CATALYST4GROWTH

MISSION: RETIREMENT

The Good, the Bad and the Ugly of The Liberty Plan

Retirement isn't just about stopping work. It's about creating "liberty" — the freedom to live on your terms, with confidence that your income will support the life you've worked so hard to build.

Why is this so important? Having a formal written retirement income plan can help you set realistic income and expense expectations, provide direction with actionable steps to reach your goals, and help you feel more confident in your overall retirement security.

Having a written, formal “Liberty” plan can materially improve your odds of reaching your goals because it replaces guesswork with structure and intent. At a high level, it does a few important things:

Aligns risk with purpose
Instead of investing randomly, you’re matching your portfolio and withdrawal strategy to your actual income needs and time horizon.

Improves discipline and consistency
A written plan acts as a guardrail. It helps prevent emotional decisions, such as panic selling in downturns or chasing returns in strong markets.

Increases accountability
Having a documented plan creates a standard you can measure against and revisit regularly.

Creates clarity and direction
You know exactly how much income you need, where it’s coming from, and when. That reduces the likelihood of underestimating expenses or overestimating what your assets can support.

Identifies gaps early
You can clearly see if there’s a shortfall between expected income and expenses, giving you time to adjust savings, spending, or investment strategy.

That said, while a written plan significantly improves your odds compared to having no plan at all, the absence of a financial professional can still leave gaps — particularly around tax efficiency, risk management, and adapting to complex or changing conditions

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56% of people with a written financial plan felt “very confident” they would reach their financial goals, compared with only 17% of those without a written plan — meaning planners are over **3 times more likely** to feel highly confident about achieving their goals.*

This statistic shows a strong association between having a documented plan and confidence in meeting financial objectives, which is often used as a proxy for increased odds of achieving those objectives. It isn’t a guarantee of outcomes, but it does indicate that disciplined planning correlates with better preparedness and goal-oriented behavior over those without a plan.

Financial professionals use a wide range of “tools: to create income in retirement — investments, Social Security (timing), pensions, annuities, managed accounts, tax strategies, and more. Each of these tools has **the good, the bad, and sometimes the ugly**.

THE GOOD

Growth potential, income guarantees, tax efficiency, flexibility, legacy planning.

THE BAD

Market volatility, inflation risk, fees, surrender schedules, and poor coordination between strategies.

THE UGLY

Running out of money too soon, overexposure to risk at the wrong time, emotional decision-making during market downturns, or relying on assumptions that simply don’t hold up in real life.

Liberty in retirement isn’t created by chance. It’s created by design.

Using a professional advisor and an annuity/marketed-based strategy “cocktail” creates a disciplined, purpose-built approach to turning wealth into reliable outcomes. A skilled advisor doesn’t just manage investments — they align income, growth, risk, and timing with your real-life goals, adjusting along the way as markets and circumstances change.

By pairing annuities for protected, predictable income with market-based strategies for flexibility and long-term growth, you gain both stability and opportunity. This combination helps reduce emotional decision-making, smooth volatility, and ensure that your money is working intentionally — supporting today’s income needs while preserving tomorrow’s potential.

The result isn’t just “having a plan.”

It’s managing your retirement with confidence, clarity, and control over time.

Because true liberty isn’t about guessing. It’s about knowing.

**Schwab Modern Wealth Survey. The online survey was conducted by Logica Research from February 8 to February 14, 2019*

Social Security Administration

For most Americans, Social Security is the foundation of retirement income. It's predictable. It's government-backed. It's monthly. But like any financial tool, it comes with the good, the bad… and sometimes the ugly.

THE GOOD

Social Security provides a guaranteed lifetime income. No matter how long you live, the checks keep coming. That kind of longevity protection is powerful — especially in a world where people are living longer than ever.

It also includes cost-of-living adjustments (COLAs) in most years, helping income keep pace with inflation (at least partially). For married couples, survivor benefits provide an additional layer of protection.

In short, it's a dependable floor for income. It can cover essential expenses and reduce the pressure on investment accounts during market downturns.

That's a big deal.

THE BAD

The timing decision is complicated — and permanent.

You can claim as early as 62, but your benefit is reduced for life. Wait until full retirement age to receive 100% of your benefit. Delay until 70, and it grows even more.

The problem? Many people claim early without understanding the long-term trade-offs. What feels like "getting your money sooner" can mean significantly less lifetime income.

There's also taxation. Depending on your overall income, up to 85% of your Social Security benefit may be taxable. That surprises people.

And let's not forget spousal coordination. Claiming strategies for couples can dramatically affect total household income — and mistakes can cost tens of thousands over time.

THE UGLY

The ugly part isn't that Social Security is broken — it's that it's often used incorrectly.

Some retirees treat it as their entire income strategy instead of the foundation of one. Others rely on assumptions about its future without understanding how funding works or how potential changes could impact long-term planning.

The real danger? Poor coordination.

If Social Security isn't aligned with withdrawals from investment accounts, pension income, tax strategy, and longevity planning, you can unintentionally:

- Trigger unnecessary taxes
- Draw down investment accounts too aggressively
- Leave a surviving spouse with reduced income
- Miss opportunities to increase guaranteed lifetime cash flow

Once you file, most decisions are difficult to reverse.

THE BIGGER PICTURE

Social Security is not meant to create complete financial independence in retirement. It was designed to replace a portion of pre-retirement income — not all of it. But when it's strategically coordinated with annuities, managed assets, tax planning, and spending strategy, it becomes incredibly powerful.

Used wisely, it provides stability. Used carelessly, it limits flexibility. Ignored or misunderstood, it can undermine long-term confidence. Retirement income isn't about maximizing one piece. It's about aligning every piece. Social Security is often the cornerstone — but "liberty" in retirement comes from building thoughtfully around.

Pensions: An Overview

Let's talk about pensions — the old-school promise of retirement security.

THE GOOD

A pension is one of the purest forms of retirement income. It provides guaranteed income for life, often based on your years of service and salary history. That kind of predictability is powerful.

You don't have to worry about market swings. You don't have to decide how much to withdraw. The check simply shows up. For many retirees, that steady stream of income creates a strong financial foundation and peace of mind.

THE BAD

Pensions are typically inflexible. Once you choose your payout option — single life, joint and survivor, lump sum — the decision is often permanent.

Some pensions lack meaningful cost-of-living adjustments, which means inflation slowly erodes purchasing power over time. What feels comfortable at 65 may feel tight at 80.

And if you choose a single-life payout without survivor protection, income can disappear when you do — potentially leaving a spouse financially vulnerable.

THE UGLY

The real risk isn't usually the guarantee — it's the lack of coordination.

Taking a lump sum without a clear strategy can expose you to market risk you weren't prepared for. Electing a lifetime payout without evaluating spousal needs, health, taxes, and other income sources can create unintended consequences.

In some cases, underfunded pension systems or employer instability introduce additional uncertainty — something many retirees never considered while working.

A pension can be a powerful anchor in retirement — but it's just one piece of the income puzzle.

Used strategically, it provides stability.

Used without context, it can limit flexibility or create blind spots. The key isn't just having a pension.

It's about ensuring it fits into a coordinated plan that gives you clarity, confidence, and control in your retirement years.

Variable Annuities

Variable annuities tend to live in a strange space in financial planning. Ask ten people what they are and you'll get ten different answers — ranging from "retirement superhero" to "too complicated, stay away." The truth sits somewhere in the middle.

The Liberty Plan strips away the noise and views these products for what they are: tools — powerful in the right context, frustrating in the wrong one, and often misunderstood in how they're sold and managed.

THE GOOD

At their best, variable annuities address long-term retirement uncertainty. They allow money to grow tax-deferred, meaning you don't pay taxes annually on gains. Over time, that compounding can be significant.

They provide structured market exposure through a range of investment options. For some investors, this balance between growth potential and structure offers more discipline than managing assets independently.

They become especially meaningful in retirement income planning. Certain contracts offer optional lifetime income features, helping convert savings into income that can't be outlived — an appealing solution for longevity risk.

There's also a behavioral benefit. Markets fluctuate, and people react emotionally. A properly structured annuity can serve as a guardrail, helping prevent panic-driven decisions.

THE BAD

Complexity is where challenges begin. Variable annuities are not simple, and that matters.

They often include multiple layers of fees—insurance costs, sub-account fees, and optional riders. While each may seem manageable, together they can reduce long-term returns if not clearly understood.

Liquidity is another concern. These are not designed like checking or brokerage accounts. Early withdrawals can trigger surrender charges, limiting access to funds in the early years.

There's also a gap between performance perception and reality. Due to fees and structure, actual returns may differ from expectations. This doesn't mean the product fails — it means expectations must be aligned from the start.

THE UGLY

The biggest issues typically stem from how annuities are positioned and managed.

Overpromising is common. Concepts like "market upside with no downside" are often oversimplified. Every guarantee involves trade-offs — cost, restrictions, or reduced flexibility.

Suitability is another issue. These long-term products are sometimes used in short-term or highly liquid situations, leading to frustration when they don't fit.

Neglect is perhaps the most overlooked problem. These are not set-it-and-forget-it solutions. Allocations, riders, and income features need ongoing review as markets and goals evolve.

CLOSING THOUGHT

Variable annuities are neither heroes nor villains. They are structured tools that can support retirement planning — when used intentionally.

The real question isn't, "Are they good or bad?" It's, "Do they fit the person, the plan, and the purpose they were designed for?" That's where clarity lives — and where better decisions get made.

Equity Index Annuities (EIAs)

ndex Annuities (EIAs) typically have fewer explicit annual internal charges compared to variable annuities, but they do have implicit costs and potential penalties that affect overall returns. The primary "charges" are often embedded in the product's design features, such as rate caps and participation rates. They do protect from downside market risk – an incredible tool to be used in your "liberty" plan. The main internal and potential charges include:

EMBEDDED COSTS (AFFECTING RETURNS)

These are set annually by the insurance carrier. The decision almost always produces a profit for the carrier that is not passed on to the investor.

Participation Rate: This determines the percentage of the index's gain credited to your annuity. For example, if the index goes up 10% and your participation rate is 80%, you only receive an 8% gain. This is an implicit cost built into the contract terms.

Interest Rate Caps: Many EIAs limit the max interest rate you can earn over a specific period (e.g., annually or monthly). If the index gains 10% but the cap is 6.5%, you only receive 6.5%.

Asset Fee, Spread, or Margin: Some contracts may subtract a percentage from the index's gain before applying it to your account. For example, a 2% spread on an 8% gain results in a 6% interest rate.

Exclusion of Dividends: The return calculation is usually based on the capital appreciation (price changes) of the index and typically excludes dividends, which are a significant portion of an index's total return.

EXPLICIT FEES (IF APPLICABLE)

Administrative Fees: These are less common in standard EIAs than in variable annuities, but some contracts might have a flat annual fee (e.g., $50-$100) or a small percentage of the account value (around 0.3%) for record-keeping and maintenance.

Rider Fees: If you add optional benefits like a guaranteed minimum lifetime income benefit or enhanced death benefits, you will pay an additional annual fee, typically ranging from 0.25% to 1% of the annuity's value.

POTENTIAL PENALTIES/CHARGES (EVENT-BASED)

Surrender Charges: If you withdraw funds above a certain annual allowance (often 10% penalty-free) during the initial surrender period (typically 5 to 10 years, sometimes longer), you will pay a significant surrender charge. These charges can start as high as 10% in the first year and gradually decrease over the surrender period.

Commissions: The agent selling the annuity is paid a commission (often 1% to 8% of the premium), which is built into the product's pricing and compensated for by other embedded costs. This is an indirect cost rather than a direct charge to your account balance.

IRS Early Withdrawal Penalty: Withdrawals before age 59½ may be subject to a 10% federal income tax penalty, in addition to any ordinary income tax on earnings.

Assets Under Management (AUM)

Assets Under Management (AUM) charges are fees paid to financial advisors, typically 0.5% to 2% of the total assets they manage annually, often tiered (lower percentages for larger portfolios). Fees vary by service complexity, advisor service model, and portfolio size, with robo-advisors generally cheaper and hedge funds potentially more expensive, while larger portfolios often receive lower rates, making 1% a common benchmark for advisors plus the management fee that can be from 0.3%–1.00%. Service Level: More comprehensive services (tax planning, estate planning) command higher fees.

- **Portfolio Complexity:** Managing complex assets (like hedge funds) can cost more.
- **Asset Size:** Larger portfolios often get better rates.
- **Advisor Service Committed:** More experienced advisors may charge more due to services performed for client benefit.

Market risk in an AUM (Assets Under Management) portfolio refers to the potential for the portfolio's value to rise or fall due to overall market movements — e.g. economic conditions, interest rates, inflation, and global events. In your case, the portfolio is structured along a risk spectrum from 20% to 100%:

A **20% risk allocation** typically means a more conservative approach, with a larger portion in stable, lower-volatility assets (like bonds or cash equivalents). This reduces potential losses but also limits upside.

A **100% risk allocation** represents a fully growth-oriented strategy, usually heavily weighted in equities. This offers higher long-term return potential but comes with greater short-term volatility and potential drawdowns.

The specific risk level is selected based on the investor's risk tolerance—their ability and willingness to handle market fluctuations — and is guided by the advisor to align with the investor's goals, time horizon, and financial situation.

In short: the higher the risk level chosen, the greater the potential for both gains and losses, with the advisor ensuring the portfolio stays aligned with what the investor can realistically tolerate.

An advisor operating without a formal process or proper training often manages client portfolios in a reactive, inconsistent way. Investment decisions are based on gut instinct, headlines, or recent performance rather than a disciplined strategy. One client may be heavily concentrated in a few stocks, while another holds a completely different mix with no clear rationale. There is little to no risk alignment, no consistent rebalancing, and minimal accountability.

In volatile markets, this lack of structure leads to emotional decision-making — chasing returns on the way up and panic selling on the way down — ultimately exposing clients to unnecessary risk and unpredictable outcomes.

HOW IT WORKS

- Fees are calculated as a percentage of your total invested assets.
- They are usually billed quarterly or monthly from your investment account. Example: A 1% fee on a $1 million portfolio is $10,000 annually, often paid as $2,500 per quarter.

REITs

REITs are often pitched as an "income solution" in retirement.

REITs — Real Estate Investment Trusts allow investors to own shares of income-producing real estate without directly owning property.

THE GOOD

REITs can generate attractive income. By law, most REITs must distribute at least 90% of their taxable income to shareholders, which often results in higher dividend yields than traditional stocks.

They also provide exposure to real estate — office buildings, apartments, warehouses, healthcare facilities — without the headaches of being a landlord. No fixing toilets. No chasing rent checks, just participation in commercial property income and potential appreciation.

In a diversified portfolio, REITs can add another layer of income and asset-class diversification.

THE BAD

REITs are still market-based investments.

Publicly traded REITs can be volatile. They respond to interest rates, economic cycles, and real estate market conditions. When rates rise, prices often fall. When commercial real estate struggles, income can shrink.

Dividends are not guaranteed. They can be reduced — or eliminated — if property cash flow declines.

Many investors don't realize that REIT dividends are often taxed as ordinary income, which can create a higher tax burden than expected.

THE UGLY

The ugly part arises when retirees treat REIT dividends as guaranteed income.

Unlike a pension or annuity, REIT payouts can fluctuate. During economic stress — think financial crises or real estate downturns — both share prices and income distributions can decline simultaneously. That means your account value falls while your income shrinks.

Non-traded or private REITs can add another layer of risk — limited liquidity, opaque pricing, high fees, and difficulty exiting when you need cash.

REITs can absolutely play a role in retirement income.

But they are growth-oriented income, not protected income.

Used thoughtfully, they can enhance yield and diversification.

Used improperly, they can introduce volatility at exactly the wrong time.

In retirement, the question isn't just, "How much income can this generate?"

It's, "How reliable is that income when I need it most?"

Municipal Bonds

Municipal bonds are issued by state and local governments to fund public projects — roads, schools, hospitals, and infrastructure. In return, investors receive interest payments, typically exempt from federal income tax, and sometimes state tax as well.

THE GOOD

The biggest advantage of municipal bonds is tax efficiency. For retirees in higher tax brackets, tax-free interest can translate into meaningful after-tax income.

They're also generally considered lower risk than stocks. High-quality municipal bonds have historically had low default rates, and they can provide predictable, scheduled income payments.

For someone seeking a steady income with a conservative tilt, municipal bonds can be a valuable piece of the portfolio.

THE BAD

"Lower risk" doesn't mean "no risk."

Municipal bonds are sensitive to interest rates. When rates rise, bond prices fall. If you need to sell before maturity, you could experience losses.

Yields are often lower than corporate bonds or dividend-paying stocks. That means retirees may need a larger allocation to generate the income they want.

And while defaults are rare, they do happen — particularly with lower-rated or revenue-backed bonds tied to specific projects.

THE UGLY

The ugly side usually appears in concentration and assumptions.

Holding too many bonds from one state, sector, or issuer can create hidden risk. If that municipality faces financial strain, your "safe" income source may not feel so safe.

There's also an inflation risk. Fixed interest payments don't adjust upward as Social Security does. Over a long retirement, inflation can quietly erode purchasing power.

Many retirees underestimate liquidity risk — some municipal bonds can be hard to sell quickly without affecting price.

Municipal bonds can be a strong, tax-efficient income tool. Used strategically, they provide stability and predictability.

Used without diversification or coordination, they can limit growth and expose you to risks you didn't expect.

In retirement, it's not just about tax-free income.

It's about making sure every income source works together to support long-term security and financial freedom.

Have a confidential conversation with a member of our team to help solve your income needs today.

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