investment assets and pension entitlement. This is difficult to understand, that their economic well-being now has nothing to do with them. It has to do with all the time they spent accumulating, but it's hard to realize that and you really have to empathize that with these people.

Individuals will also need to develop new relationship models in retirement. The traditional model where the husband works and the wife takes care of the family (I know that's starting to change but retirement still is a lot like that now), can be quite stressful in retirement. The husband retires and proceeds to tell his wife how to run the household, even though she's been doing it successfully for 35 to 40 years. In addition, this is a problem. People don't realize it. This is not a joke. They actually have to spend a lot more time together, and this is a problem.

One of the things you see is divorce rates skyrocket right around retirement. You have to empathize with what they're going through. They say this is the golden age, or whatever word they want to use. This is the golden age, but it's not like that. It's very stressful.

The other thing you want to address is, when people retire, you have to warn them: The first two years of retirement is a mess. What I mean by that, for retirement income planning reasons, is the first two years people have pent up demands. They wanted this trip to Guam. They wanted to fix up their house. They had to finish this project. It takes them about two years to finish up these projects and then, eventually, they have nothing left. That's not a retirement lifestyle. For income reasons, it's going to take longer than two years before we actually know what the retirement income is going to be. So, you have to give them some guidance and make sure they understand that that's actually going to happen.

What I want to go through, a little bit, is my process. Again, nothing exciting here. It's just a process that I do over and over and over again. Typically, a prospect for me, as I mentioned, is somebody who's five years from retirement. They'll have one or two accounts from previous advisors and they'll probably, in most cases for me, have a company pension plan, usually a defined contribution plan. I find about five years prior to retirement people start to seriously consider what retirement will look like. Before that, they haven't really thought about it. They should have, but they haven't. I'm not picking on any of your clients specifically, but it's really hard for people to look that far in advance.

They start looking for answers, if their current advisor has not discussed these topics with them, which they haven't in most cases. It's not that their current advisor is doing a bad job, it's just the current advisor focus on accumulation issues. Rate of return, volatility, all these issues that, while interesting, are not what a retiring individual cares about. What they care about is: How much money is going to go in my bag every month for the rest of my life.

The whole process for me starts with a prospect calling in to book a meeting. How I prospect is a different topic, but that's where the process starts. At this point, we'll send out an introduction package. It can be either hard copy or electronic format. In this package, we want to provide all of the relevant information the client would want, or should want, to know about the firm ahead of time. We're trying to give them as much scope and understanding of our firm even before I've met them. So, we start with an introductory letter. In this letter, I let the prospect know that the first meeting will be at our expense, i.e. no charge. In addition, I ask them to come prepared to the meeting to discuss their top three financial objectives. I'm not going to discuss any specifics really about their situation. All I'm trying to do is figure out the big picture of what they're trying to achieve, so that's all I ask them to bring.

Secondly, I send out a corporate brochure. This is a brochure designed for our firm that sets out our guiding principles of our firm, a financial lifecycle description so they can see where they are in this process, and our planning process. You want to give some context and some understanding from your firm. A current newsletter, the content for this newsletter is developed in-house. We send this newsletter out quarterly to our clients. Sometimes it's on time. The advisors of our firm all write the articles. If you'd like to see a copy of our newsletter, you can just go to our Web site which is [www.rogersgroup.com](http://www.rogersgroup.com). The newsletter allows us to discuss issues that are important to our clients within our business model. What we see a lot in our city is a lot of firms will use a newsletter service and they'll just stick their name on it, but it doesn't really always talk to what's specific to what their clients are asking. And, the other problem with it is that clients can get two or three of the same newsletter, which kind of denigrates the newsletter they're getting. I also send out a personal service guide. This is a guide to the services of Clay Gillespie. It sets out my specialties, the services they can expect to receive and how I'm paid. It also sets out my credentials. You're trying to get rid of a bunch of the questions before the meeting so we can get to what's actually important to them.

I send out a team bio. It is important to build the team concept right from the start. It will make client management much easier in the future. I do believe in making myself dispensable, that's one thing we all strive for, but you have to start that right from the start. If they think you're the only person they can talk to, it's tough to leave the office. Once the prospects and clients get to know other members of the team, it will start to free up time for you to do other things. I've had the situation where I'll talk on the phone with a client and they'll say, "OK, I've got to go. I'll call Carla to implement." And that's the end of my discussion and I try to say, "I can pass on the message." So you're trying to get them to understand that there are other people on the team that can do stuff.

This also gives you the opportunity to promote the education experience of your team and members. This is also important if you ever plan to use these people for succession plan reasons. They've already developed a relationship with a bunch of your clients naturally.

The other thing I include is media clippings. I include a recent article where I was quoted. This is the topic for another session, how we do that, but the media can really build your credibility with prospects and clients. It makes it easier to refer. If you're in the media, you must be right. We all know that. So what happens is for existing clients, when they see you mentioned in an article, it

makes you much easier to refer. What you have to remember is it's not getting in the article that's actually useful, it's what you do with it afterwards, attaching it to things and so forth so people can see it.

When the client first comes into the office, this is probably the first 10 minutes or probably 10 of the most important minutes, we won't talk about any financial stuff. I have 99 percent of my meetings in my office. This frees up a lot of time as I'm not traveling and I have all resources at my fingertips. Traveling takes a lot of time and they ask you questions and you just don't have it with you. The clients arrive in the lobby and they're met by one of my assistants. They are taken to my office and the assistants have engaged in some type of small talk to make the prospects feel more comfortable. They're offered coffee or tea that is served in cups, never in paper or Styrofoam, never in cups that have logos. You're just trying to make it a professional atmosphere when they come in.

They are seated in my office and where they are seated in my office is important. Out my window, where they're seated, they have a great view of the city of Vancouver, we overlook the harbor. And the second thing they do, if they look to the left, they can see all my credentials on the wall. I do this so when I enter the office they're feeling comfortable. I'm walking into their space rather than them walking into my space. You want to do everything possible to make the clients comfortable when you first get in.

As an aside, this seems to annoy the colleagues of my firm because I tend to have nowhere to go so I go bother them. That's one of those things.

Before the meeting, I would have prepared an agenda to make sure that the points that I wanted to discuss in the meeting are noted, so I do not forget anything and I have control of the meeting. You need to have control of the meeting because you want to make sure you get what you want done and to make sure you find out what the client wants. One of the first questions I ask is what needs to happen over the next 45 minutes for this meeting to be successful in your eyes?

This question gives the perspective client a timeline so they're not expecting there to be four hours to this meeting. They know the next 45 minutes, so I've set that objective. And it also allows me to find out really what is their burning issue. Ultimately, we're trying to solve their problem, so you get to tell them right up front. Then you can adjust the agenda as required to make sure you put that in there. Don't answer the question at that point. Keep your agenda going, but you know you have to answer that question.

At this point, I'm trying to find out if they're a good fit for me and they're trying to find out if I'm a good fit for them. It is no good trying to be all things to all people. If you're not going to be a good fit, it is best to find out early in the relationship. It's much more stressful dealing with the situation later. A messy breakup down the road is not worth a couple years of revenue from the client. Make sure you ask them why they left their previous advisor. This will give you an idea what kind of service level they expect and, if you can't do it, don't take them on as a client. I know you have these clients where the phone rings, you pick it up, it's Joe Smith. Your heart sinks, any energy you had, any feeling of self-worth is gone, and you spend a significant amount of time on that.

Q. ...

A. I'm trying to find out. I'm asking some questions to figure out. It may take me another meeting to do that. It's amazing if you ask the right questions, the personality of this individual comes out quite quickly. You know: "OK. How much does it cost?" These types of things. The first word out of your mouth. You're not always right. You are going to have clients, a couple of years later, that you're going to have to fire because you were wrong doing it here. I don't talk about it here, but fire clients who are these people who just drain the living life out of you. They should not be your client, no matter what the revenue is.

So at this point in the meeting, what we're doing is we're spending time talking about their top financial concerns. Since they're coming in around retirement, because that's typically all I deal with, how much income they can generate in retirement is usually one of their top objectives. They phrase it a million different ways, but that's what they want to know. That's why they're looking for somebody who deals in that market.

In this time, we have various discussions, because we're trying to build a rapport with the client, as we all know, and we're trying to figure out what type of client they are to give what kind of information they're going to need. I quote a fixed price to prepare a financial plan for them. This price I charge is not designed to make money, which seems counterintuitive, but it encourages a buy-in to the process. I do not charge by the hour, because if I do, the prospect is always looking at their watch making the meeting much more stressful than it needs to be. "Can you get this done in 10 minutes?"

I will tell them I will prepare a plan and they are free to implement it anywhere. That's what's important, because I say we can't do anything for you until we prepare this financial plan and you can implement it anywhere. That takes a significant amount of stress out of it. They paid for it. You've told them they can implement it anywhere, so it's amazing how you have a much freer and more open discussion than if they're waiting to hear what you are going to sell them.

I send them home with a detailed questionnaire to complete, along with a postpaid envelope, or I'll e-mail it to them and they can fill it in and e-mail it back, whatever they like to do. I don't get into details in the meeting, not because I'm not good at fact gathering. When I send it out with them, I get much better information when I'm not in the room. I don't know whether they're looking at me, gauging me to see what they're saying makes sense to me. My opinion at this point is irrelevant. I want them to discuss this with their spouse when I'm not around. It also allows them to look up information. And I ask it, they tell me everything.

I tell them if I've not heard from them in six weeks time, I will follow up with them. If they decide not to proceed, I ask them to send me an e-mail or leave me a voice message. I'm not interested in doing huge financial plans, spending a lot of work, and that person had no intention. I think the term is "tire kicker." I also find that in the media. Anybody who calls right out of the media tends to be a tire kicker. They scare me intensely because you're going to spend a lot of work.

So the fee allows you to qualify the person. I believe if a prospect is not willing to pay a fee for their financial future, they'll probably not be a good fit for me.

In addition, it takes a lot of stress out of the meeting as they know any questions or concerns they have are being answered in the report and they do not feel pressure to buy anything. This may be subtle in how I've done this, but all you're doing is trying to take stress out of the situation while getting your point across for the implementation. Because, if they're not paying something for it, they know you're doing it for a reason.

Q. ...

A. It matters. The more I want them, the lower it is. So, if it's a client I don't want, it's really high. So, I'll do \$5,000. If it's a client I want, \$250 to \$500. The fee is not meant to generate any revenue, per se. It's just to get a buy in. I'm thinking whether to adjust that or not, to give it more credibility, because the higher the fee, there's more credibility, but you want to make it not too high that you still get the buy in to the process.

I tell them when we receive the questionnaire back we will call to book a meeting. The day we get the questionnaire back, I tell them, we will call them to book a meeting 10 working days out. I explain to them that this will allow us time to do our work. I also tell them we'll probably call to verify a few things. This gives client structure to the process. What clients don't like is surprises. They want to know what's going to come. We heard earlier about a process and a structure. I haven't named ours and given it any fancy titles, but clients want to know what's coming next. So, when they mail it in, they know they're going to get a phone call. What I tell them is once you've sent me that questionnaire, you've decided to engage me for whatever fee we quoted originally. If you don't send it in, you won't engage our services.

So now this is the second meeting which is, remember, 10 days after we've, and it's amazing how many of the meetings are exactly 10 days after we've, gotten the questionnaire. For this meeting, we've prepared a financial plan for the client. Typically our reports include a detailed retirement income planning illustration. Remember most of the people I deal with are close to retirement and that's what they really want to know. My team members will prepare the reports. I have not personally prepared a complete financial plan in 10 years. I've delivered a lot and my clients have them, I've just don't do it anymore.

This illustration describes how much income they can generate in an after-tax, after-inflation total, for the remainder of their lifetimes. People know what a dollar means today, they have no idea what a dollar means in 10 years. What you're doing is trying to give them a figure in today's dollars that allows them to say, "I know what that buys me." Tell them that inflation is built in and the taxes are built in, because then they understand actually what that means. Typically we use age 95 of the younger spouse. The individual this morning had a slightly different number than me, but in Canada a couple who are both 65 years of age, have a 30 percent chance that one of them is going reach age 95. And, in defense of the individual this morning, it's not because they're married. It's just because there are two people in the calculation now. The marriage, I don't think, helps you live longer. That's just the statistics behind two people.

I do not include the principal residence as an income producing asset. I believe you have to live somewhere, so I typically leave that out of the illustration. Now sometimes I have to bring it in later in life, because they ask for a certain number. I say, "That's OK if you're only going to live to 80." Then you have to use their other assets and such, but that's a further illustration down the road.

The first page of my illustration goes through all of my assumptions. The first one is what I think the growth rate is going to be and the second one is the inflation rate. I put a number in for a growth rate, currently I think I'm using 6 percent, and the inflation rate I put in a number. I'm currently using 3 percent. I say these two numbers I have here are the two most important numbers in my illustration. I'll tell you what the growth rate is and you'll look me in the eye and you'll say you have no idea. And I'll say that's correct. And then I'll say the inflation rate is also the important number because if you don't stay above inflation, your standard of living, of course, is going to go down.

They say, how firm do you think your number on inflation is? And I'd give them lots of reasons, but of course I have no idea. And I've just told them these are the most important two numbers in the illustration. So they're thinking, "I'm paying too much for this." But what's happening is what is predictable over time is not the growth rate, not the inflation rate. What we find predictable over time is the real rate of return, the difference between the two numbers.

So I use 6 and 3, but I would have gotten the same results at 13 and 10, 3 and 0, 7 and 4. It's the real rate of return that's predictable. In every case but one, a market cycle would allow for this to happen, the real rate of return. In my case, I use a 3 percent real rate of return and sometimes a 4 percent real rate of return. Using nominal rates of return for illustration is going to get you in so much trouble, because you have no clue what that's going to be, at least I don't. You guys may be smarter than me.

So typically, what I do is I use 3 percent or a 4 percent to give them an example. So to give you some history, a portfolio of CDs, if you just ladder CDs, you should beat inflation. So we get a real rate of return of 2.5 percent over time. That's come down a little bit. So that's just rolling over CDs. So the more equity you add to that, the higher real rate of return you have to that.

Q. ...

A. No, no, no. Just real rate of return, not tax at this point.

Q. ...

A. That comes further. I'm just saying at this point if it's after tax, whether it's taxable or non-taxable, there's a whole bunch of different issues with that. But you build that in a little bit later.

So in a portfolio that's balanced you should beat the inflation by 4 to 4.5 percent.

The other thing I have an issue with, with a lot of the programs and even the one that I use, is they assume that you're going to increase. You know how they say, "OK, you start with \$5,000 a

month, the next year you go to \$5,000 plus inflation, the following year you go \$5,000 plus inflation, blah, blah, blah.” Goes on. The problem is that’s not how it is in real life, in retirement. People have a tendency to spend what goes in their bank account and adjust their life accordingly.

What happens is you set a monthly income based upon how much you think it can generate and at our semi-annual review meetings you review their income needs. You find that it’s only every three or four years, on average, that you actually have to increase the payments. What I found, over time, is they don’t keep up with the inflation rate and their lifestyle is not impacted dramatically. I don’t have a good explanation for that, I just know that’s what happens. Maybe it’s because they slow down later in life or various other things going on. But they don’t have to have their payments increased every day or every month.

And part of the explanation for this is the inflation rate is the national inflation rate. Your personal inflation rate is going to be different than that. In Canada, the inflation is based on a couple age 45 with two children. So a 70-year-old couple is probably not buying the same thing as a 45-year-old couple. So your personal inflation rate may be different.

The other thing I stress is that this is not a detailed prescription. I don’t want them looking at this plan 10 years from now and saying you were wrong. I start out by saying this illustration is wrong and in 10 years it will look very stupid. The analogy I use, as I mentioned earlier when we look out of our window we can see the bay over Vancouver, so I aim at a point and say imagine you’re in a boat and we’re aiming for that point and we’re doing a dead reckoning steering wheel. We’re going toward that, if we never change the steering wheel what’s the chance of us ever hitting that point, even though we did a good job upfront. What you’re trying to show is as long as you make small adjustments along the way, you’re going to get to that point.

So this report is only making sure we’re going that direction and not that direction. You want to build in that this is an ongoing process. This report is just meant to point you in the right direction and, if we keep running it every couple of years, we’ll never get that far off. Trying to fix something 20 years later is a problem. There’s no money left.

We also include an investment policy statement. This document allows me to give some high-level guidance on how their funds should be invested. It usually does not outline exact investments, but only general asset class recommendations. The reason for that is I actually do want them to implement it with me. I want to give them enough information so they feel like they got the information but not enough that they can actually go do it themselves.

Finally, there is an estate planning section that deals with wills, powers of attorney, living wills and any insurance need they may have. At the end of this meeting, the prospect should have a very good feel for their situation. This does not mean the news is always good, but I believe it is my job to make sure clients have the ability to make an informed decision about their situation. In most cases, they are now able to start planning their retirement because they have a better idea of what retirement can look like.

It's not the product. Products, we've heard over and over again, are just commodities. You can buy a product anywhere. It's how you use the product. So the product doesn't come up for quite a while, that's two meetings I'm into this and I've yet to mention a product.

At this point, my relationship with a prospect can go three ways. One, we part ways, because I've answered their questions and there's really nothing else for me to do or they've chosen to implement the plan somewhere else. Remember in the planning process I told them they were free to, and have the ability to, implement this plan anywhere. Two, in many cases, clients are in pension plans that do not allow access to the funds for three to five years. There's nothing for me to do at this point. I consider these individuals as inventory. I continue to meet with them every year to review their situation up to the retirement date where we can implement some of these strategies. Three, we set a meeting to start implementing some, or all, of the plan. Since they've already paid for the financial plan, there are typically very few questions during the implementation stage other than logistical questions, payment details, withholding tax, beneficiary designations, etc. They paid for the plan. They had the choice to go anywhere else. I'm choosing to implement it with you, so what are the logistics behind this.

And still I've yet to talk about any products. I'm going to go through some implementation details that I use.

You heard some of this this morning. I was listening to that individual Tom, I believe, this morning, and he's talking about half the stuff I'm talking about. My solution may be different, but the problems are the same. The greatest risk in retirement is having the stock market drop right before or right after you retire. When you were accumulating, this was not a huge concern if your portfolio was properly diversified. But proper diversification does not always work in retirement. We just saw that in the latest market crash. It didn't matter what you were in, it went down.

In generating an income during retirement, it is important not to withdraw funds from an asset class that is declining in value. You have to have a certain strategy as you're going down. If you're unlucky enough to retire when the stockmarket is performing poorly and you need to generate income, you run the risk of depleting your investment capital at an alarming rate, ultimately reducing the chance your portfolio will be able to generate your required net spendable income through retirement years. This is the problem, as you approach retirement. If the market drops and you haven't done something, there's literally nothing you can do except for work longer or reduce what income you want in retirement.

Your portfolio should be aligned with your retirement objectives at least five years before retirement. You do get the people who say the market is going up, I want to ride it a little higher so I can get a bit more in my account, so I get more income. The risk they're taking by doing that is large. Five years before retirement if the market is up, you want to move at least two to three years of whatever you've decided your retirement income is going to be, all that planning before, into CDs or bonds with a maturity date of retirement. The reason for the five years: If you were retiring five years from right now, you wouldn't implement that strategy. You would wait a couple more years and give yourself the ability for the market to come back. You don't want to make this decision at retirement, because you're either going to be lucky or unlucky and you

want to take as much risk out of this process as you can. Thus, if the stockmarket is performing poorly, five years before retirement, you'll have at least five years to let the stockmarket rebound before having to take any income out. So you'll have time. In reality, it is difficult and impractical to accurately predict your retirement around the possible performance of the stock market. Most people don't want to do that.

I always tell people when they come in: "When you're retired, you have to be prepared for a stock market correction every single day, because it can happen." And I use certain phrases that seem kind of strange, but I'm trying to get the point across. I say, "Over a 10-year period, this is the relationship we're going to have, if it's just on investment terms. Two times out of 10 you're going to love me. Two times out of 10 you're going to hate me, and six of the 10 times you're going to say you did OK." And they're looking at me kind of strangely at this point. I say, "The way this is working, two times out of 10 the market is going to go up dramatically, nothing you and I can do about it. Two times out of 10 it's going to go down dramatically, again nothing you and I can do about what the market does. And six out of 10 you're going to get an average rate of return and say you did OK. So knowing that, we have to design the strategy to deal with what we know is going to happen."

That's the problem I have with a lot of the illustrations out there where people say you can only take a bulletproof 2 percent withdrawal rate or a bulletproof 3 percent withdrawal rate or a bulletproof 4 percent, because that's assuming there's nothing we can do along the way to change that math. So, they're saying we just absolutely set the asset allocation, hope for the best, take the money out, and that's how long it will last. I don't think that's an appropriate planning technique.

I've simplified this strategy for the recommendation here, but it's a little more complicated than this. The way it works is we've done all the work to see how much income I think they can generate based on their risk tolerance, a younger spouse, a real rate of return, all that stuff we did ahead of time. We take one year's worth of income and invest it in a money market or a high-yield savings account. I don't think there is a high-yield savings account., I think they're just yield savings accounts now. Invest one year in a one-year bond or CD. Invest one year's income in a two-year bond or GIC. It's important that you actually own the fixed-income bond or CD, because you don't want the market to change the price when you go to sell it. You'll know exactly how much this investment will be worth at a specific time in the future. A bond fund or a mortgage fund may have lower volatility, but is not suitable for these purposes because both of these can fluctuate with changes in interest rates. As interest rates rise of course bonds and mortgage funds decline in value. So you have to have some guaranteed value at a certain point in the future.

So how does the strategy work? The rationale behind the strategy is the money market account will deplete itself over the first year. I kind of call this market timing in reverse. I missed a point up above, the rest of the money goes in the diversified portfolio. So whatever their income was, money market, one year's worth of income for one year, one year income for two years and the rest in the diversified portfolio based on their investment policy statement that does include more fixed income. I want them to understand what we're doing here and I need them to understand

me because, when the market turns, I want them to already know we have a solution to the problem.

So after the first year, the growth part of the account for the diversified portfolio has grown in value, then you replenish the following year's income from the growth portfolio. For the strategy to work that's what you have to do. So if the market goes up, you sell off one year's worth of income, you put it in the money market, you reinvest the GIC for two years or three years if they have a three-year GIC ladder. If, however, the stockmarket performs poorly, and the money market is run down to zero, surprisingly enough, we have a GIC maturing on that day with enough money for the following year. That's why it's really important to know what the value is going to be one year from now.

In this process here, if the GIC is not being used for income, it will be reinvested for two years. Unless we have a stock market decline that lasts more than three years, you should not be forced to take income from your investment that declined in value. So, at this point, I've yet to have touched, in any of our portfolios, any of the growth part of the portfolio. So as it comes back, I'll sell it off. When you explain it to the clients: "In the years you love me, not only do we use the income, take money from the growth portfolio to put into the money market account, but we take additional money out for the next two years that you hate me."

"The years you hate me, you take the money from the GIC and we don't touch the growth portfolio." Why this is really important because, of course, what we don't want them to do is sell when the market is down and buy when the market is up. So the management strategy here works wonderfully, because they come in knowing exactly what they're going to do which is just use the GIC for income, not touch the diversified portfolio when it's down. The biggest problem I have is convincing people to sell when it's at 25 percent and put it into the GIC. At this point, I don't think I'll have that problem ever again. So the idea is it allows people to stick with the strategy a lot longer. It's really tough when you're telling somebody and they're drawing into their account, "Oh, don't worry. The market will come back." My theory is it's tough to buy house insurance on your house after it's burned down. That's the description I give. When people want to sell something after the market has gone down, I said you had to have done something before this had happened, which we had done. So there's nothing for you to do at this point. When the market goes up is when we'll make all of our changes. That's it. Any questions?

Q. ...

A. Part of the process is whether it's through the media. Typically most of my clients come from referral and so what happens is you spend your time dealing with your existing clients, attaching the media, making yourself referable. Typically they'll call me based on a referral from someone else.

Q. ...

A. There are a couple you can use. The one I've used a lot is [rith man tic] which is a Canadian product. All I'm trying to do is get an idea of what anything that's able to do the difference. You can get the real rate of return and has the appropriate tax rates and allows you to amortize, so

pick an end date. Spreadsheets don't work very well for that because you have to keep running them to get a number that's close to that.

Q. ...

A. Typically if somebody has a registered account (this is a Canadian I can understand from back there), if you have an account that is restricted in some way, my theory is always generate your income from the most restricted source first. So in the case of a LIF, I would take out the maximum and set up a strategy in the LIF and any other additional income you need you take from the RSPs or whatever other source, because you want to give yourself as much flexibility as possible.

Q. ...

A. Yes, absolutely. Because that's where I'm taking the income from. Wherever I'm taking the income from I would be setting that up, but in that case I would take the maximum out.

Q. ...

A. Part of that is in Canada we have CPP which is a contributing plan. We have old age security, so they do have their \$1,200 a month. One of the things I didn't describe here, because it's a Canadian problem, is we have what's called the statutory ruff minimum which is the amount that you must take out if you're registered, very similar to your 401(k) down here.

Q. ...

A. Yes, so very similar to that and of course what we're worried about is people running out of money ultimately. So I use a lot of fixed annuities when people turn about 78 or 79 years of age. At the start of it I haven't done that yet and for the reason we discussed earlier. At 65, interest rates still play a big part in how much monthly income you get from an annuity. At age 78, 79, I'll give you an example, an annuity I run today is almost identical to the annuity that I ran two years ago and interest rates have dropped dramatically.

Q. ...

A. Well, that's the idea. That's to make sure you have enough fixed income to live through it.

Q. ...

A. But I also mentioned inside the diversified (and I do that and I told you I simplified it for illustration reasons), but actually in the portfolio there is usually some fixed income. So the whole idea behind that is what I'm trying to get them to do, when I do that and I segregate the account, is it's more of a client management issue. Because I want them to know that no matter what happens, that there's something in the account to deal with it. So when the market went down, I actually had clients that liked me better during the market downturn than I've ever seen before. And they weren't selling anything off. I thought they'd come in mad, but they weren't

coming in at all mad. They said, "I'm so glad we've done this. I didn't understand it at the first meeting, made no sense to get money market and GICs." So it's been a huge client management success for me.

Q. ...

A. The answer to that question is kind of. If they're implementing through me and they're not taking any money, I'm still getting paid by the products I implement. If they're not implementing for the five years, then their annual meeting they get a charge. They just get a bill from me.

Q. ...

A. Typically, I'll give those recommendations along the way. Absolutely. I have to be because I want to make sure that when they retire, they've taken sufficient money off of the table inside there to make sure when we generate the income there's something left to generate the income.

Q. ...

A. At least three at that point. Usually just a GIC or bond that will mature when they retire. I need the money to mature when they retire. Short-term bonds or GIC. I need to know what the actual value will be when they retire, just in case the market has fallen apart. I've had quite a few people who have retired right in the middle of this thing and we had the money sitting in GICs and money markets, so we did not have to change their income distributions. I've had a bunch of people who have come in where they didn't do this, they had a diversified portfolio. The portfolio was fine. It was devastated and my solution was, "Well, guess what? We're going to have to cut your income down for the next couple of years." And that's not a discussion I like having. And there's nothing else that I could really have done at that point, because if you dig into it when it's down, it doesn't matter how much the market comes back. Some of these people, there's very few people who can only survive by taking a 2 percent withdrawal rate. That just doesn't make any sense to me. So they're taking a higher withdrawal rate than that. If they're taking 5 or 6, you do have to cut it down.

Q. ...

A. Typically I get scared when they get to about 18 months protection. I start moving another six months or a year out. You have to. The result here is you're not looking for, at the end of the game, we don't know exactly what's going to happen. You want to give them a chance at the greatest success. I ran some numbers in Canada about this and it turns out the exact same portfolio will last about eight more years doing it this way than taking the withdrawal directly from the underlying investment, and then back testing, but you know what back testing is worth. The future is never the same. But you have to do what you want. I do use some fixed annuities. In Canada, we don't have any real variable annuities that I'm a big fan of yet. They reset every three years and such, so I haven't used any of those yet. Some of the products you have down here, here I would probably would use them, the variable annuity market, but in Canada I'm not a huge fan of them.

Q. ...

A. My fear with the one that I use is somebody who lives across the bay in north Vancouver. He's an engineer. It's unbelievably correct, he has no idea how to graphically do anything, so you've got to take the data, run the spreadsheet out. So I don't think there's a program. It's really hard to find that program. We're wrestling that as a firm to find the program that fits many different things and that's difficult. Because accumulation is what it is. And, this is my point, we don't have a really good de-accumulation product yet, the band's not there because advisors aren't talking about it yet. I think once more people get into this, you'll see more products that will be better for this.

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