
Welcome to our workshop on retirement investment strategies. 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.

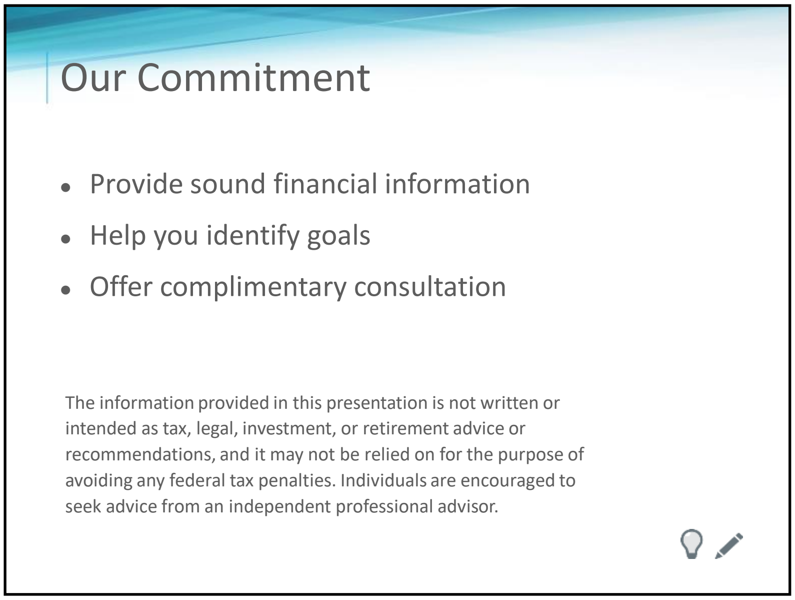
First, we’d like to introduce ourselves and our company.

*(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 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.

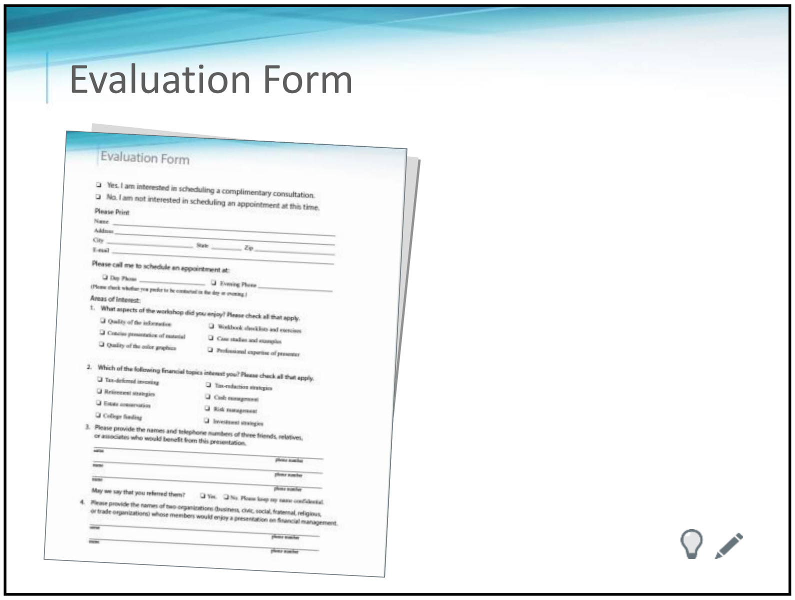


As part of that commitment, we use workshops like this one to provide individuals with sound financial information. This will help you identify your goals and make wise decisions to improve your financial situation.

We follow up this session with a meeting in our offices. This is a complimentary 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 your workbook, you'll find an evaluation form just like this one.

*(Pull out an evaluation form.)*

At the end of the workshop, you'll use this form to tell us whether you're interested in taking advantage of the complimentary 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.

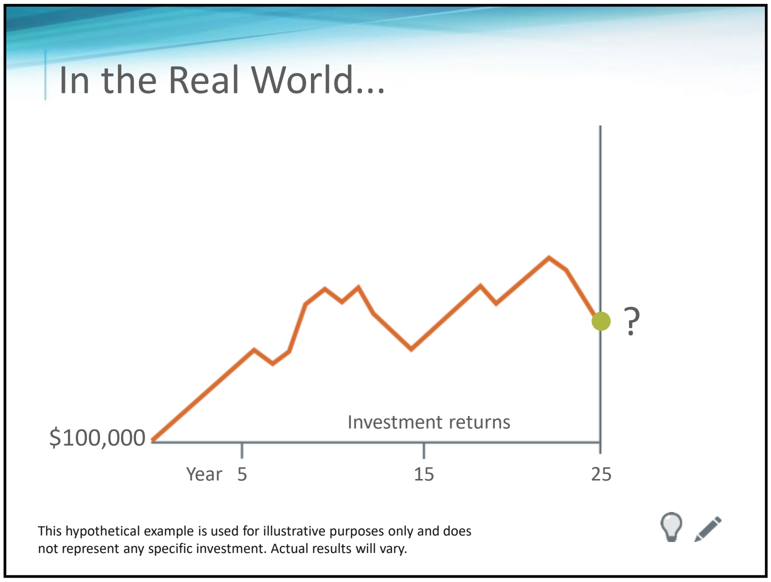
The workbook has wide margins so you can take notes. As we cover this material, feel free to underline or circle items you may have questions about. That way, they'll be fresh in your mind during the complimentary consultation.

You'll also find helpful exercises, worksheets, and self-analysis quizzes. These materials will make your workshop experience interesting, informative, and most important, valuable.


Wouldn't it be nice if portfolio performance came in a neatly tied package of guaranteed growth? Funding your retirement would be a simple matter of adding up your earnings and deciding how to spend them.

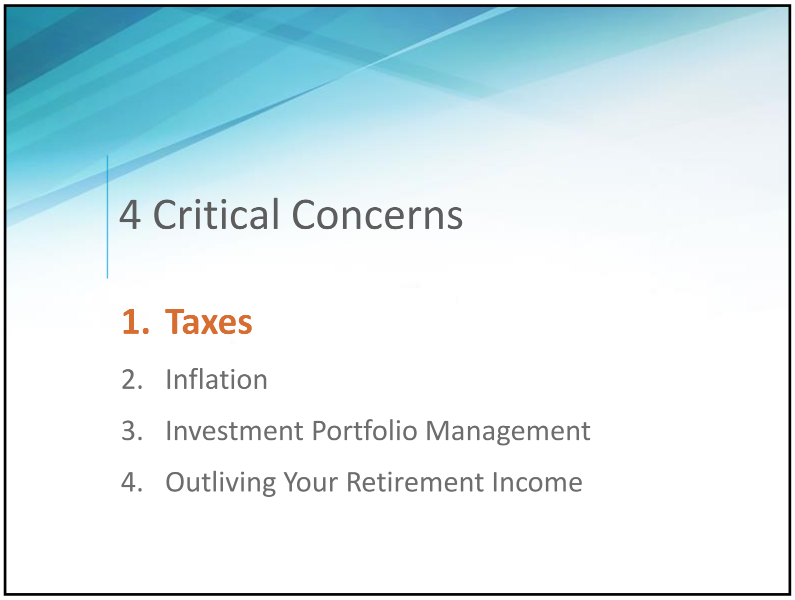
Unrealistic as it sounds, that's the method many people use to develop a retirement investment strategy.

This example is hypothetical and does not represent any specific investment. Actual results will vary.




In the real world, you never know what you’re going to get — especially when it comes to investment returns. One year an investment may have a 10 percent return, and the next year it might lose 20 percent. Sound familiar?

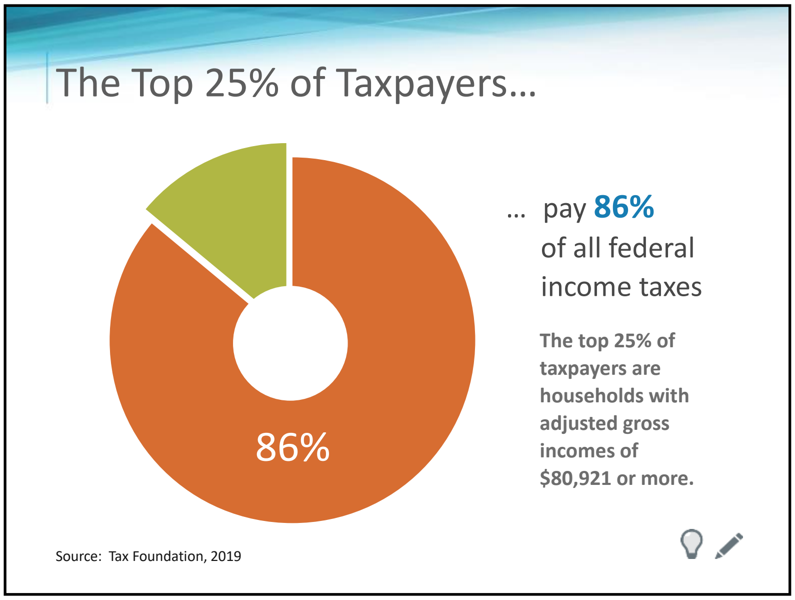
Before and during retirement, it is important to develop and adhere to a sound financial strategy that helps you weather market fluctuations as you pursue your goals.




To help achieve financial success during retirement, you must address four critical concerns: taxes, inflation, investment portfolio management, and the risk of outliving your retirement income.

Throughout the presentation, we'll discuss each of these issues in greater detail.

Let's begin with taxes.



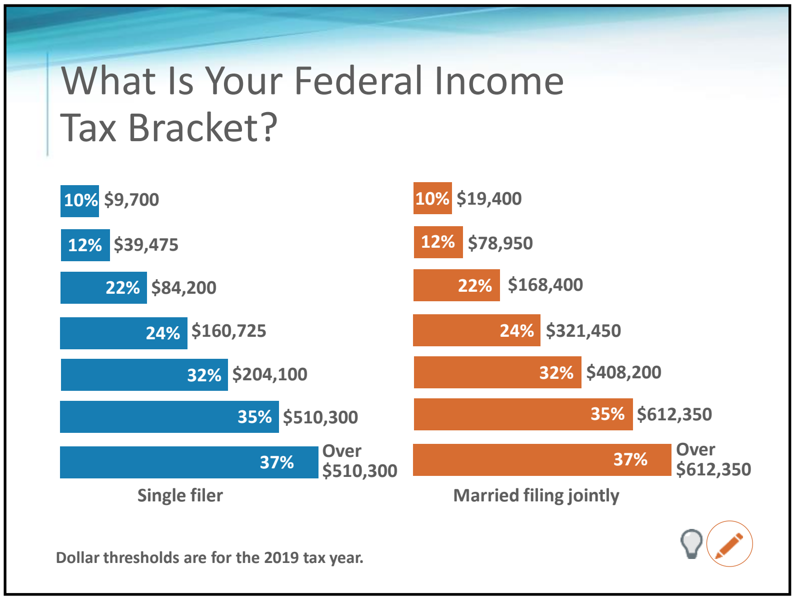

Did you know that the top 25 percent of taxpayers paid 86 percent of the nation's federal income taxes in 2016? Even with the tax cuts signed into law in 2017, that percentage isn't likely to change much.

When you hear "top 25 percent," you may think this is a very wealthy group, but that isn't necessarily the case. If you had a modified adjusted gross income (AGI) of $80,921 or more in 2016, that placed you in the top 25 percent.

By contrast, those with AGIs below that amount were responsible for only 14 percent of the overall federal income tax burden.

The bottom line is that even those with a moderate adjusted gross income pay a large portion of it in taxes.

Source: Tax Foundation, 2018 *(2016 is the most recent tax data available)*




When tackling the issue of taxes, it's important to know your federal income tax bracket. This can help you determine the tax that will be due on your next dollar of income and many investments.

This chart shows the tax brackets and taxable income levels for 2019. The left side shows the income thresholds for single filers; the right side shows the income levels for married couples filing jointly.

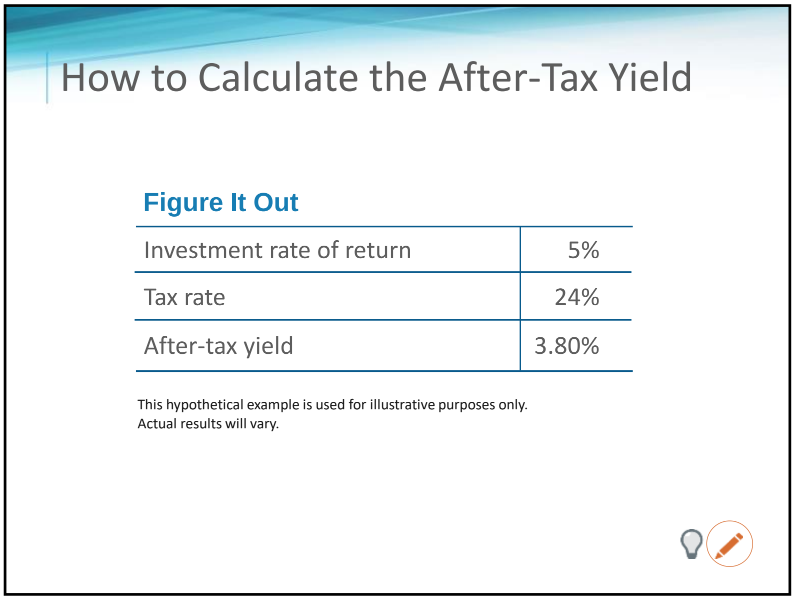
If you are a single filer, this means that your first $9,700 of income is taxed at 10 percent, income above $9,700 up to $39,475 is taxed at 12 percent, and income above $39,475 up to $84,200 is taxed at 22 percent. Income above $84,200 up to $160,725 is subject to a 24 percent tax rate, income above $160,725 up to $204,100 is taxed at a 32 percent tax rate, and income above $204,100 up to $510,300 is taxed at a 35 percent tax rate. All income above $510,300 is subject to a 37 percent tax rate.

*(If desired, explain income thresholds for married couples filing jointly.)*

These dollar thresholds are for the 2019 tax year and are indexed annually for inflation.

**BONUS FEATURE**

*(Click the pencil icon to display the workbook page where participants can write down their federal income tax bracket.)*




Do you understand some of the tax ramifications of your investments?

Interest income is taxed as ordinary income. Investments that generate interest income include savings accounts, certificates of deposit, and money market accounts.

*Money market funds are neither insured nor guaranteed by the FDIC or any other government agency. Though a money market fund attempts to maintain a $1 per share price, there is no guarantee it will always do so, and it is possible to lose money investing in a money market fund.*



Bonds also generate taxable interest income. If you hold the bond to maturity, you will receive the bond's face value, which doesn't result in any tax consequences because the amount you receive is a return of capital.

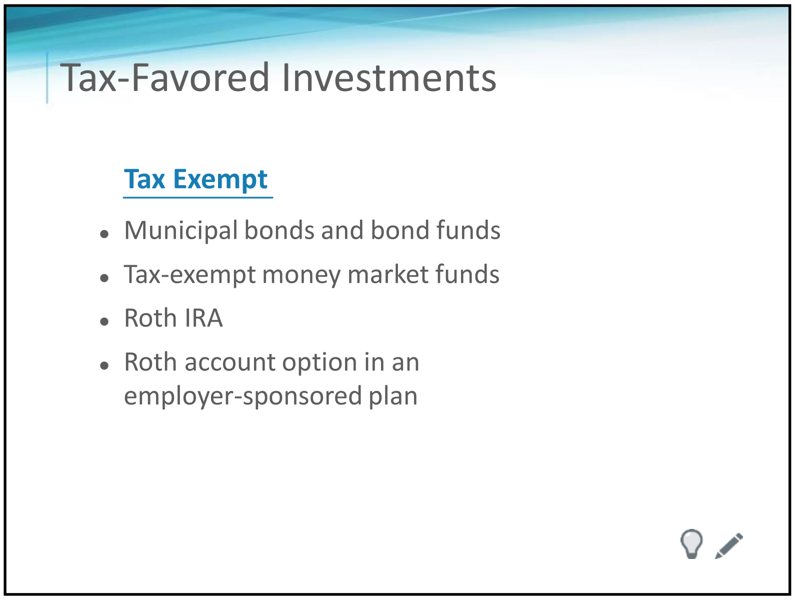
Before you decide to allocate money to a particular investment, it might help to understand the investment's return after factoring in taxes. Even if a taxable investment's anticipated return or interest rate sounds particularly inviting, calculating the after-tax return will help you decide whether it is really a worthwhile opportunity, especially when you compare it with a tax-exempt investment.

Calculating the after-tax yield of an investment means taking the taxable rate of return and subtracting the amount that will be due in income taxes. In this example, for someone with a 24 percent federal income tax rate, a taxable investment with a 5 percent return would yield 3.8 percent after taxes. That's a significant difference, especially when viewed over a long period of time.

Another way of looking at this is that an investor in the 24 percent tax bracket would have to earn 5 percent on a taxable investment to match a 3.8 percent yield on a tax-exempt investment.

**BONUS FEATURE**

*(Click the pencil icon to show the workbook page where participants can calculate the after-tax yield for their own investments.)*




Let's talk about some tax-favored investments that are designed to help you defer or avoid the amount you pay in taxes.

**Tax-exempt** investments offer income that is completely free of federal income tax. Probably the most popular are municipal bonds, which are issued by state and local governments and are free of federal income tax. They may also be exempt from state and local income taxes for investors who live in the jurisdiction where the bond is issued.

You can purchase municipal bonds individually or you can buy shares of a tax-free mutual fund, which is typically made up of municipal bonds and other government securities. It's important to remember that municipal bonds and municipal bond funds tend to provide lower pre-tax returns. That's why it's wise to consider the total after-tax return when you compare a tax-free fund with a taxable fund.

Municipal bonds and municipal bond funds may be subject to capital gains taxes and state income taxes. In some states you will have to pay income taxes if you buy shares of a municipal bond fund that invests in bonds issued by other states. Although some municipal bonds may not be subject to ordinary income taxes, they may be subject to federal, state, or local alternative minimum tax. And if you sell these investments for a profit, there are capital gains taxes to consider.

Tax-exempt money market funds are mutual funds that invest in short-term money market instruments. The income is not taxable, and the interest rates offered are generally lower than taxable money market funds.

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 could adversely affect a bond fund's performance.

*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.*

*Money market funds are neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund attempts to maintain a stable $1 share price, you can lose money by investing in such a fund.*

If you have earned income, you may want to invest in an IRA. The Roth IRA is funded with after-tax contributions, so there's no initial tax break, but qualified distributions are tax-free. To be eligible to contribute to a Roth IRA, your income must not exceed specific annual limits. In 2019, single filers with modified AGIs over $137,000 and married joint filers with modified AGIs over $203,000 are not eligible to contribute to a Roth IRA.

If you're still working, you may also have an opportunity to contribute after-tax dollars to a Roth account in your employer-sponsored retirement plan, such as a 401(k). There are no income limitations to contribute to a Roth 401(k), and qualified distributions are also tax-free. Early withdrawals from IRAs and employer-sponsored retirement plans prior to age 59½ may be subject to a 10 percent federal income tax penalty. To qualify for a tax-free and penalty-free withdrawal of earnings, Roth IRA and Roth 401(k) account distributions must meet the five-year holding requirement and take place after age 59½, or meet other IRS criteria.


**Tax-deferred** investments postpone taxes until funds are withdrawn (usually in retirement). Deferring income taxes can help your money grow more rapidly because of the power of compounding.

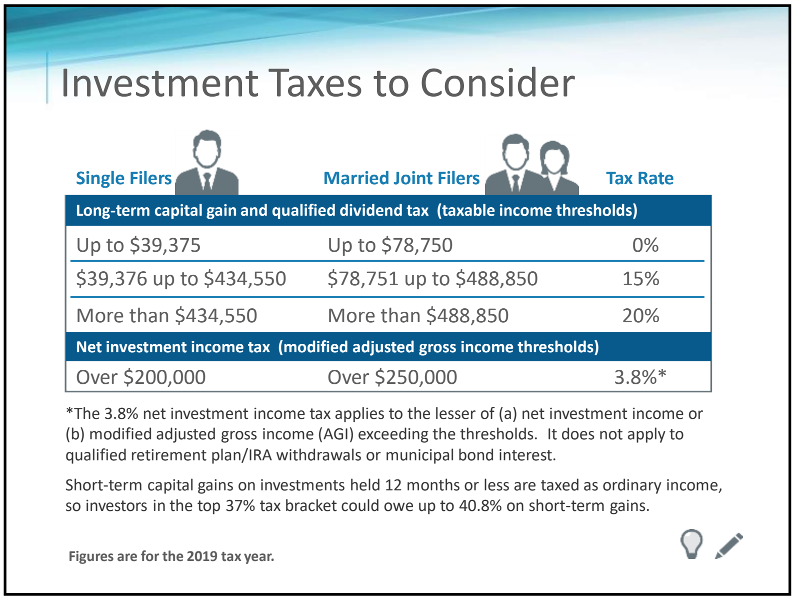
Traditional IRAs and employer-sponsored retirement plans may enable you to lower current taxes if your contributions are made with tax-deductible or pre-tax dollars. Annuities offer another opportunity to supplement your retirement savings. Assets in all these vehicles accumulate tax deferred until you begin taking withdrawals, at which time ordinary income taxes are due.

Unlike the case with tax-exempt investments, the IRS does expect you to pay taxes on withdrawals from tax-deferred plans. That's why you must begin taking required minimum distributions from traditional IRAs and most employer-sponsored plans starting in the year you reach age 70½. Annuities and Roth IRAs are not subject to this minimum withdrawal rule. (Traditional IRA and Roth IRA beneficiaries are subject to required minimum distributions.)

Distributions from traditional IRAs, most employer-sponsored retirement plans, and annuities (generally, only annuity earnings) are taxed as ordinary income. Withdrawals prior to reaching age 59½ may be subject to a 10 percent federal income tax penalty. Most annuities have surrender charges that are assessed during the early years of the contract if the annuity is surrendered.

**BONUS FEATURE**

*(Click the light bulb icon to view a chart showing the long-term advantages of tax-favored investing.)*



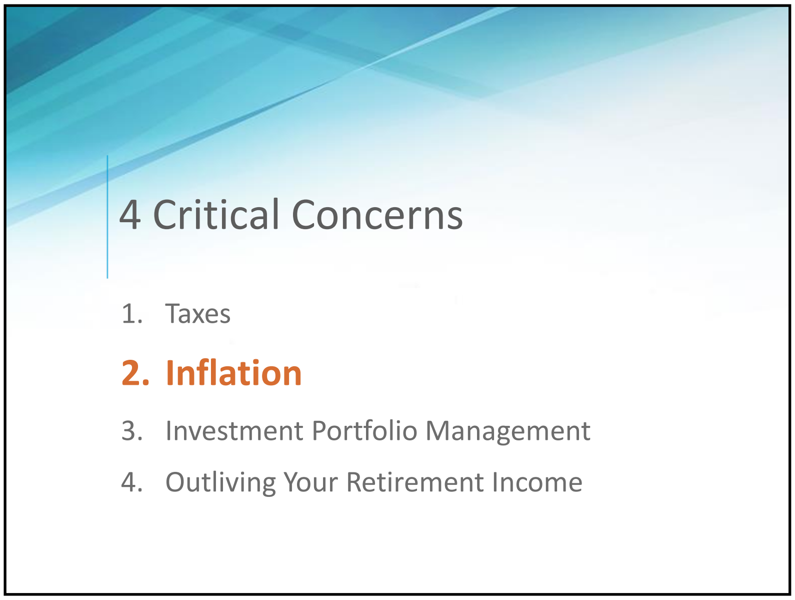

The tax code treats **long-term capital gains** and **qualified dividends** more favorably than ordinary income (wages or interest from bonds and savings accounts). Long-term capital gains are profits realized from the sale of investments that are held for more than 12 months. Qualified dividends are those paid to shareholders from a domestic corporation or a qualified foreign corporation.

Long-term capital gains and qualified dividends are taxed at 15 percent for single filers whose taxable incomes range from $39,375 up to $434,550, and for married joint filers whose taxable incomes range from $78,751 up to $488,850. Lower-income filers pay zero tax on long-term capital gains and dividends. Higher-income filers whose taxable incomes exceed $434,550 for single filers, or $488,850 for joint filers, pay 20 percent.

Generally, dividends on stock held for at least 61 days within a specified 121-day period are considered "qualified" for tax purposes. Distributions from mutual funds held in taxable accounts are also taxable to shareholders — as long-term and/or short-term capital gains, dividends, or interest — for the year in which they are received, even if the distribution is reinvested in new shares. Investors also trigger capital gains taxes when they sell stocks and mutual fund shares for a profit.

Nonqualified dividends and short-term capital gains (profits on investments held for 12 months or less) are taxed as ordinary income.

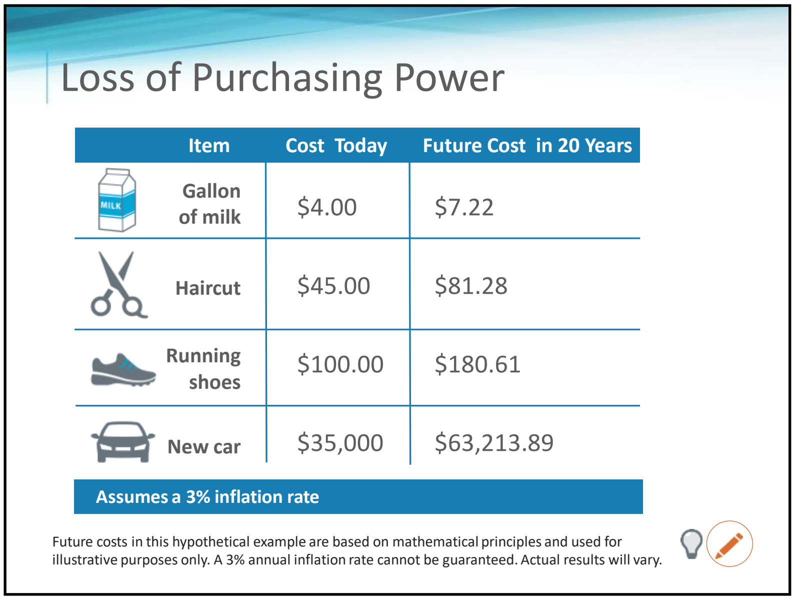
In addition, some high-income taxpayers may be subject to the 3.8 percent **unearned income tax on net investment income** — capital gains, dividends, interest, royalties, rents, and passive income — if their modified adjusted gross incomes (AGIs) exceed the $200,000 threshold for single filers and the $250,000 threshold for joint filers. The 3.8 percent net investment income tax applies to the lesser of (a) net investment income or (b) AGI exceeding the thresholds. It does not apply to withdrawals from IRAs and qualified retirement plans, nor does it apply to municipal bond interest.




Inflation is the second critical concern for investors — before and during retirement.


Inflation is the rise in consumer prices over time. Because inflation makes it more expensive to buy the things you need to live comfortably from day to day, it can effectively lower the value of your savings from year to year.

Particularly for fixed-income investors, it is critical that an investment portfolio at least keep pace with inflation to avoid falling behind financially as the years go by.




Here are four common items and what they could cost in 20 years, assuming a 3 percent annual inflation rate. This demonstrates not only how inflation can erode your purchasing power over time, but why it is important for your portfolio to at least keep pace with inflation during retirement.

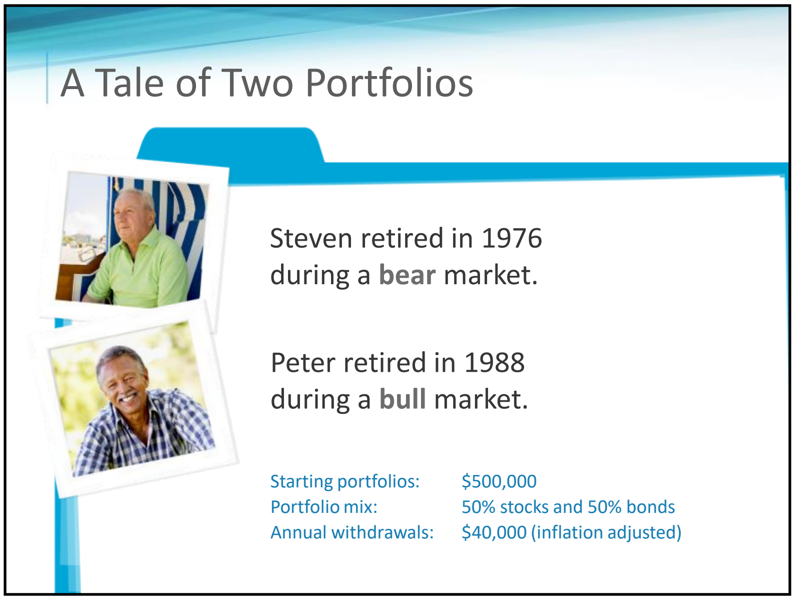
If inflation were to remain steady at a 3 percent annual rate, the cost of many common items would nearly double in just 20 years, and your purchasing power would be cut nearly in half.

Future costs in this hypothetical example are based on mathematical principles and used for illustrative purposes only. A 3 percent annual inflation rate cannot be guaranteed. Actual results will vary.

**BONUS FEATURE**

*(Click the pencil icon to show participants how to determine the investment yield after taxes and inflation for their own investments.)*

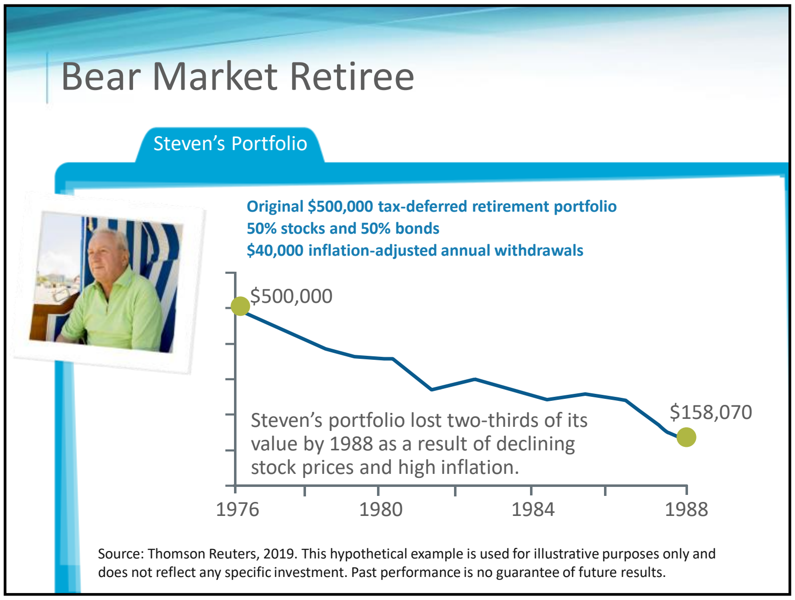

The third critical area of concern during retirement is investment portfolio management. The ability of your portfolio to help you achieve your long-term financial goals will have a huge impact on the kind of retirement lifestyle you'll be able to afford.




Let me tell you a tale of two portfolios and the retirees who depended on them for income. Each retirement portfolio started out with $500,000 in tax-deferred accounts, balanced evenly between stocks and bonds, and each retiree planned to take $40,000 annual withdrawals (adjusted for inflation) for income.

The main difference between these two retirees and their portfolios was that the men retired in a different year. Steven retired in 1976, Peter in 1988 — very different economic periods.

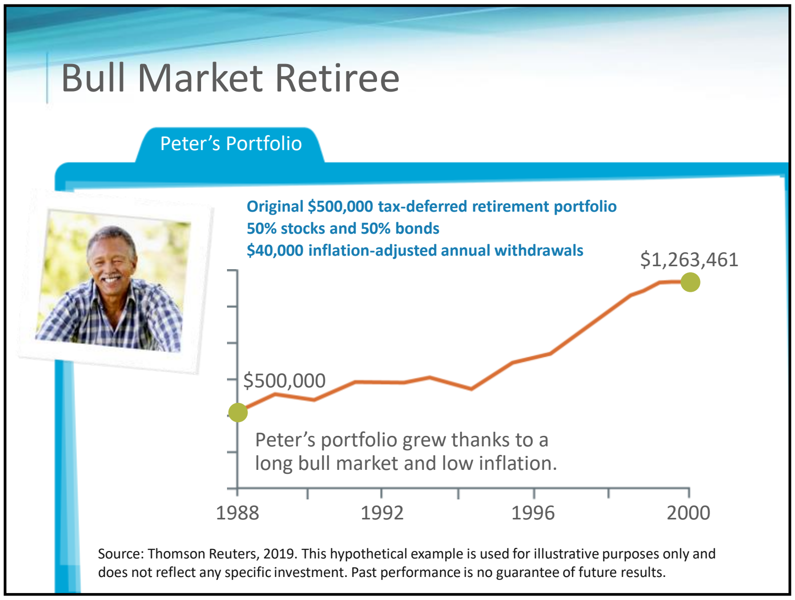
Although these examples are purely hypothetical, they illustrate how investment portfolio management can play a huge role in determining the kind of retirement an individual can expect.




Steven, who retired in 1976, unfortunately experienced a bear market environment — a period during which the value of the market consistently fell.

By 1988, Steven's portfolio had lost two-thirds of its value, largely as a result of declining stock prices and high inflation.

Source: Thomson Reuters, 2019, for the period January 1, 1976, to December 31, 1988. This hypothetical example is used for illustrative purposes only and does not reflect any specific investment. The original $500,000 portfolio held 50 percent stocks and 50 percent bonds in tax-deferred accounts. In the first year, $40,000 was withdrawn for income, and in subsequent years an inflation-adjusted equal amount was withdrawn. Stocks are represented by the Standard & Poor's 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 the corporate bond market. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. Rates of return will vary over time, particularly for long-term investments.




Peter retired in 1988. His portfolio benefited from an extended bull market — a period during which the value of the market consistently rises.

Even though Peter made continuous withdrawals, his portfolio grew thanks to the long bull market and low inflation.

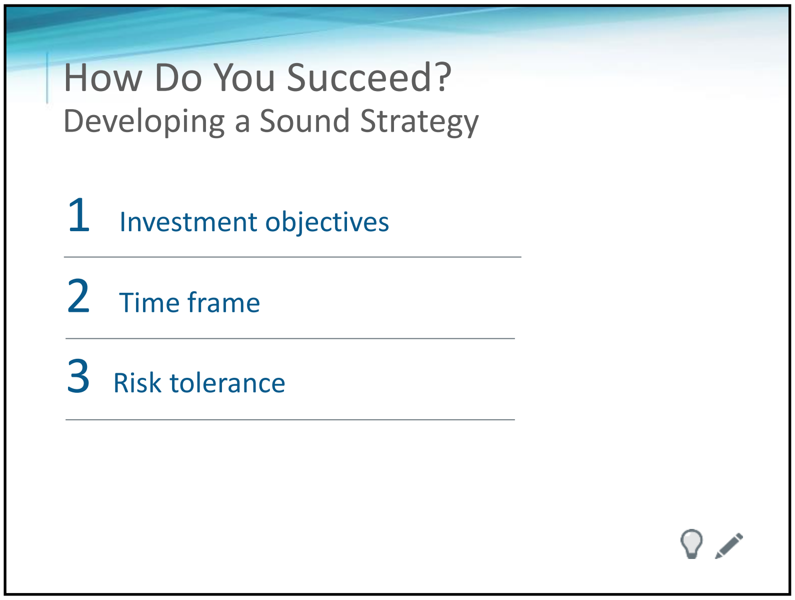
Source: Thomson Reuters, 2019, for the period January 1, 1988, to December 31, 2000. This hypothetical example is used for illustrative purposes only and does not reflect any specific investment. The original $500,000 portfolio held 50 percent stocks and 50 percent bonds in tax-deferred accounts. In the first year, $40,000 was withdrawn for income, and in subsequent years an inflation-adjusted equal amount was withdrawn. Stocks are represented by the Standard & Poor's 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 the corporate bond market. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results. Rates of return will vary over time, particularly for long-term investments.


What lessons can we learn from these two portfolios?

First, market conditions are unpredictable and always changing. Retiring during a bear market environment could affect the longevity of your portfolio. A sound investment strategy should be flexible enough to adjust to market fluctuations.

Second, successful investing involves more than just stocks and bonds. A portfolio divided exclusively between stocks and bonds may be overexposed to market uncertainty. There are a variety of investment vehicles available that are specifically designed to help investors reduce their risk while still pursuing their financial objectives.

Finally, we learn that investing is an ongoing process that may need periodic adjusting along the way. Many investors come up with a specific balance of stocks and bonds for their portfolios and then maintain it regardless of economic conditions. Although this approach does have some merit, it can have drawbacks as well.

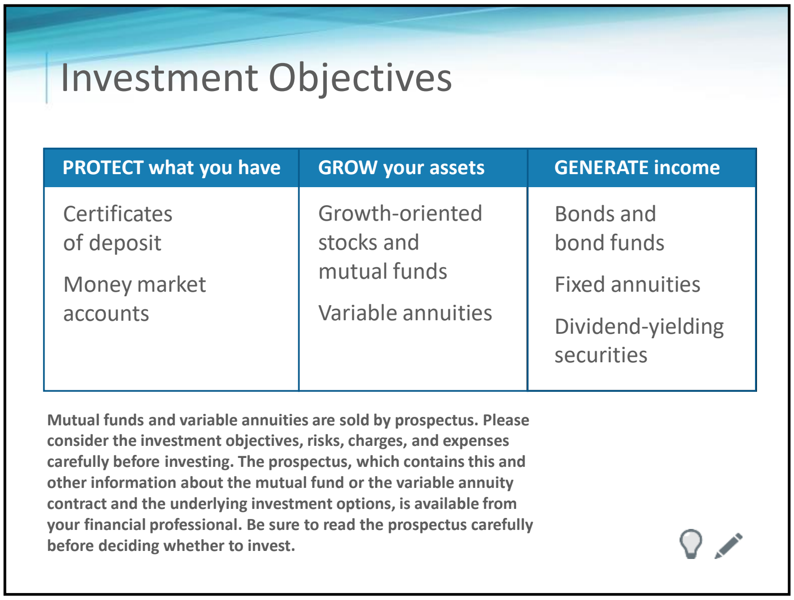



So how do you succeed in an environment in which your portfolio must not only keep pace with inflation and grow, despite the effect of taxes, but also weather unpredictable market fluctuations?

For many investors, the most powerful means for reaching retirement goals is to develop a sound investment strategy that takes into account three major variables: your investment objectives, your time frame, and your risk tolerance.

Because these three variables will be unique to every investor, there is no “one-size-fits-all” retirement investment strategy. That’s why it is important to make sure that your strategy meets your individual needs and goals.

Let’s look at each of these issues in a bit more detail.




The first step in developing a sound investment strategy is to establish your investment objectives. What are you trying to achieve by investing?

*Are you satisfied with what you have and concerned about protecting the current value of your portfolio?*

*Would you like to see your assets continue to grow, even if it means taking on additional risk?*

*Or are you most interested in generating a steady income that will support your retirement lifestyle no matter what happens to the markets?*

Your answers to these questions will help determine the appropriate mix of assets for your investment portfolio. For example, certificates of deposit (CDs) and money market accounts are generally considered to be “safe” investments, whereas stocks, certain mutual funds, and variable annuities allow investors to pursue growth in the stock market — with an accompanying degree of risk.



Bonds and fixed annuities can help generate a steady stream of income that is attractive to many retired investors. Bonds come with a number of different interest rates, maturities, and levels of risk. Bonds redeemed prior to maturity may be worth more or less than their original cost. Bond funds are subject to the interest-rate, inflation, and credit risks associated with the underlying bonds in the fund. As interest rates rise, bond prices typically fall, which can adversely affect the fund’s performance. Fixed annuities offer a guaranteed source of regular income for a fixed term or for the rest of your life. Dividend-yielding securities are another alternative, although they typically involve more risk. 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.

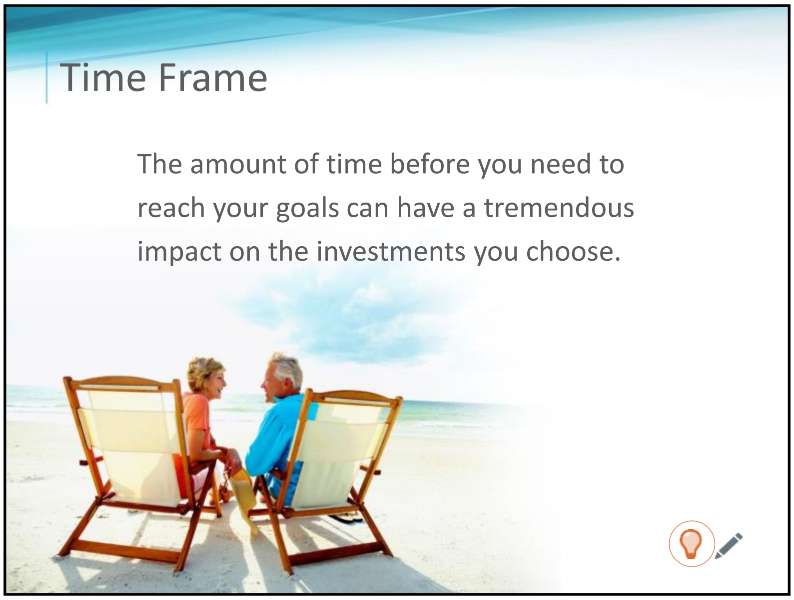
CDs generally provide a fixed rate of return. The FDIC insures CDs up to $250,000 per depositor, per institution, at FDIC-insured institutions.

*Money market funds are neither insured nor guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1 per share, it is possible to lose money by investing in a money market fund.*

The earnings portion of annuity withdrawals is taxed as ordinary income. Withdrawals made prior to age 59½ may be subject to a 10 percent federal income tax penalty, and surrender charges may apply during the contract’s early years. Generally, annuities contain mortality and expense charges, account fees, underlying investment management fees, and administrative fees. The guarantees of annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Keep in mind that the investment return and principal value of stocks, mutual funds, bonds, and variable annuities will fluctuate, so an investor’s shares, when sold, may be worth more or less than the original amount invested.

*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, is available from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*




The second element in developing a sound strategy is your time frame.

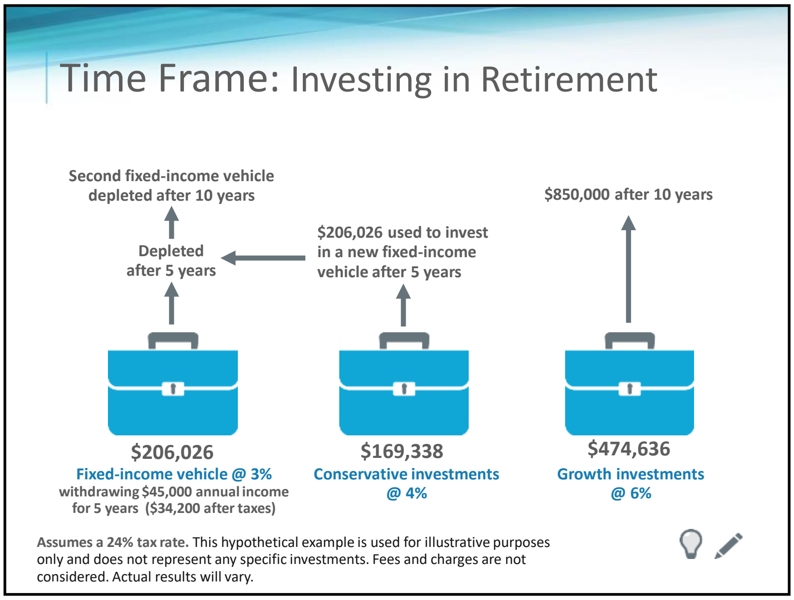
The amount of time you have before you need to reach your goals can have a tremendous impact on the investment categories you choose. That's because fluctuations in the financial markets can affect the short-term value of certain types of investments.

If, for example, your goal is saving for a cruise around the world next year, you need a specific amount of money and your time frame is very short. Therefore, you wouldn't want to invest your money in aggressive investments that carry a lot of risk. You simply wouldn't have time to recover from heavy losses if they occurred.



**BONUS FEATURE**

*(Click the light bulb icon to compare investment performance for the various asset classes over time.)*




As I mentioned, your time frame is particularly important when it comes to investing during retirement. That's because your portfolio may include assets you need for current income as well as assets that may need to last for 20 or more years.

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

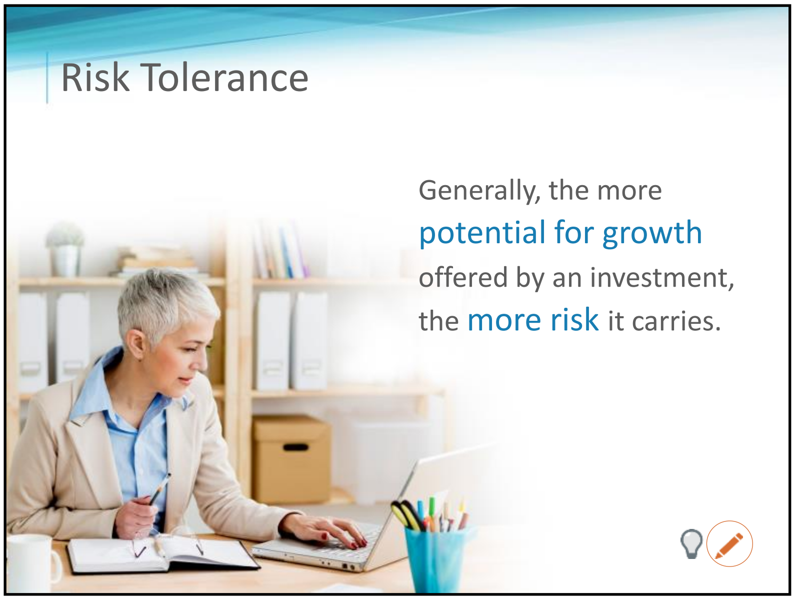
This hypothetical example shows how someone retiring with an $850,000 portfolio could use a combination of fixed-income investments, conservative investments, and growth-oriented investments to create a potentially perpetual income stream of $45,000 a year.

The assets are divided into three parts. In Part 1, $206,026 is invested in a fixed-income vehicle that generates a $45,000 annual income for five years ($34,200 after taxes). Part 2 contains $169,338 in conservative investments. Part 3 holds the remaining $474,636, which is invested in growth-oriented investments.

After five years, the assets in Part 1 become depleted, and 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 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 conservative investments earning a hypothetical 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 investment vehicles. It assumes a 24 percent federal income tax rate. Investments seeking to achieve higher rates of return also involve a higher degree of risk. Investment fees and charges 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.




The third element in developing a sound strategy is risk tolerance.

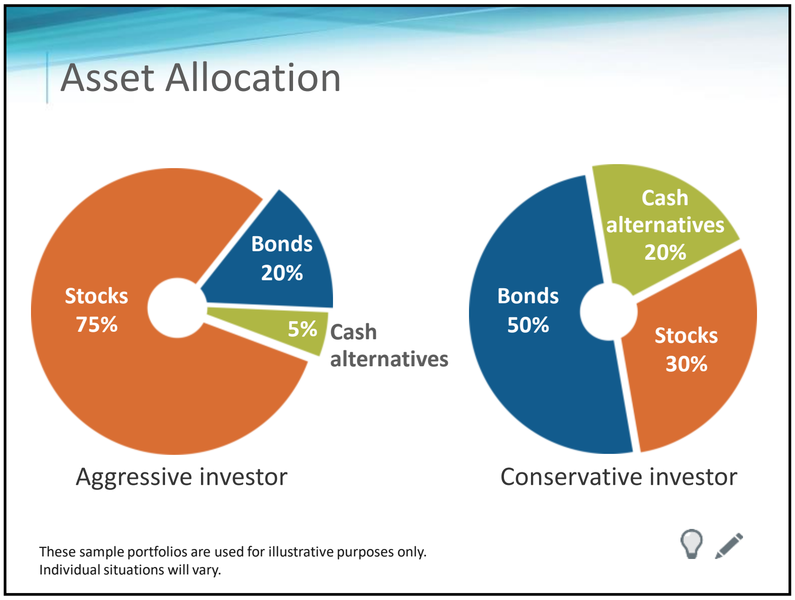
Determining your risk tolerance means evaluating how much risk you are willing to take to reach your financial goals. This includes the ability to watch the value of your investments fluctuate without becoming queasy.

Generally, the more potential for growth offered by an investment, the more risk it carries.

Market performance over the last decade has tested many investors' risk tolerance and driven home the fact that risk tolerance is an essential consideration of a sound investment strategy.

**BONUS FEATURE**

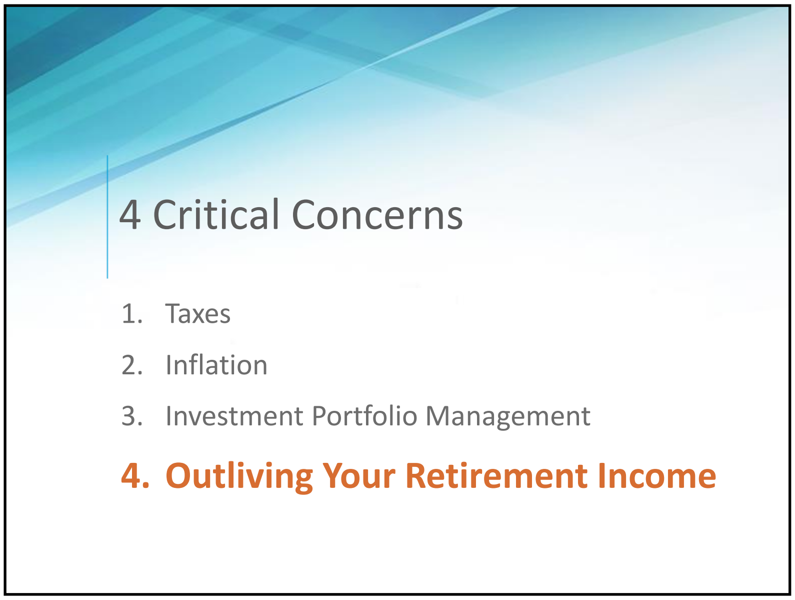
*(Click the pencil icon if you want participants to take a risk tolerance quiz.)*




Developing a sound strategy means applying the things we've discussed about investment goals, time frame, and risk tolerance to your asset allocation.

These two sample portfolios show what an appropriate allocation might look like for an aggressive investor with a long time frame, and a conservative investor who may have a shorter time frame and/or a lower tolerance for investment risk.

Keep in mind that these examples are hypothetical and are used for illustrative purposes only. Individual situations will vary. Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.



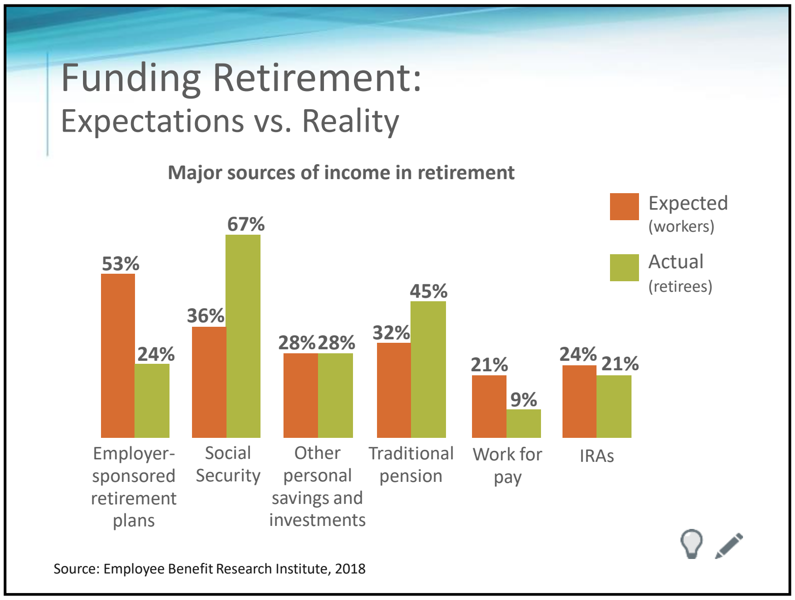

The fourth critical concern that many retirees face is outliving their retirement income. Increased life expectancies can pose a serious financial risk to many retirees. After all, no one has an endless supply of money. As the years go by and the expenses add up, your personal savings and investments may become depleted.


How long will your retirement be?

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. In fact, at age 65, you may need income for 20 years or longer. Are you prepared?

**BONUS FEATURE**

*(Click the light bulb icon for a chart showing the growth in centenarians.)*



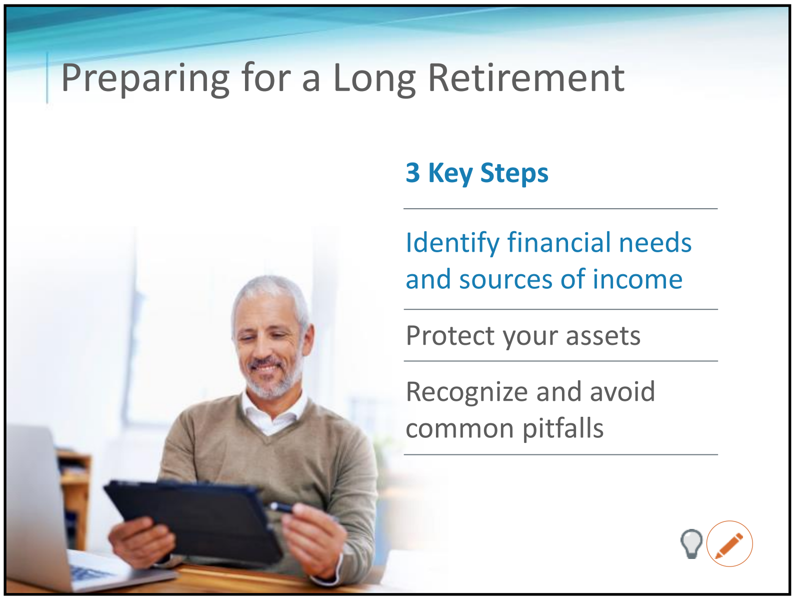

Funding a lengthy retirement can be tricky, but U.S. workers plan to rely on a variety of funding sources that current retirees have depended on less.

*(Discuss the different expectations versus realities among workers and retirees.)*

This chart illustrates the differences in workers' *expected* major sources of retirement income and retirees' *actual* major sources of retirement income.

As you can see, even though fewer workers expect to rely on Social Security as a major source of retirement income, the reality is that it is a major source of retirement income for 67 percent of current retirees.

Source: Employee Benefit Research Institute, 2018




Preparing successfully for a long retirement involves three key steps.

First, you must calculate your financial needs in retirement, identify the major sources of income you can depend on, and determine how much you can expect to receive from each source.

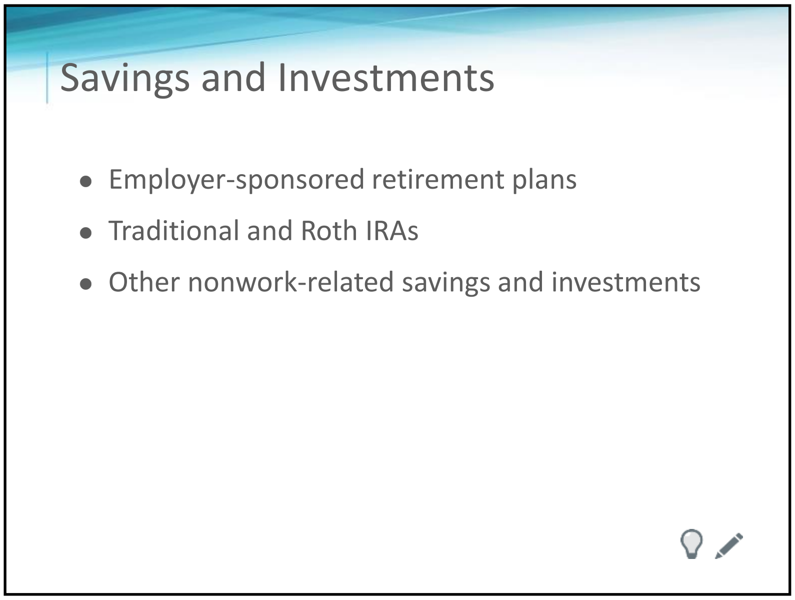
Second, you'll want to develop a strategy to help protect your assets from unexpected expenses.

Finally, it may help to become aware of the most common pitfalls retirees face and learn how to avoid them.

Let's start by taking a closer look at the first step.

**BONUS FEATURE**

*(Click the pencil icon to show participants how to calculate the amount of money they would need to save in order to fund a comfortable retirement.)*




As I mentioned earlier, personal savings and investments will provide much of the income that people will need in retirement.

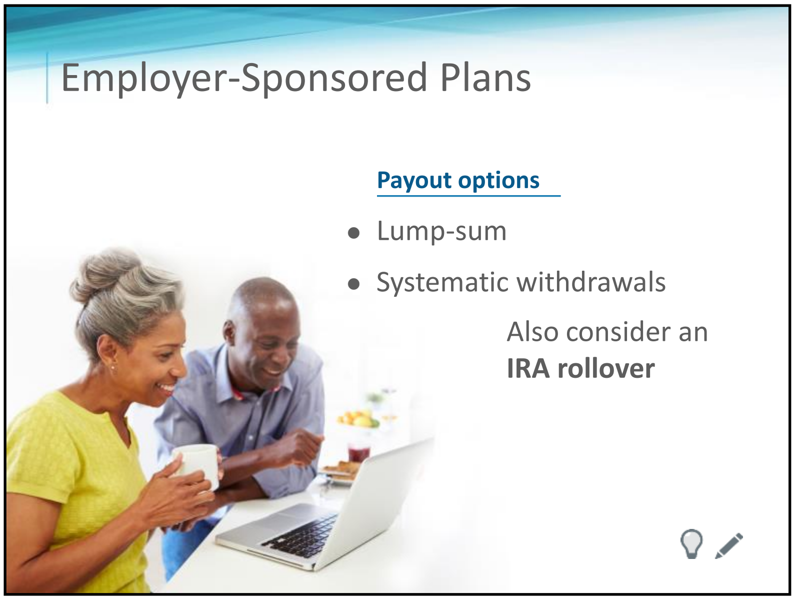
You may depend on money you’ve saved in employer-sponsored retirement plans, such as a 401(k), traditional IRAs, Roth IRAs, and other nonwork-related savings and investments, such as CDs and money market funds.



The amount you save and invest — and how your investments perform — will be key factors in determining your lifestyle in retirement.

Further, the decisions you make when choosing distribution methods from your investments could have an impact on how long your income sources might last in retirement.

Let’s spend the next few minutes going over some of these income sources in greater detail.



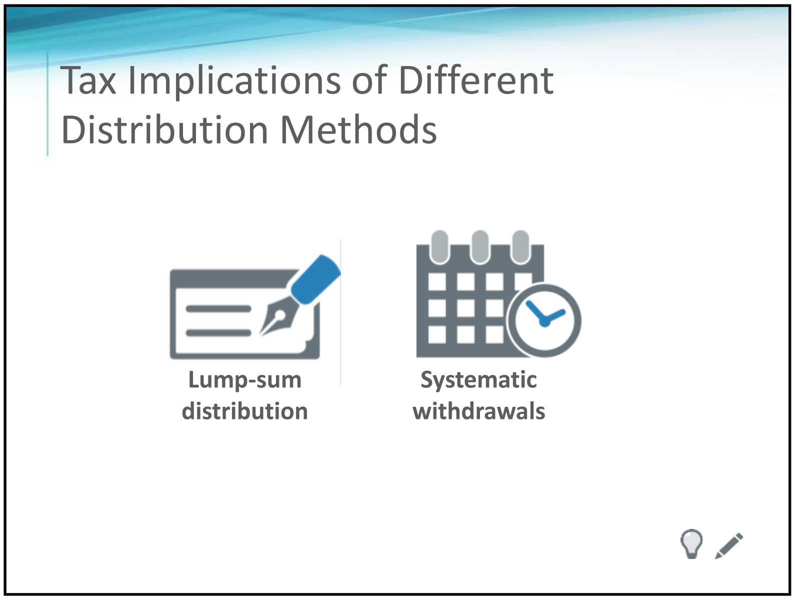

Retirement savings plans sponsored by employers can be an important source of retirement income, and they will become even more important in the future as corporations continue to stop offering traditional pensions and instead offer defined contribution plans like the 401(k), which are funded primarily by workers.

The decisions you make when choosing a retirement plan distribution method can potentially impact your wealth for the rest of your life.

There are two main payout options with an employer-sponsored retirement plan: a lump-sum distribution or a series of systematic withdrawals, which I'll explain in more detail in a few minutes.

If you want to continue benefiting from tax-deferred growth, you can keep the funds in your former employer's plan (if the plan allows), transfer the assets directly to your new employer's plan (if it allows rollover funds), or move the funds to your own IRA.

Distributions from traditional IRAs and most 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 reaching age 59½.




The distribution method you choose to withdraw funds from your retirement plan(s) can have different tax implications.

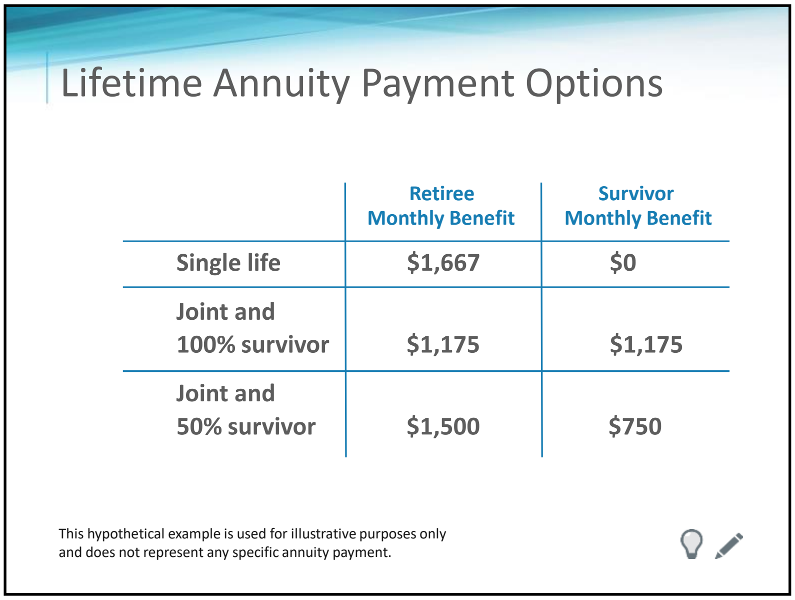
Most qualified plans allow you to take your distribution as a **lump sum** — the entire payout in one payment. A lump-sum distribution gives you total control over your money. You receive a check and are free to invest it or spend it wherever and however you choose. The catch is that income taxes are due on the total amount of the distribution and payable for the year in which you cash out. Furthermore, employers issuing you a distribution check are required to withhold 20 percent toward federal income taxes, so you will receive only 80 percent of your total accumulation. A sizable lump-sum distribution could easily move you into a higher tax bracket.



Some plans may let you take **systematic withdrawals**. Generally, you can choose 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. If you choose a series of monthly payments over your lifetime (sometimes referred to as a lifetime annuity), these payments can last for your lifetime or for the joint lives of you and your spouse or selected beneficiary. Ordinary income taxes would be due on the amount distributed to you each year.

There are advantages and disadvantages to each approach, so you need to examine your options carefully. Consider your age, liquidity needs, income needs, and current tax situation.

Distributions from most 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. Annual required minimum distributions must begin once account owners reach age 70½ and are based on life expectancy.




If you are able to 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.

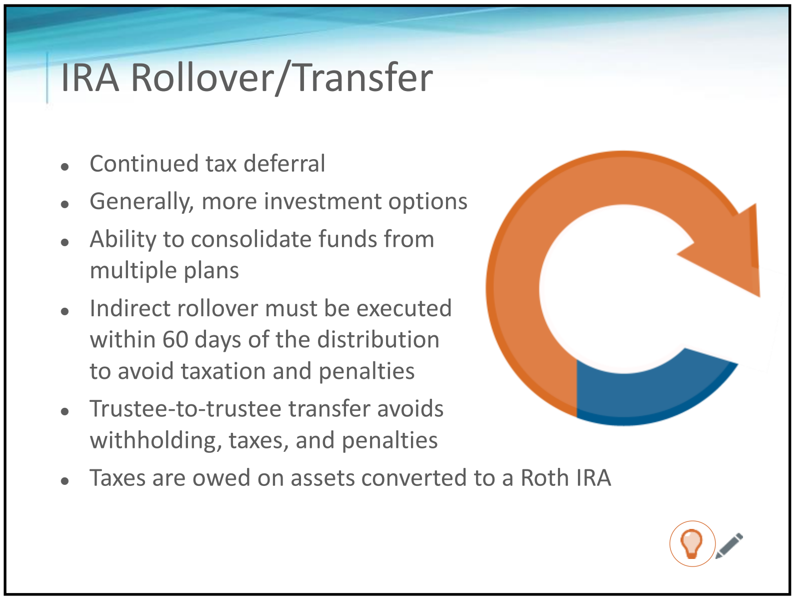
Taking distribution as a **single-life** annuity provides the maximum monthly benefit during your lifetime. However, your spouse (or selected survivor) will receive no benefit after your death.

Some plans require you to take your payment as a **joint and survivor** annuity rather than a single-life annuity. If you prefer, 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) would 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.




If you want to benefit from continued tax deferral but don't want to leave your vested retirement assets in your former employer's retirement plan, you might choose to transfer the funds to an IRA selected by you. With an IRA, you generally have more investment options than you might have had in an employer plan. And if you have several employer plans spread among previous employers, you can consolidate them into a single IRA, which may give you greater control, make it easier to reallocate your assets and balance them as needed, and simplify the paperwork you receive.

With an indirect rollover, you have 60 days from the date of the distribution to deposit the money in another tax-deferred plan. Whatever portion is not rolled over by the deadline is considered a taxable distribution and may be subject to a 10 percent income tax penalty if you are under age 59½. Employer plans that issue a distribution check in your name must withhold 20 percent toward federal income taxes, so you would receive only 80 percent of your total distribution. You would have to make up the remaining rollover balance yourself in order for it not to be considered a taxable distribution.

With a trustee-to-trustee transfer (often called a direct rollover), you arrange to have your money transferred directly from the trustee of the "old" retirement plan to the custodian of your new plan. If this is executed properly to a traditional IRA, you will avoid the 20 percent withholding from an employer plan as well as current income taxes and penalties, and your retirement assets will maintain their tax-deferred status.

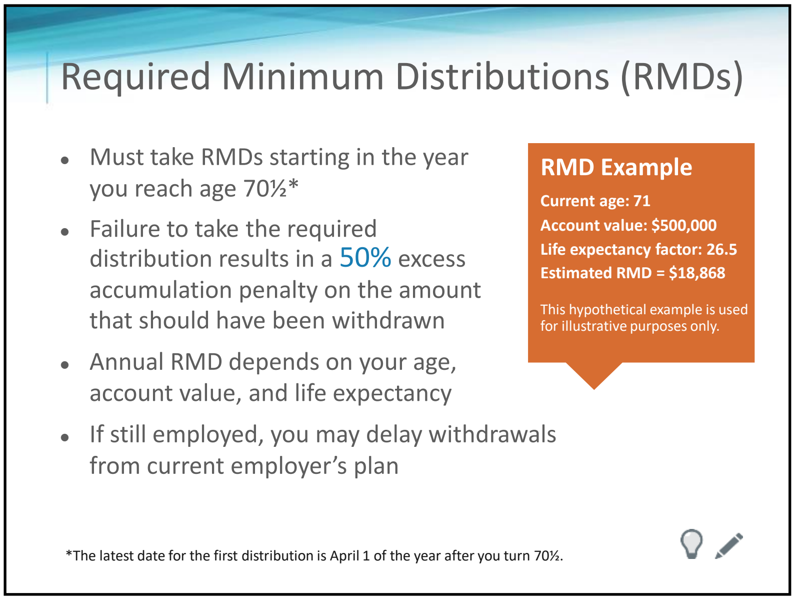
Alternatively, if you want to have a tax-free source of retirement income, you might choose to convert your retirement plan assets to a Roth IRA. You must pay ordinary income tax on the converted assets, and taxes are payable in the tax year of the conversion. Qualified tax-free Roth IRA distributions are those that meet the five-year holding requirement and take place after the owner reaches age 59½. Exceptions include the owner's death or disability or a qualifying first-time homebuyer expense ($10,000 lifetime maximum).

Distributions from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income. Early distributions prior to age 59½ may be subject to a 10 percent federal income tax penalty. Unlike traditional IRAs and employer plans, Roth IRAs are exempt from annual required minimum distributions during the lifetime of the original owner.

You should be aware that you are limited to one tax-free IRA-to-IRA rollover in a 12-month period, regardless of how many IRAs you have (including traditional, Roth, SEP, and SIMPLE IRAs). This once-per-year rule does not apply to rollovers from an employer-sponsored plan to an IRA; nor does it apply to Roth IRA conversions. Roth IRA conversions are now permanent and can no longer be recharacterized.

**BONUS FEATURE**

*(Click the light bulb icon to discuss the benefits of a stretch IRA.)*




If you have retirement assets in a tax-deferred plan — whether it's a traditional IRA or an employer-sponsored retirement plan like a 401(k) — you will have to start taking annual required minimum distributions (RMDs) once you reach age 70½.

The RMD is the *smallest* amount you must withdraw, and it must be taken by December 31 each year. However, the first distribution can be postponed until April 1 of the year after you reach age 70½, but this would require that you take two distributions in one year.



Failure to take an RMD could result in a 50 percent excess accumulation penalty on the amount that should have been withdrawn.

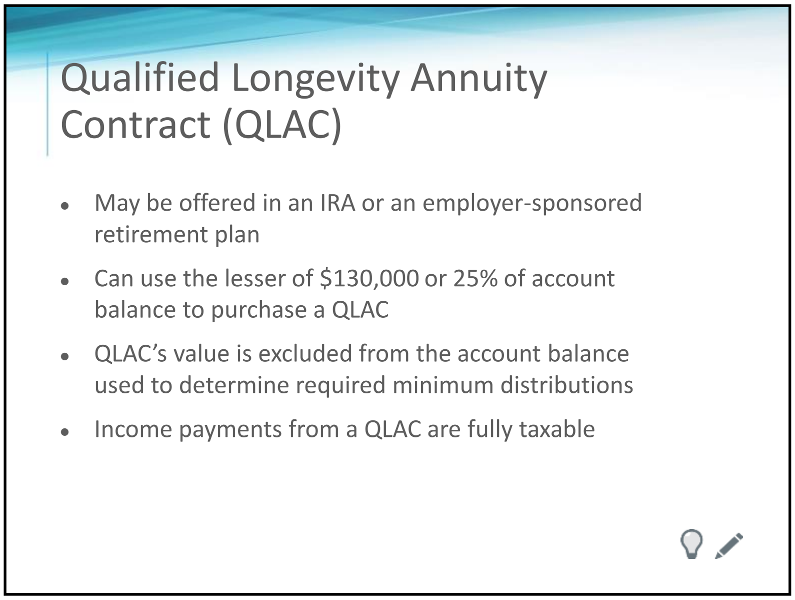
Annual RMDs are based on your age, the value of your tax-deferred account(s), and your life expectancy. The calculation is fairly straightforward. You can use the IRS Uniform Lifetime Table (or the Joint and Last Survivor Table, in certain circumstances), which shows different ages and distribution years. Simply divide the value of your 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.

If you are still employed, you may be able to delay minimum distributions from your current employer's plan until after you retire. But you still must take RMDs from other tax-deferred accumulations.

Here's one hypothetical example of an RMD: The investor is currently age 71 and his tax-deferred account value is $500,000. Based on the IRS Uniform Lifetime Table, his life expectancy factor would be 26.5. So the estimated RMD would be $500,000 ÷ 26.5 = $18,868.

This hypothetical example is used for illustrative purposes only. Actual results will vary.




Some IRAs and employer-sponsored retirement plans may offer a qualified longevity annuity contract (QLAC) option. A QLAC is basically longevity insurance (a deferred income annuity) that is designed to provide a guaranteed lifetime income once the annuity owner reaches an advanced age, such as 80 or 85. This type of annuity has no annual fees.

Like most annuities, a QLAC typically would be purchased with a lump sum. However, if an employer-sponsored retirement plan offers a QLAC option, you may be able to invest through regular salary deferrals.

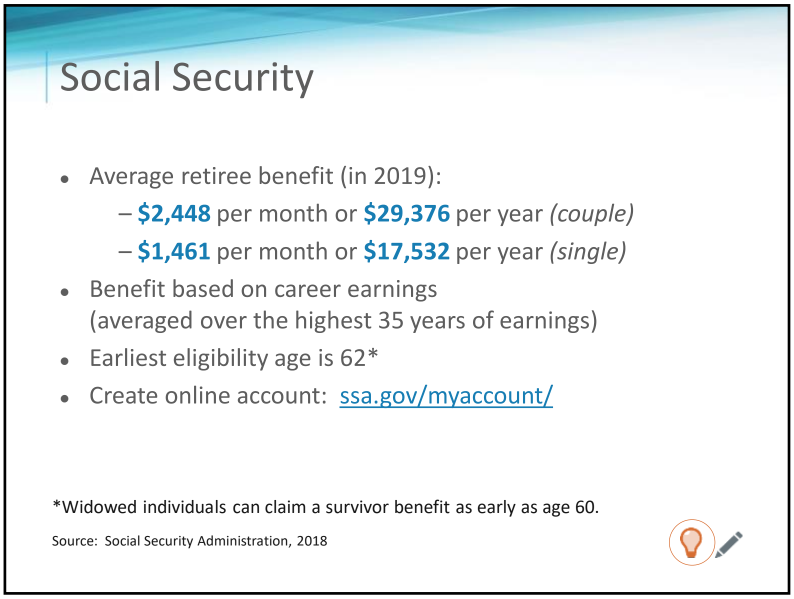


The IRS allows participants in qualified retirement plans to use the lesser of $130,000 (inflation adjusted) or 25 percent of their account balances to purchase a QLAC. The annuity's value is excluded from the account balance used to determine required minimum distributions (RMDs), so not only does this give you the ability to reduce the amount you receive in annual RMDs starting at age 70½, but it provides a guaranteed lifetime income once you reach an advanced age, a time when you might have depleted significant portfolio assets.

The rules allow for the continuation of income payments throughout the lifetime of a beneficiary (such as a surviving spouse) and/or the return of premiums (minus payouts) as a death benefit. However, these options will either raise the purchase price or reduce income payments later in life.

Cash-out provisions are not allowed in a QLAC, so any money invested in the annuity is no longer a liquid asset, and you may sacrifice the opportunity for higher returns that might be available in the financial markets. Like other tax-deferred retirement plan distributions, income payouts from a QLAC are fully taxable.

If you are considering longevity insurance, you should understand that if you die before the annuity payouts begin, the insurance company will generally keep the premiums that were paid, unless it was possible to structure the payouts to continue throughout the lifetime of a second individual, such as a surviving spouse. Another downside is that once longevity insurance is purchased, the money is locked up and cannot be withdrawn if you need it later. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.




Social Security makes up a large percentage of income for many retirees. To qualify for Social Security retirement benefits, you must have accumulated a minimum of 40 work credits, which is about 10 years of work.

The average monthly retirement benefit for a married couple in 2019 is $2,448 ($29,376 per year). The average monthly benefit for a single beneficiary is $1,461 ($17,532 per year).[1]

The Social Security benefit you receive is based on your career earnings, averaged over the highest 35 years of earnings. If you've had high lifetime earnings during which you paid Social Security taxes, you will receive a higher benefit. If you had years in which you had no earnings, your benefit amount may be lower than if you had worked steadily.

Your benefit will also be affected by the age at which you claim benefits. The earliest eligibility age is 62, although widowed individuals can claim a survivor benefit as early as age 60. In 2017, 29 percent of men and 33 percent of women claimed benefits when they first became eligible at age 62.[2]

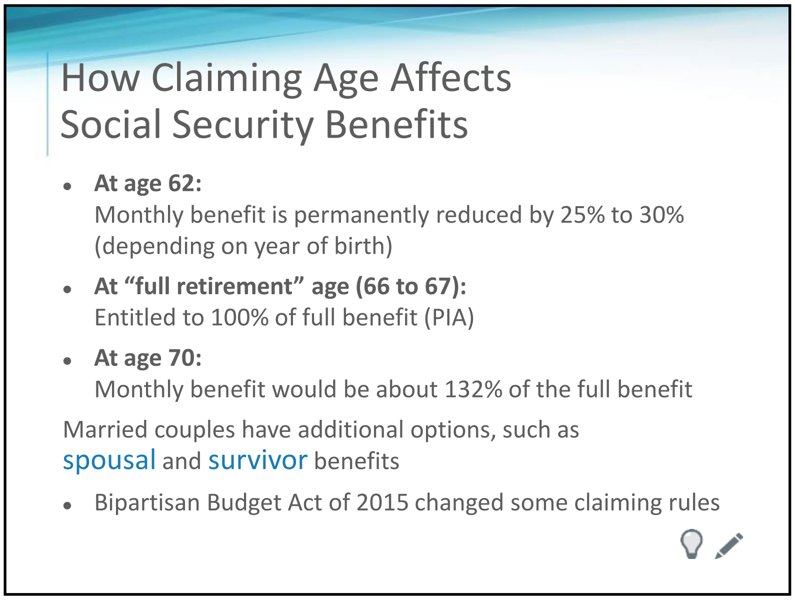
Filing for retirement benefits is relatively straightforward. You can apply online at **ssa.gov** or over the phone by calling **800-772-1213**, or you can make an appointment to visit a local Social Security office.

You can create your own personal online account at **ssa.gov/myaccount**. You can access your account to view your estimated Social Security benefits and, when you are receiving Social Security, to print out Social Security and Medicare benefits, update your address, and change your direct-deposit data.

Source: 1–2) Social Security Administration, 2018

**BONUS FEATURE**

*(Click the light bulb icon to discuss how Social Security benefits could be taxed.)*




Because Social Security provides an income stream with longevity protection, spousal protection, and even some inflation protection, the ultimate value of benefits is often overlooked. That's why it's important to understand your claiming options.

If you claim Social Security benefits at age 62, you will receive a permanently reduced benefit. The reduction at age 62 ranges from 25 percent to 30 percent, depending on the year you were born.



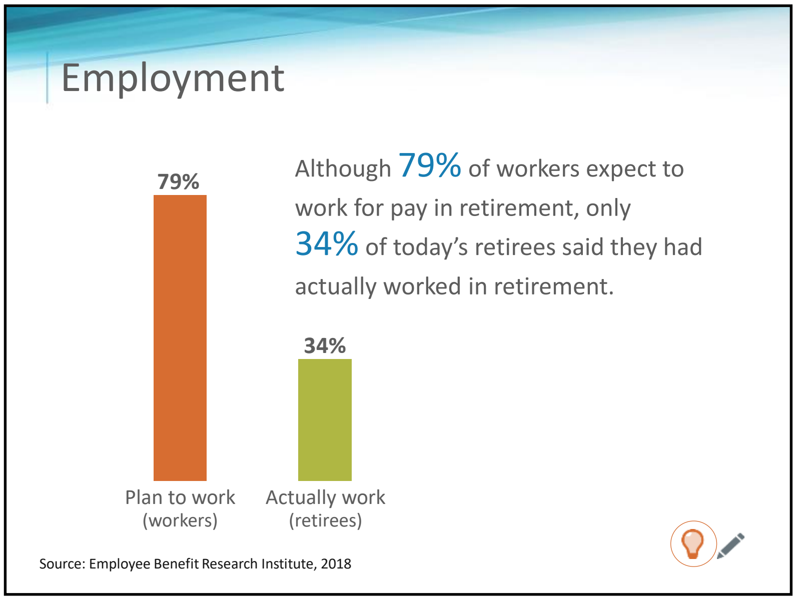
Full retirement age ranges from 66 to 67, depending on the year you were born. This is the claiming age when you are entitled to your full benefit, which is often referred to as the Primary Insurance Amount (PIA).

So, for example, if you were born between 1943 and 1954, your full retirement age is 66, and the benefit reduction at age 62 would be 25 percent. However, if you were born in 1960 or later, your full retirement age is 67, and the benefit reduction at age 62 would be 30 percent.

For each month you wait to claim Social Security, your monthly benefit continues to increase until you reach age 70, when you would be entitled to receive up to 132 percent of your full benefit. By waiting past full retirement age, you earn delayed retirement credits, which increases your benefit by about 8 percent each year. There is no advantage to waiting longer than age 70.

Married couples have additional options, including spousal and survivor benefits. In order to be eligible for a spousal benefit, you must be at least age 62 and your spouse must have filed for Social Security benefits. The maximum spousal benefit is 50 percent of the primary worker's PIA if it is claimed at full retirement age. So, for example, if your spouse's PIA is $3,000, the spousal benefit would be $1,500 if you claim it at your full retirement age. If you claim the spousal benefit before full retirement age, it is permanently reduced, unless a qualifying child is being cared for.

The Bipartisan Budget Act of 2015 changed some of the claiming rules for married couples. Individuals who were born on or before January 1, 1954, are grandfathered under the original "restricted application" rule, so they still have the ability to claim a spousal benefit at full retirement age and delay claiming their own worker benefit up to age 70. Individuals born after that date are affected by the new deeming rules: When they apply for benefits, they will be deemed to be applying for whichever benefit is higher, whether it's a worker benefit or a spousal benefit.




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. Although 79 percent of workers plan to continue working in some capacity during retirement, only 34 percent of today's retirees have actually worked for pay at some point during their retirement years.

There are also tax implications to consider if you keep working while receiving Social Security benefits. If you have not reached full retirement age and you have income above certain limits, your Social Security benefit may be reduced. Of course, employment income is fully taxable as it is earned. And at any age, a portion of your Social Security benefit could become taxable if your income exceeds certain levels.

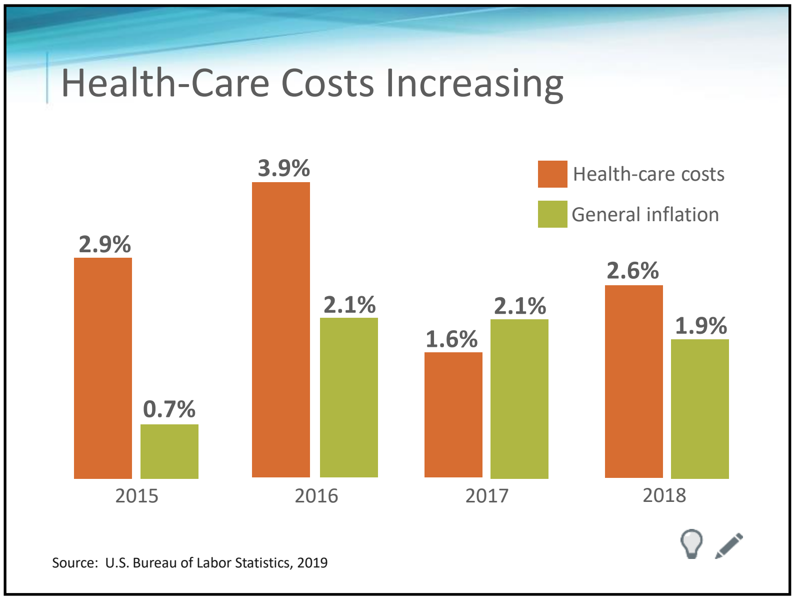
Source: Employee Benefit Research Institute, 2018

**BONUS FEATURE**

*(Click the light bulb icon to view the number of retirees who had to stop working early because of health problems or unemployment.)*


Protecting your assets against unanticipated expenses or emergencies is also key to preparing for a long retirement. Unexpected expenses might include higher-than-anticipated medical bills, long-term care needs, liability lawsuits, or natural disasters. If you don't have enough money in your savings or retirement portfolio to self-insure against potential risks, you may want to carry enough insurance to cover unpleasant surprises.

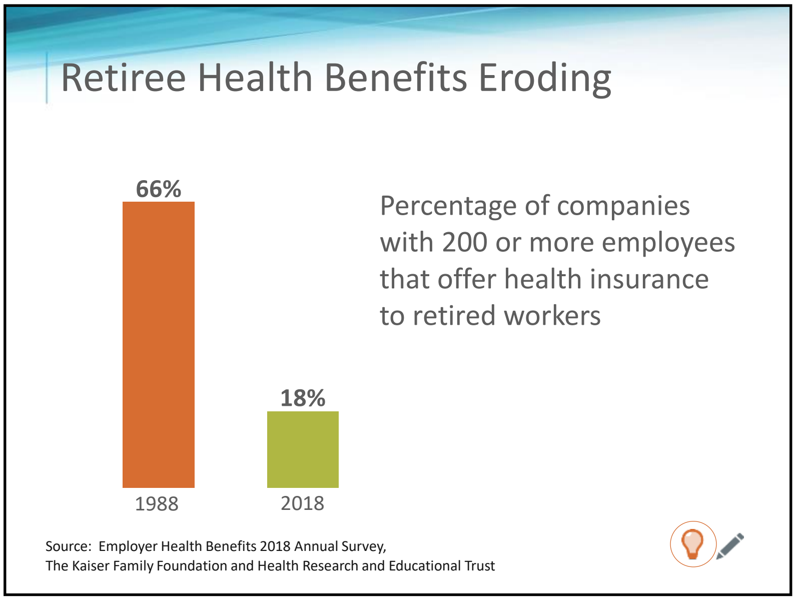
Because health care is perhaps the most critical expense for retirees, let's spend the next few minutes talking about how to prepare for the rising cost of medical care.




Paying for health care has become one of the biggest worries that many retirees face. That's not surprising when you consider that health-care costs typically have risen faster than the rate of general inflation in recent years (2017 appears to be an anomaly).[1]

Also keep in mind that Medicare will not cover all of your medical expenses. In fact, Medicare generally covers only about 60 percent of the cost of health-care services for Medicare beneficiaries.[2]

Sources: 1) U.S. Bureau of Labor Statistics, 2019; 2) Employee Benefit Research Institute, 2018 *(2015 data, most recent available)*




As health-care costs have been rising, retiree health benefits have been eroding. The percentage of companies with 200 or more employees that offer health insurance to retired workers has fallen sharply — from 66 percent in 1988 to 18 percent in 2018.[1]

Even with Medicare, a 65-year-old couple with median prescription drug expenses may need about $296,000 just to cover their medical expenses in retirement.[2]

Sources: 1) Employer Health Benefits 2018 Annual Survey, The Kaiser Family Foundation and Health Research and Educational Trust; 2) Employee Benefit Research Institute, 2018

**BONUS FEATURE**

*(Click the light bulb icon to view a chart showing the number of retirees worried about paying for health-care expenses not covered by Medicare.)*


What all this boils down to is that you are going to be responsible for filling in the gaps in your health coverage during retirement.

Fortunately, you have a few options for doing so: Medicare, Medicare Supplement Insurance (also called "Medigap"), and Medicare Advantage.

Medicare is the U.S. government's health insurance plan for eligible citizens aged 65 and older. Original Medicare is divided into two parts. Part A provides limited inpatient hospitalization insurance, and Part B helps pay for physician fees, laboratory tests, and outpatient services. People who have traditional Medicare can also enroll in a Part D prescription drug plan. However, Medicare falls short when it comes to things like a prolonged hospital stay or at-home recovery after an operation.



Medigap insurance 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 aged 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.

An alternative to traditional Medicare is Medicare Advantage, also known as Medicare Part C. Medicare Advantage plans are typically health maintenance organizations (HMOs) and preferred provider organizations (PPOs) that are approved by Medicare. These plans give you access to a network of doctors, hospitals, and services. Unlike the case with standard Medicare, your expenses are generally limited to copayments and deductibles, and your premiums depend on the services you choose. Some Medicare Advantage plans have prescription drug coverage.

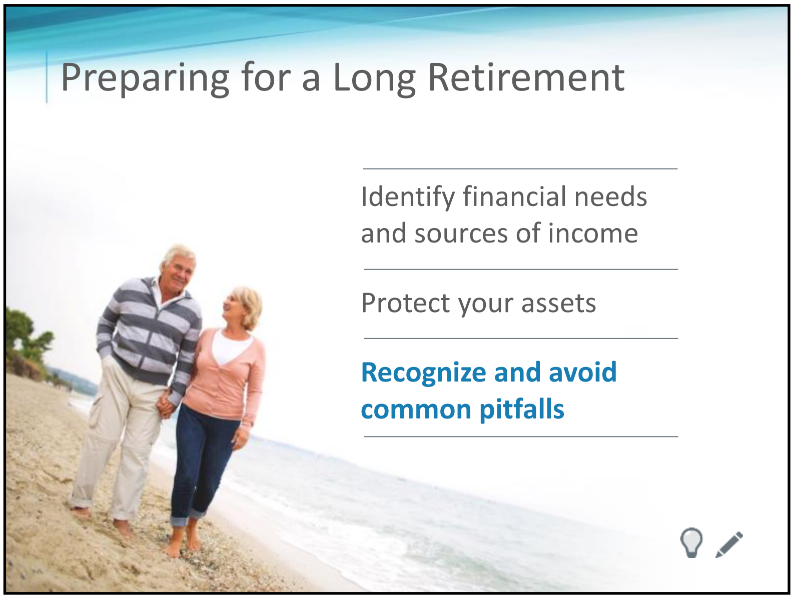
If you are too young to qualify for Medicare, you might obtain coverage through federal or state health insurance exchanges.

Be sure to review carefully the features of your health insurance policy. To help keep premiums affordable, you may want to consider a deductible that you think you can comfortably self-insure. Remember, the cost and availability of an individual health insurance policy can depend on factors such as age, geographic location, tobacco use, and the type and amount of insurance purchased. Also be aware that Medicare Advantage options may vary from state to state and from county to county.


Paying for long-term care is another huge concern for retirees. 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. As people age, they are more likely to develop health problems, become more frail, and need assistance.

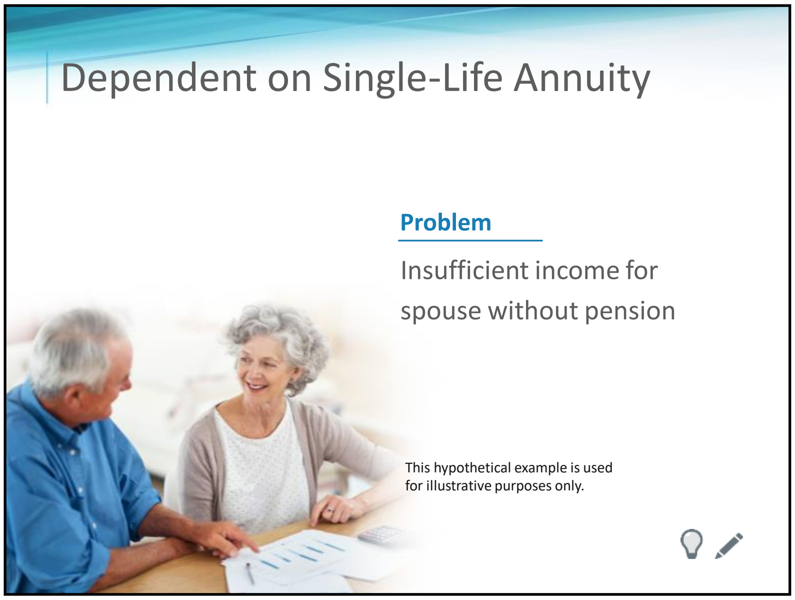
Today's 65-year-olds have a nearly 70% chance of needing some form of long-term care during their lifetimes. Unfortunately, Medicare offers only limited skilled-nursing facility care after a three-day hospital stay. Medicare does not cover custodial care.

Source: longtermcare.gov, 2018



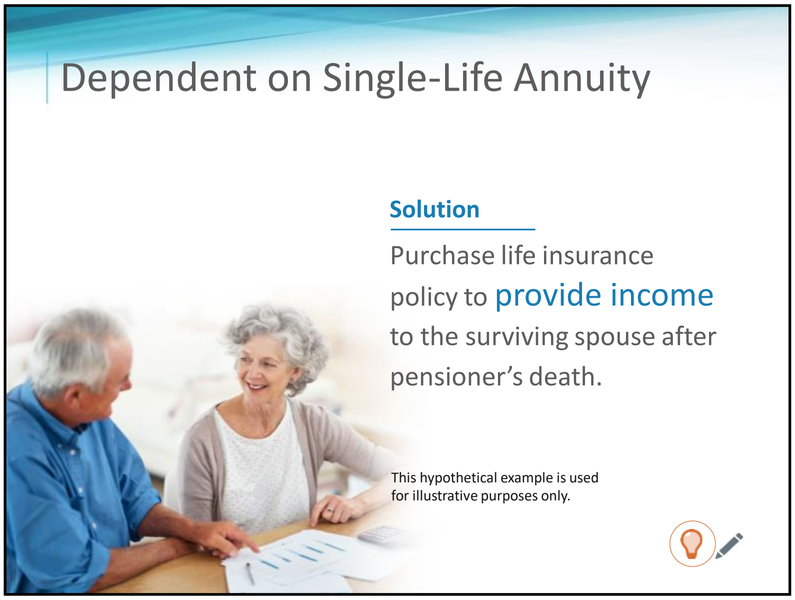

The final key to preparing for a long retirement is to recognize and avoid the common pitfalls that often keep retirees from enjoying the kind of lifestyle they've envisioned.

Let's look at a few examples of some troublesome situations and how they can be resolved.




The first dilemma occurs when a couple becomes dependent on a single-life annuity. Many of you here today may be enjoying a comfortable lifestyle that is funded in large part by one spouse's employer pension plan. Retirees typically have the option of choosing a joint-and-survivor payment that will provide income over the lifetimes of both spouses, or they can opt for a single-life payment that will stop at the death of the retiree, regardless of the surviving spouse's ongoing income needs. If that is the case, some drastic changes may be in store for the surviving spouse when the pensioner passes away.

If one spouse has already elected a single-life annuity from his or her employer, this income will be totally cut off when the pensioner dies, potentially leaving the surviving spouse with insufficient income. Are you prepared for this possibility?




One solution is to take a portion of the single-life annuity income you currently receive each month and use it to purchase a life insurance policy that would provide income after the pensioner's death for the benefit of the surviving spouse.

Of course, as with most financial decisions, there are costs 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. The cost and availability of life insurance depend on factors such 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. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

It is critical to the success of this strategy to not allow the policy to lapse. The purchaser must be prepared to continue paying the premiums or funding the policy expenses even beyond retirement. "Lapse" means losing the life insurance proceeds, which may leave the surviving spouse with no income source once the right to a survivor annuity has been waived. The extra monthly life-only pension funds will be taxable, leaving only the after-tax amount for the premium payment.

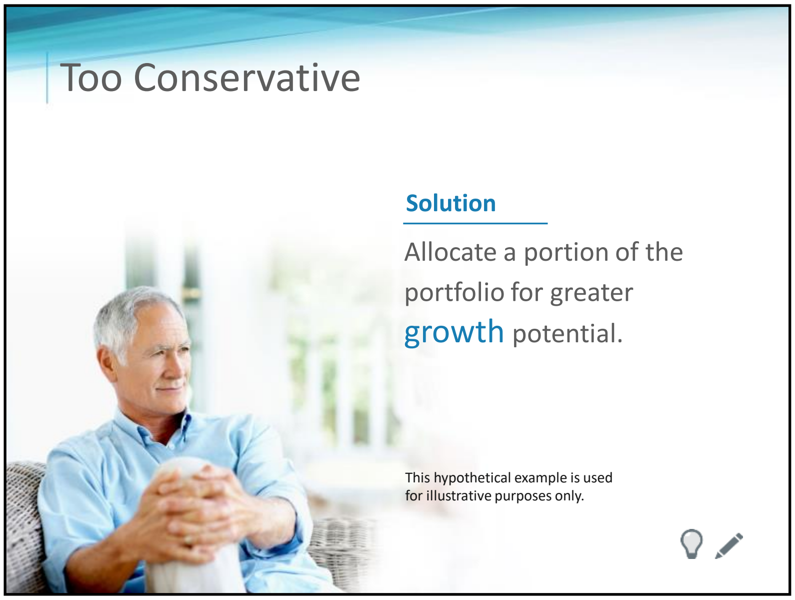
**BONUS FEATURE**

*(Click the light bulb icon to view a chart illustrating how life insurance can be used to provide income for a surviving spouse.)*


The second dilemma for many retirees is a portfolio that is too conservative. Although preservation of principal should be a key consideration for you during retirement, it should not be the only objective.

If you are locked into low-yielding bonds, Treasury securities, and CDs, your portfolio may fail to keep pace with rising inflation. You'll be paying for goods and services with weaker dollars, and a greater portion of your income may be required to meet everyday expenses. The problem is that the portfolio is not positioned to outpace inflation and is subject to interest-rate risk.

Bank savings accounts and CDs are insured by the FDIC up to $250,000 per depositor, per insured institution, and they generally provide a fixed rate of return. Treasury bills 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 an investment in bonds fluctuate with changes in market conditions. Bonds redeemed prior to maturity may be worth more or less than the original amount invested.

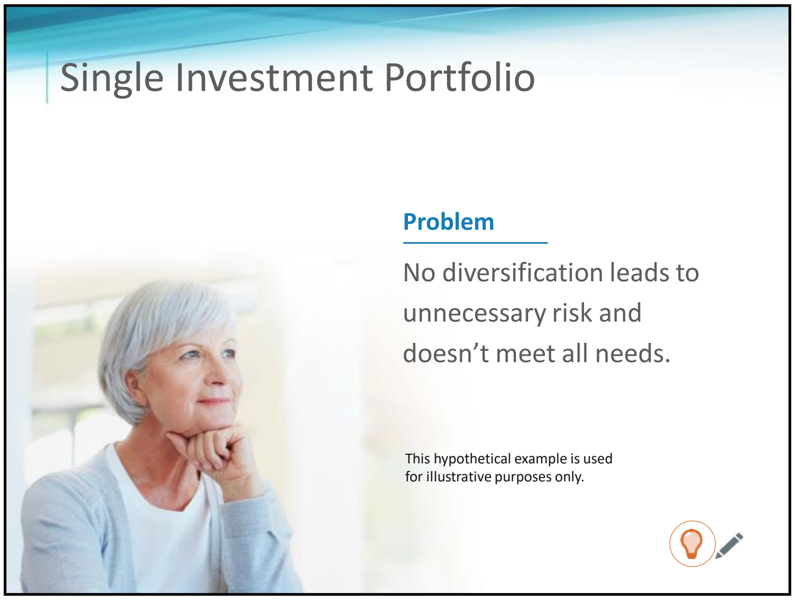



To help reduce the risk of fluctuating interest rates and help provide a hedge against inflation, one solution is to reposition a portion of your assets to growth-oriented investments.

Though you can invest directly in common stocks, you can also tap into the stock market through mutual funds, variable annuities, or variable life insurance policies.

The return and principal value of an investment in stocks, mutual funds, and variable annuity subaccounts fluctuate with changes in market conditions. When the investment is sold, the investor may receive back more or less than the original amount invested. The cash value of a variable life insurance policy is not guaranteed. Your cash value, and perhaps the death benefit, will be determined by the performance of the chosen subaccounts. Withdrawals may be subject to surrender charges and are taxable if you withdraw more than your basis in the policy. Policy loans or withdrawals will reduce the policy's cash value and death benefit, and may require additional premiums to keep the policy in force. Variable annuities are long-term investment vehicles designed for retirement purposes. They contain mortality and expense charges, account fees, investment management fees, administrative fees, and charges for additional benefits.

*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.*

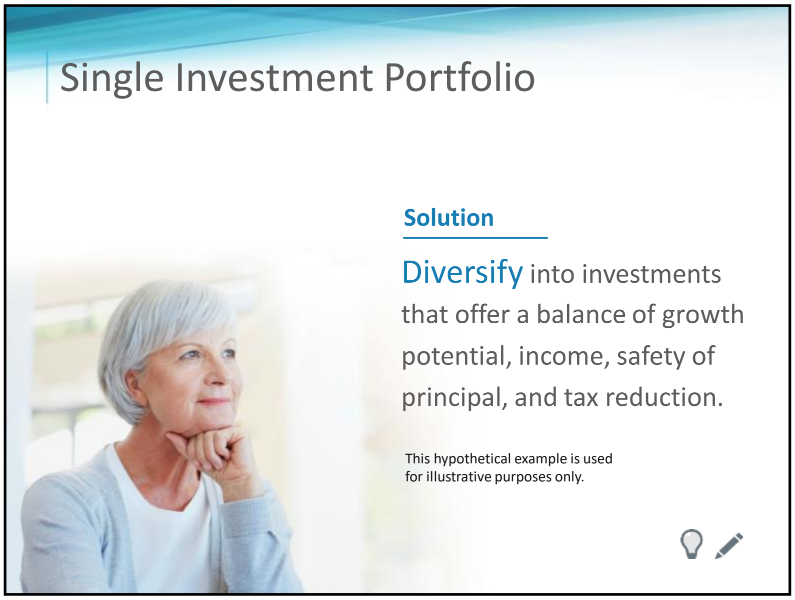



The next dilemma is the single investment portfolio. This type of undiversified portfolio is often the situation with conservative investors, but even aggressive investors can fall into this trap.

Whether you have your wealth invested in savings bonds, real estate, or individual stocks, you may be subjecting yourself to unnecessary risks. Your portfolio may suffer from lack of liquidity, interest-rate fluctuations, or market risk. The problem here is that no diversification leads to unnecessary risk and doesn't meet all needs.

**BONUS FEATURE**

*(Click the light bulb icon for a chart about Enron employees and their 401(k)s.)*

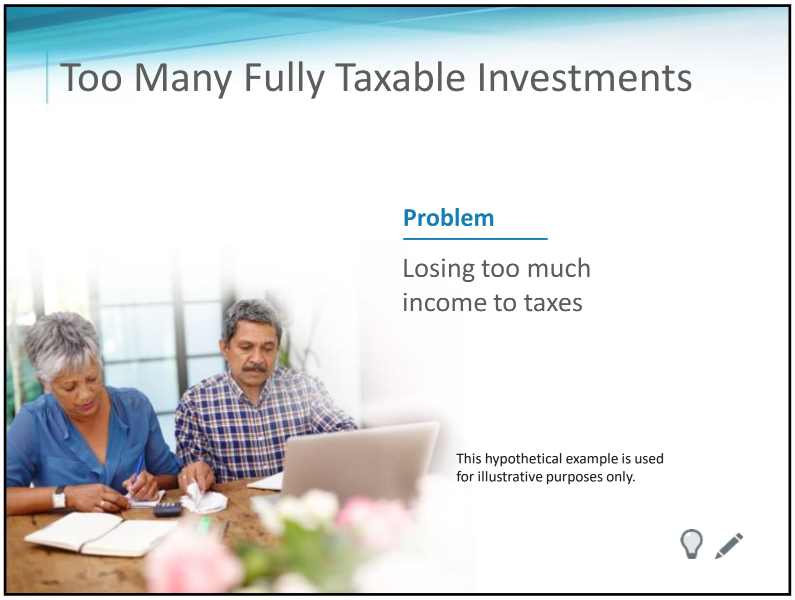



A solution to this problem would be to diversify into investments that offer a balance of growth potential, income, safety of principal, and tax reduction.

A diversified portfolio can help reduce risk while still providing the potential for gains. The appropriate selection of asset classes can often be the most significant factor in determining the overall performance of your portfolio.

It doesn’t pay to gamble on one specific investment type, regardless of how safe or how attractive it may appear.

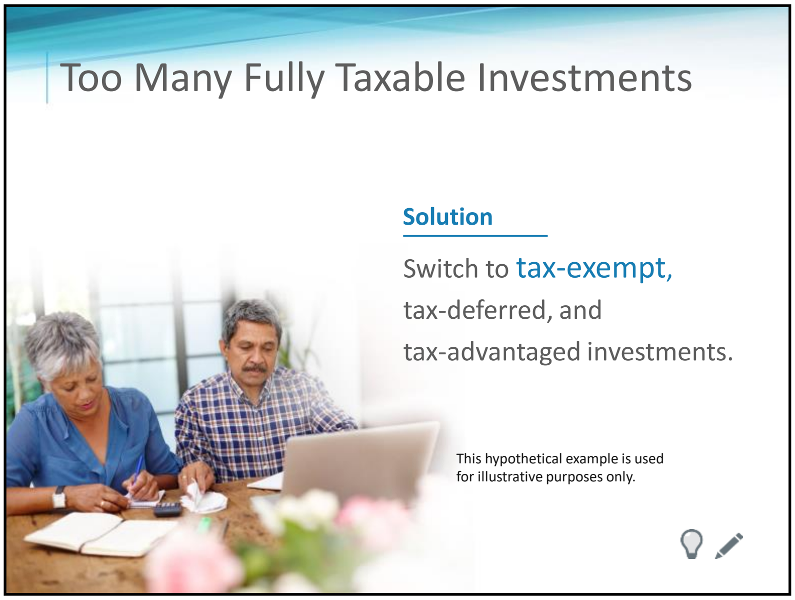
Of course, diversification does not guarantee a profit or protect against loss. It is a method used to help manage investment risk.




Some investors suffer from having investments that are all fully taxable. This allows taxes to eat away at their income before they even receive it.

Even if you need most of your investments to generate current income, there are ways to help reduce your current taxes.

The problem here is simply losing too much income to taxes.




One solution would be to consider tax-exempt (also known as tax-free), tax-deferred, and tax-advantaged investments.

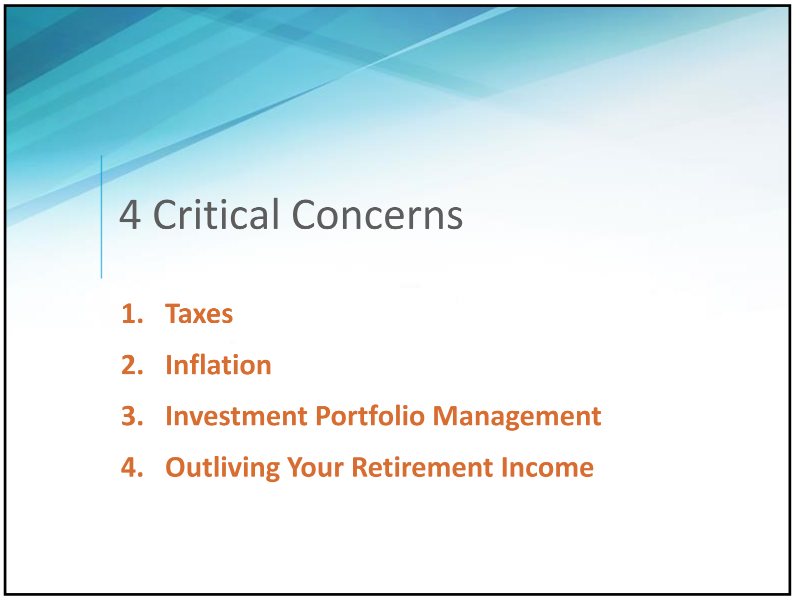
Tax-exempt investments are usually municipal bonds or bond funds and tax-free money market funds. The Roth IRA is also a financial vehicle that offers tax-free qualified withdrawals.

Annuities, whole life insurance, and traditional IRAs offer the opportunity for tax-deferred accumulation of funds.

Tax-advantaged investment vehicles include limited partnerships that invest in low-income housing, historic rehabilitation, and other investments that offer special tax credits.

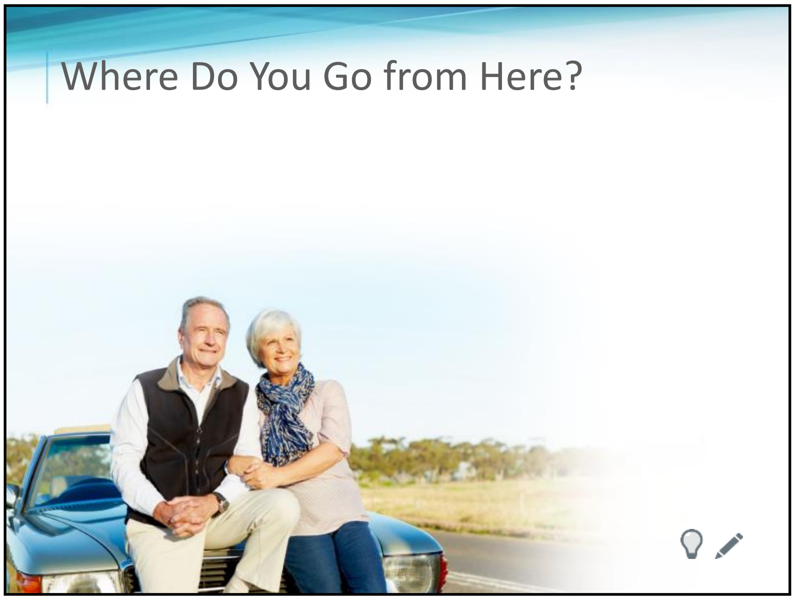
Stocks are not considered to be tax advantaged, but there are some ways in which you may be able to take advantage of preferential tax treatment on certain securities.

As with most financial decisions, there are risks, expenses, and tax implications associated with investing. Investments offering the potential for higher returns also carry greater risk. You will want to learn more about these issues before making any decisions.



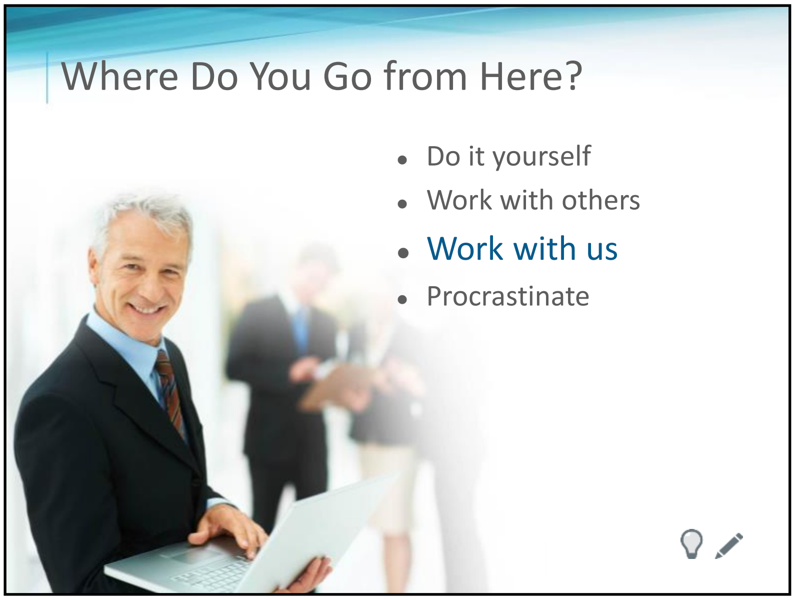

Today's discussion of retirement investment strategies has covered many important topics. You should be able to see some potential weaknesses in your current financial strategy and some possible solutions to help you improve your financial future.

Remember the four critical concerns we talked about today. We addressed taxes and inflation and how these two factors can negatively impact your finances. We also discussed investment portfolio management and how it can give you a balanced approach and help reduce risk. And then we talked about some financial strategies to help you avoid outliving your retirement income.




We’ve covered a lot of information. We’re confident that we have given you some retirement investment strategies that will help you improve your financial situation.

So, where do you go from here?




There are several ways you can proceed from here.

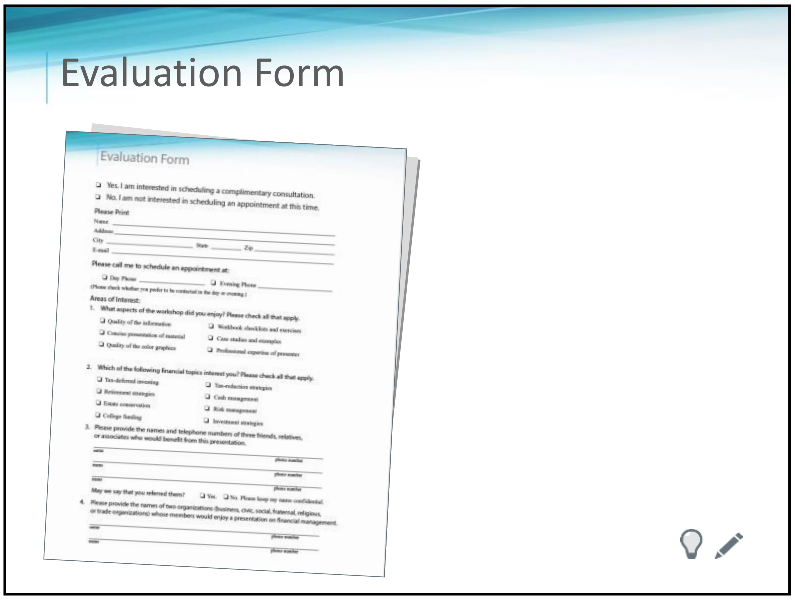
You can do it yourself. You can dig through prospectuses and interview investment managers and gradually assemble a portfolio that may meet your needs. It's a tremendous amount of work, but you *could* do it.

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 nature of the markets, 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.

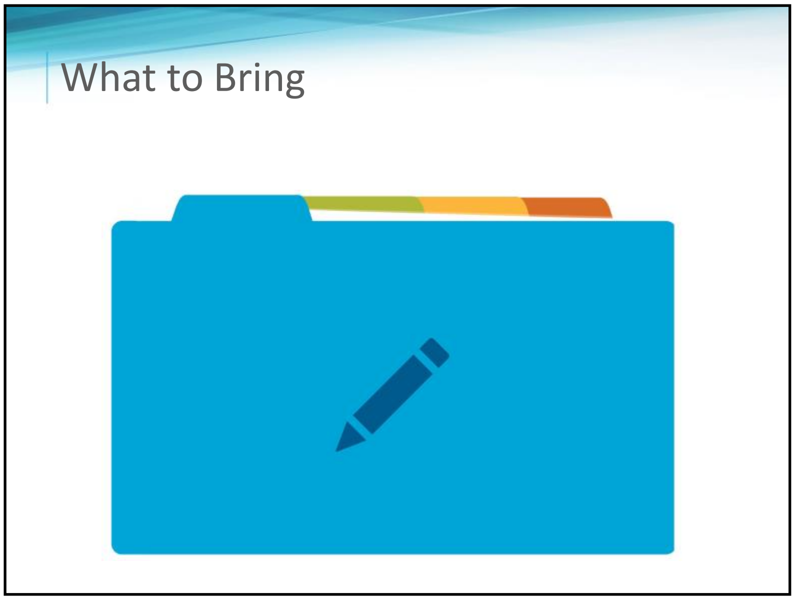



Will everyone please pull out the evaluation form I talked about earlier?

I'd 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.



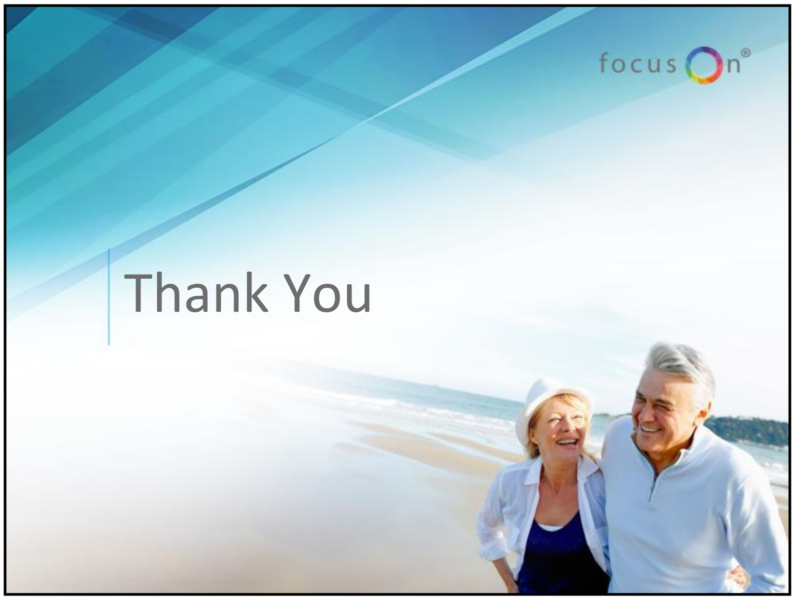

In addition to your workshop workbook, there are several important items you should bring to the complimentary consultation. On the back of your workbook, you'll find a place to write these down.

*(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.

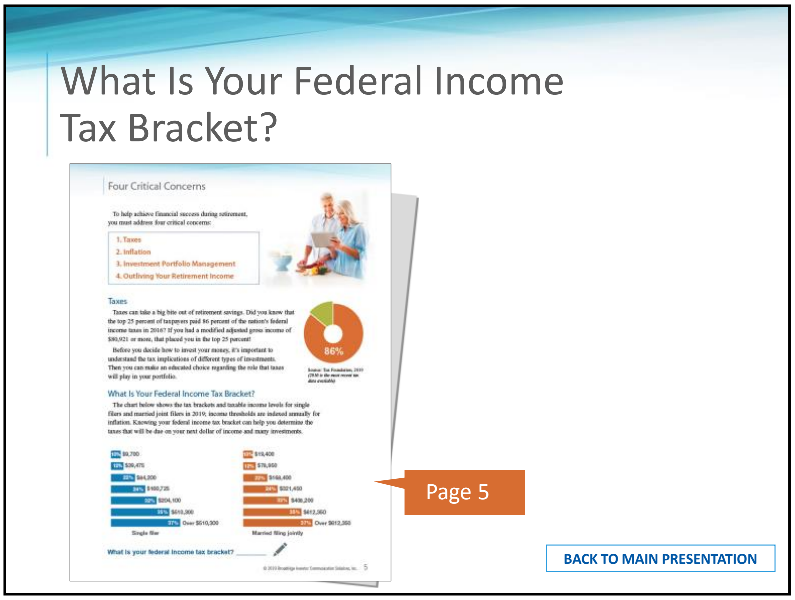
Of course, if you can't find some of these documents or don't finish the worksheets, please come anyway. We are looking forward to meeting with you either way.




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.




What is *your* federal income tax bracket?

On the bottom of page 5 in the workbook, you can write down the answer for your situation.

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

The higher your tax bracket, the more important it can be to take advantage of tax-exempt and tax-deferred investments. But even investors in the lower tax brackets can realize valuable tax savings by utilizing these types of investments.

## Find Out for Yourself

### Calculating the After-Tax Yield

Page 6

Return on taxable investment

| Federal income tax bracket | 3% | 4% | 5% | 6% |
|---|---|---|---|---|
| 10% | 2.70% | 3.60% | 4.50% | 5.40% |
| 12% | 2.64% | 3.52% | 4.40% | 5.28% |
| 22% | 2.34% | 3.12% | 3.90% | 4.68% |
| 24% | 2.28% | 3.04% | 3.80% | 4.56% |
| 32% | 2.04% | 2.72% | 3.40% | 4.08% |
| 35% | 1.95% | 2.60% | 3.25% | 3.90% |
| 37% | 1.89% | 2.52% | 3.15% | 3.78% |

After-tax yield

BACK TO MAIN PRESENTATION

To calculate the after-tax yield for your own investments, turn to page 6 in your workbook.

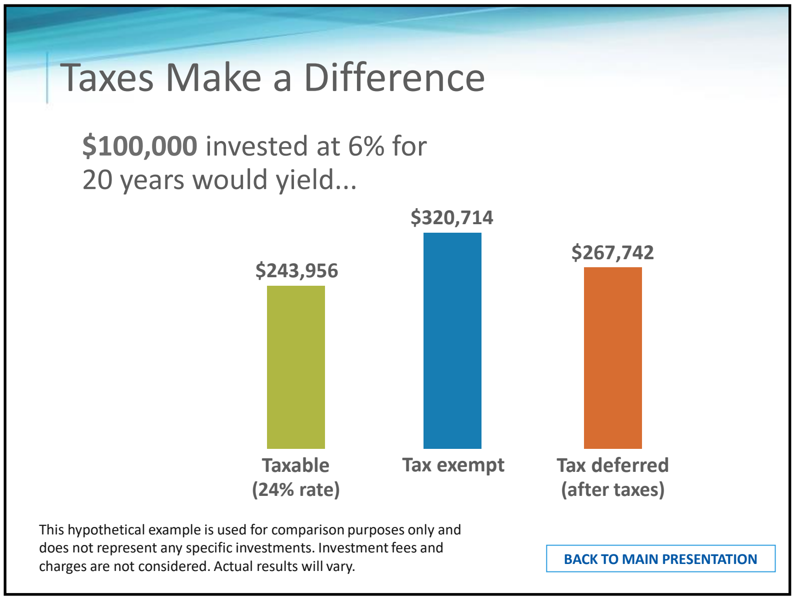
*(Pause to give workshop participants sufficient time to locate the appropriate page.)*

This table shows how to determine the after-tax yield, or the net return after taxes, for different hypothetical investments.

For example, in the top row, locate the yield of a taxable investment you may be considering; let's say 6 percent. Next, locate your federal income tax bracket in the column on the left. The percentage where these two variables intersect shows the taxable investment's after-tax yield.

Does everyone see how this works?

Knowing a taxable investment's after-tax yield can be useful when you're comparing it with a tax-exempt investment. Generally, the higher your taxable income, the more you can benefit from a tax-exempt investment.

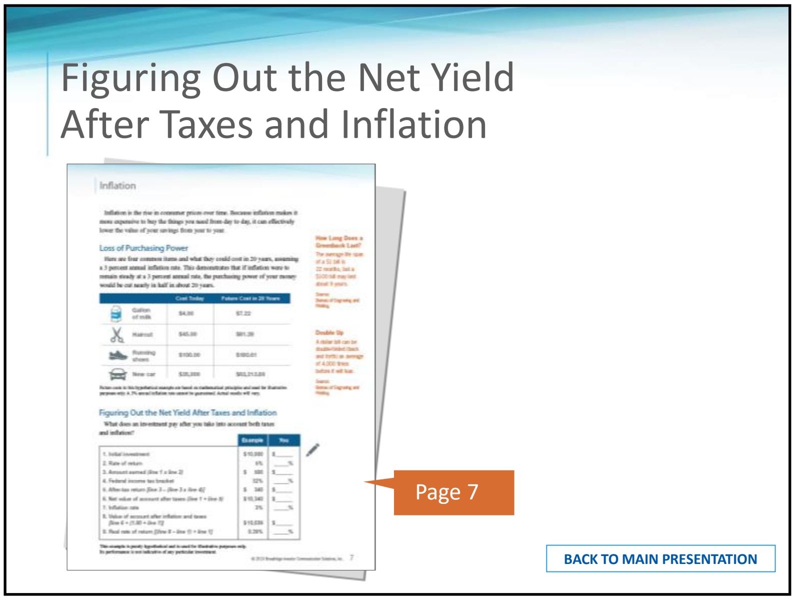



Taxes make a difference, especially over time.

A $100,000 investment yielding a hypothetical 6 percent rate of return for 20 years would grow to $243,956 in a taxable account (assuming a 24 percent tax rate), $320,714 in a tax-exempt account, and $267,742 in a tax-deferred account after taxes (24 percent rate).

Over 20 years, the difference between the taxable and the tax-exempt investment would amount to more than 30 percent!

This hypothetical example is used for comparison purposes only and does not represent any specific investments. Rates of return will vary over time, especially for long-term investments. Actual results will vary. Although some investments may be free of federal income taxes, they may be subject to state, local, or alternative minimum taxes. If you sell a tax-exempt fund at a profit, there are capital gains taxes to consider. Investment fees and charges are not considered in this example and would reduce the performance 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 investment return for the taxable investment more favorable, thereby reducing the difference in performance between the two accounts shown. An individual’s time frame and income tax brackets, both current and anticipated, should be considered when making financial decisions.




When investing, figuring out the net yield of an investment after taxes and inflation is far more important than knowing only the gross rate of return.

If you'll turn to page 7 in your workbook, you'll find a worksheet that will help you find the net yield for any investment.

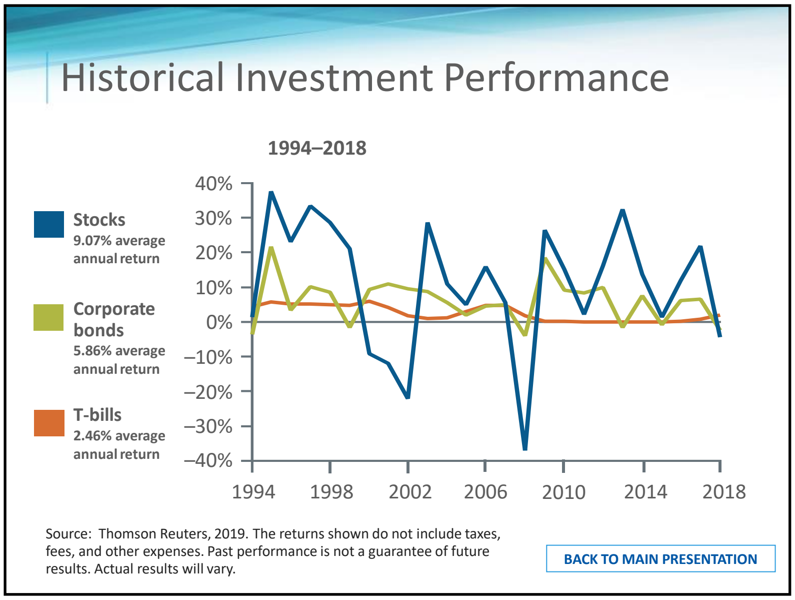
*(Pause to give workshop participants sufficient time to locate the appropriate page.)*

Let's go through one calculation together to make sure everyone understands how this is done.

If $10,000 was placed in an account earning a 5 percent rate of return, it would earn $500 for one year. You'll find these numbers on lines 1, 2, and 3. For someone in the 32 percent federal income tax bracket, the after-tax return would be $340, which you see on line 5. So the net value after taxes would be $10,340. Does everyone see that figure on line 6?

But we still need to account for inflation. If we were experiencing a 3 percent inflation rate, you would need to divide by 1.03. The value of the account after taxes and inflation would be only $10,039, making the real rate of return only 0.39 percent.

Of course, this example is purely hypothetical and is used for illustrative purposes only. Its performance is not indicative of any particular investment.




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.

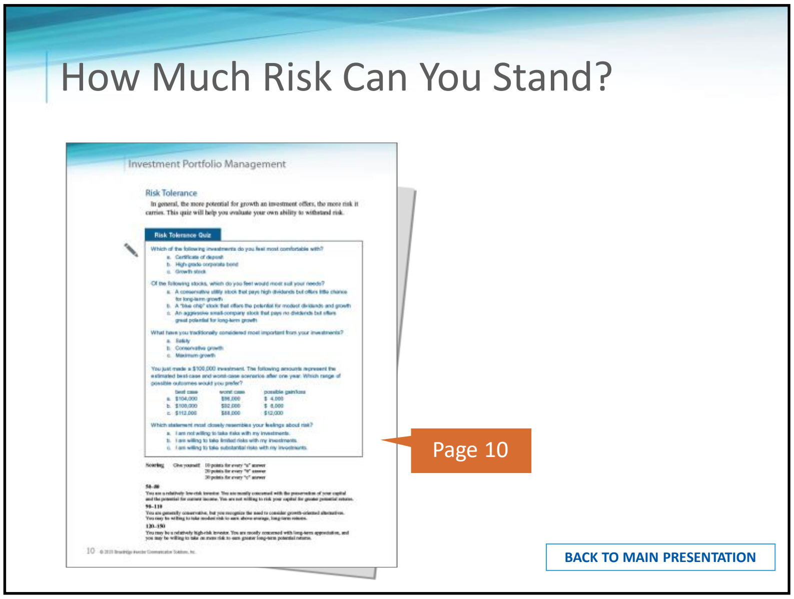


Although stocks are generally considered to be growth investments, their performance can be volatile and unpredictable. Over the last 25 years, the annual performance of stocks has reached a high of nearly 40 percent and a low falling well below –30 percent. The average annual return over this time period 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.

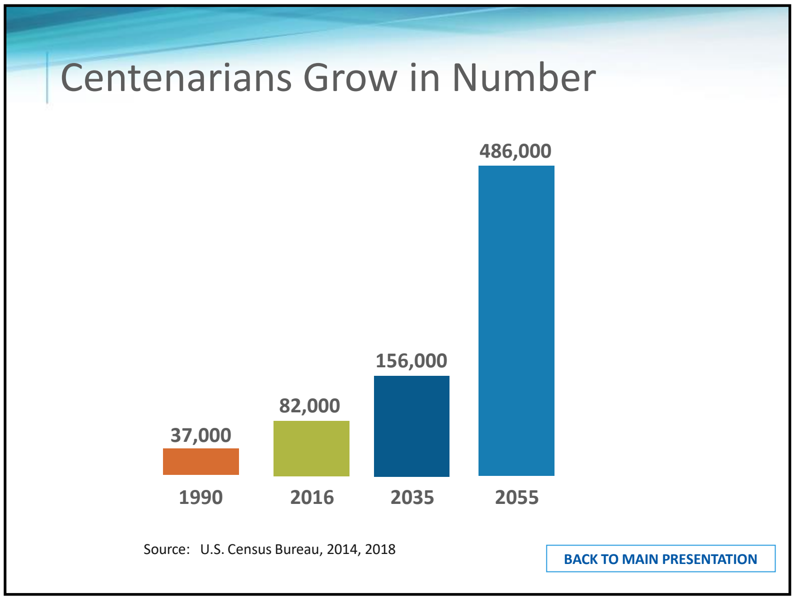
Source: Thomson Reuters, 2019, for the period January 1, 1994, to December 31, 2018. Stocks are represented by the Standard & Poor's 500 composite total return. The S&P 500 is an unmanaged index that is generally considered representative of the U.S. stock market. Corporate bonds are represented by the Citigroup Corporate Bond Composite Index, which is generally considered representative of the U.S. corporate bond market. T-bills 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 returns shown do not reflect taxes, fees, brokerage commissions, or 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.




How much risk can you stand? We've developed a Risk Tolerance Quiz to help you evaluate your ability to withstand risk. You'll find it on page 10 in your workbook.

*(Pause to give workshop participants sufficient time to locate the appropriate page and answer the questions. If time permits, conduct the quiz and allow participants to tally their scores and view the results. Or, if you prefer, you can recommend that they take the quiz at home.)*

Hopefully, your answers to the quiz will give you a better idea of your risk tolerance and help you make informed decisions regarding which investments may be appropriate for your portfolio.

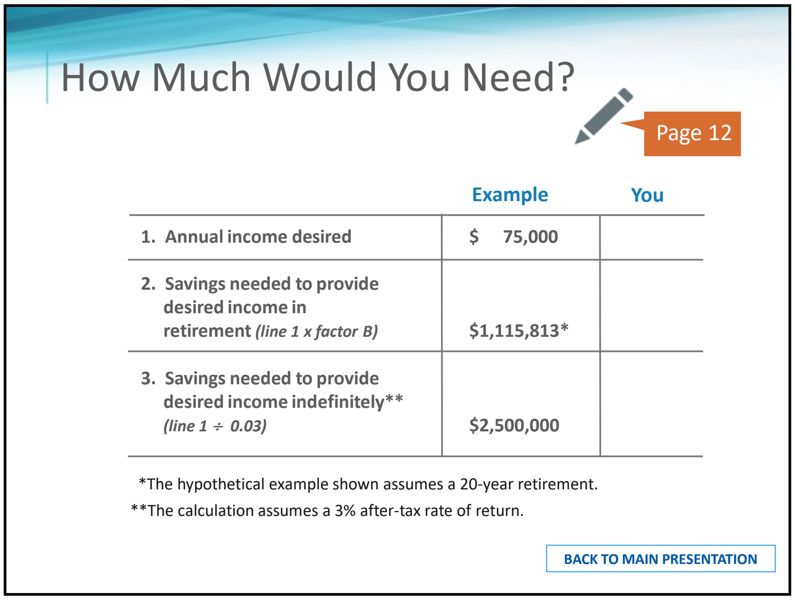



Every year, centenarians are growing in number. In fact, this group is the fastest-growing segment of the population.

The number of Americans who are at least 100 years old is rising dramatically. In 1990, there were approximately 37,000 Americans age 100 or older. In 2016, that number was about 82,000. In 2035, the projected number is 156,000. And by 2055, it is projected that there could be more than 486,000 centenarians.

How many of you are financially prepared to live until you are 100 years old or even longer?

Source: U.S. Census Bureau, 2014, 2018




How much money will you need to live comfortably in retirement?

The retirement income calculator on page 12 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.

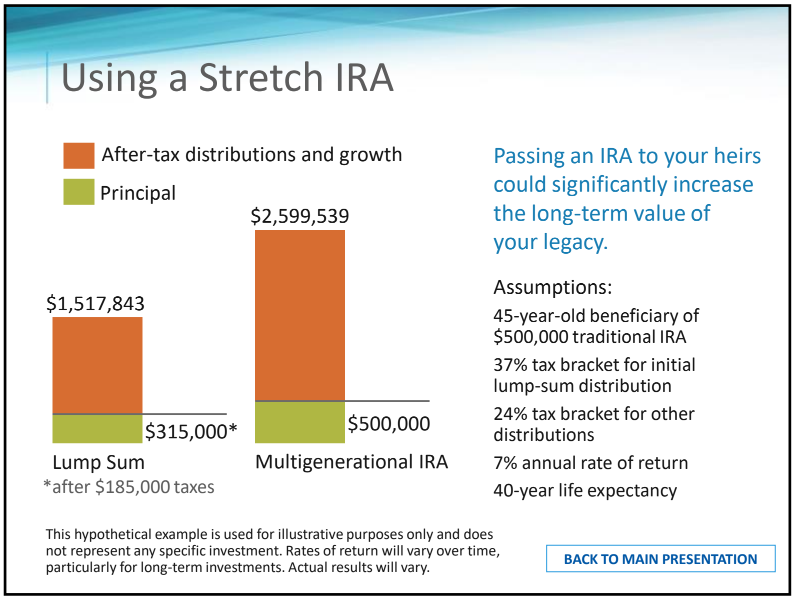
On line 1, we put the annual income desired from savings and investments. For our example, we use $75,000.

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 12). 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 worksheet at home to address your specific situation.




If you have an IRA or transfer your employer plan funds to an IRA, it's possible to further extend the benefits of tax deferral for your heirs. This is referred to as a multigenerational or "stretch" IRA strategy.

Here's an example of how a 45-year-old beneficiary could potentially stretch the tax-deferred growth of an inherited IRA by taking mandatory distributions over the course of his lifetime versus cashing out in a lump sum.

If the individual inherited a $500,000 traditional IRA and immediately cashed out with a lump sum, he would have to pay federal income taxes of $185,000 in the year of the distribution (assuming a 37 percent federal income tax bracket). This would reduce the 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 annual rate of return. If he took annual withdrawals over 40 years (his life expectancy), the asset would yield a total of $1,517,843.

On the other hand, if the IRA beneficiary decided to take the payments over a lifetime (under current tax law) using a stretch IRA strategy, he could keep the bulk of the funds accumulating tax deferred while taking mandatory annual distributions based on his life expectancy. Again, assuming a 7 percent annual rate of return and a 40-year life expectancy, he could stretch the value of the asset to $2,599,539 over his lifetime.

This hypothetical example is used for illustrative purposes only and does not represent any specific investment. It assumes a 7 percent annual rate of return and a 40-year life expectancy. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

The after-tax lump sum from the inherited IRA is based on a 37 percent federal income tax bracket in the first year (this assumes that the lump sum bumped his tax bracket from 24 to 37 percent in the year of the lump-sum distribution). Future annual distributions are based on a 24 percent tax rate.

The 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 taxed as ordinary income and, if taken prior to age 59½, may be subject to a 10 percent federal income tax penalty.

## Taxes on Social Security Benefits

| Taxable portion of benefits | Combined income thresholds | |
|---|---|---|
| | Single filer | Married joint filer |
| 50% | $25,000 to $34,000 | $32,000 to $44,000 |
| 85% | Over $34,000 | Over $44,000 |

"Combined income" formula used by the IRS:

Adjusted gross income
+ Tax-exempt interest
+ 50% of Social Security benefits

BACK TO MAIN PRESENTATION

Taxes on Social Security benefits can take a surprising toll. The IRS considers combined income when determining taxability of Social Security benefits. The formula for "combined income" is adjusted gross income plus nontaxable interest plus one-half of Social Security benefits.

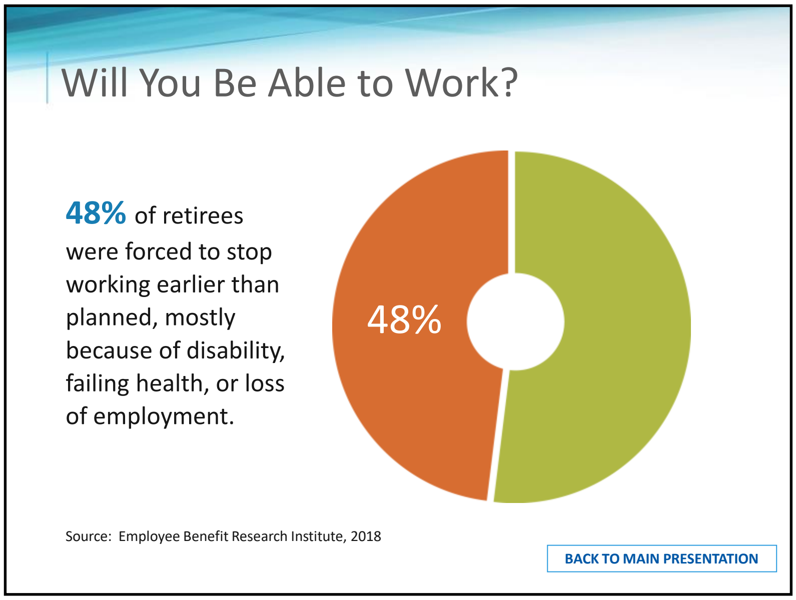


Married couples filing joint tax returns may be subject to income taxes on up to 50 percent of their Social Security benefits if their combined incomes are over $32,000. This also applies to single filers with combined incomes over $25,000.

Married couples with combined incomes above $44,000 and single filers with combined incomes above $34,000 may incur income taxes on up to 85 percent of their Social Security benefits.

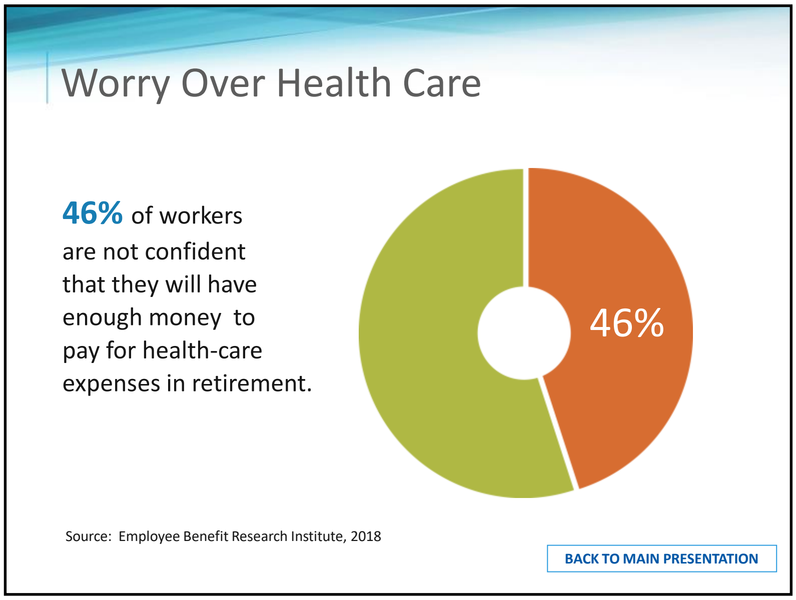
Remember, these 50 percent and 85 percent rates represent the *taxability* of Social Security benefits. They are not tax rates. Ordinary federal income tax rates — such as 12 percent or 24 percent — will apply to this taxable portion of your Social Security benefits.

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.




Will you be able to work in retirement? That's an important question you may not be able to answer. In fact, about half of today's retirees were forced to stop working earlier than planned, mostly because of disability, failing health, or loss of employment.

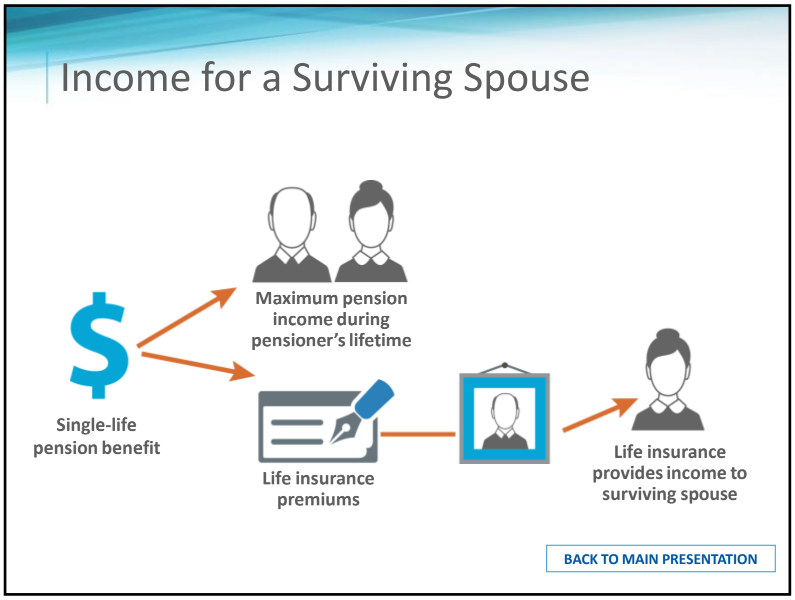
Source: Employee Benefit Research Institute, 2018




Considering the costs and risks, it's not surprising that 46 percent of workers are not confident that they will have enough money to pay for health-care expenses.

Undoubtedly, their concerns are well founded.

Source: Employee Benefit Research Institute, 2018



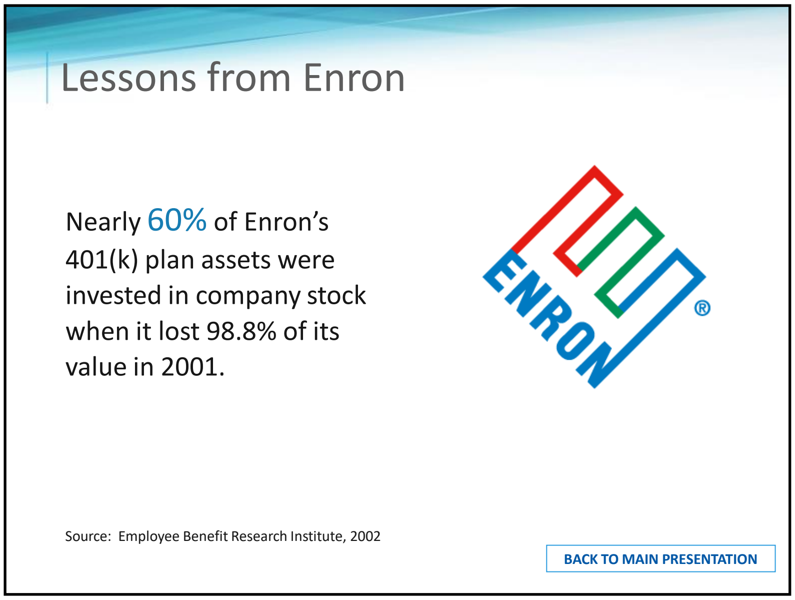

This graphic shows how a life insurance policy could be used to supplement a single-life annuity and provide income for a surviving spouse.

During the life of the pensioner, the single-life pension benefit would provide the maximum payout option for the retired couple, providing a steady stream of income during the pensioner's lifetime. To use this strategy, a portion of the benefit could be used to purchase a life insurance policy for the pensioner. When he or she passes away, the single-life pension benefit ends, and the death benefit from the insurance policy would help replace the surviving spouse's income stream.



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.

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. The cost and availability of life insurance depend on factors such 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.




What can we learn from Enron?

Diversification is one of the most important lessons investors can learn from the Enron debacle. Nearly 60 percent of Enron's 401(k) plan assets were invested in company stock when it lost 98.8 percent of its value in 2001.

Because the portfolios of many Enron employees were too heavily weighted in company stock, they lost a huge portion of their retirement savings when the company ran into trouble.

Diversification does not guarantee a profit or protect against loss; it is a method used to help manage investment risk.

Source: Employee Benefit Research Institute, 2002