HELLO
my name is

# Retirement Income Planning

# Agenda

## Identify your destination and vehicle

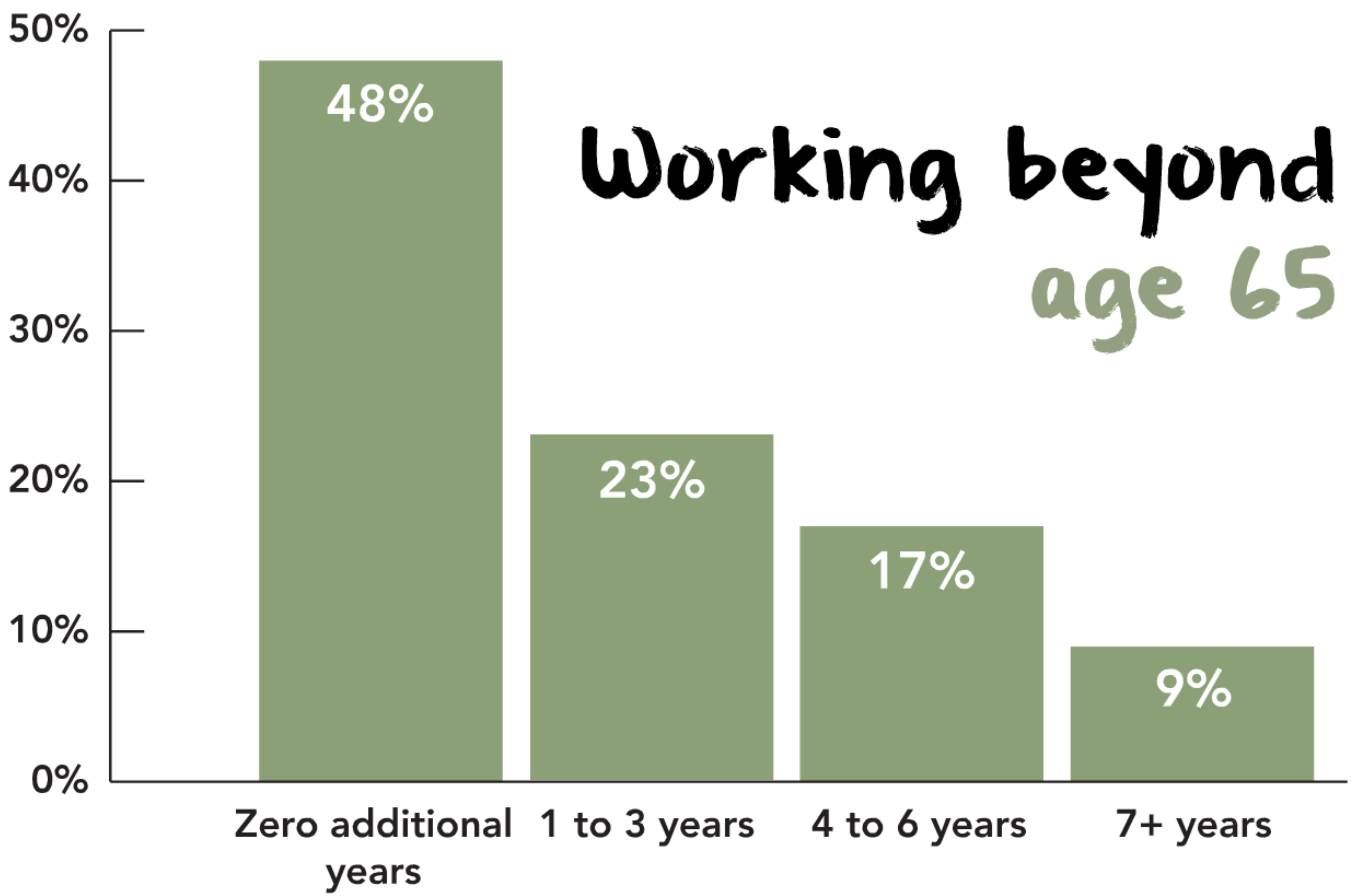
- Goals
- Current income sources

## Be aware of speed bumps

- Retirement risks
- Healthcare costs
- Ongoing expenses

## Create your map

# What does your retirement look like?




http://crr.bc.edu/wp-content/uploads/2012/06/IB_12-12-508.pdf

# 52 percent

**of workers in their 50s and 60s plan to work part-time after they retire**

http://www.transamericacenter.org/docs/default-source/resources/center-research/tcrs2013_sr_retreadimperative.pdf

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**Average age of retirement is 59.5**

https://www.metlife.com/assets/cao/mmi/publications/studies/2013/mmi-oldest-boomers.pdf

# What is important to you?

- Income in retirement
- Longevity protection
- Traveling
- Spending time with family
- Purchasing a new home
- Leaving a legacy for your loved ones

## What could impact your retirement spending?

- Longevity
- Inflation
- Health and long-term care expenses
- Sequence of returns
- Withdrawal strategy

# People are living longer

**If both you and your spouse are now age 65, there is a 50 percent chance that one of you will live to age 92, and a 25 percent chance that one of you will live to age 97**

**Half of today's 65-year-old men are expected to live to age 85, and half of today's 65-year-old women are expected to live to age 88**

**Insured Retirement Institute "Building Your Future, Strategies and Products for Retirement Income Planning"**

# Rising costs

**Inflation erodes your purchasing power**

**In the last 10 years the average inflation percentage was** 2.741 percent per year

http://www.usinflationcalculator.com/

# Health care expenses

**$240,000 - average amount a 65-year-old couple pays out of their own pocket for health care during 20 year retirement[1]**

**Medicare only covers about half of beneficiaries' total health care costs and does not pay for long-term care expenses[2, 3]**

**Average out-of-pocket health care costs for a person with Medicare: about $4,600 /year[4]**

1 Fidelity Investments, “The Increasing Cost of Health Care upon Retirement” 2012
2 AARP Public Policy Institute, “Setting the Record Straight about Medicare” Feb 2012
3 The Official U.S. Government Medicare Handbook, Medicare & You, 2012
4 http://www.aarp.org/health/medicare-insurance/info-02-2012/medicare-get-the-facts.html

**7 out of 10 individuals over age 65 will need long-term care at some point in their lives**[1]

**Average total costs for different LTC services over the course of treatment**[2]**:**

- **Home health care - $196,560**
- **Adult day care - $81,900**
- **Assisted living - $187,758**
- **Nursing home - $195,275**
- **Nursing home (private room) - $218,087**

1 LTCI Revolutionary Evolution, Nov 1, 2011 Life Insurance Selling
2 Market Survey of long-term care costs, Mature Market Institute, October 2011 Reference Healthview Services

# Sequence of returns

**When liquidating assets periodically, its not just the rate of return that is important, it is the sequence of returns**

# Timing matters

The combination of the market's impact and the $7,000 yearly withdrawal leaves Portfolio A with less than $76,000 at the end of year one

Portfolio A runs out of money by year 13 because of the negative returns it experiences at the outset

| | Portfolio A | | Portfolio B | |
|---|---|---|---|---|
| Year | Return | Balance* $100,000 | Return | Balance* $100,000 |
| 0 | | | | |
| 1 | -18.39% | $75,897 | 26.57% | $117,710 |
| 2 | -19.14% | $55,710 | 19.61% | $132,420 |
| 3 | -4.59% | $46,475 | 5.26% | $132,017 |
| 4 | 18.47% | $46,766 | 16.57% | $145,733 |
| 5 | 6.79% | $42,466 | 33.60% | $185,347 |
| 6 | 14.30% | $40,537 | 21.23% | $216,210 |
| 7 | -15.39% | $28,376 | 13.92% | $238,332 |
| 8 | 14.59% | $24,495 | -1.61% | $227,608 |
| 9 | 8.95% | $19,060 | 21.03% | $267,002 |
| 10 | 19.52% | $14,414 | 16.21% | $302,148 |
| 11 | 20.72% | $8,951 | 20.72% | $356,303 |
| 12 | 16.21% | $2,267 | 19.52% | $417,486 |
| 13 | 21.03% | $0 | 8.95% | $447,225 |
| 14 | -1.61% | $0 | 14.59% | $504,454 |
| 15 | 13.92% | $0 | -15.39% | $420,896 |
| 16 | 21.23% | $0 | 14.30% | $473,083 |
| 17 | 33.60% | $0 | 6.79% | $497,730 |
| 18 | 16.57% | $0 | 18.47% | $581,367 |
| 19 | 5.26% | $0 | -4.59% | $548,004 |
| 20 | 19.61% | $0 | -19.14% | $437,456 |
| 21 | 26.57% | $0 | -18.39% | $351,295 |

Hypothetical illustration, Fidelity Research Institute, QWeMA Group Inc., August 2007

*Starting balance = $100,000
Withdrawals = $7,000/year

# What spending strategy makes sense for you?

### Systematic withdrawals

- Rates vary per year

### Income floor

- Annuity with lifetime payments
- Covered by insurance

### "Bucket" approach

- 1-5 years (current income)
- 5-10 years (short-term growth and stability)
- 10-20 years (long-term growth and keeping pace with inflation)

# Systematic withdrawal plan

- **Allows you to receive regular payments from your investment account**
- **Withdraw either a variable or fixed amount from the account on a regular basis**

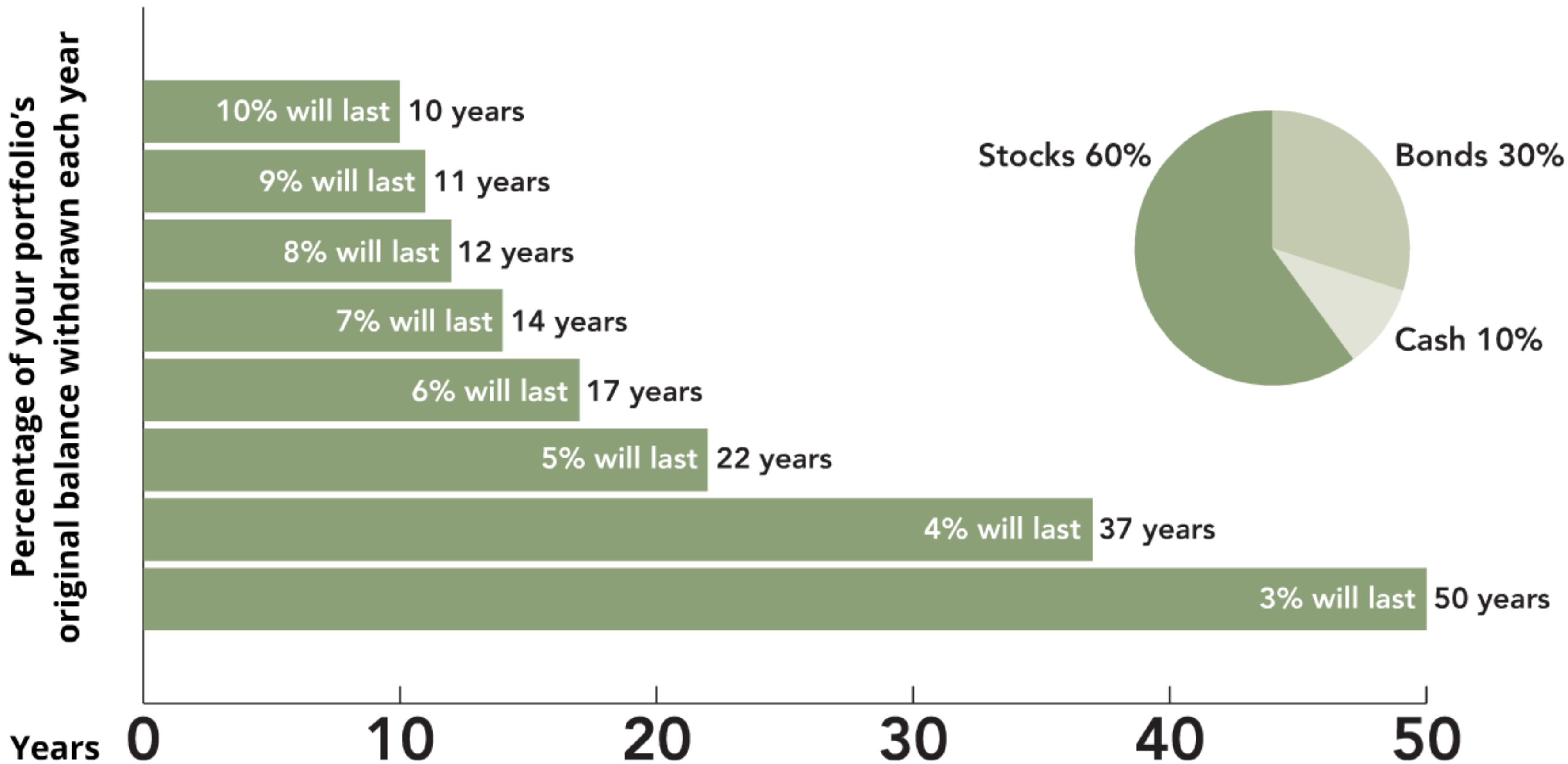
# Income floor

- Makes distinction between your essential and non-essential needs in retirement
- Day-to-day expenses – guaranteed or low-risk investments
- Discretionary spending – managed on risk-adjusted total return

# Bucket approach

- Break up retirement into different time periods and manage each period differently

# How long would your money have lasted?




This example assumes a 90% probability rate. These hypothetical illustrations are based on rolling historical time period analysis and do not account for the effect of taxes, nor do they represent the performance of any Putnam fund or product, which will fluctuate. These illustrations use the historical rolling periods from 1926 to 2011 of stocks (as represented by an S&P 500 composite), bonds (as represented by a 20-year long-term government bond (50%) and a 20-year corporate bond (50%)), and cash (as represented by U.S. 30-day T-bills) to determine how long a portfolio would have lasted given various withdrawal rates. A one-year rolling average is used to calculate performance of the 20-year bonds. Past performance is not a guarantee of future results. The S&P 500 Index is an unmanaged index of common stock performance. You cannot invest directly in an index.

Putnam Investments

# Create your map

1. Identify income sources
2. Estimate retirement expenses
3. Diversify your investments
4. Determine withdrawal strategy

## 1 Identify your income sources

**Monthly income**
- Pensions
- Social Security
- Part-time job
- Rental income

**Assets**
- Retirement accounts
- Savings accounts

**Financial events**
- Inheritance
- Real estate

## 2 Estimate retirement expenses

- Housing
- Utilities
- Personal
- Health care and insurance
- Family care
- Transportation
- Recreation
- Entertainment
- Charitable giving

## 3 Diversify your investments

**Factors to consider:**

- **Your time horizon(s)**
- **Keeping pace with inflation**
- **Current liquidity needs**
- **Diversification of asset classes**
- **Longevity protection**
- **Product allocation (i.e., stocks, bonds, insurance, real estate)**

## 4 Determine withdrawal strategy

- **Systematic withdrawals**
- **Income floor**
- **“Bucket” approach**

# Takeaways

- Your retirement destination is unique to you
- Be aware of longevity, inflation, health care, and long-term care costs
- Estimating your expenses in retirement is critical to creating an accurate map to your retirement destination
- Withdrawal strategies

# Questions and actions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