

Help Your Clients Flex With Economics-Based Financial Planning

Combine investments and insurance through
integrated strategies to support more efficient
retirement outcomes, spending and legacy



Economics-based financial planning has been shown to benefit clients and financial professionals. Because it takes an actuarial approach to strategy, it may seem difficult or cumbersome to adopt for those who are new to this strategy. However, with the right tools and guidance, an economics-based approach can be used by any financial professional.

To support financial professionals in learning more and potentially transitioning to this method of strategy, this white paper breaks down the basics of economics-based planning, how it is different from conventional planning, the benefits to clients and financial professionals, and how a financial professional can get started using the approach.

What is economics-based financial planning?

Investments

To start, a basic investment portfolio allocates assets between stocks and bonds. Stocks are volatile investments that focus on growth, and bonds are generally used to diversify and reduce overall portfolio volatility. The benefits of investment strategies are liquidity and upside growth potential, but investments alone do not necessarily create an efficient retirement plan — because alone they don't address the three major categories of risk for a retirement income plan: longevity, market volatility and spending shocks.

Today, much of financial planning centers around accumulation of assets," says Brent Gritton, Agency Vice President at OneAmerica®. "The goal should be focused on producing income in retirement. But the mindset is often, 'If I accumulate enough money, then retirement is going to be okay.'"

Focusing on accumulation alone risks poor market returns, reduced portfolio value and a reduced ability to maintain the retirement standard of living. Taking distributions from investments in retirement further amplifies market risk, and unexpected future expenses such as nursing home care can deplete assets and impact income during retirement even further.

Life Insurance

Economics-based financial planning steps away from the notion that either investments or insurance alone will best serve retirees. For retirement income, both the basic forms of insurance products and how they may behave as part of an integrated retirement income approach are thoughtfully considered in economics-based financial planning.

In "Optimizing Retirement Income by Combining Actuarial Science and Investments" by Wade D. Pfau, Ph.D., CFA, three retirement plan scenarios are considered: (1) investments and term life insurance; (2) investments, joint and 100% survivor annuity, and term life insurance; and (3) investments, single life annuity and whole life insurance.

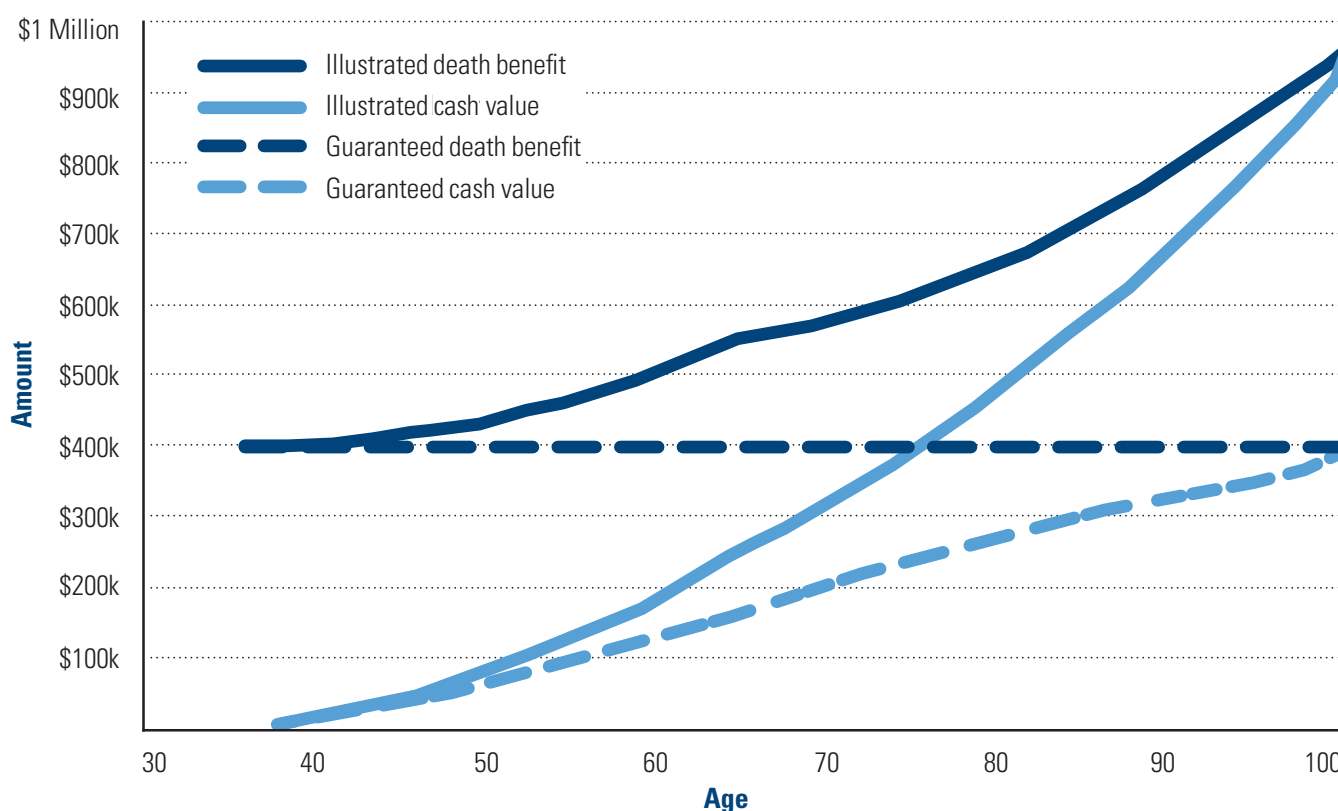
The results Pfau presents demonstrate that a higher income level and greater legacy are potentially achieved when investments, single life annuities and whole life insurance are combined than they are when applying investment-only solutions.

In economics-based strategies, whole life insurance is often used to protect retirement income by using a policy's cash value as a buffer against uncertain markets. The economics-based financial strategy incorporates many different products and strategies toward lifetime spending goals.

Consider a whole-life policy on a 35-year-old male with an initial death benefit of \$394,737 and the whole life insurance annual premium is \$4,500. The non-guaranteed provisions of the policy contain the potential for a premium offset which the policyholder can use to pay premiums for 30 years to age 65, and then could use part of the policy's non-guaranteed dividends to pay the subsequent premiums through age 100. Assumptions for the whole-life policy are based on an illustration prepared by OneAmerica in March 2015, assuming the natural premium offset starting at age 65. The nominal values for the death benefit and cash value (both illustrated and guaranteed) are shown in *Figure 1*.

Figure 1

After-tax whole life insurance values



“Longevity risks, investment performance and spending can be effectively managed. For example, an integrated approach to a client’s retirement income strategy can optimize retirement income, and an economics-based strategy might include long-term care benefits to protect from extreme health care expenses in later years.”

– Tim Connor, Field Sales Director at OneAmerica

How do conventional and economics-based financial methods compare?

Economics-based is a type of financial strategy that:

- » Designs a strategy that strives to work no matter what's happening in the economic environment.
- » Focuses on a household's current and future living standard over financial assets alone.
- » Is a dynamic system that allows for more income whether you're aggressively pursuing investments that are producing cash flow or stock market investments and insurance.

In either scenario, this economics-based approach produces different income strategies than you would have in a traditional investment-only portfolio.

Understanding the basics of an economics-based financial strategy is clearer when it is contrasted with a conventional approach.

	Conventional	Economics-Based
Process starts with:	Asking households to guess their retirement spending, pushing them to use a 75% –85% replacement ratio.	Considering household discretionary spending today so that it can spend the same (maintain its living standard) through time.
Methodology	Determines the amounts of saving and life insurance needed to achieve these targets.	Shows the living standard impact of multiple, interconnected decisions, utilizing all manner of products and options to maximize distribution.
Planning	Is often based heavily on either an investment portfolio or life insurance.	Uses efficiency to structure retirement assets and life insurance during working years to support a higher level of retirement spending as well as to make an equal or greater amount of financial assets available as part of a legacy.
Risk management	May overlook available income tools and tactics. May miss out on strategically achieving the financial goals of retirement. May also ineffectively manage risks.	Integrates retirement, tax, college, insurance, housing, Social Security, investment, career, relocation, divorce, and other types of financial decisions to more accurately anticipate risks.

By strategically combining products and analyzing potential risks and life changes, an economics-based financial strategy offers the potential to develop more efficient retirement income strategies that support a higher income level and greater legacy wealth than investment-only strategies do.

“There are always forces that are outside our control, whether that's inflation, the tax rate, what the stock market is doing or today's economy — locally or globally. If you have a plan that doesn't address the possible changes that could occur during your lifetime, then you've locked yourself into a strategy that isn't flexible.”

– Mary Lyons*, *The Wealth Woman*, founder of Benchmark Income Group, a General Agency appointed with the insurance companies of OneAmerica.

Client benefits of economics-based strategies?

An economics-based financial strategy helps clients meet the financial goals of retirement while also managing the risks. These goals include sustainably meeting a lifestyle spending goal for the client's lifetime, providing a legacy, and maintaining liquidity to cover unexpected expenses and contingencies in retirement.

Like conventional financial strategy methods, clients and their financial professional should review their economics-based strategy frequently, including any changes in income, employment, marital or parental status, and other important factors. Because an economics-based approach is based on flexibility and takes a holistic view of the client's life and goals, changes can be incorporated into the approach.

Integrating whole life insurance, which has a contractually guaranteed increasing cash value component that is not dependent on the fluctuating stock, housing and interest rate environments,

provides a source of money that is uncorrelated to retirement vehicles, mitigating some volatility risk.

In addition, economics-based financial strategy can be used with clients of almost any risk tolerance. Even with conservative spending assumptions, investment portfolios do not have guarantees and remain vulnerable to depletion. If a client is using their investments more efficiently, they may be able to have a lower rate of return during the accumulation phase of their retirement plan and still meet their goals.

Wealth Protection

- For clients to reach their financial goals, they must be able to build wealth.
- Protecting wealth becomes more important than growing more wealth.
- Your clients can't control wealth-building risks associated with the market. They can take steps to ensure maximum protection and minimize the impact of financial obstacles.

“With a conventional strategy, if a person is not on track for a result they want, the solution is often thought to be to save more money or take more risk. Because it's a holistic approach with flexibility built in, economics-based offers options to accomplish increased results without doing either one of those two things.”

– Brent Gritton, Agency Vice President at OneAmerica.

Why are financial professionals passionate about an economics-based financial strategy?

Helping clients succeed in their strategies brings a great deal of job satisfaction to financial professionals. In addition, the economics-based approach can offer them more credibility and clients more efficiency.

The financial professional can be measured beyond just the rate of return. Asset growth continues to be a measure of success, but the economics-based strategy allows the financial professional to illustrate the potential for more income even when returns may be down.

One of the goals of using economics-based approaches is to preserve principal over time. Because it's not a constant depletion of investments due to the complement of the insurance, the financial professional is managing the assets longer than he or she would be if principal is withdrawn.

An economics-based strategy, because of the flexibility and guarantees of life insurance, can often

create a very impactful experience for clients when they see the possibilities and potential outcomes of the strategy. Client satisfaction makes financial professionals referable and allows them to build an even more thriving practice.

How can a financial professional transition from conventional to an economics-based financial strategy?

Financial obstacles can keep clients from growing and protecting their wealth. Fortunately, your clients have a number of options to maximize their protection and overcome unexpected circumstances.

A financial professional who is well versed in economics-based financial strategy can offer their clients a holistic approach that offers flexibility with the goal of sustainable income in retirement. Those who are open to new ideas and learning can transition from conventional to economics-based. Economics-based can also facilitate relationships between financial professionals and investment professionals in order to accomplish an economics-based plan together.

For more information about OneAmerica products or our distribution partners, call **877-999-9883** or email oasalesdesk@oneamerica.com. To learn more about economics-based financial planning, email Brent Gritton at Brent.Gritton@oneamerica.com or Tim Connor at Tim.Connor@oneamerica.com.

“In my opinion, the number one priority in this profession is taking care of the client and putting them in the best possible situation. An economics-based strategy is designed to work in a multitude of circumstances, throughout life's journey, with flexibility.”

– Brent Gritton, Agency Vice President at OneAmerica

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Investing involves risk, which includes potential loss of principal.

Life insurance should be purchased by individuals who have a need to provide a death benefit to protect others with insurable interest in their lives against financial loss. Life insurance is not a retirement plan, an investment or a savings account.

Withdrawals and cash value loans from a life insurance policy can reduce the policy's death benefit and cash value. Cash value loans are taxable if the policy is surrendered or terminates before the insured's death and the cash value exceeds the policy's cost basis.

Guarantees are subject to the claims-paying ability of the issuing insurance company.

All numeric examples are hypothetical and were used for explanatory purposes only. Dividends are not guaranteed.

Dividends are not guaranteed, past performance is not indicative of future results, and actual results may vary.
