

HELLO
my name is

Retirement Income Planning



Agenda

Identify your destination and vehicle

- Goals
- Current income sources

Be aware of speed bumps

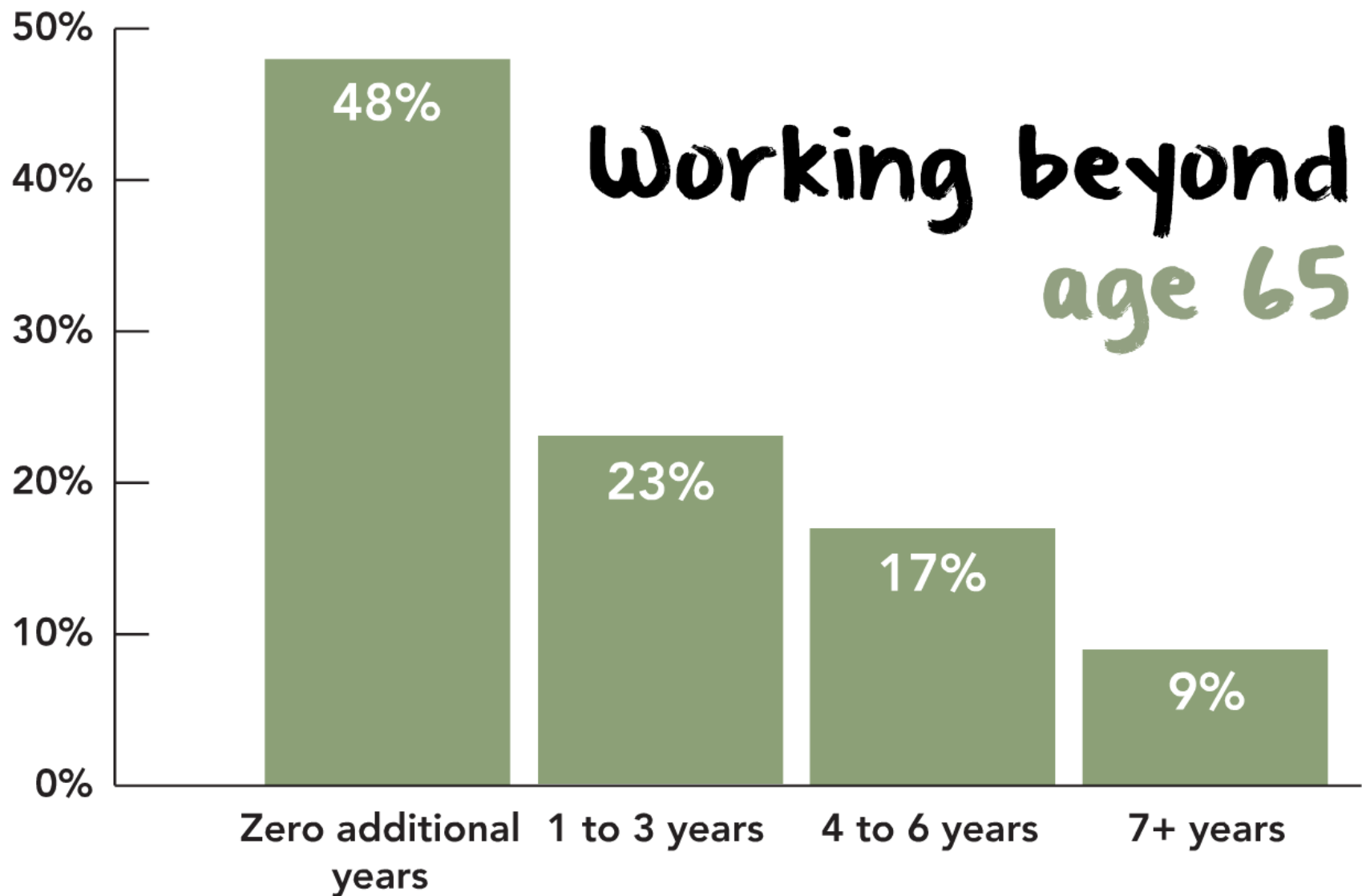
- Retirement risks
- Healthcare costs
- Ongoing expenses

Create your map



What does your retirement look like?





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

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 retirement¹

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**/year⁴

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 lives¹


Average total costs for different LTC services over the course of treatment²:

- 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

Year	Portfolio A		Portfolio B	
	Return	Balance*	Return	Balance*
0		\$100,000		\$100,000
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

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

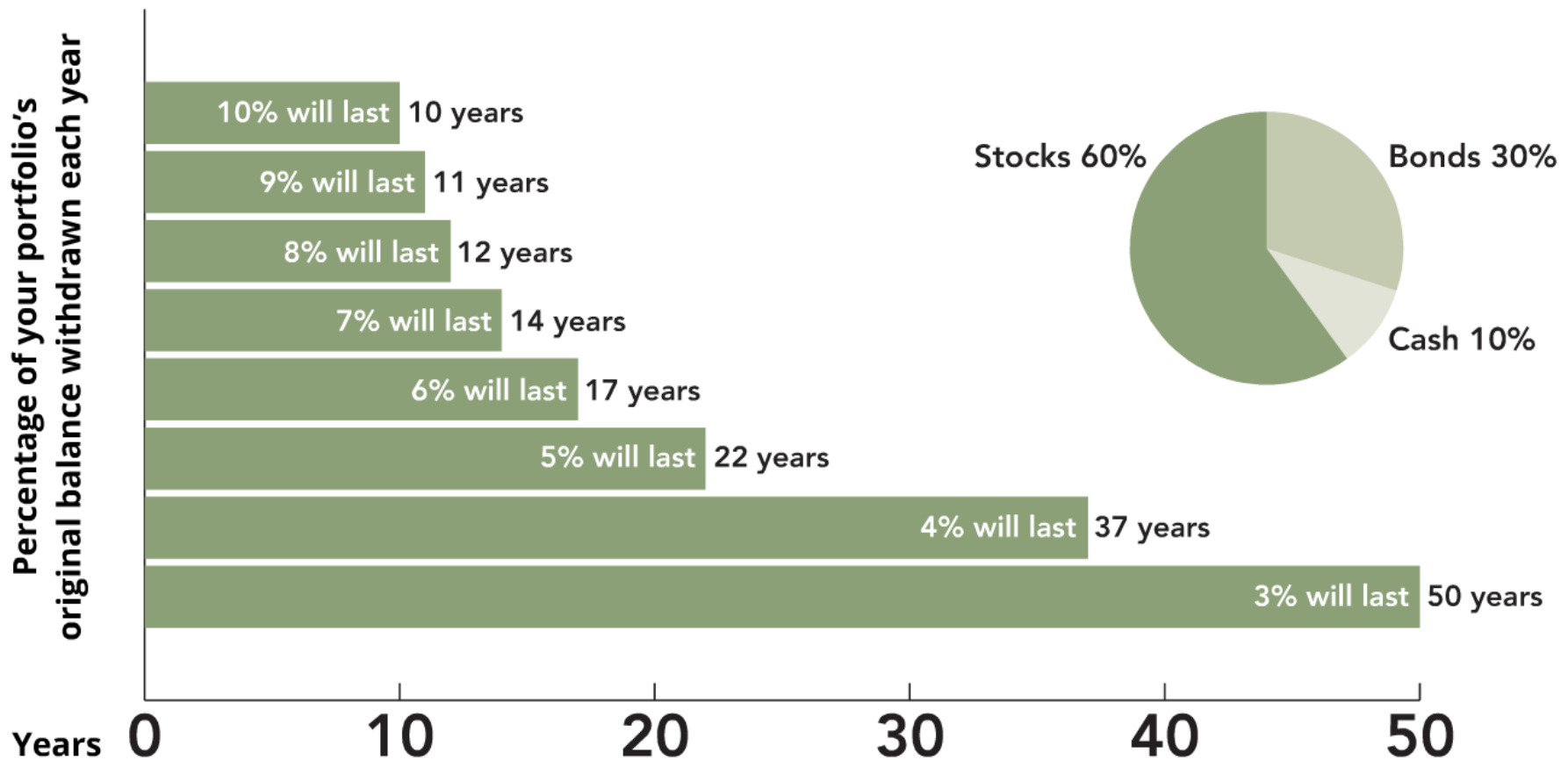
Income floor

- **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.

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**
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Questions and actions

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Rising costs

Inflation erodes your purchasing power
In the last 10 years the average inflation percentage was 3.70 percent per year

People are living longer

Would you and your spouse live past age 85? There's a 60 percent chance that one of you will live to age 90 or over and a 25 percent chance that both of you will live to age 95 or over. If you're both 65, the chance that both of you will live to age 95 or over is 10 percent.



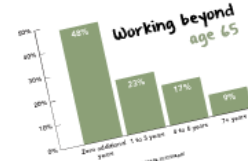
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- Leaving a legacy for your loved ones

What could impact your retirement spending?

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

52 percent of workers in their 50s and 60s plan to work part-time after they retire
Average age of retirement is 59.5



Health care expenses

\$750,000 average amount a 65-year-old couple will spend on health care in retirement
60 percent of that amount is for long-term care services
Medicare only covers about half of long-term care services
Costs vary widely. Most will pay for long-term care expenses
Average age of people needing long-term care for a person with Medicare: 83.1 (2010)



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

Average total costs for different LTC services over the course of treatment:

- Home health care - \$76,000
- Adult day care - \$6,000
- Assisted living - \$47,750
- Nursing home - \$200,000
- Nursing home (private room) - \$218,000



What does your retirement look like?



Agenda

- Identify your destination and vehicle
- Gain
- Current income sources
- Be aware of road bumps
- Investment risks
- Healthcare costs
- Creating equipment
- Create your map

Sequence of returns

When traditional assets perform poorly just after the start of retirement, it is the sequence of returns

Timing matters

Year	1980-1989	1990-1999	2000-2009	2010-2019
1980	10.0%	10.0%	10.0%	10.0%
1981	10.0%	10.0%	10.0%	10.0%
1982	10.0%	10.0%	10.0%	10.0%
1983	10.0%	10.0%	10.0%	10.0%
1984	10.0%	10.0%	10.0%	10.0%
1985	10.0%	10.0%	10.0%	10.0%
1986	10.0%	10.0%	10.0%	10.0%
1987	10.0%	10.0%	10.0%	10.0%
1988	10.0%	10.0%	10.0%	10.0%
1989	10.0%	10.0%	10.0%	10.0%
1990	10.0%	10.0%	10.0%	10.0%
1991	10.0%	10.0%	10.0%	10.0%
1992	10.0%	10.0%	10.0%	10.0%
1993	10.0%	10.0%	10.0%	10.0%
1994	10.0%	10.0%	10.0%	10.0%
1995	10.0%	10.0%	10.0%	10.0%
1996	10.0%	10.0%	10.0%	10.0%
1997	10.0%	10.0%	10.0%	10.0%
1998	10.0%	10.0%	10.0%	10.0%
1999	10.0%	10.0%	10.0%	10.0%
2000	10.0%	10.0%	10.0%	10.0%
2001	10.0%	10.0%	10.0%	10.0%
2002	10.0%	10.0%	10.0%	10.0%
2003	10.0%	10.0%	10.0%	10.0%
2004	10.0%	10.0%	10.0%	10.0%
2005	10.0%	10.0%	10.0%	10.0%
2006	10.0%	10.0%	10.0%	10.0%
2007	10.0%	10.0%	10.0%	10.0%
2008	10.0%	10.0%	10.0%	10.0%
2009	10.0%	10.0%	10.0%	10.0%
2010	10.0%	10.0%	10.0%	10.0%
2011	10.0%	10.0%	10.0%	10.0%
2012	10.0%	10.0%	10.0%	10.0%
2013	10.0%	10.0%	10.0%	10.0%
2014	10.0%	10.0%	10.0%	10.0%
2015	10.0%	10.0%	10.0%	10.0%
2016	10.0%	10.0%	10.0%	10.0%
2017	10.0%	10.0%	10.0%	10.0%
2018	10.0%	10.0%	10.0%	10.0%
2019	10.0%	10.0%	10.0%	10.0%
2020	10.0%	10.0%	10.0%	10.0%

What spending strategy makes sense for you?

- Systematic withdrawal
- Income floor
- Bucket approach
- Systematic withdrawal plan



1 Identify your income sources

- Identify income sources:
 - Pensions
 - Social Security
 - Paid annuities
 - Rental income
- Assets:
 - Investment accounts
 - Savings accounts
 - Real estate
- Financial assets:
 - Investments
 - Real estate

2 Estimate retirement expenses

- Identify:
 - Living
 - Utilities
 - Personal
 - Health care and insurance
 - Family care
- Transportation
- Recreation
- Education
- Charitable giving

Questions and actions

Create your map

- Identify income sources
- Estimate retirement expenses
- Identify your investments
- Determine withdrawal strategy

3 Diversify your investments

- Factors to consider:
 - Your time horizon
 - Planning pace with inflation
 - Current liquidity needs
 - Reevaluation of asset classes
 - Longevity protection
 - Product allocation (i.e., stocks, bonds, insurance, real estate)

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

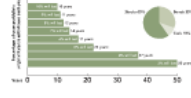
Income floor

Income floor is a withdrawal strategy that guarantees a fixed amount of income each year. It is often used to cover essential expenses like housing, food, and utilities.

Bucket approach

Bucket approach is a withdrawal strategy that involves dividing retirement assets into different buckets based on their liquidity and risk. Each bucket is used to cover expenses for a specific period of time.

How long would your money last?



4 Determine withdrawal strategy

- Determine which withdrawal strategy is best for you
- Income floor
- Bucket approach