

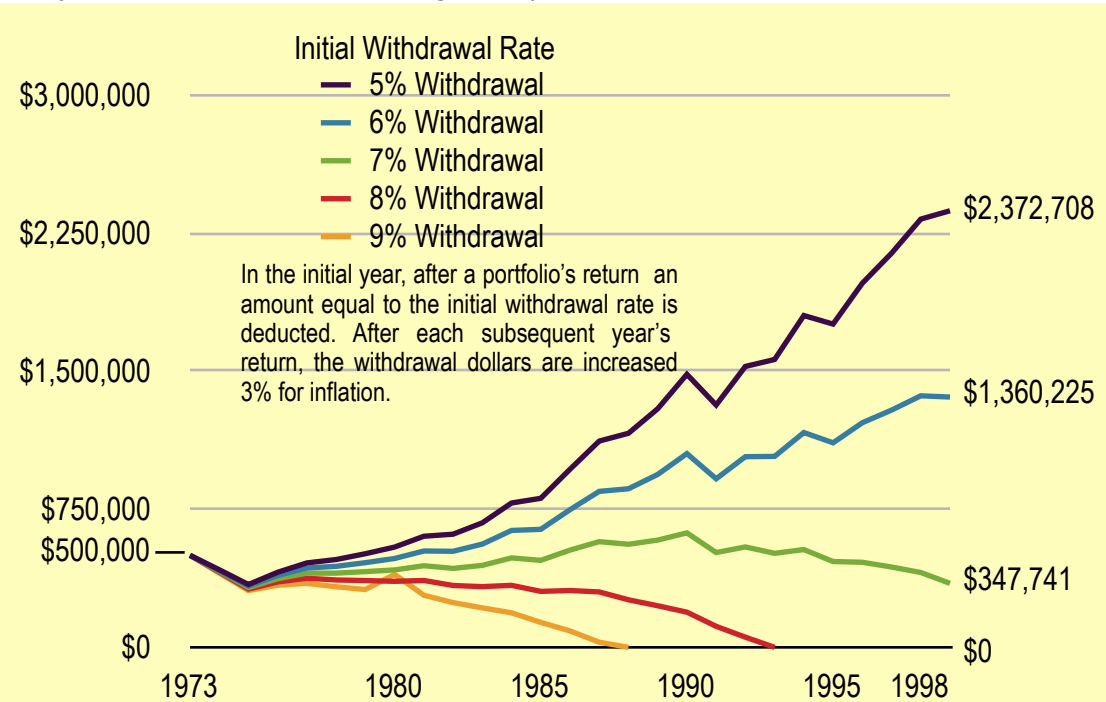
# THE RETIREMENT INCOME COMPASS

WHAT TO KNOW . . . HOW TO GO

*Withdrawal Challenge/Compass Advantage*

## Longevity Creates a Withdrawals Challenge

Many Americans are underestimating the impact withdrawals can have on their retirement.



Data source: DFA Matrix book of index returns. Index yearly returns are reduced 1.5% for fund and management fees and 1% to moderate expectations. Past performance is no guarantee of future performance.

### The Challenge

Jean, 65 years old, has retired and is working with us to manage her retirement portfolio and withdrawals. Right now, a 65-year-old female has a 50% chance of living to 85, and a 25% chance of living to age 91, requiring 26 years of withdrawals.

The chart illustrates the different outcomes for Jean's \$500,000 retirement portfolio (globally balanced; 60% stocks, 40% bonds). Returns are for years 1973 to 1998, selected because of the bad start in 1973-74. A bad start is the biggest risk during the withdrawal period. Each line reflects portfolio value after return for year less initial withdrawal in initial year, increased each year by 3% for inflation.

As you see, portfolios using 9% and 8% withdrawal rates run dry in years 15 and 20 respectively. And the 7% withdrawal rate doesn't provide much cushion for living beyond 91 or the unexpected.

### Compass Advantage

Managed Withdrawal tools are designed to insure against portfolios running dry.

**The Number.** This tool calculates The Number—the total withdrawal dollars over the expected years of retirement, based on; portfolio value and expected return, initial withdrawal rate, and the annual withdrawal dollar increase. In addition, The Number calculates the retirement portfolio's value, if any, after retirement ends.

After reviewing several Number scenarios, Jean selected a strategy in which The Number is \$1,156,000 total withdrawal dollars over 26 years of retirement, based on; a \$500,000 portfolio with a 9% expected annualized return, an initial 6% withdrawal rate, and an annual 3% increase in withdrawal dollars. In addition, Joan's strategy projects that her portfolio would have a value of \$1,360,000 at the end of retirement. Of course, there are no guarantees.

### Managed Withdrawals

Madden will help you manage a prudent withdrawal program designed to get your portfolio safely through your retirement years. The tools:

- **The Number.** This planning tool calculates the total withdrawal dollars from a portfolio over the expected years of retirement, based on: expected return, initial withdrawal rate and annual withdrawal increases.
- **Plan B.** We know that crises can be expected, therefore, a critical tool of Managed Withdrawals is to develop Plan B, the actions that will be taken if the portfolio's assets fall to such a great degree that if the original plan is not altered the result would likely be failure—the portfolio will run out of assets

THE RETIREMENT INCOME  
**COMPASS**  
 BECAUSE THERE ARE BIG RISKS ON THE ROAD AHEAD

What to know...  
and how to go

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