Dear Clients, Family and Friends:

In our last personal note, we addressed the core components you should consider when constructing your investment strategy. Specifically, we addressed the role an investment strategy plays in the retirement planning process and how it must evolve over a lifetime.

Next in our retirement planning series, we will outline the tools necessary to insulate your retirement plan and investment management strategy from emerging risk.

How do we make sure that your retirement income is durable over a 20 to 30-year period and is not dramatically impacted by any number of factors that a family may face over the course of their lives?

We address these important tools and the relevant considerations in the following podcast:

- The CFG Podcast Series, Show #3: Risk Management

Please note that this podcast is audio only. Thus, no video players or additional software are needed to enjoy our podcast series. Just click the link above, turn up the volume on your device and enjoy.

We have also outlined some additional reference items to reinforce these concepts in the following personal note:

Risk Management:

In our world, we measure risk and identify the proper management tools by placing it in one of the following three categories:

- Replacement
- Preventative
- Supplemental

When your family is faced with risk factors such as death, disability, chronic health issues or loss of income, you need to understand what tools are available to you in order to help mitigate these circumstances over the long term and combat the potential negative impact they may have on your investment portfolio.

Replacement:

Replacement risk primarily refers to losing a household's major income stream through a death or terminal illness. All too often, this risk emerges without warning and can leave families reeling as they try to find their new normal. We have witnessed too many situations where a family member did not adequately prepare to manage this risk and how it would ultimately impact the household's income structure. Often times the tools that were implemented are not sufficient and little effort was given to income planning. This causes the remaining family members to begin drawing on savings and investments at a much earlier stage than originally planned. Early and ongoing withdrawals can dissipate one's retirement savings while having a devastating impact on a family's long-term retirement plans.

In our practice, we use life insurance as the primary resource to manage this risk, but the conversation must always begin with a needs-based analysis and a discussion of income planning. Family members need to understand how the replacement income will address death expenses, income replacement, household debt, inflation and the newest emerging risk—rising healthcare costs. Many times, the conversation around life insurance centers around how much one can afford and qualify for, which is incredibly important. However, we must first start with income planning and then address these important questions:

- How long will the benefit last in addressing these items?
- Is a margin for error built into that calculation?

For additional information, please refer to this reference guide on life insurance:

- Life 101

Preventative:

Preventative risk aims at reducing the amount of withdrawals on an investment portfolio to supplement healthcare or disability needs that are required for a family member. In today's environment, it has become nearly impossible to fully insure one's healthcare or disability needs. Therefore, we have to find strategies and tools that can reduce or insulate your investments over the long term and provide you with additional flexibility for the type of care administered.

The primary way of managing this risk over time is through the use of long-term care insurance. For the purpose of this limited analysis, we will focus on two types of tools that can be implemented:

- Premium-Based Care
- Asset-Based Care

Premium-based care provides you pay a certain amount on an annual basis in return for a specific amount of healthcare assistance over a certain amount of time. Asset-based care enables you to set aside a lump sum of money in return for a similar benefit. The main difference between the two is that asset-based care provides for more guarantees. Premium-based care can be more affordable, but recently has been impacted by significant rate increases, causing many to alter their coverage.

The objective of both of these tools is twofold. The first is providing the family with flexibility in how and when care is administered and the environment it is received in, and the second is offsetting the high out of pocket expenses to receive such treatment. Long-term care insurance can be a great risk management tool. However, extensive planning must be done to make sure everyone understands the cost of care today, the potential impact to your retirement plan if needed and how long those assets may be able to support such care.

For more information on long-term care insurance, please review this one-page reference:

- LTC 101

Supplemental:

This strategy aims to manage supplemental risk over time via certain guarantees for retirement income in a client’s investment portfolio. Our practice utilizes annuities as the main tool to insulate retirement income through both fixed and variable structures.

Fixed annuities offer a certain percentage figure of return over a specific amount of years, but have limitations to the amount of liquidity one can access during that time period. Variable annuities offer clients the ability to pursue higher rates of growth through equity investing, but have a number of differences per contract, high fees and are often tied to a longer period of surrender schedules.

Both fixed and variable annuities are excellent tools for clients to build income durability in their retirement plans. However, extensive needs, suitability analysis and upfront education must occur before these tools are considered. Additionally, it is important to evaluate how much of an investment portfolio should be allocated towards this supplemental risk management tool, and each case is very different.

To learn more about annuities and how they can be applied, please review this enclosed reference:

- Annuities 101

Evaluation:

As a practice, we understand that each of these risk management tools can vary greatly and it can be difficult to know where to begin the analysis. They are all complex and have changed significantly. We expect even more shifts in the coming years. To us, that means more opportunity to provide you with meaningful education on your options and/or add additional value to your portfolio through new tools.

Did you know that during your next annual review you can ask our firm to review older policies in an effort to ensure they are in line with your retirement objectives?

We encourage you to take advantage of this important service in order to manage these emerging risks to your investment portfolio and provide your family with more stability in your retirement planning efforts.

Market Update:

As we closed out the first quarter of 2019, we saw the markets continue their positive trend in light of strong corporate earnings, growth in jobs and steady manufacturing numbers. Our firm will be watching the numbers around trade, the results for GDP and how infrastructure planning is treated on Capitol Hill.

Our research partner at Cetera recently produced the below 2019 first quarter recap and second quarter outlook. We believe this will be a good supplement to the market update, and we look forward to discussing these items in your next review.

- First Quarter Recap
- Second Quarter Outlook

Closing:

If you have any questions regarding your Investment and Retirement Planning efforts, please contact us or click on the following link to schedule a review using our new online booking system: Schedule Review Today.

It has been, and continues to be, an absolute honor and privilege to serve as your Investment and Retirement Planning advisors.

Our team looks forward to the next opportunity to assist you in financially preparing for your future.

Thank you,

The CFG Team