focus On®

Retirement Income

Charting a Course to Help Your Money Last

PREVIEW

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Introduction

What Happens When You Retire?

- **Financial focus shifts**
- **Change from *accumulating* assets to *withdrawing* assets**
- **Generate an income stream that will last a lifetime**

Many people envision traveling to new destinations, having more time for family and hobbies, and volunteering for their favorite charitable organizations.

One thing is certain: Your financial focus takes a dramatic shift. The guidelines for managing money are different from when you were working.

Instead of saving money to accumulate assets, you'll need to figure out how to withdraw assets efficiently for income.

Your primary focus is two-fold: to live your desired lifestyle and avoid running out of money. This means generating a steady income stream and making decisions to help your assets last throughout your retirement years.

Retirement Expenses May Be Higher Than You Think

About 30% of retirees say their overall expenses were higher than what they expected when they first retired.

Source: Employee Benefit Research Institute, 2019

Four Steps to Developing an Income Strategy

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1. **Prepare for the Unexpected**
2. **Envision Your Retirement**
3. **Refine Your Investment Mix**
4. **Choose a Distribution Method for Tapping Assets**

First you need to prepare for the unexpected. Even the most well-thought-out financial strategy could be derailed by some risks you may encounter in retirement.

Envisioning your retirement involves assessing your current financial situation, exploring the lifestyle choices you will make, and understanding the sources of income that will be available to you.

Refining your investment mix involves balancing your need for a steady income, growth potential, and stability throughout retirement.

Finally, you need to choose a distribution method for tapping the assets you've worked so long and hard to accumulate. The goal is to help your assets last as long as you do.

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Prepare for the Unexpected

Your ability to live the retirement lifestyle you want — and deserve — may depend on how prepared you are to manage and overcome several risks.

Longevity Risk

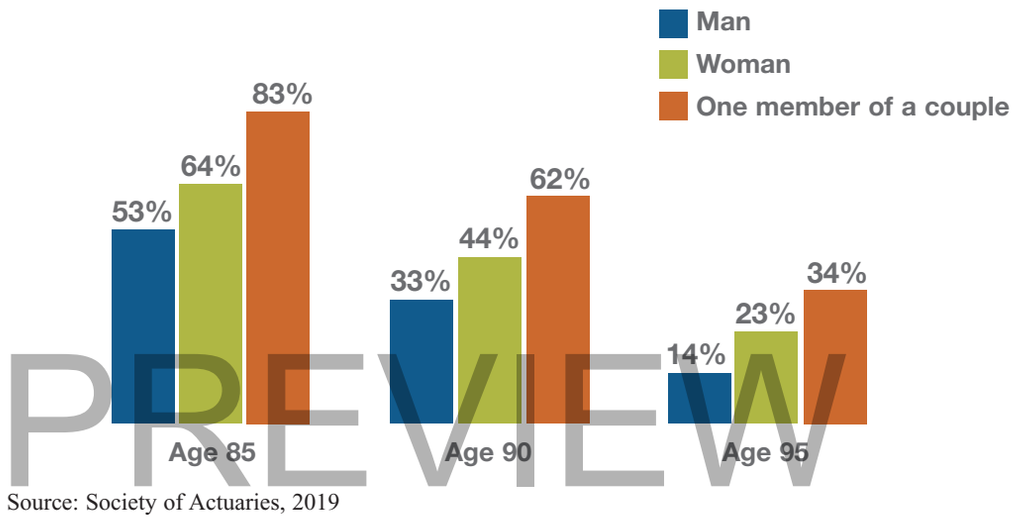
The good news is that you may live a long time. The challenge is making sure that your retirement assets last as long as you do.

Based on life-expectancy statistics, a healthy 65-year-old man and a healthy 65-year-old woman have the following chances of living to age 85, 90, and 95.

Overlooked Value of Social Security

Social Security provides about 41% of total income for beneficiaries who are age 66 and older with household incomes over $50,000.

Source: Social Security Administration



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Source: Society of Actuaries, 2019

How confident are you that you will be able to live comfortably at age 90 or 95? Your retirement income strategy should include the possibility of a long life.

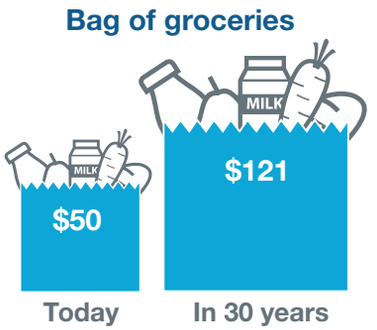
Inflation Risk: The Loss of Purchasing Power

Inflation is the rise in consumer prices over time. It has an effect on everything — from the cost of a bag of groceries, to a car, to a home.

Whether you realize it or not, you have battled inflation throughout your working years. Yet it could be even harder to deal with in retirement when you're on a fixed income.

Assuming a hypothetical 3 percent annual inflation rate, the cost of a $50 bag of groceries could more than double in 30 years — that's 2.4 times more than today!

This hypothetical example of mathematical principles is used for illustrative purposes only. A 3% annual inflation rate cannot be guaranteed. Actual results will vary.



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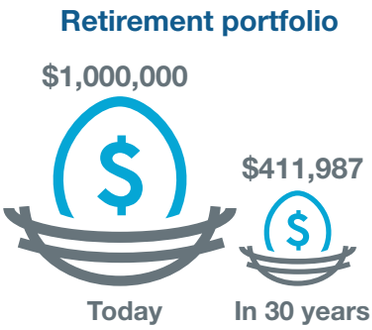
Now consider how inflation could affect your retirement nest egg. After 30 years, assuming the same 3 percent annual inflation rate, a $1 million nest would have the purchasing power of about $412,000.

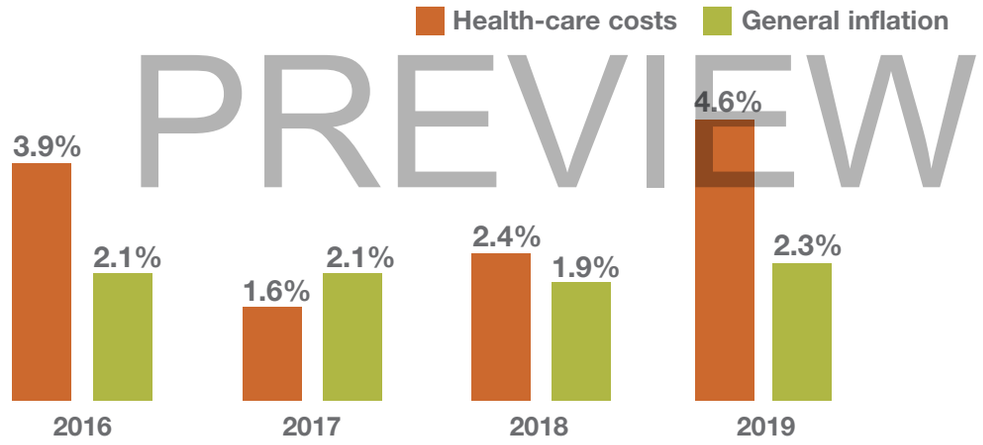
That's why it is essential for your retirement portfolio to keep pace with — and ideally exceed — inflation to avoid losing purchasing power as the years go by.



This hypothetical example of mathematical principles is used for illustrative purposes only. A 3% annual inflation rate cannot be guaranteed. Actual results will vary.

Rising Health-Care Costs

One of the biggest worries that many retirees face is paying for health care. Medical costs have historically increased at a faster rate than general inflation.



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Source: U.S. Bureau of Labor Statistics, 2020

Medicare is available once you reach age 65, but in addition to the monthly premiums, there are some fairly stiff deductibles, copays, and limitations. Costs vary depending on the coverage you choose and the medical services you need.

Medicare Part B (medical insurance) premiums in 2020 range from about $145 per month to $492 per month, based on the modified adjusted gross income reported on your 2018 tax return. And if you enroll in the Original Medicare program, there is no annual limit on your out-of-pocket expenses.

If Medicare benefits remain at current levels, a 65-year-old couple who retired in 2019 and live an average life expectancy may need $301,000 to pay basic health expenses in retirement. Medical costs could be even higher for those who develop a chronic illness or incur high prescription drug costs.

Source: Employee Benefit Research Institute, 2019

Risk of a Health Crisis

An unexpected health crisis could derail your plans and deplete your retirement savings.

According to statistics, today's 65-year-olds have a nearly 70% chance of needing long-term care services at some point in their lives. The national average cost for a semi-private room in a nursing home is $90,155.

Sources: U.S. Department of Health and Human Services, 2019; Genworth Cost of Care Survey, 2019

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Unpredictability of the Financial Markets

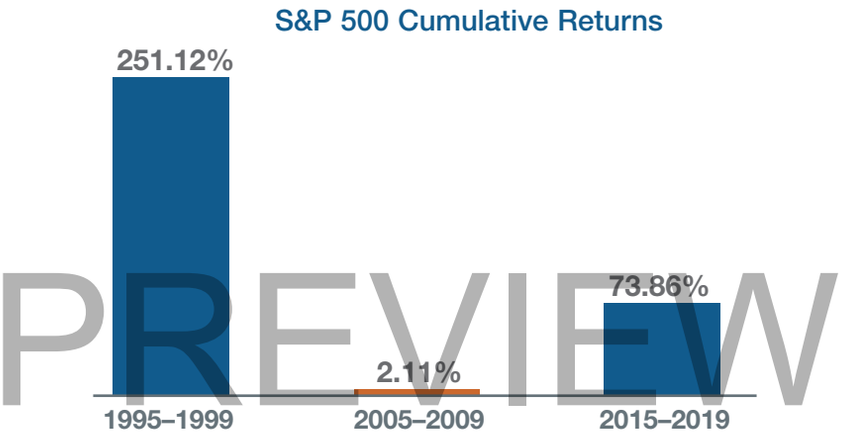
Market conditions can change, often unexpectedly and sometimes dramatically. Generally, it's a case of *when* and not *if* it happens. And if it happens when you're about to retire, or when you're drawing down your retirement investments for income, it can be unsettling to say the least.

Consider the outcomes below, which show the cumulative returns of the S&P 500 composite index over three different five-year periods. *(The cumulative return looks at the total percentage increase or decrease in the value of an investment over a specific time period.)* As you can see, these three time periods produced vastly different results.

Maintaining Perspective

The bull market that began in March 2009 is the longest in U.S. history. It reached its tenth birthday on March 9, 2019.

Source:
The Wall Street Journal,
March 9, 2019



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Source: Refinitiv, 2020, for the periods January 1, 1995, to December 31, 1999; January 1, 2005, to December 31, 2009; and January 1, 2015, to December 31, 2019. The S&P 500 composite index total return is generally considered representative of U.S. stocks. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

Sequence-of-Returns Risk

The danger of experiencing poor investment returns at the wrong time is called *sequence risk* or *sequence-of-returns risk*. This is a significant factor in retirement when you are withdrawing money from, not contributing money to, your investment portfolio.

If the financial markets take a downturn just before you retire or in the early years of retirement — resulting in an early loss of your retirement assets — you would have a lower base of assets on which to generate income throughout your retirement years.

In such a scenario, you might need to reduce your spending and withdraw less from your retirement portfolio. Having sufficient cash reserves on hand or a financial product that offers a guaranteed income for life may enable you to avoid selling investments during a down market.

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