RETIREMENT ROADBLOCKS

7 Financial Risks to Avoid

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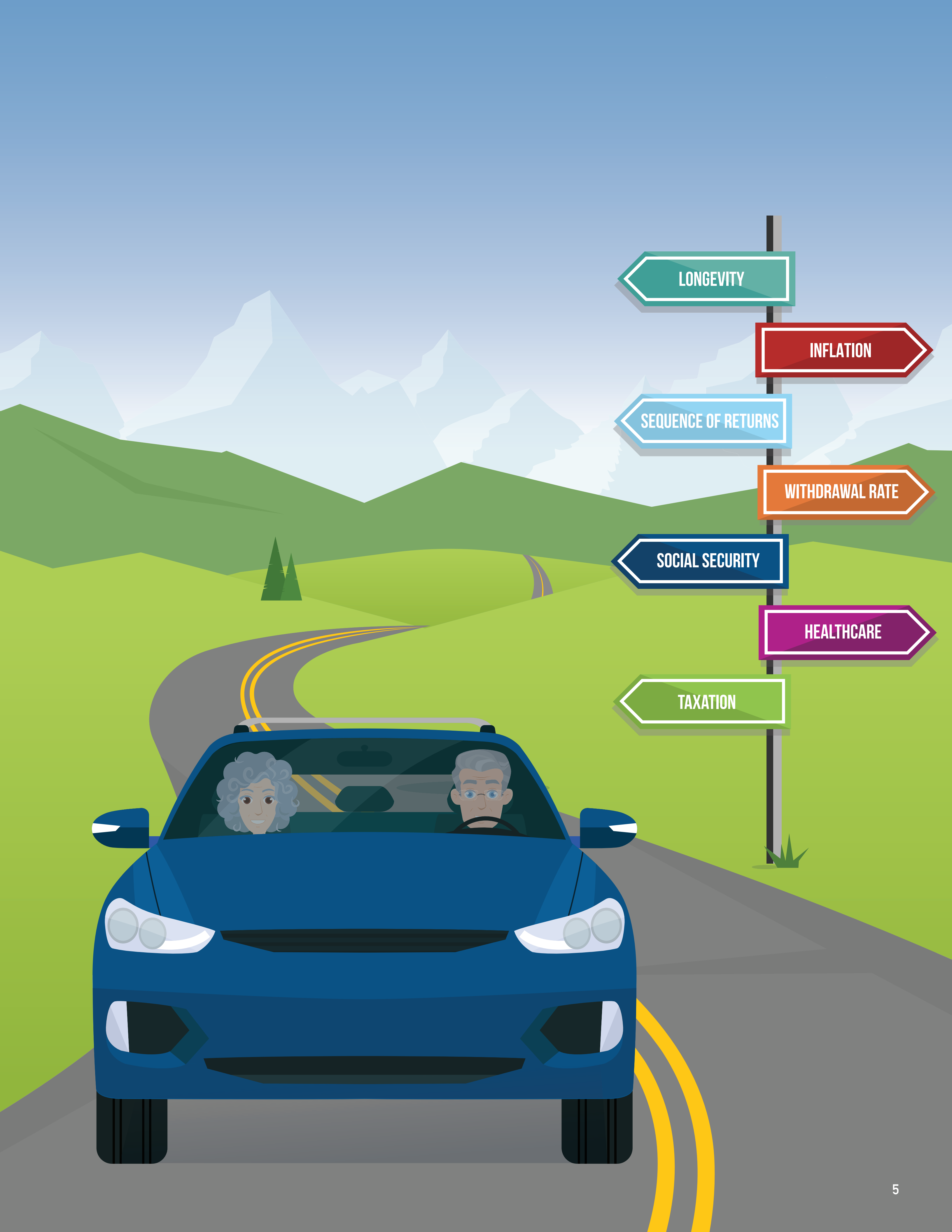
MEET BILL AND JILL

Let us introduce you to siblings Bill and Jill. Both Bill and Jill have worked hard and saved for retirement. Their bags are packed and they are ready to head out on their retirement journey.

We invite you to tag along with Bill and Jill as they guide us through seven different financial roadblocks, or risks, that may be encountered along the way.


LONGEVITY
INFLATION
SEQUENCE OF RETURNS
WITHDRAWAL RATE
SOCIAL SECURITY
HEALTHCARE
TAXATION

LONGEVITY RISK

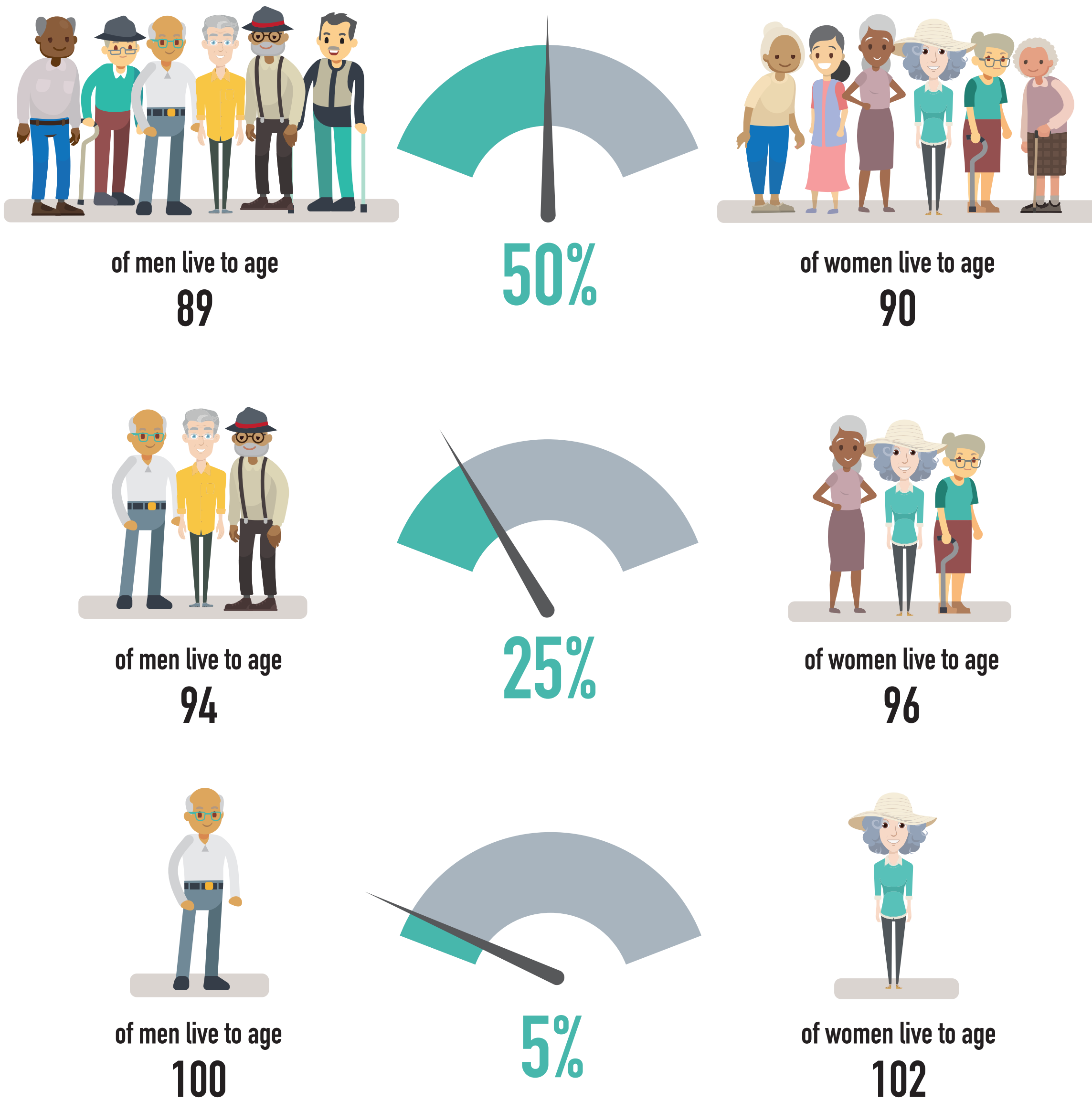
LONGER LIFE, BIGGER RISK.

When traveling, the longer the trip, the more fuel that is needed. In retirement, the longer the trip, the more savings that are needed. Today, Americans are living longer than ever, resulting in a retirement that can last 25, 30, or even 40 years! Living longer than planned is defined as longevity risk.

Longevity risk has often been referred to as a risk multiplier. Why? The more years spent in retirement, the greater the chance that other financial detours could come into play. For example, the risk of experiencing market volatility rises as the length of retirement increases.

HOW LONG WILL YOU LIVE?

Life expectancy is defined as the average number of years someone is expected to live. This means that some will live beyond life expectancy and some will die before life expectancy for a given age. The chart below is based on a 65-year-old.



Life expectancies are based upon the 2012 IAM Basic Mortality Table.

Longevity requires a long-term view. A balance between growth and protection may be required to help ensure retirees have enough money to last through retirement. Retirees should consider whether current sources of lifetime retirement income, such as Social Security and pensions, will be sufficient, or if their retirement income strategy will require additional lifetime income sources.

INFLATION RISK

SAME MONEY, LESS POWER.

Back in 1964, Ford introduced the Mustang at a sticker price of $2,368. Today, a Mustang starts at $26,670 and you can quickly spend more than $73,000 for a top-of-the-line version. This is just one example of inflation. Inflation is simply the increase in the cost of goods and services over time.

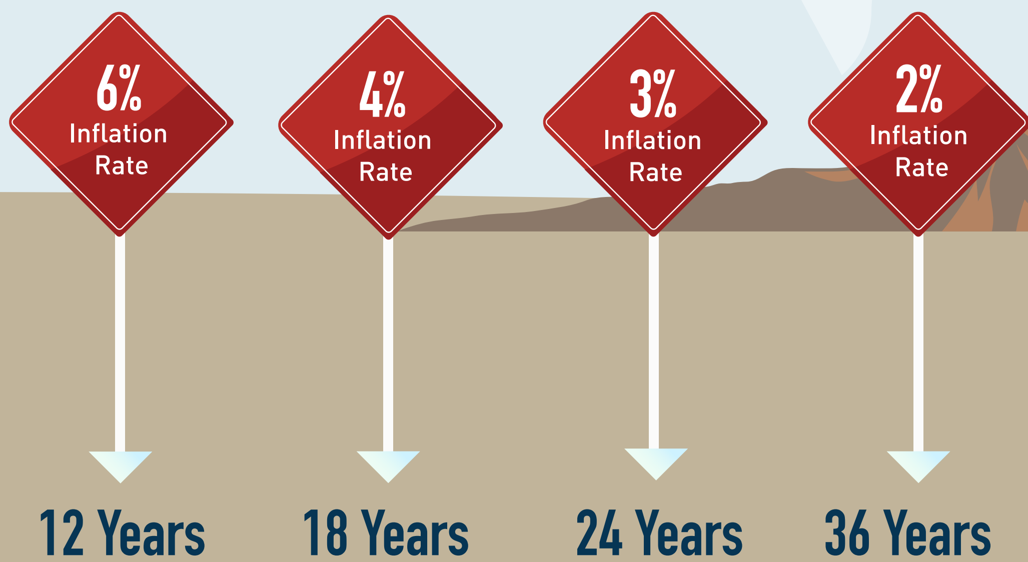
Periods of high inflation, like the mid-1970s and early 1980s, can create a challenge to maintaining an adequate standard of living. Even modest inflation levels like we have experienced over the past 20 years can deflate a retiree's ability to cruise through retirement while maintaining purchasing power.

INFLATION RATES FROM 1960 – 2020

Bureau of Labor Statistics: CPI for All Urban Consumers, 2020

WHAT IMPACT CAN INFLATION HAVE ON YOUR INCOME?

Based on different inflation rates, how frequently will your income need to **DOUBLE** to maintain your standard of living? How long until $50,000 will need to be $100,000?



Inflation's damaging effects only compound over time. However, a well-planned, diversified retirement income strategy can address rising costs by combining growth and income products that, together, can generate a rising retirement income.

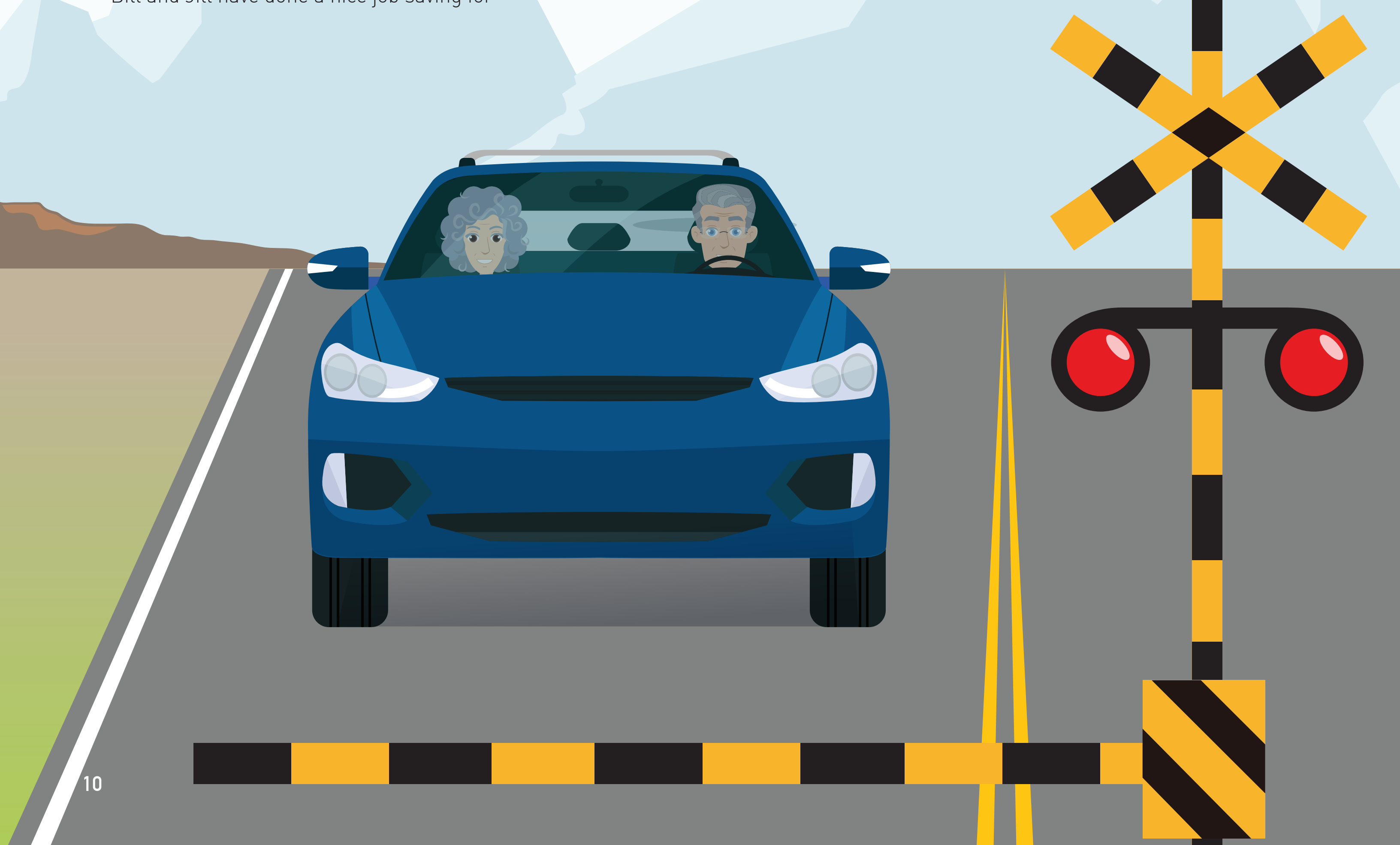
SEQUENCE OF RETURNS RISK

TIMING IS EVERYTHING.

Sometimes, your timing is just off. You hit every red light or have to wait for that long train to pass. This typically amounts to little more than an inconvenience. With retirement income planning, however, timing issues can sometimes lead to major financial detours!

Market pullbacks will often have a minor impact on retirement savings strategies because savers can simply wait for the market to recover. While Bill and Jill have done a nice job saving for retirement, neither of them could have predicted when a pullback would take place, nor the impact those pullbacks would have.

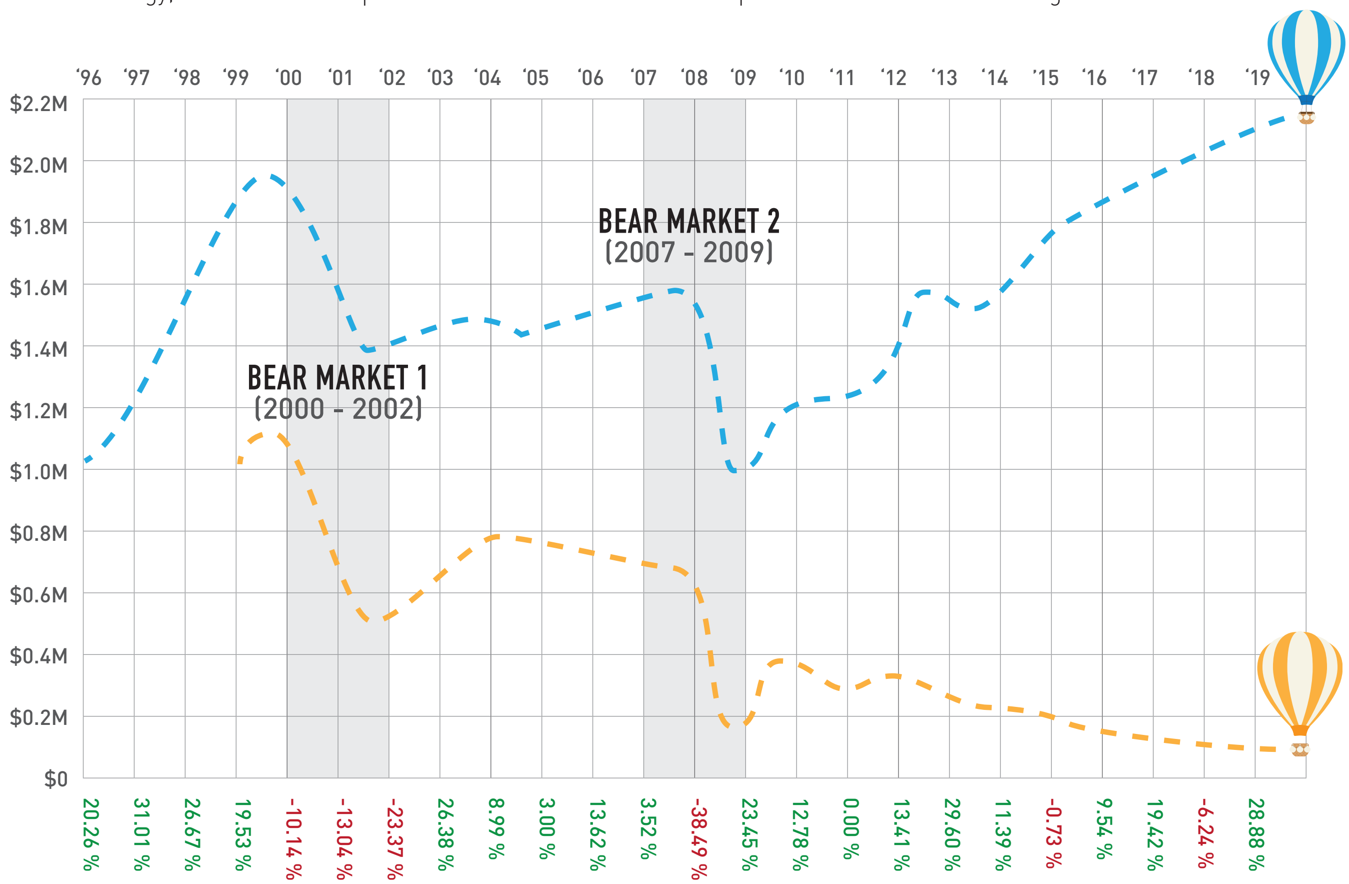
That same market pullback may pose a major challenge when withdrawing money from certain retirement assets. Why? When withdrawals are used for purchases, that money is no longer in the account waiting for the market to recover.



POTENTIAL IMPACT OF MARKET CYCLES

Bill and Jill have both saved $1 million for retirement. Bill elects to retire in 1996. Jill retires three years later in 1999. Both will withdraw $40,000 a year, increasing it by 3% each year to account for inflation.

With Bill retiring in 1996, he had four years of market growth prior to Bear Market 1. Jill only had one year of retirement prior to the Bear Market. Although they had both saved $1 million and had a common strategy, their different sequence of returns had a dramatic impact on their retirement savings.



Annual returns are based on the S&P 500 index.

Bill

Total Withdrawals:	Ending Account Balance:
$1,377,065	**$2,111,556**

Jill

Total Withdrawals:	Ending Account Balance:
$1,147,066	**$148,000**

Having some retirement income sources that are not impacted by market pullbacks is one way to address this risk. These income sources can allow a nest egg to recover from a market pullback, easing the pressure on the portfolio during times of volatility and unpredictability.

This is a hypothetical example for illustrative purposes only. The hypothetical returns are not indicative of actual market performance. Actual market returns will vary. This is not intended to project the performance of any specific investment or index. If this were an actual product, the returns may be reduced by certain fees and expenses.

WITHDRAWAL RATE RISK

MAKING MONEY LAST.

While progressing along the retirement journey, it's critical not to drain the retirement tank too quickly. During the 1990s, financial researchers began work to determine how much of a retirement nest egg could be withdrawn each year before a retiree would run out of money. They concluded that retirees could withdraw 4% of their initial savings each year, adjusted for inflation.

However, much of that research was premised on higher interest rates, compared to today's historically low rates and bond yields. As a result, many experts today insist that a lower withdrawal rate may be necessary to help ensure the sustainability of a retirement nest egg.

WITHDRAWAL RATES IN RETIREMENT

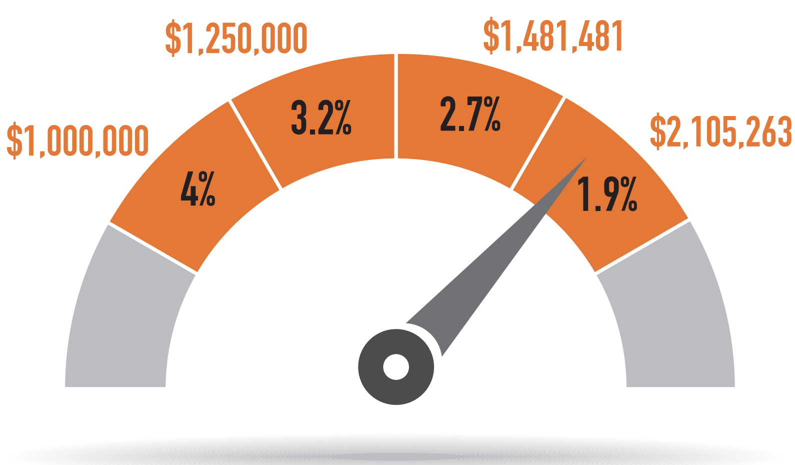
A 4% withdrawal rate was once considered a "safe" amount that could be taken from your nest egg each year, based on research done in the 1990s. However, market conditions over the past decade have called the "4% rule" into question. When determining a safe withdrawal rate, it is important to factor in how retirement savings are divided between equities and bonds.

Annual Withdrawal Rates

% PROBABILITY OF SUCCESS*	20% Equities/ 80% Bonds	40% Equities/ 60% Bonds	60% Equities/ 40% Bonds	80% Equities/ 20% Bonds
99%	2.2%	2.1%	1.9%	1.4%
90%	2.7%	2.8%	2.7%	2.6%
80%	3.0%	3.2%	3.2%	3.2%
50%	3.4%	3.9%	4.3%	4.6%

**Assuming a 30-year retirement*
Morningstar Investment Management – Low Bond Yields and Safe Portfolio Withdrawal Rates, January 2013

Lower withdrawal rates require retirement nest eggs to be much larger to generate the same level of retirement income. Consider the assets required to generate $40,000 a year in income:



2.1 x more savings required

There are various financial and insurance strategies that, when combined, can help generate sustainable levels of retirement income. The key is to focus on income-oriented solutions that you may not have considered when saving for retirement.

SOCIAL SECURITY RISK

CHOOSE WISELY.

Much like we depend on an engine for reliability, Social Security is depended on by millions of Americans to help achieve their retirement goals. Social Security is one of the few sources of lifetime income during retirement that adjusts each year for inflation, so it is important to understand all available options.

Today, for a married couple, there are a multitude of options to consider when determining when to take Social Security benefits. Understanding when to file for benefits is a crucial step in the retirement planning process. Often, people start their benefits before reaching full retirement age, which may not be the best option.

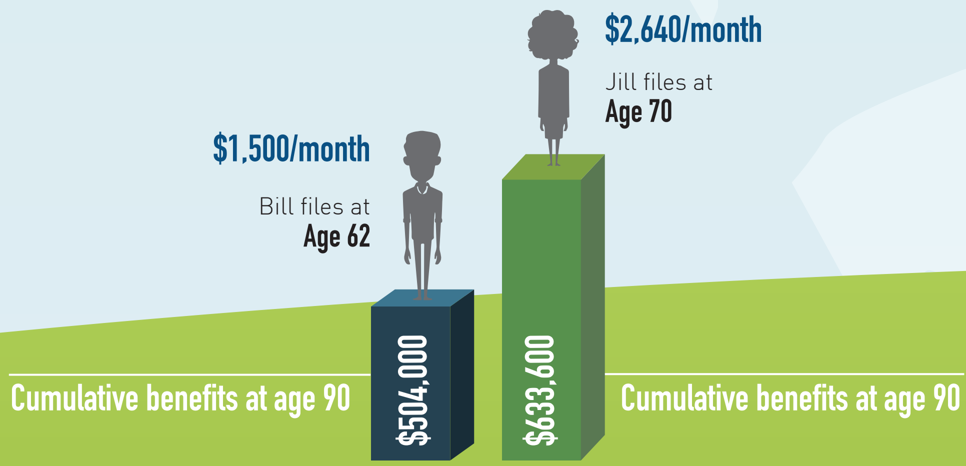
FULL RETIREMENT AGE (FRA)

FRA is the age at which a retiree is entitled to their full monthly benefit. The FRA benefit amount is based on the retiree's year of birth. The decision to begin benefits prior to or after FRA can decrease or increase benefits dramatically.

BIRTH YEAR	FULL RETIREMENT AGE	BENEFIT REDUCTION AT AGE 62	BENEFIT INCREASE AT AGE 70
1943-1954	66	-25.0%	+32.0%
1955	66 and 2 months	-25.8%	+30.7%
1956	66 and 4 months	-26.6%	+29.3%
1957	66 and 6 months	-27.5%	+28.0%
1958	66 and 8 months	-28.3%	+26.7%
1959	66 and 10 months	-29.1%	+25.3%
1960 and later	67	-30.0%	+24.0%

Social Security Administration: Starting Your Retirement Benefits Early, October 2020
Social Security Administration: Delayed Retirement Credits, October 2020

Both Bill and Jill's FRA is age 66 with an FRA benefit of $2,000/month



Jill will receive almost **$130,000** MORE in total benefits!

By waiting until age 70, Jill would increase her income from Social Security by $640 a month, 32% more than what she would have received at age 66. If both Bill and Jill live to age 90, assuming no annual cost-of-living adjustments, Jill will have received $129,600 more in cumulative benefits than her brother Bill.

Deciding when to file for Social Security benefits can be complex. It not only impacts your benefits, but your spouse and survivors are affected by your decision too.

Please note that as a financial professional, we can provide information but not give tax, legal, or Social Security advice. You should seek guidance from your tax advisor, attorney, or the Social Security Administration regarding your particular situation. As a financial professional, we may be able to identify potential retirement income gaps and may introduce insurance products such as a fixed annuity as a potential solution. Not approved, endorsed, or authorized by the Social Security Administration, or any other U.S. governmental agency. Social Security rules are subject to change.

HEALTHCARE RISK

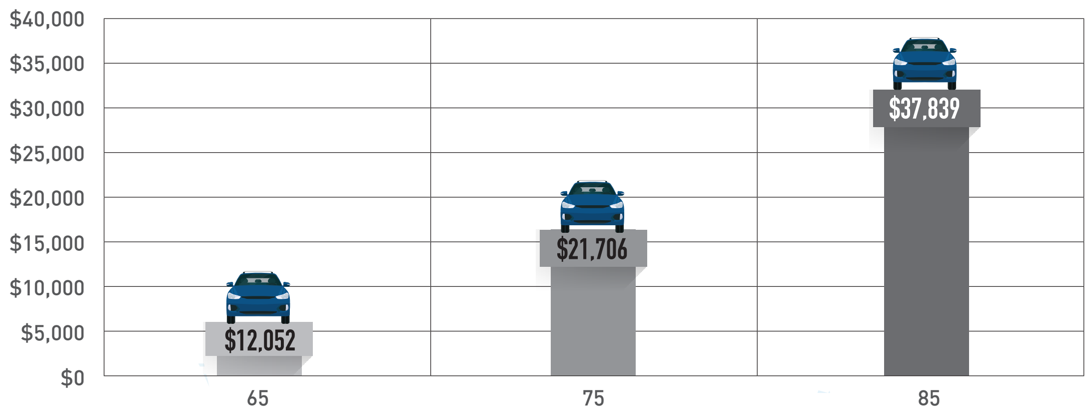
EXPECT THE UNEXPECTED.

Even with the best preparation and planning, there are often unexpected costs that may occur on any long road trip. The same can be said for retirement savings in relation to healthcare expenses. Healthcare costs continue to be one of the largest, most unpredictable expenses in retirement.

And while Medicare does provide a baseline of health insurance, it is not without cost and does not cover every healthcare expense. In fact, research has shown that a healthy 65-year-old couple can expect to spend $12,052 annually in out-of-pocket costs on healthcare!*

ANNUAL OUT-OF-POCKET HEALTHCARE COSTS

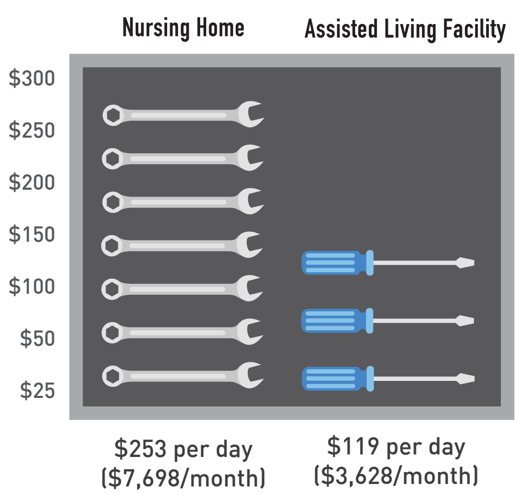
As retirees age, out-of-pocket costs only increase. This ever-increasing expenditure can be detrimental to finances in retirement.

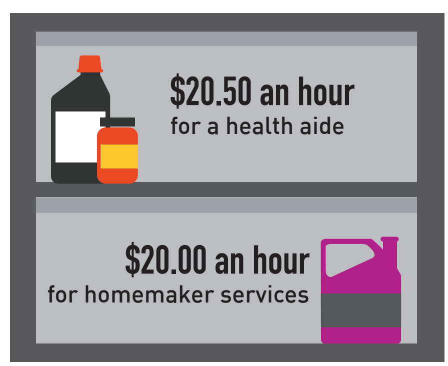


**HealthView Services, 2019 Retirement Healthcare Costs Brief*

NATIONAL AVERAGE FOR LONG-TERM CARE COSTS

One of the most challenging expenses to plan for relates to long-term care events. With a national annual median cost for a private room in a nursing home exceeding $92,000, many opt to explore in-home care options. And while Medicare can cover part-time in-home "intermittent" skilled nursing and short-term stays at a skilled nursing facility, Medicare will not pay for 24-hour-a-day care, homemaker services, or personal care services.





U.S. Department of Health and Human Services: LongTermCare.gov, Costs of Care, October 2020

As you build your retirement income strategy, it is important to understand how paying for future healthcare expenses fits into your strategy. Keep in mind that healthcare utilization, and therefore costs, tends to increase as retirees age. It may also be worth exploring insurance products that can help offset unexpected healthcare expenses.

TAXATION RISK

PAY NOW OR PAY LATER.

Road construction ahead! That warning will often mean delays and potentially the need to look for alternate routes. When it comes to taxes and retirement income, the potential for higher future tax rates may mean it is time to explore alternate routes for retirement income.

The U.S. federal debt is more than $27,000,000,000,000.[1] And each year, interest payments on the debt exceed $574,000,000,000![2] To pay off the national debt or balance the budget, the federal government has only two options: increase taxes or decrease spending.

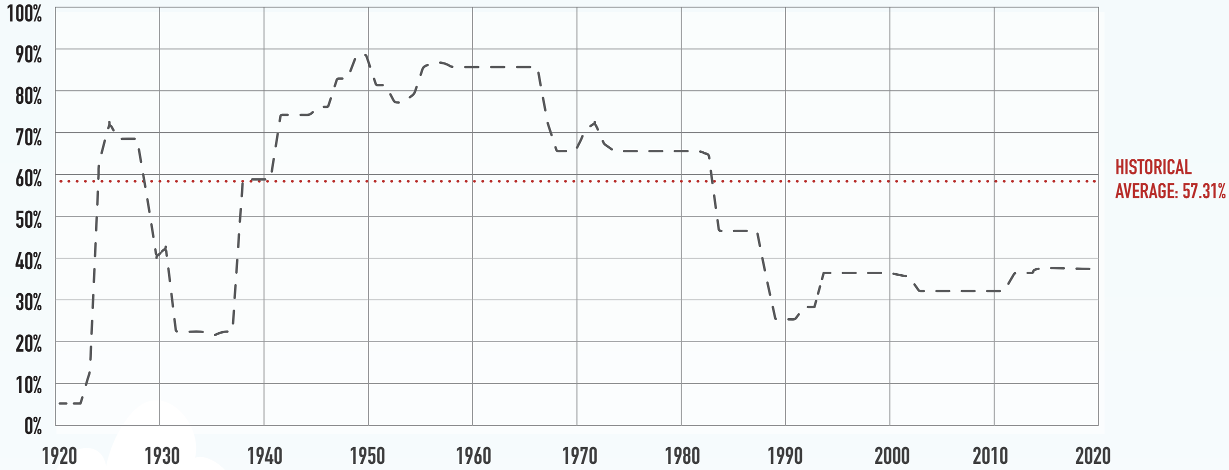
And considering that in the past 60 years federal spending has gone down only four times, it appears more likely that taxes will increase than spending will decrease.[3]

Of course, this creates a dilemma for retirees. Today, most retirement savings are in IRAs and 401(k)s. Those assets, when withdrawn, are subject to taxes. But since future tax rates may be higher than they are today, the after-tax value of those assets is uncertain. Tax uncertainty therefore translates into income uncertainty.

[1] Peter G. Peterson Foundation, National Debt Clock, Retrieved October 2020
[2] TreasuryDirect, Interest Expense on the Debt Outstanding, October 2020
[3] White House Official Office of Management and Budget, Historical Tables, October 2020

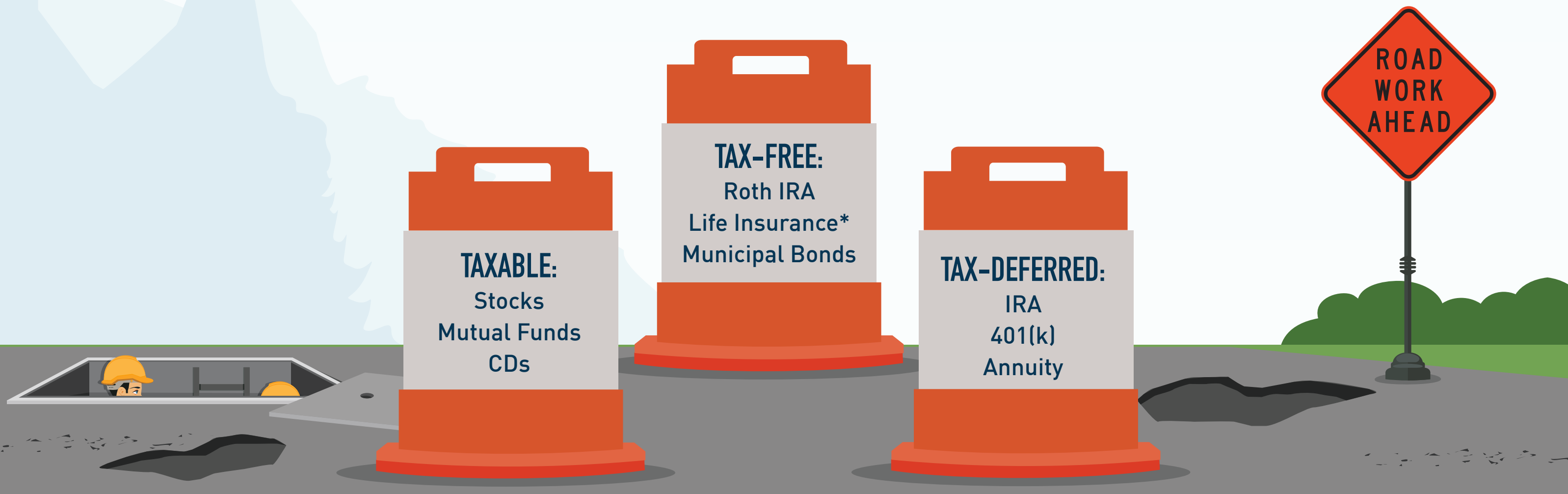
HISTORICAL TOP MARGINAL TAX RATES

Do you think future tax rates will be the same, lower, or higher than they are today?



Tax Policy Center – Urban Institute & Brookings Institute: Statistics – Historical Highest Marginal Income Tax Rates, October 2020

Since many savings vehicles will be taxed when dollars are withdrawn or when assets are sold, it can be worth exploring the concept of tax allocation. Tax allocation strategies are designed to provide flexibility in where retirement dollars come from. In periods of higher taxes, it can be beneficial to spend retirement dollars from income tax-free or low-tax vehicles, such as Roth IRAs and life insurance.* During periods of low-tax rates, tax-deferred vehicles, such as IRAs and 401(k)s can be attractive sources of retirement income. The key is having retirement savings in a variety of vehicles.



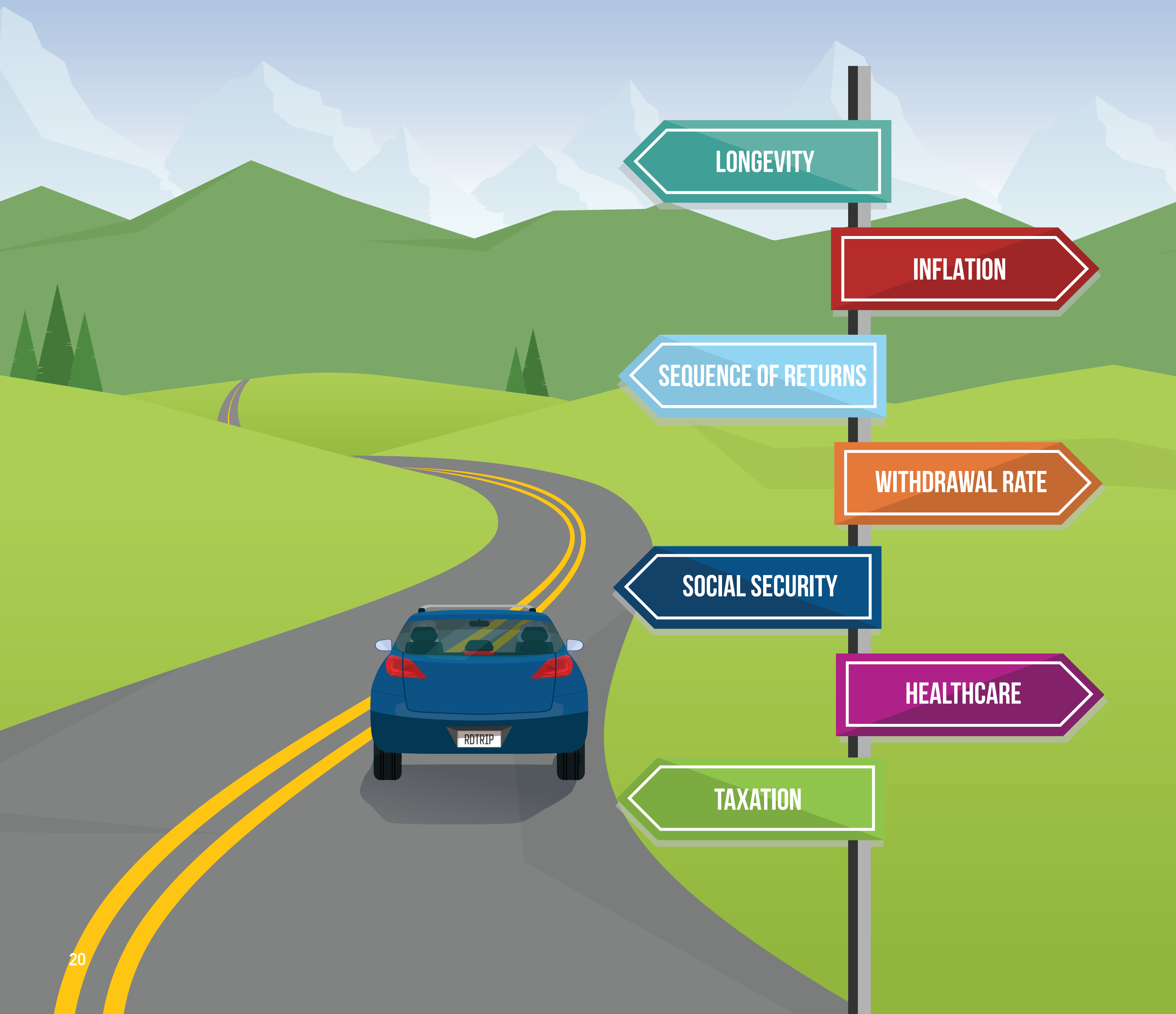
**The primary purpose of life insurance is the death benefit. Policy loans and withdrawals will reduce available cash values and death benefits, and may cause the policy to lapse or affect any guarantees against lapse. Additional premium payments may be required to keep the policy in force. In the event of a lapse, outstanding policy loans in excess of unrecovered cost basis will be subject to ordinary income tax. Withdrawals are generally income tax-free, unless the withdrawal amount exceeds the amount of premium paid. Tax laws are subject to change. Clients should consult their tax professional. Please obtain and carefully review detailed product information for any insurance product you are considering. Any guarantees offered by insurance products are guaranteed by the issuer.*

Any transaction that involves a recommendation to liquidate a securities product, including those within an IRA, 401(k), or other retirement plan, can be conducted only by individuals currently affiliated with a properly registered broker/dealer or registered investment adviser.

Please note that as a financial professional, we can provide information but not give tax or legal advice. You should seek guidance from your tax advisor or attorney regarding your particular situation.

TRAVEL WISELY

We all want to make the right decisions and travel wisely on our financial journeys, but you may encounter some or all of these 7 Retirement Roadblocks along the way. You can avoid these financial detours by having a sound financial strategy in place. Work with your financial professional to help you navigate a strategy designed for a successful retirement journey.



RETIREMENT ROADBLOCKS
7 Financial Risks to Avoid

REMEMBER THESE IMPORTANT POINTS:

DON'T GO IT ALONE.

A financial professional can play many roles in helping you build a retirement income strategy. They can help you evaluate product options and build a strong strategy based on your needs and wants. But a financial professional can be much more. They can also help you keep an eye on your goals even when headlines may tempt you to make emotional decisions.

CREATE A STRATEGY.

Your retirement income strategy should be built for you. As a result, it should consider your time horizon, target retirement income goal, the impact of potential changes in taxes, and your Social Security options. Your financial professional can assist you in designing a strategy that fits your goals and preferences.

UNDERSTAND ASSET AND TAX ALLOCATION.

No one can predict the future. Whether markets or taxes, the one thing we know is that no one has a crystal ball. As a result, having a well-diversified approach can help you meet whatever the future brings. By incorporating different asset classes, products, and tax strategies, you can have the flexibility to pivot and adapt.

KEEP A LONG-TERM PERSPECTIVE.

Remember that retirement may last longer than you planned. Therefore, it is critical to follow your strategy, make adjustments as needed, and not get swayed by emotion or tomorrow's temporary headlines. Keeping a long-term perspective can help you ignore the noise and keep your emotions in check.

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RETIREMENT ROADBLOCKS

7 Financial Risks to Avoid

Ever wonder what obstacles you may face in retirement?
What impact can living longer than expected have on your retirement income?
What should you consider when deciding when to file for Social Security benefits?

Join us as we take a look at the 7 biggest financial risks most retirees will face in retirement.

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