

NEWS

Contact: John P. Barton, MSW, CFP®
889 N. Maize Road, Suite 112
Wichita, KS 67212
(316) 721-2836
Email: john.p.barton@sbcglobal.net



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New retirement distribution model can help Baby Boomers secure their golden years *Local Financial Advisor offers Insights to Help Pre-Retirees Create Income for Life*

WICHITA, KS (November 30, 2006) – 78 million Baby Boomers are poised to retire over the next 25 years. Just as this generation has determined the social agenda for the past 50 years, so will it redefine our understanding of retirement and the aging process. One of the most significant demands for financial advisors is helping retirees select methods for generating safe, predictable income for a protracted period of time not seen in previous generations.

Within the past few years a “perfect storm” of sorts has emerged – low interest rates, volatile stock markets and unprecedented longevity. As fewer employers offer defined benefit plans, retirees no longer have the benefit of guaranteed pension benefits to supplement Social Security and personal savings. And, the inability of politicians to address issues related to the long-term solvency of Social Security raise doubts about the sufficiency of the average person’s nest-egg.

“Adding to these complications is the often held perception that one does not need the services of a financial advisor when planning for retirement,” says John Barton, CFP®, financial services practitioner for Securities America, Inc. “A recent study by American Financial found that roughly

– more –

56% of those making \$70,000 and up don't utilize the services of financial advisors when planning for retirement. While this attitude may have been appropriate for previous generations – when life expectancies were shorter and pensions guaranteed one's income – it may no longer be appropriate given current complexities and the irreversible nature of most decisions related to retirement distributions.”

“Consumers also fail to understand that retirement accumulation strategies are inherently different than tax and investment strategies needed to create a sound retirement distribution strategy,” he continues. “It is my job as a financial advisor to sound the alarm and help America's largest generation find their way, safely through their retirement years.”

Challenges Ahead

Given the magnitude of this population and the challenges it presents, financial advisors like Barton have shown increasing interest in reexamining strategies for addressing retirees need for safe, predictable income. This sense of urgency was exacerbated by the bear market of 2000 to 2002 when clients and advisors experienced the short-comings of distribution strategies such as “constant percentage,” “constant dollar amount,” and “dividend only.” As the value of equities declined, those using the first two methods realized either a reduction in income or a steady erosion of principal. During the same period, interest rates declined reducing income from traditional fixed income securities. For those in or entering retirement during this period, discussions concerning “reversion to the mean” and the advantages of asset allocation were often drowned out by the fear that “maybe this time it is different” and equity markets would decline indefinitely.

“In recent years, there has been a proliferation in the number of ways advisors can help their clients set up retirement income streams,” Barton says. “There is the one-product strategy, which tries to solve all needs for income and growth with a single product purchase. There are those who fall into the systematic withdrawal camp where the advisor creates a diversified portfolio and the client takes income on a prorata basis. Once a year the portfolio is rebalanced into the original percentages. The final school of thought – represented by national recognized authorities such as CFP® Phil Lubinski – divides the retiree's life expectancy into segments and selects different investments for each

segment based upon the need it is designed to address.” Having conducted many hours of due diligence, research and testing, Barton, who is a 20-year veteran in the financial services industry, has embraced the Income for Life Model™. He is discussing this strategy with clients and helping interested individuals understand not only their choices but the ramifications if they fail to plan properly for their retirement years.

The Income for Life Model™

This strategy, developed by software company Wealth2k, Inc. in conjunction with Phil Lubinski, CFP®, called “The Income for Life Model” is an uncomplicated money management solution that helps retirees turn a portion of their savings into income they can depend on throughout the course of retirement. The model takes a 25 plus year forward view of retirement that includes asset allocation and strategic investment recommendations with the objective of providing a lifetime of inflation-adjusted income.

Using this design, deposits are allocated to six “segments” that hold assets ranging from very conservative to aggressive. Segment one, the most conservative, receives the largest deposit. Successive segments receive varying lesser percentages, totaling 100% of deposits. Segments receiving the smallest deposits are those which hold progressively more aggressive assets. The more aggressive an investment, the more risk to which it is subject. These segments will be held for the longest period of time in hopes of achieving higher returns while potentially reducing market risk.

“The primary benefit of this model,” says Barton, “is that it will increase the likelihood of the individual staying invested in the market, in spite of its ups and downs. In this model, it is important that the more aggressive investments be held for longer periods of time. This provides the potential for asset growth, something that will likely be needed to maintain one’s cash flow throughout the retirement years. Because the investor knows that at least a portion of their income is guaranteed³ for a set period of years, they are more apt to stay the course through market downturns. One of the biggest problems today’s pre-retirees face is outliving their money. Long-term asset growth is essential to their well-being, but they can’t get spooked and pull out of their equity investments

every time the market takes a dip. That’s a classic mistake – one that savvy investors and financial advisors want to avoid.”

Mechanics of the Model

Initially, a guaranteed income strategy is provided by utilizing a single premium immediate annuity, bond ladders or banking products for a period of sixty months.¹ For each subsequent five-year period, additional segments will be successively converted into a guaranteed income strategy with payouts of sixty months. Should the projected rates of return be realized in the various segments, sufficient money should be available to implement guaranteed income strategies in amounts capable of providing an increasing level of retirement income.

The sixth segment is viewed as a hedge against the individual living beyond twenty-five years from the date of inception. If that segment meets its projected rate of return, it should hold sufficient assets to continue an income stream. At death, if there are any remaining assets, they may be distributed to the investor’s beneficiaries in a number of ways.

The reliability of returns in this model is particularly important, given that inflation threatens to diminish the savings of today’s retirees. Over the past 30 years, the consumer price index — a key inflation indicator — increased by an average of 4.6 percent a year.² Using historical returns, The Income for Life Model™ has a high probability of achieving its targeted results over a 25-year period.³ With some 95 percent of employees currently taking lump-sum distributions from their 401(k) accounts when they retire,⁴ retirees need an alternative for ensuring their savings last over the course of their retirement. The Income for Life Model™ and similar strategies are designed to give retirees the ability to convert their savings into a predictable, steady income stream.

About John Barton, MSW, CFP®

John Barton is an independent, fee-based financial planner and investment advisor representative who specializes in investment management, retirement planning and estate conservation. He has been serving clients in Wichita, Kansas for over 20 years. He is a member of the Financial Planning Association and received his CFP® mark of distinction from the CFP Board of Standards in 1990. He completed the required financial practitioner coursework through the College for Financial

Planning in Denver, CO. Barton graduated from Wichita State University with a BA in psychology and received his Masters in Social Work from the University of Kansas. He has also completed several hours towards a masters degree in business administration.

Barton is a former member of the board of directors for Prairie Homestead Retirement Community and the Mental Health Association of South Central Kansas. He recently co-authored an article for Research magazine, a leading trade journal, on a variety of ways advisors can help their clients create predictable retirement income streams.

Visit www.johnbarton.sarep.com for more information about Mr. Barton and his company.

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NOTE:

When you need an expert to speak on complicated financial topics in an easy-to-understand manner, please call John Barton.

Footnotes

¹ Deferred annuities are long term investments designed for retirement. Guarantees offered in all annuity products are backed by the claims paying ability of the insurance company. CD's are FDIC insured up to \$100,000 and \$200,000 in qualified accounts. While bonds are designed to pay interest and return principal at maturity they are not guaranteed. Bond values tend to fall in rising interest rate environments and it is possible for a corporation to default on interest and maturity payments such that you may lose your principal.

² Federal Reserve Bank of Minneapolis, Consumer Price Index (Estimate) 1800-2005, Economic Research and Data page: <http://minneapolisfed.org/Research/data/us/calc/hist1800.cfm>

³ Income for Life Model Probability 1955-2004, Ibbotson 2005 Yearbook

⁴ From the article entitled: "Making 401(k)s Last by Offering Annuities," By Jessica Marquez, in the August 2005 edition of Workforce magazine, which can be found at this link: <http://www.workforce.com/section/02/feature/24/13/64/241369.html>

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