

focus  n[®]

Retirement Income
Charting a Course to Help Your Money Last

PREVIEW



Contents

Introduction	3
What Happens When You Retire?	3
Four Steps to Developing an Income Strategy.....	3
Prepare for the Unexpected	4
Longevity Risk.....	4
Inflation Risk: The Loss of Purchasing Power	4
Rising Health-Care Costs	5
Unpredictability of the Financial Markets	6
Sequence-of>Returns Risk	6
Envision Your Retirement	7
Primary Sources of Retirement Income.....	7
Personal Savings and Investments	7
Social Security.....	8
Continued Employment Earnings	8
Refine Your Investment Mix	9
Developing a Sound Investment Strategy.....	9
Asset Allocation	9
Choose a Well-Diversified Investment Mix	9
Income-Producing Vehicles	10
Structuring a Fixed-Income Ladder.....	10
Dividend-Paying Stocks.....	11
Is Tax-Exempt Investing Appropriate for You?	11
Creating Your Own “Pension” with an Annuity	12
How an Immediate Annuity Works.....	12
Choose a Distribution Method for Tapping Assets	13
How Long Would a Retirement Portfolio Last?.....	13
Assess Drawdown Strategies	14
Life-Expectancy Method	14
4% Rule.....	15
Three-Tiered Strategy.....	15
Identify What to Spend First	16
Retirement Plan Distribution Options.....	16
Which Distribution Method Is Appropriate?	17
Required Minimum Distributions (RMDs)	18
Advantages of a Roth IRA	18
Figuring Out Your Net Worth	19
What to Bring	back cover

This material was written and prepared by Broadridge Advisor Solutions.

Copyright by Broadridge Financial Solutions, Inc. All rights reserved. No part of this publication may be copied or distributed, transmitted, transcribed, stored in a retrieval system, transferred in any form or by any means—electronic, mechanical, magnetic, manual, or otherwise—or disclosed to third parties without the express written permission of Broadridge Advisor Solutions.

The information contained in this workbook is not written or intended as tax, legal, investment, or retirement advice or recommendations, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek guidance from an independent tax or legal professional. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security.

Broadridge assumes no responsibility for statements made in this publication including, but not limited to, typographical errors or omissions, or statements regarding legal, tax, securities, and financial matters. Qualified legal, tax, securities, and financial professionals should always be consulted before acting on any information concerning these fields.

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 36% of retirees said their overall expenses were higher than what they had expected.

Source:
Employee Benefit
Research Institute, 2022

Four Steps to Developing an Income Strategy

- 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.



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

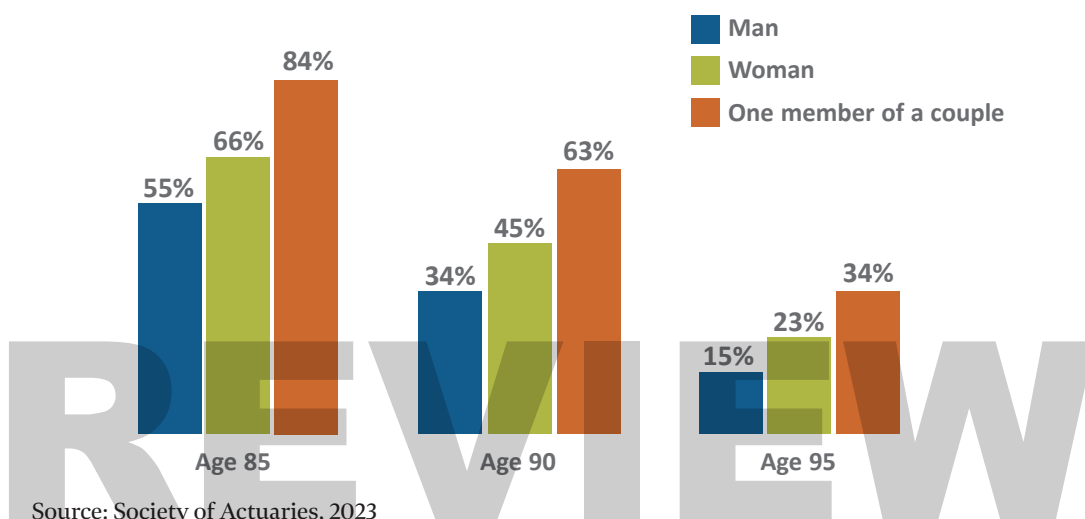
The good news is that you may live a long time. The challenge is making sure that your retirement assets last as long as you do.

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

Overlooked Value of Social Security

Social Security replaces about 40% of pre-retirement income for beneficiaries age 66 and older with career-average earnings equal to \$60,024.

Source: Social Security Administration, 2022



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.

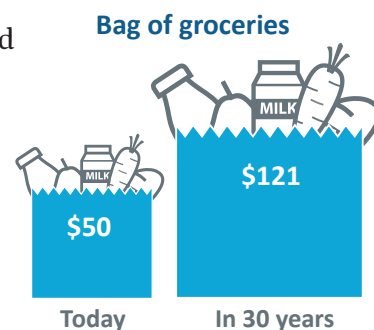
Inflation Risk: The Loss of Purchasing Power

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. Inflation was relatively low over the past decade (averaging 2.6%, 2013–2022), but was especially challenging in 2021 and 2022, rising 7.0 percent and 6.5 percent respectively, the largest annual increases since 1982.

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 long-term, hypothetical 3 percent annual inflation rate, the cost of a \$50 bag of groceries would more than double in 30 years.

Source: U.S. Bureau of Labor Statistics, 2023



Prepare for the Unexpected

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 egg would have the purchasing power of about \$412,000.

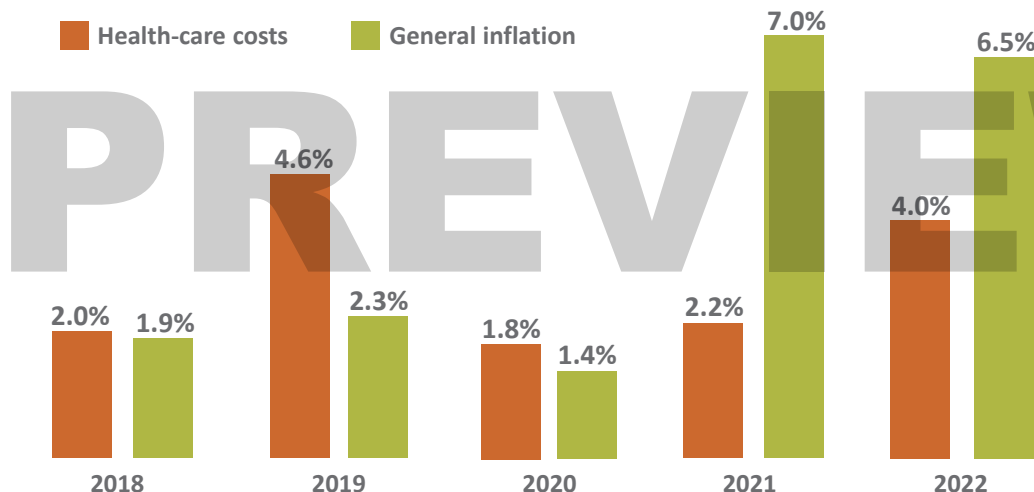
That's why it is essential for your retirement portfolio to keep pace with — and ideally exceed — inflation to avoid losing purchasing power as the years go by.

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.



Source: U.S. Bureau of Labor Statistics, 2023

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 2023 range from about \$165 per month to \$560 per month, based on the modified adjusted gross income reported on your 2021 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 2021 and live an average life expectancy may need \$296,000 to pay their health expenses in retirement. Costs could be even higher for those who develop a chronic illness or incur high prescription drug costs.

Source: Employee Benefit Research Institute, 2022 (estimated amounts needed for Medicare Part B and Part D, Medigap Plan G, and median out-of-pocket prescription drug expenses)

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 median cost for a semi-private room in a nursing home is \$94,900.

Sources:
U.S. Department of Health and Human Services, 2020;
Genworth Cost of Care Survey, 2021 (most current data available)

Prepare for the Unexpected

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.

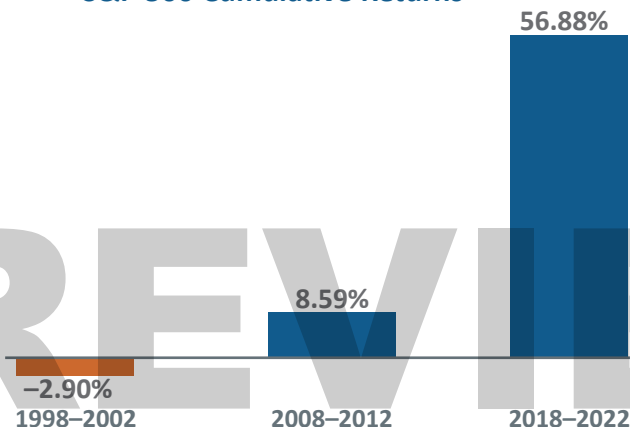
Consider the outcomes below, which show the cumulative returns of the S&P 500 composite index over three different five-year periods. (*The cumulative return looks at the total percentage increase or decrease in the value of an investment over a specific time period.*) As you can see, these three time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

Maintaining Perspective

The bull market that began in March 2009 and ended in February 2020 was the second longest in U.S. history, with an S&P 500 cumulative return of about 400%.

Source: Yardeni Research, October 28, 2022

S&P 500 Cumulative Returns



Source: Refinitiv, 2023, for the periods January 1, 1998, to December 31, 2002; January 1, 2008, to December 31, 2012; and January 1, 2018, to December 31, 2022. 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.

