Welcome to our workshop on retirement income. We’re excited to see you. You should have been given some materials as you entered. I also have pencils (or pens) available if you need them.

Before we start the main part of our presentation, let me take a minute or two to tell you what we hope to accomplish over the course of the next hour or so.
We have three main workshop objectives.

First, we’d like to introduce ourselves and our company.

(Give a brief personal background, tell about your organization, and give its location.)

We use workshops like this one to introduce ourselves and to develop strong working relationships with people like you.

Second, we’d like to educate you about the benefits of financial management. We’ll also discuss some techniques that can help you reach your financial goals.

And, third, we’d like to clearly illustrate the advantages of working with a company like ours.
Our commitment to the community extends beyond simply offering financial services. We are committed to helping people evaluate their financial situations and giving them the tools to help them make informed decisions.

As part of that commitment, we use workshops like this one to provide individuals with sound financial information. This will help you identify your goals and make wise decisions to improve your financial situation.

We follow up this session with a meeting in our offices. This is a complimentary, no-obligation consultation that we offer to everyone who attends our workshops. During that consultation, we can discuss any questions you have as a result of today’s workshop. If you prefer, we can use that time to examine your specific situation and begin the process of helping you formulate a financial strategy that will suit your needs.

We know that we’ll establish a working relationship with you only when you’re confident we can be of service to you. We want you to understand your options and to know how you may benefit from our services.

The information provided in this presentation 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. Individuals are encouraged to seek advice from an independent professional advisor.
Inside the workbook, you should find an evaluation form just like this one.

(Pull out an evaluation form for your workshop participants to see.)

At the end of the workshop, you’ll use this form to tell us whether you’re interested in taking advantage of the complimentary, no-obligation consultation.

We’d like to make you two promises concerning this form. First, if you check “Yes, I am interested in scheduling a complimentary consultation,” we’ll call you tomorrow and set up an appointment. Second, if you check “No, I am not interested in scheduling an appointment at this time,” we won’t call you or contact you directly after the workshop.

In exchange for our two promises to you, please promise that you will fill out this form. Many of our workshop attendees do come in for a consultation, so we’ve set aside time just to meet with you.

When you do come to our office, feel free to leave your checkbook at home. We are very interested in developing working relationships with many of you, but that decision is yours.
Let’s talk about your workbook.

Research has shown that people are more likely to remember something they act on rather than something they only hear about. That’s why we designed this workbook so you can apply what you learn to your situation. It’s yours to keep. It reinforces the workshop’s major points and will be a valuable resource for you.

Throughout the workbook, you’ll see informative graphics. They come directly from the workshop slides, making it easy for you to follow the presentation. Later, these graphics will be reminders of the workshop’s important points.

The workbook has wide margins so you can take notes. As we cover this material, feel free to underline or circle items you may have questions about. That way, they’ll be fresh in your mind during the complimentary consultation.

You’ll also find helpful exercises, worksheets, and self-analysis quizzes. These materials will make your workshop experience interesting, informative, and most important, valuable.
How do you envision your retirement? Many people envision themselves playing golf at the local country club, taking a cruise and traveling to new destinations, or purchasing a new vacation home.

Do you have sufficient retirement savings to last throughout your retirement years and still enjoy the hobbies and plans you have envisioned? Will you have enough assets left over to leave to family members or your favorite charitable organizations?

The quality of your retirement lifestyle may depend a great deal on the financial decisions you make when you retire. Some of these decisions can be very complex and may involve some issues you have failed to take into consideration.

We’re not here to address every retirement funding issue. We are here to help you avoid making retirement distribution mistakes, as well as to help you evaluate alternatives that could help your assets last throughout your retirement years.
Reaching retirement is the beginning of a new voyage...a time of changing tides, with you at the helm.

The investment and savings decisions you make to accumulate assets for retirement will eventually bring you to this crossroads, a time to reassess your bearings and put retirement into focus.

Now the decisions you make to live off these funds and manage your assets will determine the retirement lifestyle you will enjoy.

Will your hard-earned money last a lifetime? Which direction will you take? Where do you start?
What happens when you retire? The rules are different from when you were working. After all, you want to avoid the retiree’s biggest fear: running out of money during your lifetime.

Although you may already have been making changes in your life in anticipation of retirement, when you actually get there, it may be necessary to change course by modifying your habits and attitudes about how you invest and spend money.

Instead of focusing on accumulating assets for your portfolio, you are focusing on withdrawing assets in the most efficient way.

When you accumulate assets, you focus on reaching a specific goal: the growth of your portfolio. As long as you reach or exceed your goal, you’re happy. But when you focus on living off your assets, you are looking primarily for stability to generate a steady income stream and maintain principal. Market volatility is not your friend. Depending on how you have allocated your portfolio, a market downturn could not only negatively affect your portfolio, but your retirement lifestyle as well. So during this stage of life, you may want to consider different vehicles for your money.

It’s even more important than before that you generate income and make the most of your hard-earned money…that you tap into your savings and investments in an efficient way.

And, of course, it’s critical to help protect your assets by preparing for the unexpected.
Charting your course for this stage of life involves making decisions in five key areas. We will address these action items during the workshop.

First, size up your current situation, considering the lifestyle choices you will make and the sources of retirement income that are available to you.

Second, choose a distribution method that will help your funds last as long as you do.

Third, understand retirement plan distribution rules in order to help avoid paying unnecessary taxes and penalties.

Fourth, develop an investment strategy to help you make the most of your money. The types of assets and vehicles you choose can affect your retirement income stream.

And fifth, prepare for the unexpected to help protect your assets.
To size up your current situation, you need to answer some questions.

**How do you intend to spend your retirement?**

Do you know where you will live? Do you envision taking a major trip each year? If you will have a lot of leisure time, what hobbies and activities do you plan to enjoy?

**How will you support your desired lifestyle?**

If you haven’t accumulated the funds you would like to have for retirement, can you postpone retirement and work longer, or would you consider working part-time during retirement or starting a new career?

If you haven’t yet retired, is there time to make up the difference through a more aggressive retirement investment strategy? Will you have to reduce your standard of living in order to make ends meet?

Hopefully, the choices you have made in the past will enable you to live the life you have envisioned.

Yet it’s also important to remember that the choices you make when you retire will play a significant role in how you spend your retirement years.
Several factors can have an impact on your retirement situation. Let’s go over a few of them.

The length of your retirement will affect how much money you can spend and the lifestyle you will enjoy.

With recent advances in technology and medicine, life expectancies are stretching considerably, and chances are good that you’ll be spending a large portion of your life in retirement.

It’s not unreasonable to expect that a healthy 65-year-old retiring today and in the next couple of decades will spend 20 to 30 years in retirement.

Thus, the way in which you structure multiple income sources and juggle distributions from your savings and retirement plans — and the ongoing performance of your investments — will help determine whether you will have the money necessary to fund a long retirement.

Source: Society of Actuaries, 2019
How does inflation affect your purchasing power?

Inflation is the rise in consumer prices over time — a factor you’ve been battling throughout your working years. In retirement, it may be a harder factor to deal with unless your retirement income keeps pace with or exceeds the effects of inflation.

As you know, inflation can significantly reduce the purchasing power of your savings as the years go by.

This illustration shows how inflation can impact your net worth over time. With a hypothetical 4 percent annual rate of inflation, your money would be cut in half in 18 years. As a result, the purchasing power of a $1 million nest egg would be reduced to $460,000 over the course of a 20-year retirement.

This is a hypothetical illustration. Actual results will vary.
The retirement lifestyle you envision will also have an impact on your savings accumulation. For example, you may plan to travel extensively, be involved in philanthropic endeavors, or maintain a membership at the local country club.

Considering these and other potential retirement expenses, such as rising health-care costs, you will probably need at least 70 percent to 80 percent of your pre-retirement income to live comfortably in retirement.
We’ve considered a few factors that can affect your retirement. Another major factor will be the income sources you will have.

Of course, some retirees are still lucky enough to have a pension to depend on, but times are changing. Traditional pensions are gradually becoming a benefit of the past. They are being replaced by defined contribution plans, which generally require plan participants to be responsible for their own retirement savings and investments.

Because time is limited, we'll focus on the three primary sources of income that most people will depend on in retirement:

• Personal savings and investments (including retirement plans)

• Social Security

• Continued employment earnings
Personal savings and investments will make up the bulk of retirement income for many of today's workers.

People often save for retirement using tax-deferred retirement savings vehicles such as employer-sponsored retirement plans and individual retirement accounts (IRAs). Some people purchase annuities to provide supplementary retirement income.

Many individuals also invest in taxable financial vehicles such as individual stocks, bonds, cash alternatives, and mutual funds.

When you retire, you will be making decisions about whether to keep your assets in these vehicles; whether to move them, consolidate them, or sell them; and whether to utilize other investments. We'll discuss this in more detail later in the workshop.

The return and principal value of stocks, mutual funds, and bonds fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost. Generally, annuities have contract limitations, fees, and sales charges, which may include mortality and expense charges, investment management fees, administrative fees, and charges for optional benefits. Surrender charges may be assessed during the early years of the contract if the annuity is surrendered. The guarantees of annuities are contingent on the financial strength and claims-paying ability of the issuing insurance company. The investment return and principal value of an investment option are not guaranteed. Variable annuity subaccounts fluctuate with changes in market conditions. When the annuity is surrendered, the principal may be worth more or less than the original amount invested.

Withdrawals from traditional IRAs, employer-sponsored retirement plans, and annuities prior to age 59 1/2 may be subject to a 10 percent federal income tax penalty. Distributions are taxed as ordinary income (with annuities, only earnings are taxed).

Mutual funds and variable annuities are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the mutual fund or the variable annuity contract and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.
When we talk about retirement income, Social Security is a major topic of discussion. Social Security is the single largest source of income for 62 percent of retirees.¹

If you have earned at least 40 work credits (about 10 years of work), you are eligible to receive Social Security retirement benefits. The benefit you receive is based on an average of the highest 35 years of earnings in which you paid Social Security payroll taxes, as well as on the age when you claim benefits.

If you claim Social Security at age 62, you will receive a permanently reduced amount. Under the current formula, the percentage of the full benefit will fall gradually from 75 percent (for those born in years 1943 to 1954) to 70 percent (for those born in 1960 and later).

Full benefits are available at “full retirement age,” which ranges from 66 to 67, depending on year of birth. Do you know your full retirement age? For someone born in 1950, full retirement is age 66. Someone born in 1960 or later has to wait until age 67.

By waiting until age 70, you can receive a higher benefit amount — up to 132 percent of the full benefit.

Married couples have additional options, including spousal and survivor benefits. If the spousal benefit is claimed before full retirement age, it is permanently reduced, unless a qualifying child is being cared for.

As a result of the Bipartisan Budget Act of 2015, there have been some changes to Social Security deemed filing rules. Under these rules, if you were born on or after January 2, 1954, and are eligible for a worker benefit and a spousal benefit when you claim benefits, you will be deemed to be filing for both and will receive the highest benefit to which you are entitled. Married individuals who were born on or before January 1, 1954, have additional options that we can discuss more at the complimentary consultation. The deemed filing rules do not affect survivor benefits.

Source: 1) Social Security Administration, 2017

BONUS FEATURE
(Click the light bulb icon to discuss how Social Security benefits may be affected by taxes.)
If you want to make the most of your Social Security benefits, it’s important to understand how filing early or later will affect the benefits you receive. This chart shows how Social Security worker benefits and spousal benefits are affected at different filing ages, assuming a full retirement age of 66.

As you can see, if you claim a worker benefit at the earliest age of 62, it will be permanently reduced to 75 percent of the Primary Insurance Amount (PIA), the benefit you would receive by filing at full retirement age. So a monthly benefit that would have been $2,000 at full retirement age will be reduced to $1,500 if claimed at age 62.

On the other hand, if you delay claiming benefits until age 70, the worker benefit will be 32 percent higher than the PIA. So if you claim Social Security at age 70, a $2,000 monthly full retirement benefit would increase to $2,640 per month as a result of delayed retirement credits — that’s $7,680 more every year!

To be eligible for a spousal benefit, you must be age 62 or older and have been married to an eligible worker for at least one year, and your spouse must have filed for or be receiving Social Security benefits. (An unmarried, divorced spouse who was married to an eligible worker for at least 10 years can also receive a spousal benefit on the ex’s work record; the ex must be eligible to receive benefits but does not have to be receiving benefits when the spousal benefit is claimed.)

The maximum spousal benefit you can receive, if you file at full retirement age, is 50 percent of your spouse’s Primary Insurance Amount. If you claim the spousal benefit at age 62, it would be only 35 percent of your spouse’s PIA instead of 50 percent. So assuming that your spouse’s PIA is $2,000, instead of receiving a $1,000 spousal benefit, it would be reduced to $700 if you claimed it at age 62.
If you delay filing for Social Security, you might increase not only your monthly benefit but also your lifetime benefits, depending on how long you live.

This graph shows the potential impact on lifetime benefits for someone with a $2,000 primary insurance amount who lives to age 90, based on claiming Social Security at age 62, at age 66, or at age 70.

(Discuss the outcome of the numbers on the slide.)

Keep in mind that claiming early worker benefits could affect the benefits that your spouse might receive as a survivor benefit. The survivor benefit is based on the earnings of the spouse who died, including any retirement credits earned by delaying benefits past full retirement age. A survivor benefit can be claimed as early as age 60. However, if it is claimed before the surviving spouse reaches full retirement age, the benefit is permanently reduced.

Note: An unmarried ex-spouse of an eligible worker may be entitled to spousal and survivor benefits if they were married for at least 10 years. These payments have no effect on the former spouse’s benefits or on his or her subsequent spouse’s benefits.

This hypothetical example is used for illustrative purposes only. Actual benefits and results will vary.
Continued employment is another popular source of income for retirees. In fact, many people assume that if they don’t have enough money to retire when the time comes, they’ll just keep working.

Unfortunately, health issues or an unfavorable job market may force many people to alter their employment situations unexpectedly. According to one study, 79 percent of workers expect to work for pay in retirement, but the reality is that only 34 percent of today’s retirees have actually worked for pay at some time during their retirement years.1

You should also consider that if you claim Social Security benefits before reaching full retirement age and continue to work, your benefits may be reduced if your earnings exceed annual limits. When this happens, $1 in benefits will be withheld for every $2 you earn above the annual limit (in 2019, the income threshold amount is $17,640). Starting in the year you reach full retirement age, $1 in benefits will be withheld for every $3 in wages above a higher annual limit ($46,920 in 2019).2 Once you have reached full retirement age, there is no limit on employment earnings. Of course, employment income is fully taxable as it is earned.

Sources: 1) Employee Benefit Research Institute, 2018;
2) Social Security Administration, 2018

**BONUS FEATURE**

*(Click the pencil icon to direct participants to a worksheet that can help them calculate the amount of money they would need to save in order to fund a comfortable retirement.)*
The next action item in charting your course involves choosing a distribution method for your savings and retirement plan accumulations. To make the most of your money, you will need to make decisions about where you should keep your funds, how to tap into these funds, how much you can afford to withdraw each year, as well as which assets to spend first.
Before you can make any decisions about withdrawing money from your retirement funds, it helps to look at how long a retirement portfolio might last.

The answer depends on several variables — such as the original value of the portfolio, future inflation, the annual returns, your risk tolerance and time frame, and the annual withdrawals.

This hypothetical example compares two $500,000 portfolios to show just how long $500,000 might last in retirement.

Assuming that this investor’s funds are in a tax-deferred account and she takes inflation-adjusted withdrawals of $50,000 a year (which would provide an after-tax income of $30,000 to $35,000 for a typical person), a $500,000 account earning 4 percent would last about 10 years. If her portfolio achieved an 8 percent rate of return, that same $500,000 would last about 14 years.

As you can see, a higher return has a huge impact on how long retirement funds will last. This is easy to change on a worksheet to get the numbers you want, but it is impossible to predict future performance with precision. And inflated expectations may come back to haunt you later when you burn through your savings much faster than anticipated.

Think of this in the context of how long you can expect to live, and you’ll see how important it can be to help make sure that your money lasts throughout your lifetime.

This hypothetical example is used for illustrative purposes only and does not reflect the performance of any specific investment. It assumes two $500,000 tax-deferred accounts earning 4 percent versus 8 percent annually, $50,000 inflation-adjusted annual withdrawals, and a 3 percent annual inflation rate. The example does not consider any investment fees or expenses or the effect of taxes on distributions. Remember that withdrawals from tax-deferred accounts such as 401(k) plans and traditional IRAs are taxed as ordinary income; early withdrawals prior to age 59½ may be subject to a 10 percent federal income tax penalty. Rates of return will vary over time, particularly for long-term investments. Investments seeking to achieve higher rates of return involve greater risk. Actual results will vary.

**BONUS FEATURE**

(Click the pencil icon to direct participants to workbook tables that may help them estimate how long different portfolios might last.)
Market volatility, low interest rates, longer life spans, and rising health-care costs have made it harder to determine a suitable drawdown method. Before converting your retirement savings into an income stream that might last throughout your lifetime, you should assess the pros and cons of different drawdown strategies.

The well-known "4% rule" suggested that it might be “safe” for retirees to withdraw 4 percent of their retirement savings in the first year of retirement, then increase the amount each year by the previous year’s inflation rate, without running out of money for at least 30 years. This strategy was originally tested in the 1990s using historical rates of return on stocks and bonds dating back to 1926, and it was designed to provide a stable income that increased each year. However, more recent studies have found that relying on a strict application of the 4% rule may be riskier than once thought. For example, the approach ignores changes in life expectancies, as well as investment gains and losses that occur over time. If a portfolio dips significantly in value, especially in the early years of retirement, the risk of running out of money increases.

As an alternative, you might consider the “endowment method.” With this strategy, a fixed percentage (typically 3% to 5%) of the portfolio’s value is withdrawn each year, so your retirement income is adjusted up or down to reflect investment gains or losses. However, the amount of income received each year will vary, depending on market performance, which could make it harder to plan spending levels from year to year.

Another way to manage retirement withdrawals is similar to how taxpayers calculate required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans. Each year, the portfolio value is divided by the taxpayer’s distribution period, as published in the IRS life expectancy tables. This method increases the percentage of savings that is withdrawn over time, so the amount of income is adjusted annually for market returns and longevity.

Whichever distribution method you choose, flexibility may be the key to helping your portfolio last. Make sure you are in a position to cut back on spending if your portfolio takes a beating. You might also be best served by a customized strategy that takes your personal situation and expectations into account.

Source: 1) onefpa.org, 2018
When taking distributions from your portfolio and retirement plans, one important factor is identifying what to spend first.

This isn't always easy. It involves weighing the tax consequences, opportunity costs, and even emotional implications of liquidating each asset in your portfolio. Further complicating the issue is that you may have an assortment of taxable, tax-deferred, and tax-free accounts to draw from. As you consider what to spend first, here are a few general guidelines.

One sound strategy is to consider spending taxable assets before dipping into tax-deferred assets. When we talk about taxable savings and investments, we are generally referring to individual stocks, bonds, mutual funds, and CDs. Consider using assets with the highest cost basis first.

Tax-deferred options generally refer to IRAs, employer-sponsored retirement plans, and annuities. If you are financially able to leave tax-deferred assets untouched, you can potentially extend their tax-advantaged growth. Of course, the IRS requires that you start taking annual required minimum distributions from traditional IRAs and employer-sponsored retirement plans (based on your life expectancy) once you reach age 70½.

Another common strategy is to consider liquidating “winners,” or highly appreciated assets, before you spend “losers.” Although this may seem counterintuitive — after all, you would be cashing in on winners rather than cutting your losses — this could help you rebalance your portfolio, not to mention take advantage of higher earnings. Remember that capital losses incurred in previous years can be used to offset capital gains taxes that could result from the sale of appreciated assets.

Keep in mind, however, that if your goal is to leave an inheritance, you might not want to sell some highly appreciated assets (such as property or shares of stock) that you want your family to inherit. If you continue holding these assets, their value would be stepped up to their full market value as of the date of your death. Thus, your heirs would owe capital gains tax only on any appreciation since the time of your death, not on your original basis in the property. Note: Some inherited assets such as cash and tax-deferred retirement accounts do not receive a step-up in basis.

Of course, you might combine several methods, depending on your needs and goals. Distributions from traditional IRAs and employer-sponsored retirement plans are taxed as ordinary income and may be subject to a 10 percent federal income tax penalty if taken prior to age 59½.

**BONUS FEATURE**

*(Click the light bulb icon to discuss the advantages of tax-deferred investing.)*
Before making any retirement plan distribution decisions, it’s important to evaluate the main distribution methods that may be available to you.

You might decide to **stay put** and leave your money in your current retirement plan. This is an attractive approach if you don’t need access to your funds immediately and you’re comfortable with the costs and investments in your plan. Your retirement funds will continue to accumulate tax deferred until you begin withdrawals in retirement or transfer them to another tax-deferred plan.

If you decide to work for another employer, you might also be able to transfer assets you’ve accumulated to your new employer’s plan, if the new employer offers a retirement plan and allows a rollover. Sometimes you can delay required minimum distributions from your current employer’s plan if you are still working.

If you need your retirement plan assets for income, you generally have three distribution options, which we’re going to discuss in more detail. The options you have, of course, will depend on your particular retirement plan.

You may decide to cash out with a **lump-sum distribution**. This would give you total control over your money. You could use it to pay off an existing mortgage, purchase a vacation home, start a business, reinvest in the markets, or any way you like.

Some plans will let you take **systematic withdrawals**, which may be a fixed amount or a fixed percentage of your accumulation at regular intervals. Of course, with this method, it’s possible to deplete your accumulation over time, depending on the amount of your payouts.

Another option is a **lifetime annuity**, which is a series of guaranteed regular payments. Typically, this annuity will last for your lifetime or for the joint lives of you and your specified beneficiary. Be aware that these payments are not indexed for inflation. And if you decide to annuitize, the decision is irrevocable. Guarantees are contingent on the financial strength and claims-paying ability of the issuing company.

Before we discuss the advantages and disadvantages of these three main distribution approaches, we should also mention another popular option: an **IRA rollover**. Moving your retirement plan funds to an IRA may give you additional options. We will discuss rollovers in a few minutes.
If you elect a lump-sum distribution, you will receive the entire balance of your retirement account in one payment.

A lump-sum distribution is a tempting option because it gives you immediate access to and control of your funds. You receive a check and are free to invest the money or spend it wherever and however you choose.

The downside is that income taxes are generally due on the total amount of the distribution; they are due in the year in which you cash out. A large distribution could easily move you into a higher tax bracket.

Another consideration is that employers issuing a check in your name for a lump-sum distribution are required to withhold 20 percent toward federal income taxes, so you would actually receive only 80 percent of your total vested accumulation. And it’s important to remember that the taxes you owe may actually be more than the 20 percent that the employer withholds for taxes.

If you are receiving an early distribution before you’ve reached age 59½, you may also owe a 10 percent federal income tax penalty in addition to ordinary income taxes, unless an exception applies.
Your plan may allow you to take payments as systematic withdrawals. This might be one of three methods: (1) a fixed dollar amount on a regular schedule, (2) a specific percentage of the account value on a regular schedule, or (3) the total value of the account in equal distributions over a specified period of time.

You may be able to choose payouts over a monthly, quarterly, semi-annual, or annual basis. Depending on the plan, you generally have some flexibility to change your payout arrangement over time.

The administrator of your plan is responsible for handling the payments and ensuring that you take the required minimum distributions once you reach age 70½. We'll discuss the rules for minimum distributions later in the presentation.

Of course, remember that your assets might not last throughout your lifetime. If your payouts are larger than any growth of your account, your principal will drop, and eventually your account may become depleted.

Like other retirement plan withdrawals, distributions are generally taxed as ordinary income, and they may be subject to a 10 percent federal income tax penalty if taken prior to age 59½, unless an exception applies.
If you take distributions from your qualified retirement plan as a series of monthly payments paid over your lifetime (often referred to as a lifetime annuity), there are several payment options. Depending on your personal situation, the single-life option or the joint and survivor option may be more appropriate for you.

This slide shows how these choices might affect the monthly income a retirement plan participant could receive. Of course, this hypothetical example is used for illustrative purposes only and does not represent any specific retirement plan payout.

Taking distributions as a single-life annuity provides the maximum monthly benefit during your lifetime. However, your spouse (or selected survivor) will receive no benefit after your death.

Some plans require you to take your payment as a joint and survivor annuity rather than a single-life annuity. If you choose, you and your spouse may be able to waive your right to this option by signing a waiver form, which would allow you to choose a single-life annuity.

The joint and 100 percent survivor annuity option provides a lower monthly income while you and your spouse are both alive. However, your spouse (or selected survivor) will continue to receive the same monthly benefit after your death.

The joint and 50 percent survivor option is a combination of the single-life option and the joint and survivor option. While you are alive, your monthly benefit will be less than the single-life option, but more than the joint and 100 percent survivor option. After you die, the benefit to your spouse (or other survivor) will be reduced by 50 percent of what it was before you died.

The joint and survivor options available will depend on your particular retirement plan. The percentage provided to the survivor could be 50 percent, or it could be more or even less.

When you take retirement plan payments as a lifetime annuity, you pay income taxes on the distributions as you receive them.

**BONUS FEATURE**

*(Click the light bulb icon to discuss using life insurance to supplement a single-life annuity option.)*
Which distribution method is appropriate for you? Before you can answer this question, there are a few things you should consider.

First, consider your age. Remember that there is generally a 10 percent federal income tax penalty on distributions received before you reach age 59½.

Next, look at your liquidity needs. Do you need spendable cash to pay for college, a new home, or any other goals? If so, a lump sum with current taxation may be appropriate.

Also consider market volatility and the preservation of your funds. If the market’s ups and downs leave you anxious, you may want to take advantage of the guaranteed regular payments provided by a lifetime annuity.

Then look at your income needs. If you don’t need to use the bulk of the money right away, you may want to let it continue accumulating tax deferred in your original plan or move the funds to another tax-deferred vehicle.

Finally, consider your current and future tax situation. Are you ready to pay taxes on the distribution now at your current income tax rate? Will you be in a lower tax bracket in retirement? Is your income high enough that you will pay taxes on your Social Security benefits?

You may want to consult your tax adviser regarding your specific situation.
One of the most effective ways to make your retirement savings last is to move your money to an IRA. That’s because any earnings and future contributions you make (as long as you have earned income) can continue to accumulate tax deferred, and taxes are due only on distributions.

If you move qualified assets to a traditional IRA using an indirect (60-day) rollover or a trustee-to-trustee transfer (often referred to as a direct rollover), you can postpone paying current income taxes, and your savings will continue to accumulate on a tax-deferred basis. You would pay ordinary income taxes only on any withdrawals.

If you convert assets to a Roth IRA, you must pay current income taxes on any tax-deferred assets converted to a Roth (in the tax year of the transfer), but qualified distributions of earnings after age 59½ (and after the five-year holding requirement has been met) are free of federal income tax.

Generally, IRAs offer more investment options than you might have had in your employer’s retirement plan. Of course, the options available to you will depend on the institution that holds your funds.

If you have several retirement plans spread among previous employers, you can consolidate them into a single IRA, which would give you greater control over all your investments. This could make it easier to reallocate and balance assets as needed, as well as simplify the paperwork you receive. And if you eventually want to pass IRA assets to your heirs, you may be able to “stretch” the tax-deferred savings for future generations.

Just like the situation with employer-sponsored retirement plans, you must begin taking required minimum distributions (RMDs) from a traditional IRA each year once you reach age 70½. If you do not take the necessary RMD from your account, you will be subject to a 50 percent income tax penalty on the amount that should have been withdrawn. Roth IRAs are exempt from this requirement during the original owner’s lifetime (beneficiaries, however, must take RMDs).

Distributions from traditional IRAs and most employer-sponsored retirement plans are generally taxed as ordinary income. Distributions taken prior to reaching age 59½ may be subject to a 10 percent federal income tax penalty.

**BONUS FEATURE**

*(Click the light bulb icon to discuss the potential benefits of a stretch IRA.)*
There are some reasons why you might not want to roll over funds from a retirement plan to an IRA.

**Creditor protection**

Employer plans may provide greater creditor protection than an IRA. Most qualified employer plans [such as 401(k) plans] receive virtually unlimited protection from creditors under federal law. Your creditors cannot attach your plan funds to satisfy any of your debts and obligations, regardless of whether you've declared bankruptcy. By contrast, traditional and Roth IRAs are generally protected under federal law only if you declare bankruptcy. Any creditor protection your IRA may receive in cases outside of bankruptcy will generally depend on the laws of your particular state.

Even though IRAs typically provide more investment choices than an employer plan, there may be certain investment opportunities in your particular plan that you cannot replicate with an IRA. Further, you may be satisfied by potentially lower-cost institutional funds available in your particular plan, and therefore may not regard an IRA's broader array of investments as an important factor.

While both employer plans and IRAs have associated costs and expenses, an employer may pay for some or all of the plan's administrative expenses.

If you are retiring before age 59½, it's important to note that distributions from your employer plan won't be subject to the 10 percent early-distribution penalty if you retire during the year you turn 55 or later (age 50 for qualified public safety employees). However, distributions from your IRA before you reach age 59½ will be subject to the penalty tax, unless an exception applies.
IRA Rollover Considerations

- Trustee-to-trustee transfer versus rollover check
- 20% withholding
- 60-day rule
- Partial or total rollover
- One-rollover-per-year rule

If you choose a rollover to move your funds, make sure you consider some important details. This isn’t a complicated transaction, but if you’re not careful you could be stuck paying unnecessary penalties and current taxes on some or all of your savings.

You can avoid potential rollover problems by electing a trustee-to-trustee transfer. Because the money never touches your hands, it avoids being subject to any withholding, current taxes (on traditional IRAs), and penalties. Usually, a trustee-to-trustee transfer is as simple as filling out a few forms with the employer-plan custodian and the new IRA trustee.

If you cannot make a trustee-to-trustee transfer, ask that a check in the amount of your vested balance be made out to the IRA custodian for deposit into your new account. Otherwise, if the check is issued in your name, a mandatory 20 percent of the account’s value will be withheld as a prepayment toward income taxes. Then, when you put the remaining 80 percent into the new IRA, you will have to make up the 20 percent that was withheld out of your own pocket or it will be considered a taxable distribution.

In addition, the rollover transaction must be completed within 60 days of your distribution. If you fail to complete the rollover in this time frame, the entire distribution would become taxable.

You can elect a partial rollover or a total rollover. This means you can leave some of the assets in the original plan and roll the rest into an IRA, or you can receive a partial distribution. Remember, any amount you receive directly is subject to withholding, current income taxes, and possible penalties.

Furthermore, if you are moving funds from one IRA to another, you should be aware that you are limited to making only one tax-free IRA-to-IRA rollover in any 12-month period, regardless of how many IRAs you have; each additional rollover would be considered a taxable distribution. All IRAs — traditional, Roth, SEP, and SIMPLE — are treated as one IRA when applying the one-rollover-per-year rule. There is no limit, however, on the number of trustee-to-trustee transfers that can be made in a 12-month period.

If you decide to withdraw money from either an employer-sponsored retirement plan or a traditional IRA before reaching age 59½, the money may be subject to a 10 percent early-withdrawal penalty, plus ordinary income taxes. You may want to consult with your own tax adviser, who can help you determine the most appropriate course of action based on your situation.
A Roth IRA is a popular retirement plan with some significant tax advantages. You may want to consider converting retirement plan assets to a Roth IRA, so it’s critical to understand the costs and potential benefits before you make a decision.

Unlike traditional IRAs, which are generally funded with tax-deductible contributions (or rollovers), Roth IRAs are funded with after-tax contributions or assets converted from tax-deferred retirement plans.

The significant difference between IRAs is that qualified Roth IRA distributions are free of federal income taxes. You can withdraw contributions made to a Roth IRA (but not earnings) tax-free at any time. You can also contribute past age 70½ as long as you have earned income. Plus, you never have to take mandatory distributions from a Roth IRA due to age, so your assets can continue accumulating throughout your lifetime.

You can convert employer-sponsored retirement plan assets or traditional IRA assets directly to a Roth IRA, but you must pay ordinary income taxes on any pre-tax assets that are converted. Taxes owed are payable in the year of the conversion. One last thing to keep in mind is that Roth IRA conversions are now irreversible.

Paying taxes on a Roth IRA conversion may seem onerous, but consider this: Under current tax law, any future growth in the Roth account will not be taxed when you take qualified distributions. And if you leave a Roth IRA to your heirs, their distributions will be free of federal income taxes, too.*

In 2019, wage earners can contribute up to $6,000 (plus a $1,000 catch-up contribution amount for those age 50 and older) to traditional and Roth IRAs combined. However, eligibility to contribute to a Roth IRA phases out at higher income levels ($122,000 for single filers and $193,000 for married couples filing jointly). There are no income eligibility limits associated with converting tax-deferred assets to a Roth IRA.

Qualified tax-free and penalty-free distributions from a Roth IRA must meet a five-year holding requirement and take place after age 59½ or result from the original owner’s death, disability, or a qualified first-time home purchase ($10,000 lifetime maximum).

*Note: Although Roth IRAs are not subject to required minimum distributions (RMDs), inherited Roth IRAs are subject to RMDs after the original owner’s death. However, these distributions would not be subject to federal income taxes.
5 Action Items to Chart Your Course

1. Size Up Current Situation and Sources of Income
2. Choose a Distribution Method
3. **Understand Distribution Rules**
4. Develop an Investment Strategy
5. Prepare for the Unexpected

Now that we’ve addressed different retirement plan distribution methods, including an IRA rollover, it is important to review some important retirement plan distribution rules.

As we mentioned earlier, IRAs and most employer-sponsored retirement plans are subject to specific distribution rules. If you understand them, you may be able to avoid paying unnecessary taxes and penalties on withdrawals from your plans.
One of the first rules to understand is that withdrawals from most tax-deferred retirement plans prior to age 59½ may be subject to a 10 percent federal income tax penalty. Of course, you still must pay ordinary income taxes on distributions (qualified Roth IRA withdrawals are an exception).

However, most tax-deferred retirement plans have certain exceptions to this early-withdrawal penalty:

- Distributions resulting from death or a permanent disability.
- Distributions following separation from service at age 55 or older, or if you separate from service before age 55 and arrange to receive a series of substantially equal periodic payments. *Note: The age 55 exception does not apply to IRAs, annuity contracts, or modified endowment contracts (MECs). The exception for death does not apply to MECs.*
- Distributions that are used to pay qualified, unreimbursed medical expenses that exceed 10 percent of adjusted gross income in 2019.

IRAs allow additional exceptions to avoid the early-withdrawal penalty: distributions that are used to pay tuition and certain other qualified higher-education expenses, distributions used to purchase a first home ($10,000 lifetime limit), distributions used to pay health insurance premiums by certain individuals who have separated from employment, and distributions that are part of a series of substantially equal periodic payments.

Remember that certain criteria must be met, and other exceptions may apply. It might be wise to consult with a financial professional before you receive an early distribution for these reasons.
One exception to the 10 percent early-withdrawal penalty involves distributions from IRAs — and other qualified retirement plans following separation from service — that are part of a series of substantially equal periodic payments.

For example, if you decide to begin withdrawing funds from an IRA at age 50, you could do so without incurring a penalty as long as you receive payments over a period of 9½ years — that is, until you turn age 59½. The size of these payments would be based on your life expectancy at age 50.

If you decided to tap into your retirement plan at age 56, you could do so without a penalty as long as you receive payments over a period of five years. Even though you would turn 59½ before that time, payments must continue for at least five years to avoid the penalty. Remember, the rule is five years or until age 59½, whichever is later. Because your income would be based on your life expectancy at age 56, each of these payments would be higher than if you had begun taking withdrawals at age 50.

Finally, you could tap into your retirement plan at age 58 without a penalty as long as you receive payments for a minimum of five years — that is, until you turn 63. Because the payments would be based on your life expectancy at age 58, they would be higher than if you had begun taking withdrawals at a younger age.
If you decide to wait before taking withdrawals from your employer-sponsored retirement plan or traditional IRA, you should understand the required minimum distribution rules imposed by the IRS. These requirements are designed to ensure that you do not defer the taxes indefinitely.

Generally, you must begin taking required minimum distributions, or RMDs, by age 70½. The first distribution must be taken no later than April 1 of the year following the year you turn 70½. Except for this first distribution, annual minimum distributions must be taken no later than December 31 each year.

Here’s an example: If you turned 70½ in March, you would have to begin taking minimum distributions from your account no later than April 1 of the following year. But if you did so, you would have to take two distributions in the same year, which could bump you into a higher tax bracket. With the exception of the first distribution, which can be delayed, minimum distributions for any year have to be made no later than December 31.

Failure to take the required minimum distribution could result in a 50 percent excess accumulation penalty on the amount that should have been withdrawn. This federal income tax penalty is imposed regardless of the distribution method you choose.
As I just mentioned, if you have assets in traditional IRAs and employer-sponsored retirement plans, you must start taking annual required minimum distributions from them once you reach age 70½. The latest date — required beginning date — to take the first distribution is April 1 of the year after you reach age 70½.

However, if you’re still employed, you may be able to delay minimum distributions from your current employer’s plan until after you retire. But you still have to take minimum distributions from other tax-deferred accumulations (Roth IRAs and annuities are an exception).

Although some people wait until the last possible deadline to start, this could be a mistake because the April 1 deadline after age 70½ is a one-time option, and it would require account owners to take two minimum distributions in the same tax year. If these distributions are large, this could move them into a higher tax bracket. It may be better to separate this distribution into different tax years.

The annual RMD will depend on your age, the value of your account(s), and your life expectancy. The calculation is fairly straightforward. You can use the IRS Uniform Lifetime Table (or the Joint and Last Survivor Table, in certain circumstances), which shows different ages and distribution years. Simply divide the value of your retirement account balance at the end of the previous year by the number of years you are expected to live, based on the numbers in the table.

If you have several IRAs, calculate the RMD for each account for the total minimum distribution. If you wish, you can take the total amount from one account to meet your minimum required distribution. However, if you also have money in an employer-sponsored plan, such as a 401(k), you need to take money from each type of plan. And if you have more than one employer plan, you have to take separate withdrawals from each.

Contributions to a Roth IRA may be withdrawn tax-free at any time. Roth IRA earnings generally can be withdrawn income tax-free as long as the five-year holding requirement has been met and the distribution is made after age 59½. If the withdrawal is made before the five-year holding period and/or before age 59½, income taxes and an additional 10% federal income tax penalty may apply. And, of course, other exceptions could apply.
Don’t Forget to Name Beneficiaries

- Can change beneficiaries at any time
- Choose primary and contingent beneficiaries
- Keep paperwork in order

When was the last time you looked at the beneficiary designations for your retirement plans? You can change account beneficiaries at any time. When you open a new retirement account, don’t forget to name beneficiaries.

Many people don’t realize that the beneficiary designations on certain accounts — IRAs, annuities, life insurance policies, and employer-sponsored retirement plans — take precedence over instructions in a will, so it is important to keep the beneficiary designations up-to-date. If you neglect to name a beneficiary for your account, your beneficiary may be determined by federal or state law, or by the plan document that governs your retirement accounts.

Any number of situations — marriage, divorce, the birth of a child or grandchild, or the death of a spouse — could change the way you want your assets to be distributed.

A common arrangement is to name your spouse as primary beneficiary and your children as contingent (secondary) beneficiaries. This provides a line of succession in the event that something happens to your spouse.

You can also name a charity or a trust. However, if you name both an individual (such as a child) and a non-individual (such as a church) as beneficiaries of your account, your child might not be able to stretch the benefits over his or her lifetime.

Beneficiary designation forms should be completed for all your retirement plans. Check with your plan custodian/trustee to make sure that the paperwork is on file, and keep copies with your other estate planning documents.

Your choice of beneficiaries could have important long-term consequences. If you want to take advantage of extending your legacy, you may want to seek professional guidance.
The fourth important action item in charting your course is to develop an investment strategy for your money.

As I mentioned earlier, when you retire, the rules of investing change. Though you still want your assets to grow, it may be even more important to find stable investments that provide a steady income.

Remember, even though your portfolio may be growing, typically you will be withdrawing funds and living off those distributions. Generally, this means you will have more of your money in low-risk investments so that market volatility doesn’t decimate your portfolio and threaten your lifestyle.

Developing an investment strategy for retirement involves selecting a mix of assets that will provide a stable income, selecting appropriate investments in each class, and choosing accounts and vehicles that will hold your assets and provide a reliable source of income that has the potential to last throughout your retirement years.
You probably understand the concept of asset allocation, a systematic approach to diversification that determines an efficient mix of assets for an investor based on his or her individual needs.

Asset allocation involves strategically dividing a portfolio into different asset classes — typically, stocks, bonds, and cash alternatives — to seek the highest potential return for your risk profile. It utilizes sophisticated statistical analysis to determine how different asset classes perform in relation to one another, and its goal is to achieve an appropriate balance of security and growth potential.

What you need to remember is that when you retire (and even as you are approaching retirement), customizing an appropriate asset allocation for your portfolio to provide income in retirement (or to protect against major losses) may be very different than it was when you were working and accumulating assets. Of course, it will still take into account three things: your investment objectives, your time frame, and your risk tolerance.

Asset allocation and diversification do not guarantee a profit or protect against investment loss. They are methods used to help manage investment risk.

**BONUS FEATURE**

*(Click the light bulb icon to illustrate the volatility and historical performance of stocks, bonds, and Treasury bills over the past 25 years.)*
Here are two sample asset allocation models that may be appropriate for investors with different risk orientations.

An appropriate allocation for a conservative investor might look like this: 50 percent in bonds, 30 percent in stocks, and 20 percent in cash alternatives, such as money market securities and CDs.

An allocation for an aggressive investor might be only 5 percent in cash alternatives, 20 percent in bonds, and 75 percent in stocks.

These investment categories would range from somewhat to very volatile over the years, but the mix of investments could give these investors an adequate potential return for the risk they are willing to take during their retirement years.

This hypothetical example is used for illustrative purposes only. Investments offering the potential for higher rates of return also involve a higher degree of risk.

BONUS FEATURE
(Click the light bulb icon to view the best and worst years for these conservative and aggressive allocation models over the last 20 years.)
Once you've personalized your asset allocation, it's important to choose a well-diversified mix of investments.

The investments and financial vehicles you might consider include cash alternatives for preservation of principal, bonds for stability and income, and stocks for growth potential.

Of course, you can find different combinations of cash alternatives, stocks, and bonds when you choose mutual funds, depending on the objectives you are seeking.

It's also important to diversify within asset classes. Consider splitting your equity holdings into growth and value, small-cap and large-cap, and even some international stocks. If you have a large percentage of your portfolio in company stock, which can be risky at any stage of life, consider reallocating into different investments that could help you maintain your income stream and potentially accumulate assets over time.

The return and principal value of stocks, bonds, and mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Bond funds are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund’s performance. Investing internationally carries additional risks, such as differences in financial reporting, currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility.

*Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*
Also consider your tax situation. People in higher tax brackets looking for relatively safe investments may benefit from tax-exempt vehicles such as Treasuries, municipal bonds, and tax-free money market funds.

How do you decide whether tax-exempt investing is right for you? After all, the yield on a tax-exempt investment is rarely the same as the yield on a similar taxable investment. Fortunately, there is an easy way to compare them: You can compare the tax-exempt yield to its taxable equivalent.

This table can help you compare the yields on taxable and tax-exempt investments. For example, in the top row, locate the yield of a tax-exempt investment you may be considering; let’s say 5 percent. Next, locate your federal income tax bracket in the column on the left; let’s use 22 percent. The percentage where these two variables intersect, 6.41 percent, shows the taxable equivalent yield. In other words, an investor in the 22 percent federal income tax bracket would have to earn 6.41 percent on a taxable investment to match a tax-exempt yield of 5 percent.

On page 13 in the workbook, you can calculate the taxable equivalent yield for your own investments. Generally, the higher your taxable income, the more you can benefit from a tax-exempt investment.

This table is used for general illustrative purposes and does not reflect the performance of any specific investment. Possible state taxes, capital gains taxes, and alternative minimum taxes are not considered. This formula is only one factor that should be considered when purchasing securities and is meant to be used only as a general guideline when calculating the taxable equivalent yields on municipal bonds and agency and treasury securities. Rates of return will vary over time, especially for long-term investments. Actual results will vary.

Municipal bonds are free of federal income tax and may be free of state and local income taxes for investors who live in the jurisdiction where the bond is issued. In some states, bondholders will have to pay income taxes if they buy shares of a municipal bond fund that invests in bonds issued by other states.

Bond funds are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund’s performance. Although some municipal bonds in a fund may not be subject to ordinary income taxes, they may be subject to the federal alternative minimum tax. If a tax-exempt bond fund is sold at a profit, there are capital gains taxes to consider.

Treasuries are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. The principal value will fluctuate with changes in market conditions. Treasuries and bonds not held to maturity may be worth more or less than their original cost.

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When you make decisions about investing for a long retirement, remember that your portfolio may need to include assets you need for current income as well as assets that may need to last 20 or more years.

One strategy for providing current income while seeking future growth potential would involve dividing a portfolio into fixed-income and conservative investments, which would provide security and income today, and more growth-oriented investments, which seek to grow the value of your assets for tomorrow.

This hypothetical example shows a strategy used by the Millers, a couple retiring with an $850,000 portfolio. They wanted their portfolio to generate a potentially continuous income stream of $45,000 (before taxes), regardless of how long they lived.

The Millers divided their assets into three parts. In Part 1, $206,026 was invested in a fixed-income vehicle that would generate a $45,000 annual income for five years. Part 2 contained $169,338 in a conservative investment vehicle. Part 3 held the remaining $474,636, which was invested in growth-oriented investments.

The goal was that after five years, when the assets in Part 1 have become depleted, the assets that have potentially accumulated in Part 2 could be used to purchase a second fixed-income vehicle. After 10 years, assuming the assets in Part 3 have grown to the value of the initial $850,000 portfolio, the strategy could begin again to continue generating a $45,000 annual income.

The funds in Part 1 assume a hypothetical fixed-income vehicle earning a 3 percent annual return for five years. The funds in Part 2 assume a conservative investment earning a 4 percent rate of return. After five years, these funds are used to purchase another fixed-income vehicle earning a 3 percent return that lasts five years. The funds in Part 3 assume growth-oriented investments earning a hypothetical 6 percent rate of return for 10 years.

This hypothetical example is used for illustrative purposes only and does not represent any specific financial vehicles. Investments seeking to achieve higher rates of return also involve a higher degree of risk. Investment fees, charges, and taxes are not taken into account and would reduce the results shown if they were included. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.
Because many people in retirement are looking for ways to generate income, we will spend some time covering income-producing financial vehicles. Here are some alternatives that might be appropriate.

You may want to invest in bonds. Not only do bonds generate income, but they may help you diversify your portfolio.

Some types of income-producing mutual funds may be an attractive alternative or addition to your portfolio.

Certain dividend-paying stocks offer income potential, although stocks involve substantially higher investment risk than many other income-producing vehicles.

And finally, many people find fixed annuity contracts to be particularly attractive in retirement because they can provide a consistent income stream.

Let’s go through each of these vehicles in greater detail.

The return and principal value of stocks, mutual funds, and bonds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

_Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest._

Generally, annuities have mortality and expense charges, account fees, investment management fees, and administrative fees. Surrender charges may be assessed during the early years if the contract is surrendered. Withdrawals prior to age 59½ may be subject to a 10 percent federal income tax penalty. The guarantees of fixed annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company. Withdrawals of annuity earnings are taxed as ordinary income.
When you buy a bond, you’re actually lending money to a government or a corporation. Essentially, a bond is a long-term IOU. It certifies that you have loaned money to a government or a corporation and describes the terms of the loan.

As with most loans, the borrower pays interest to the lender—in this case, you. The interest payments on a bond are usually fixed. Thus, when you invest in a bond, you can expect to receive regular, fixed income for as long as you hold the bond—unless the issuer defaults. At the end of the bond term, bondholders are repaid their principal in full. Bonds should not be confused with bond funds, which are mutual funds.

If sold prior to maturity, bonds may be worth more or less than their original cost. This means that bonds can carry some interest-rate risk. Bonds are sensitive to changes in interest rates. As interest rates rise, the value of existing bonds falls, so their yield will be equivalent to newer bonds issued at higher rates.

On the other hand, if interest rates fall, the value of existing bonds will rise. Because newer bonds will be issued at lower rates, your higher-interest bond can command a premium if you sell it before it reaches maturity.

Bonds are also subject to default risk, or the risk that an issuer may not be able to pay the interest or principal when it comes due. The value of a bond may also suffer if the issuer’s credit rating declines while the bond is outstanding.

Because bonds are sensitive to changes in interest rates, you may want to consider a bond ladder, which spreads out the maturity dates over time. For example, you might purchase five different bonds with maturity dates of one, two, three, four, and five years. Constructing a bond ladder may help build a more stable, predictable income stream from fixed-income investments.
Many investors find that income-producing mutual funds are an attractive option. For a relatively low initial investment — usually no more than a few thousand dollars — investors can purchase shares of a professionally managed portfolio that usually consists of 50 or more different securities.

And because these securities are chosen specifically to meet the objectives of the fund, some mutual funds can be a fairly reliable source of current income. Income funds invest primarily in a variety of high-quality corporate bonds, lower-grade bonds, dividend-paying stocks, or a combination of these securities, depending on the fund's objectives. This can give you tremendous diversification, as well as flexibility to customize your portfolio.

Remember that mutual funds are subject to market risk. The return and principal value of mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

*Income Mutual Funds*

- Low initial investment
- Professional management
- Diversification
- Flexibility
- Market risk
- Income can fluctuate

*Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, is available from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*
Another income-producing option is dividend-paying stocks.

Some companies distribute part of their profits to stockholders in the form of a dividend. Rather than keep all the profits to fuel internal growth, these companies have decided to return a portion of their profits to shareholders.

It’s important to understand that dividends are paid at the discretion of a company’s board of directors. Though dividends can increase, there is no guarantee that a dividend will not be reduced or eliminated.

You should also keep in mind that a stock does not have to pay a dividend to generate income for an investor. An investor can request a certain monthly income — say $500 — and shares can be sold to provide that income stream. Under this strategy, you would be responsible for taxes on any capital gains.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Qualified corporate dividends are taxed at the same rates as long-term capital gains: 0 percent, 15 percent, or 20 percent, based on your taxable income. Dividends from investments held in tax-deferred accounts do not qualify for the reduced rate and are taxed as ordinary income when withdrawn.

Some high-income individuals may be subject to an additional 3.8 percent unearned income Medicare contribution tax on net investment income. This tax applies only if their adjusted gross income exceeds annual limits: $200,000 for single filers or $250,000 for married joint filers. Unearned income includes capital gains and dividends.

**BONUS FEATURE**

*(Click the light bulb icon to explore the favorable tax treatment of dividends versus ordinary interest income.)*
Fixed annuities can help retirees turn their retirement savings into an income stream.

A fixed annuity is an insurance-based contract designed specifically to provide a consistent income stream in retirement — either for a set number of years or for life. Payouts typically can be structured to be paid on a monthly, quarterly, semi-annual, or annual basis. This allows you to tailor an income stream for your specific needs.

Fixed annuities also offer competitive rates of return. Your rate may be adjusted, but it will never fall below a guaranteed minimum rate specified in your annuity contract. This guaranteed rate acts as a “floor” to protect you from periods of low interest rates.

Contributions to annuities are made with after-tax dollars, but any earnings accumulate on a tax-deferred basis.

Annuities are not subject to federal contribution limits, so they can be funded with a lump sum from a retirement plan distribution, an inheritance, or the sale of a home or business. In addition, annuity owners are not required to take mandatory distributions due to age.

In addition, a fixed annuity can help protect against the risk of living a long time, because it provides an option for income that is guaranteed to last your entire lifetime.

Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Surrender charges may be assessed during the early years of the contract if the annuity is surrendered. Withdrawals prior to age 59½ may be subject to a 10 percent federal income tax penalty. The guarantees of annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company. Withdrawals of annuity earnings are taxed as ordinary income.
There are two basic types of fixed annuities — deferred and immediate. Each type is used for distinctly different purposes.

**Deferred annuities** are designed for long-term accumulation. Typically, they’re purchased during an individual’s working years to allow the funds to grow. As their name implies, deferred annuities postpone the income you will receive to some future date. The premiums you pay for a deferred fixed annuity earn interest during the accumulation phase. This doesn’t mean you can’t take out your money if you need it. But during the accumulation phase, while the annuity is accumulating tax deferred, you aren’t receiving annuity income.

Remember that the earnings credited to a tax-deferred annuity are not taxed until they are withdrawn, generally in retirement. When contract owners do begin receiving payments from the annuity, the payments will reflect the added value from this tax-deferred accumulation.

**Immediate annuities**, on the other hand, provide current income. Once you pay the premium, you will begin receiving a regular income, which is guaranteed by the issuing insurance company.

Immediate annuities provide a way to use your wealth to secure regular income. That’s what makes immediate annuities so attractive to people who are retiring and need to reallocate their savings and investments for greater income. We’ll discuss how an immediate annuity can give your income a boost in a few minutes.

Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Surrender charges may be assessed during the early years of the contract if the contract owner surrenders the annuity. Withdrawals prior to age 59½ may be subject to a 10 percent federal income tax penalty. The guarantees of annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company. Withdrawals of annuity earnings are taxed as ordinary income.
Annuities Can Provide Fixed, Variable, or Indexed Returns

- Fixed
- Variable
- Indexed

Variable annuities are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity contract and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Up to this point, we’ve been talking about fixed annuities, which offer fixed interest rates. But annuities can differ in the way they earn interest. Annuity contracts can provide fixed or variable returns, or they can be tied to an index to combine the benefits of both.

Variable annuities offer variable returns. They enable you to divide your premiums among a variety of investment options (also called “subaccounts”) whose value will fluctuate with market conditions. Your return is based on the performance of the subaccounts you select. Because of their unique structure, variable annuities offer a great deal of investment flexibility. Most contracts offer a variety of stock, balanced, bond, and money market subaccounts, as well as a fixed-interest account. These market-based subaccounts give you access to investment professionals who manage assets according to the stated objective. You can periodically reallocate your variable annuity subaccounts based on changes in the financial markets or your personal situation.

Although a variable annuity may outperform a fixed annuity, there are no guarantees. If the markets experience hard times, variable annuity investors run the risk of losing accumulated earnings and even principal. With a variable annuity, you bear the investment risk, not the insurance company.

The performance of an indexed annuity is tied to a market index such as the S&P 500. When the index rises, so does the return on the annuity. But if the index tumbles, typically the worst the annuity can do is earn the contract’s minimum guaranteed rate of return. This minimum guarantee is contingent on holding the annuity until the end of the term.

Of course, indexed annuities are not appropriate for every investor. Participation rates are set and limited by the insurance company. So an 80 percent participation rate means that only 80 percent of the gain experienced by the index for that year would be credited to the contract holder. Also, like most annuity contracts, indexed annuities have certain rules, restrictions, and expenses.

The guarantees of indexed annuities may cover only a certain percentage of the initial investment; therefore, it is possible to lose money when investing in an indexed annuity. In addition, some insurance companies reserve the right to change participation rates, cap rates, or other fees either annually or at the start of each contract term. These types of changes could affect the investment return. It is prudent to review how the contract handles these issues before deciding whether to invest.

Generally, annuities have mortality and expense charges, account fees, investment management fees, and administrative fees. Surrender charges may be assessed during the early years of the contract if the contract owner surrenders the annuity. Annuity withdrawals are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10 percent federal income tax penalty. The guarantees of fixed and indexed annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Variable annuities are long-term investment vehicles designed for retirement purposes. They are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity contract and the underlying investment options, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.
Why is an immediate annuity such an attractive option when people retire?

We just mentioned that an immediate annuity can offer a guaranteed lifetime income, which protects you from the risk of living a long time after you retire. In addition, an annuity contract can last the duration of two lives, providing payments while you and your spouse (or selected survivor) are alive, and continuing payments to the surviving spouse (or survivor) for the rest of his or her lifetime.

An immediate annuity can also provide a legacy for your heirs. If you purchased an immediate annuity with a fixed period and you died before receiving all of your payments, the remaining payments would be paid to whomever you named as your beneficiaries.

Here’s a hypothetical example of how an immediate annuity can work. Mary was 65 and about to retire from a career as a librarian. Her parents were still alive, in their late 80s, so she anticipated living a long time in retirement and was concerned about outliving her income.

Mary wanted to supplement her savings and investments with another source of steady income. She decided to purchase an immediate fixed annuity with a premium of $100,000 and a 3.5 percent annual interest rate. This would provide her with payments of about $7,036 per year for the rest of her life. That’s $586 per month. Only $2,036 of that annual income ($170 per month) would be taxable. The remaining $5,000 ($417 per month) would be treated as a return of principal, which she would receive free of income taxes.

Even if Mary lived well into her 90s, this income would continue throughout her lifetime.

This hypothetical example is used for illustrative purposes only and does not represent any specific annuity. It assumes an initial premium of $100,000, a 3.5 percent annual rate of return, and a life expectancy of 20 years. It does not consider the effects of sales charges or other expenses. Actual results will vary.
Let’s pause for a moment and address a hypothetical example of some of the concepts we’ve been discussing.

The Thompsons are both 65 years old. They are fortunate enough to be able to afford a relatively comfortable lifestyle.

Mr. Thompson is retiring. The couple has saved more than $700,000 for their retirement. At this point, it is primarily in company stock from Mr. Thompson’s former employer and in certificates of deposit that are about to mature.

The couple need to make some decisions about how to use their portfolio to generate income for their retirement years. They are very concerned about outliving their money because many members of their extended family have lived well into their 90s.
By selling a significant portion of their company stock and using the cash from the matured CDs, the Thompsons can create a far more diversified portfolio and generate retirement income. This will net them $700,000, but may trigger taxes on their capital gains.

Based on their age, risk tolerance, and current needs, they reallocated $400,000 of the portfolio into four different asset classes, balanced evenly. They kept some of the original company stock holdings and put the rest in corporate bonds, Treasury bills, and real estate to provide them with liquidity.

They decided to use the remaining $300,000 to purchase an immediate fixed annuity contract. At current interest rates, this $300,000 will provide them with $1,740 per month, guaranteed for life, to supplement their Social Security benefits. Of this, only $490 would be taxable; the remaining $1,250 would be treated as a return of the Thompsons' principal, which would be free of federal income taxes.

They are confident that this will provide some stability. And they like the fact that their annuity contract will provide an income stream that they cannot outlive.

This hypothetical example is used for illustrative purposes only. The fixed annuity assumes an initial premium of $300,000, a 3.5% annual rate of return, and a life expectancy of 20 years. It does not consider the effects of sales charges or other expenses. Actual results will vary. The guarantees of fixed annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Keep in mind that diversification does not guarantee a profit or protect against investment loss; it is a method used to help manage investment risk. Also, when you sell equities to reallocate your portfolio, there may be tax implications such as capital gains and losses. The return and principal value of stocks and bonds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. For simplicity, the tax implications are not considered in this example.
Case Study

The Thompsons

Original portfolio
- Company stock: $450,000 × 3% = $13,500
- CDs: $250,000 × 2% = $5,000
- Total: $18,500

Diversified portfolio
- Company stock: $100,000 × 3% = $3,000
- Corporate bonds: $100,000 × 3% = $3,000
- Treasury bills (10-year): $100,000 × 2% = $2,000
- Real estate: $100,000 × 5% = $5,000
- Fixed annuity annual payment: $20,880
- Total: $33,880

This hypothetical example is used for illustrative purposes only. It assumes an initial premium of $300,000, a 3.5% annual rate of return, and a life expectancy of 20 years. It does not consider the effects of sales charges or other expenses. Actual results will vary.

How well could this strategy work? Let's compare the numbers.

The Thompsons’ original company stock holdings had a 3 percent dividend yield. Their certificates of deposit yielded 2 percent. If they had kept their original portfolio intact, it would be expected to produce $18,500 in annual income.

Also, as we explained earlier, stock dividends are not guaranteed. They could increase, decrease, or stop entirely.

Now let’s look at the new diversified portfolio. The Thompson selected several fairly conservative, income-oriented investments to go along with their company stock. And they locked in a base lifetime income through the immediate fixed annuity. The total annual income generated by these investments, plus the immediate annuity, add up to $33,880 — much higher than the original portfolio. To produce the same income from their original portfolio, the Thompsons would have had to withdraw some principal, starting at nearly $15,500 and increasing the amount each year.

This hypothetical example is used for illustrative purposes only and does not represent any specific investments or financial vehicles. The value of stocks and bonds may fluctuate so that shares, when sold, may be worth more or less than their original value. Investments offering the potential for higher rates of return also involve a higher degree of risk. Rates of return will vary over time. Actual results will vary. The example is calculated before taxes and does not consider investment fees or expenses or the growth potential of any of the investments. The guarantees of fixed annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company.

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid.
By selling most of their company stock holdings, the Thompsons have created a diversified portfolio that should offer greater stability than they had when their entire $700,000 portfolio was invested entirely in the company stock and CDs. An extra level of stability is provided by the immediate fixed annuity contract with its guaranteed lifetime income.

The fixed annuity contract will provide stable income, unaffected by fluctuations in the financial markets. The couple no longer needs to be as concerned about whether the stock market rises or falls because the company stock represents a much smaller portion of their portfolio, and the income from their fixed annuity contract isn’t affected by the value of an underlying stock.

Most important, the fixed annuity provides an income stream that the Thompsons might not outlive, which should give them some financial confidence.

This strategy should also produce higher potential income than they had before with their original holdings.

Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Surrender charges may be assessed during the early years of the contract if the contract owner surrenders the annuity. Withdrawals of annuity earnings are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10 percent federal income tax penalty. The guarantees of fixed annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Diversification does not guarantee a profit or protect against investment loss. It is a method used to help manage investment risk.
Once you have analyzed your sources of income, chosen a distribution method, and developed your investment strategy, you should be on your way to enjoy the retirement you have envisioned. But there’s still one more action item to consider.

To help protect not only what you have accumulated but your future retirement lifestyle, it’s wise to prepare for the unexpected. This involves more than just protecting your portfolio from market volatility and loss.

5 Action Items to Chart Your Course

1. Size Up Current Situation and Sources of Income
2. Choose a Distribution Method
3. Understand Distribution Rules
4. Develop an Investment Strategy
5. Prepare for the Unexpected
Here’s a hypothetical case study that illustrates why you may need to be prepared for the unexpected.

Bob and Nancy Wilson retired at age 65 with a $750,000 portfolio. They planned to withdraw $45,000 annually from their portfolio for income, and hoped that this would enable them to live comfortably to age 86.

Shortly after retiring, Bob suffered a stroke that required three years of nursing-home care and follow-up home care. The total out-of-pocket cost of this care was $276,159 over three years.

Because the Wilsons assumed that Medicare would cover any long-term care costs, they had never purchased a long-term care insurance policy.

Take a look at how these unforeseen costs affected the Wilsons’ portfolio.

With the couple’s savings significantly depleted by the cost of Bob’s care ($276,159 over three years), continuing on the same withdrawal path would leave them without savings when they reached age 77.

The Wilsons had to make an unpleasant choice: They could either reduce their standard of living or risk outliving their retirement savings.

This hypothetical example is used for illustrative purposes only. This example assumes $45,000 inflation-adjusted annual withdrawals for income (3 percent inflation rate) and a 5 percent annual rate of return for the portfolio. Long-term care assumes a first-year cost of $87,600, indexed annually for inflation at a 5 percent annual rate. Taxes and investment expenses are not considered. Rates of return will vary over time for long-term investments. Actual results will vary.
To avoid a similar predicament, you may want to take some measures to help protect what you have.

The three areas we will address are preparing for potential long-term care needs, making sure you have comprehensive health-care coverage, and developing an estate conservation strategy.
Did you know that people who are turning 65 years old today have a nearly 70% chance of needing long-term care services at some point during their lifetimes?\(^1\)

Long-term care is the type of day-in, day-out assistance required when you are unable to care for yourself for an extended period of time.

Unfortunately, Medicare and traditional medical insurance plans offer little or no relief for individuals who need this type of care.

For many retirees, the cost of long-term care is daunting. As the chart shows, the national average cost for a private room in a nursing home is $100,375. That’s about $8,365 a month or $275 a day.\(^2\)

In-home care and assisted-living care are also extremely expensive. Few retirees can afford to pay those costs out of pocket. Perhaps that’s why many people consider purchasing long-term care insurance.

Sources: 1) longtermcare.gov, 2018; 2) 2018 Cost of Care Survey, Genworth Financial, Inc.
What are your options?

There are three primary payment alternatives for long-term care.

First, you can self-insure. Many people choose this option simply by default. Of course, you will be relying on your own financial resources to cover the potential costs. Considering the current and projected future costs of long-term care, this path could deplete a lifetime of savings in just a few short years.

The second option is Medicaid. If you spend down your assets to below the poverty line, you may be able to meet the strict rules to qualify for Medicaid, which is basically federal and state-supported welfare.

The third option is long-term care insurance. This strategy enables you to transfer a portion of the financial risk of long-term care costs to an insurance company in exchange for paying the premiums. This option can help you preserve your independence and freedom of choice should you ever require long-term care. After all, a nursing home may be your least-desirable alternative. Long-term care insurance may actually keep you out of a nursing home by providing benefits for alternative care, such as custodial care at home, in an assisted-living facility, or in a community setting.
Comprehensive health coverage is another concern for many retirees.

Health-care costs have historically increased at a faster rate than general inflation, and the trend may well continue.¹

In fact, if Medicare benefits remain at current levels, it’s estimated that a 65-year-old couple who retire today and live an average life expectancy may need about $296,000 just to pay basic health expenses in retirement (assuming they don’t have employer-paid retiree health benefits).²

Under the circumstances, it’s little wonder that paying for medical expenses has become one of the biggest worries that many retirees face.

Sources: 1) U.S. Bureau of Labor Statistics, 2018; 2) Employee Benefit Research Institute, 2018
What all this boils down to is that you are going to be responsible for filling any gaps in your health coverage during retirement. Fortunately, when you reach age 65, you have a few options for doing so: Original Medicare, Medicare Supplement Insurance (also called Medigap), and Medicare Advantage plans.

Original Medicare, which is available for Americans age 65 and older, is divided into two parts. Part A is typically free for eligible Americans and helps cover inpatient hospitalization, a limited amount of post-hospital skilled nursing care, some home health care, and hospice care. Part B helps cover physician services, inpatient and outpatient medical services, outpatient hospital care, and diagnostic tests. Medicare falls short when it comes to a prolonged hospital stay or at-home recovery after an operation.

The Medicare prescription drug program (Part D) is provided through private insurers that work with Medicare.

Medigap insurance literally helps “fill in the gaps” in a traditional Medicare policy. For example, it covers days 61 to 150 of a hospital stay (which are not covered by Medicare), as well as an additional 365 days after Medicare’s hospital coverage ends. It may also help reduce your deductible and pay for prescription drugs and preventive medicine. By law, Medigap cannot be denied to anyone age 65 or older who applies for a policy within six months of enrolling in Medicare Part B. The cost depends on the number and type of benefits you elect to receive.

Another option is to enroll in a Medicare Advantage plan (Part C). These private, Medicare-approved plans provide benefits and services covered under Parts A and B and may offer additional coverage such as prescription drugs, vision, hearing, dental, and/or health and wellness programs. There is usually a monthly Part C premium in addition to the Medicare Part B premium, as well as copayments or coinsurance for covered services.

Be sure to carefully review the features of your health insurance policy. Remember, the cost and availability of an individual health insurance policy can depend on factors such as age, tobacco use, geographic area, and the type and amount of insurance purchased. Also, be aware that some insurance options may vary from state to state and from county to county.
Estate conservation is also an area of concern if you want to help protect what you have accumulated and leave a legacy for your family.

Taxes are one concern, although many estates will not be subject to federal estate taxes unless their taxable assets exceed millions of dollars.

The Tax Cuts and Jobs Act, which was passed in December 2017, nearly doubled the federal estate tax exclusion amount to $11.18 million for 2018; this amount is indexed annually for inflation. For 2019, the exclusion rose to $11.4 million. After 2025, when the tax reform provision expires, the exclusion amount is scheduled to revert to its 2017 inflation-adjusted level.

Even so, estates may be subject to state estate or inheritance taxes, income taxes, and excess accumulation taxes, as well as probate costs. Fortunately, there are a number of estate conservation strategies that could help you preserve more assets for your heirs.
If structured properly, certain types of trusts can help shield assets from estate tax liability. Some trusts can completely avoid probate. A trust is a legal arrangement in which one person or institution controls property given by another person for the benefit of a third party.

Let's briefly discuss one advanced trust strategy: an irrevocable life insurance trust.

Generally, federal estate taxes are due within nine months of a person's death. For most heirs, this creates an instant liquidity problem. A life insurance trust can help alleviate this situation by providing ready cash for your heirs to pay any estate taxes and other costs without subjecting the policy's proceeds to additional estate taxes.

To use this strategy, you should consult with your legal counsel. Your attorney drafts the trust document. Once you sign the document and fund the ILIT, the trustee uses the money to purchase a life insurance policy that is owned and controlled by the trust. Usually, you would gift additional money to the trust each year, and the trustee would use the money to pay premiums on the policy. When you (the insured) die, the life insurance proceeds are paid to the trust, and the trustee distributes the proceeds according to the terms of the trust. The proceeds can be used to help pay taxes and other expenses and to provide for your beneficiaries. And, more important, the proceeds of the policy will not be taxed in the estate.

Keep in mind that once the ILIT is created, you cannot change the terms or the beneficiaries of the trust and you must give up control of the insurance policy. People insured under policies owned by the trust cannot serve as a trustee. All life insurance premiums must be paid by the trust.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable.

Trusts involve upfront costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional before implementing a trust strategy.
We’ve covered a lot of information. We’re confident that we have given you some important strategies that will help you make educated decisions about how to develop an income stream from your assets to fund the retirement lifestyle you envision.

So, where do you go from here?
There are several ways you can proceed from here.

You can do it yourself. You can dig through prospectuses and interview investment managers and gradually assemble a retirement portfolio that may meet your needs. It’s a tremendous amount of work, but you could do it.

You can work with others. Perhaps you have contacts who can help you accomplish some of your financial goals.

You could work with us. We hope you feel comfortable with what you’ve learned about our professional knowledge and the approach we take with our clients.

Finally, you can procrastinate. Given the long-term ramifications of the decisions you must make, procrastination is not a prudent move.

Of course, we hope you’ll decide to work with us, and we hope you’ll come to the complimentary consultation. We don’t expect you to make any decisions now, nor do we expect you to decide when you come in to our office. We want you to decide only when you’re ready. As you get to know us better, we feel confident that you’ll want to work with us. But again, the choice is up to you.
Will everyone please turn to the front of your workbook and pull out the evaluation form I talked about earlier?

We would like you to fill out the form now and turn it in. The evaluation form is your way of commenting on the workshop. It also lets us know whether you'd like a personal meeting to discuss any of the ideas you've learned here. Because many of the people who attend our workshops come in for a complimentary consultation, we've blocked out several days next week to meet with you, answer your questions, and address your specific concerns.

(Look around the room to be certain everyone is filling out an evaluation form. If some are not, take a step forward and ask for everyone to fill out an evaluation form. If some participants still do not take out their forms, have extra forms available to hand out to them.)

Remember my two promises. If you check “Yes, I am interested in scheduling a complimentary consultation,” I'll call you tomorrow to set up an appointment. If you check “No, I am not interested in scheduling an appointment at this time,” no one from our office will contact you directly after the workshop. I'll be collecting the evaluation forms as you leave today.
In addition to your workshop workbook, there are several important items you should bring to the complimentary consultation. On the back of your workbook, you'll find a place to write these down.

(Note: Mention the important financial forms and documents that you would like participants to bring to the consultation. Among others, you may want to include:

- Personal balance sheet
- Personal income statement
- Recent bank/brokerage statements
- Income tax returns — past three years
- Life insurance policies
- Annuity contracts
- Retirement plan account statements.)

Also, on pages 18 and 19 of the workbook, you’ll find worksheets designed to gather pertinent financial information about you. Please go ahead and fill this out at home. Then during our consultation, we’ll review this data accordingly.

Of course, if you can’t find some of these documents or don’t finish the worksheets, please come anyway. We are looking forward to meeting with you either way.
Thank you for coming to our workshop. We want to compliment everyone on the initiative you’ve shown in wanting to improve your financial situation.

Before you leave, I’d like to shake hands with you and collect your evaluation forms.

Thank you again.
Taxes on Social Security benefits can take a surprising toll if you have substantial income (including wages, dividends, interest, and other taxable income) in addition to your benefits.

Married couples filing joint tax returns may be subject to income taxes on up to 50 percent of their Social Security benefits if their combined income is over $32,000. This also applies to single individuals with a combined income over $25,000.

Married couples with a combined income above $44,000 and single individuals with a combined income above $34,000 may incur tax on up to 85 percent of their Social Security benefits. If you are married and file a separate tax return, you will probably pay taxes on all your Social Security benefits.

Remember, these 50 percent and 85 percent rates represent the taxability of your Social Security benefits. They are not tax rates. Ordinary federal income tax rates — such as 12 percent and 24 percent — will apply to this taxable portion of your benefits.

There are specific formulas used to determine the appropriate tax if you are in this situation.* We can discuss this in greater detail during the complimentary consultation.

*The “combined income” formula used by the IRS is adjusted gross income plus nontaxable interest plus one-half of Social Security benefits.
Now that we’ve reviewed various income sources and how they may affect your situation, it’s time to look at how much money you might need to live comfortably in retirement.

The retirement income worksheet on page 6 in your workbook will help you estimate your savings requirements.

(Pause to give workshop participants sufficient time to locate the appropriate page.)

Let’s run through the hypothetical example to show you how the calculation works. In the example, we are assuming a taxable investment earning a 3 percent after-tax rate of return, and we’re assuming a life expectancy of 20 years in retirement.

On line 1, we put the annual income desired from savings and investments. For our example, we use $75,000.

On line 2, we calculate the savings required to provide this income. This is done by multiplying line 1 times factor B (using the reference chart on page 6). In this case, the total savings required is $1,115,813.

It’s hard to believe, but you would need about $1.1 million to provide an annual income of $75,000 for 20 years. After 20 years, your principal would be depleted.

If you wanted to preserve the principal for your heirs and still provide $75,000 in annual income for an indefinite period, you would need about $2.5 million in savings.

You can use this chart at home to address your specific situation. Not only will it give you some idea of the income you would need for your retirement, but it may give you some perspective when you make decisions on withdrawing funds and investing funds during your retirement years.

You can also use the exercise on page 7 as a preliminary worksheet to determine where your income will come from in retirement and whether you will have a shortfall or a surplus.
One of the most fundamental steps you need to take is to estimate how long your savings will last.

Regardless of how much you have set aside to fund your retirement years, it would be foolish not to do the number crunching necessary to determine whether your money will last as long as you do.

For example, what would be the impact of withdrawing $50,000 per year versus $75,000 per year from your portfolio, or having an investment portfolio earning 4 percent versus 8 percent?

We've developed a series of tables that show how long it would take to exhaust a hypothetical portfolio at different interest rates and withdrawal rates. You will find them on page 8 in your workbook.

(Pause to give participants sufficient time to locate the appropriate page.)

Find the table with the after-tax return that is closest to the rate of return you expect to achieve. For this hypothetical example, we'll use 4 percent. That's the second table from the top. If we assume an account value of $750,000, we'll use the third column of numbers under “Account Value.” Does everyone see where we are?

If we planned to withdraw $75,000 per year from a $750,000 account growing at an annual rate of 4 percent, this hypothetical account should last only about 10 years.

So for someone expecting to spend 20 years in retirement, this account would be depleted in about half that time!
What’s so great about tax deferral? Before we move on, let’s take a closer look.

When an investment is tax deferred, it means that current taxes aren’t due until the investor takes distributions, generally in retirement. This gives contributions and earnings the opportunity to accumulate year after year, potentially enhancing the long-term growth of savings.

This chart shows the potential growth in account value of a $5,000 annual investment in a taxable versus a tax-deferred vehicle earning a hypothetical 6 percent rate of return.

After 40 years, the money placed in a taxable account would be worth $567,680. During the same period, the tax-deferred account would grow to $820,238 — significantly more than the taxable investment. Even after taxes have been deducted (assuming a lump-sum payout and a 24 percent tax rate on earnings), the account would still be worth $623,381.

Generally speaking, it’s a good idea to take advantage of tax-deferred savings whenever possible.

This hypothetical example is used for comparison purposes only and does not represent any specific investments. Actual results will vary. Investments offering the potential for higher rates of return also involve a higher degree of risk. Typically, a 10 percent federal income tax penalty may apply to distributions from a tax-deferred account prior to age 59½. Investment fees and expenses are not considered and would reduce the results shown if they were included. Lower maximum tax rates for capital gains and dividends, as well as the tax treatment of investment losses, could make the taxable investment return more favorable, reducing the difference in performance between the accounts shown. Investors should consider their investment horizon and income tax brackets, both current and anticipated, when making investment decisions.

(Note: For convenience, all numbers have been rounded to the nearest whole dollar.)
There is another strategy that may enable you to use life insurance to receive the full benefit of a single-life annuity option and still provide a generous survivor check to your spouse.

Using this strategy, you and your spouse would elect a single life annuity. Then you would use a portion of the extra income — the income that would have been given up under the joint and survivor option — to purchase a life insurance policy. Upon your death, the benefit from this policy would help replace the income originally provided by your pension.

In order for this strategy to be successful, it’s critical that the insurance policy not be allowed to lapse. A lapse in the policy would result in losing the life insurance proceeds, which could leave the surviving spouse with no income source once the right to a survivor annuity has been waived. The purchaser must be prepared to continue paying premiums or to fund the policy expenses, even during retirement. The extra monthly single-life pension funds will be taxable, leaving only the after-tax amount available for the insurance premium payments.

Of course, as with other financial decisions, there are costs associated with the purchase of life insurance. Policies commonly have mortality and expense charges, account fees, investment management fees, and administrative fees. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications. The cost and availability of life insurance depend on such factors as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable.
Passing an IRA to your heirs can significantly increase the long-term value of your legacy.

Assumptions:
- 45-year-old beneficiary of $500,000 traditional IRA
- 37% tax rate for initial lump-sum distribution
- 24% tax rate for other distributions
- 7% annual rate of return
- RMDs taken over 40-year time horizon

Net after-tax distributions: $1,766,967
Asset value: $773,623
Lump sum: $1,517,843
Stretch IRA: $832,572

Using a “Stretch IRA”

If you have an IRA or elect to roll over your tax-deferred employer plan funds to an IRA, it’s possible to further extend the benefits of tax deferral for your heirs. This is sometimes referred to as a multigenerational or “stretch” IRA strategy. Using this strategy, your beneficiaries would stretch out withdrawals by taking required minimum distributions based on their own life expectancies (under current tax law). If your beneficiary is young, this can result in relatively small annual distributions, enabling the IRA balance to remain tax deferred for a longer period of time.

Let’s look at how a stretch IRA strategy could work based on a 45-year-old beneficiary (in the 24 percent federal income tax bracket) who inherits a $500,000 traditional IRA. We will consider two potential outcomes based on decisions this individual might make with these funds.

If the individual immediately cashed out the IRA with a lump sum, he would have to pay federal income taxes of $185,000 in the year of the distribution (the distribution would bump him into the 37 percent federal income tax bracket). This would reduce the $500,000 asset to $315,000. Of course, these assets could be spent however he liked. But for comparison purposes, let’s assume that the proceeds were reinvested at a 7 percent rate of return. If he took annual withdrawals (equivalent to 5 percent of the annual account balance) over 40 years, the net after-tax distributions (taxed at a 24 percent rate) would yield a total of $773,623.

On the other hand, if he decided to use the stretch IRA strategy, he could keep the bulk of the funds accumulating tax deferred while taking annual required minimum distributions based on his life expectancy. Again, assuming a 7 percent rate of return and a 40-year life expectancy, he could stretch the asset value to $832,572. Not only is the asset value for the stretch IRA strategy about $88,000 more than the lump-sum value, but the cumulative after-tax distributions of the stretch IRA strategy ($1,766,967) are more than double what he would have received from the lump-sum example!

This hypothetical example is used for illustrative purposes only and does not represent any specific investment. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

The example assumes that the lump sum from the inherited IRA is taxed at a 37 percent tax rate in the first year (because the lump sum bumped his income tax bracket from 24 to 37 percent in the year of the distribution). Later annual distributions are based on a 24 percent tax rate.

The stretch (multigenerational) IRA example assumes a 24 percent tax rate on annual distributions. The minimum annual distributions are calculated based on a 40-year life expectancy and must begin by the end of the year after the original IRA holder’s death. Distributions from traditional IRAs are generally taxed as ordinary income.
Historical Investment Performance

This graph shows the volatility and historical performance of various types of investments. It’s a good reminder of why it is important to keep your time frame in mind when developing a sound investment strategy. Of course, remember that past performance is no guarantee of future results.

Although stocks are generally considered to be growth investments, their performance can be unpredictable. Over the last 25 years, the annual performance of stocks has reached a high of nearly 40 percent and a low falling well below –30 percent. The average annual return over this time period was 9.07 percent. Because of the characteristic volatility of stocks, most experts suggest investing in them only when you have at least 5 to 10 years before you’ll need the money.

Historically, corporate bonds have not performed as well as stocks over time, but they are typically less volatile. The average annual return over this 25-year period was 5.86 percent. On the other hand, Treasury bills and other cash alternatives almost always produce positive returns, but their potential for growth — and keeping pace with inflation — is much lower. The average annual return of T-bills was 2.46 percent over this time period.

Source: Thomson Reuters, 2019, for the period January 1, 1994, to December 31, 2018. Stocks are represented by the Standard & Poor’s 500 composite total return. The S&P 500 is an unmanaged index that is generally considered to be representative of the U.S. stock market. Corporate bonds are represented by the Citigroup Corporate Bond Composite Index, an unmanaged index that is generally considered representative of the U.S. corporate bond market. T-bills are represented by the Citigroup 3-Month Treasury Bill Index, which is generally considered representative of short-term cash alternatives. T-bills are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. The returns shown do not reflect taxes, fees, brokerage commissions, and other expenses typically associated with investing. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Actual results will vary.
To give you an idea of how a portfolio can change from year to year, let’s look at how these conservative and aggressive portfolios would have performed over the 20-year period from 1999 through 2018.

During the best year, the conservative portfolio would have earned 16.20 percent. During the worst year, it would have lost 11.94 percent. The average annual return was 4.92 percent. With a conservative portfolio, an investor may be better able to weather volatility in the markets.

The aggressive portfolio, on the other hand, would have earned 23.35 percent during the best year and would have lost 29.33 percent during the worst year. The average annual return over this period was 5.45 percent. Obviously, an aggressive portfolio is more susceptible to volatility in the markets.

This hypothetical example is used for illustrative purposes only. The returns shown do not include taxes, fees, and other expenses typically associated with investing. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is not indicative of future results. Actual results will vary.

Source: Thomson Reuters, 2019. Performance described is for the period January 1, 1999, to December 31, 2018. Stocks are represented by the S&P 500 composite total return, which is generally considered representative of the U.S. stock market. Bonds are represented by the Citigroup Corporate Bond Composite Index, which is generally considered representative of U.S. corporate bonds. Cash alternatives are represented by the Citigroup Three-Month Treasury Bill Index. T-bills are generally considered representative of short-term cash alternatives and are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. The return and principal value of stock and bond investments fluctuate with changes in market conditions. When sold, these securities may be worth more or less than the original amount invested.
This illustration shows how dividend-yielding securities could potentially benefit fixed-income investors whose portfolios are heavily weighted in cash investments. In the current tax climate, dividends may give your portfolio a boost because they are taxed at lower rates.

Assume that an investor in the 35 percent federal income tax bracket has $250,000 invested conservatively in CDs, and three-month CDs are yielding 1.0 percent. The investor is receiving annual interest income of about $2,500. Because the interest is taxable as ordinary income, this generates an $875 tax bill every year, resulting in a net income of $1,625.

If this hypothetical investor were to shift his or her capital into dividend-yielding securities, several things could potentially happen. First, the investor could potentially earn around 2 percent on that money, generating a projected $5,000 in annual income. Qualified corporate dividends are taxed at 15 percent* — less than half the ordinary income tax rate for someone in the 35 percent tax bracket — so only $750 would be due in taxes each year. Thus, this new investment would potentially generate a net income of $4,250. That's a difference of $2,625 a year compared with the taxable investment.

Remember that even though there is the potential for capital gains with equities, there is also the potential for losses.

This hypothetical example is used for comparison purposes only and does not represent any specific investment. Actual results will vary. Unlike CDs and bank savings accounts, which generally provide a fixed rate of return and are currently insured by the FDIC for up to $250,000 per depositor, per federally insured institution, the return and principal value of stocks can fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

As a result of the Patient Protection and Affordable Care Act, some high-income taxpayers may be subject to an additional 3.8 percent unearned income tax on net investment income. This tax applies only if their adjusted gross income exceeds $200,000 (single filer) or $250,000 (married joint filer). Unearned income includes capital gains and dividends.

*Note: Qualified corporate dividends are taxed at the same rates as long-term capital gains: 0 percent, 15 percent, or 20 percent, depending on taxable income.