Your Retirement GAME PLAN

Four Moves to Help Your Money Last

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Your Retirement Game Plan
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Will You Make the Right Moves?

Just as position, strategy, control, and timing are important factors in a game of chess, they are key considerations in developing a retirement income game plan. Ask yourself these questions:

Do you have a retirement strategy that can help ensure you have a consistent income stream throughout retirement?

Have you determined the strengths and weaknesses of your position or addressed timing issues that could hinder your goals?

Have you considered the possible moves that could help you overcome the obstacles in your path?

Potential Obstacles

One object of any game is to overcome obstacles that may come your way and continue moving forward without repeating any steps. When you transition from worker to retiree, you will also face some potential obstacles.

For example, you may live longer than your parents, which requires having more financial resources. Meanwhile, you may not be able to rely on guaranteed sources of income like a traditional company pension, as many retirees did in the latter part of the 20th century. And because of the loss of investment assets in 2008 and early 2009 — or more recent market volatility — you may be wary of stocks and might be looking for some guarantees.

At the same time, you may have had to overcome a loss of retirement assets, or possibly even the loss of a high-paying job in a competitive job market. You may be carrying more debt into retirement than you think is advisable. And the prospects of paying higher health-care costs in retirement may be much greater than you think.

Today's Decisions Can Make a Difference

Hopefully, the moves and choices you have made in the past will enable you to live the retirement you have envisioned. Yet it's also important to remember that the decisions and moves you make now will play a significant role in how you spend your retirement years. Some of these choices could help or hinder the longevity of your retirement portfolio.

Will your hard-earned money last a lifetime? Which direction will you take? Where do you start?

Strength in Numbers?

About 10,000 baby boomers become eligible for Medicare and Social Security every day.

Source:
CNBC, October 3, 2017

Retirement Expenses May Be Higher Than You Think

According to the U.S. Bureau of Labor Statistics, a recently retired person in his or her 60s spends more than $2,000 a year, on average, on activities such as going to the movies, buying the latest gadgets, and caring for a pet.

Source:
U.S. Bureau of Labor Statistics, 2017

Position

Identify Lifestyle Issues and Assess Income Sources

One of the first important moves is to position yourself for your anticipated retirement lifestyle. This involves assessing your current situation and focusing on all the income sources that may be available to you.

Assess Your Current Situation

What kind of retirement lifestyle do you envision? Do you know where you will live? Do you plan to take a major trip each year? What hobbies and activities do you plan to enjoy? The retirement lifestyle you envision will affect the savings accumulation you will need.

Are you being realistic about your life expectancy and expenses in retirement? The odds are high that you will spend a large portion of your life in retirement.

How will you support your desired lifestyle? Have you done a comprehensive retirement needs assessment that looks at all your sources of income and expenses to determine whether your current program of savings and investments is on track to provide the income you will need to enjoy the retirement you have envisioned?

Living a Long Retirement

A healthy 65-year-old man has a 35% chance of living to age 90, and a healthy 65-year-old woman has a 46% chance of living to age 90.

Source: Society of Actuaries, 2018

Assess Your Retirement Needs

	EXAMPLE	YOU
1. Annual income desired	$ 75,000	
2. Savings needed to provide desired income in retirement *(line 1 x factor B)*	$1,115,813	
3. Savings needed to provide desired income indefinitely *(line 1 ÷ 0.03)*	$2,500,000	

The hypothetical example shown assumes a 20-year retirement.

Factor B assumes a 3% after-tax rate of return.

Length of Retirement (years)	Factor B	Length of Retirement (years)	Factor B	Length of Retirement (years)	Factor B
1	0.9709	11	9.2526	21	15.4150
2	1.9135	12	9.9540	22	15.9369
3	2.8286	13	10.6350	23	16.4436
4	3.7171	14	11.2961	24	16.9355
5	4.5797	15	11.9379	25	17.4131
6	5.4172	16	12.5611	26	17.8768
7	6.2303	17	13.1661	27	18.3270
8	7.0197	18	13.7535	28	18.7641
9	7.7861	19	14.3238	29	19.1885
10	8.5302	20	14.8775	30	19.6004

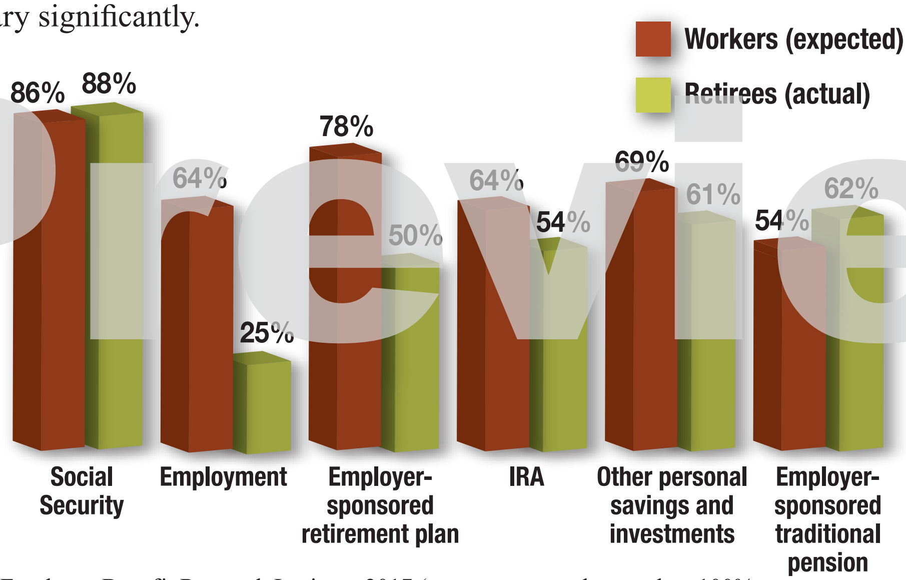
Roughly calculating the cost of retirement is only the beginning. We recommend that you undertake a thorough cash-flow analysis considering all sources of income and expenses.

This hypothetical example is used for illustrative purposes only. Rates of return will vary over time, particularly for long-term investments. Investments seeking to achieve higher rates of return involve a higher degree of investment risk. Actual results will vary.

Main Sources of Retirement Income

Wouldn't it be nice if you could collect a large cash distribution from the bank every time you circled the retirement game board, just as you collect $200 in Monopoly® every time you pass GO? Of course, life is not that simple. The reality is that your retirement will be funded by a variety of income sources, most of which are not guaranteed.

It's important to be realistic about all your anticipated sources of retirement income. As this chart illustrates, however, the difference between workers' *expected* sources of income in retirement and retirees' *actual* sources of income can vary significantly.



Source: Employee Benefit Research Institute, 2017 (percentages total more than 100% because respondents expect income from more than one source)

The question isn't at what age I want to retire, it's at what income.

— George Foreman

Source: www.quotegarden.com

Social Security: When Should You Start Collecting Benefits?

Although you can claim Social Security benefits as early as age 62, you will receive a reduced amount. In the coming years, this percentage will fall from 75 percent to 70 percent of the "full benefit" amount. Full benefits are available at "full retirement age," which ranges from 66 to 67 depending on the year you were born. Someone born in 1952 is eligible at age 66, whereas someone born in 1960 or later has to wait until age 67. By delaying benefits up to age 70, you can receive a higher benefit amount to reflect delayed work credits.

If you continue to work while receiving Social Security benefits before reaching full retirement age, $1 in benefits will be withheld for every $2 you earn above certain limits (the income threshold is $17,040 in 2018). In the year that you reach full retirement age, $1 in benefits will be withheld for every $3 you earn above a higher limit ($45,360 in 2018). Once you've reached full retirement age, there is no limit on employment earnings. Of course, employment income is fully taxable as it is earned.

Source: Social Security Administration, 2018

Maximizing Benefits

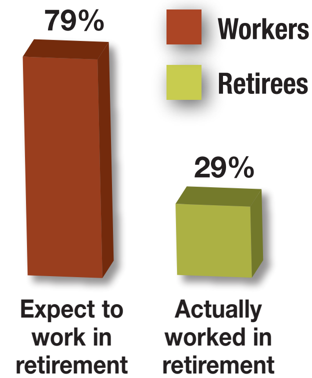
For each year you delay collecting Social Security benefits from full retirement age to age 70, your payment could increase by about 8%.

Source: Social Security Administration, 2018

Working for Pay in Retirement

Working longer may be a good option, but it's possible that health issues or an unfavorable job market may force you to alter your employment situation unexpectedly. According to one study, 79 percent of workers expect to work for pay in retirement, but the reality is that only 29 percent of today's retirees report that they worked at some point during retirement.

Source: Employee Benefit Research Institute, 2017



Personal Savings and Investments

Personal savings and investments will generally make up the bulk of your retirement income. Tax-deferred retirement savings vehicles include employer-sponsored retirement plans and individual retirement accounts (IRAs). An annuity can be purchased to provide supplementary retirement income. Taxable financial vehicles include individual stocks, bonds, cash alternatives, mutual funds, and exchange-traded funds (ETFs). When you retire, you will be making decisions about whether to keep your assets in these vehicles; whether to move them, consolidate them, or sell them; and whether to utilize other investments.

The return and principal value of stocks, bonds, mutual funds, and ETFs fluctuate with market conditions. Shares, when sold, may be worth more or less than their original cost. Generally, annuities have mortality and expense charges, account fees, investment management fees, and administrative fees. Surrender charges may be assessed during the early years of the contract if the contract owner surrenders the annuity. The guarantees of annuities are contingent on the financial strength and claims-paying ability of the issuing insurance company.

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

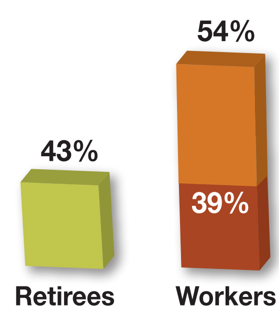
Beware of Rising Health Costs

Older couples who don't have employer-paid health coverage may need about $273,000 just to pay for basic medical expenses in retirement.

Source: Employee Benefit Research Institute, 2017

Pensions

The traditional pension is gradually being replaced by a defined-contribution plan such as a 401(k). About 43 percent of retirees say a traditional pension is a major or minor source of retirement income. However, an even higher percentage of today's workers (54%) expect to receive income from a traditional pension, despite the fact that only 39 percent of them (and/or their spouses) currently have this type of benefit with a current or former employer.



Source: Employee Benefit Research Institute, 2017

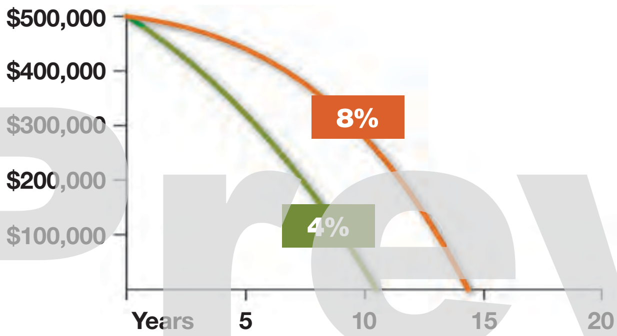
Strategy

Choose Distribution Methods and Withdrawal Rates

The next move is to develop a strategy for taking distributions from your retirement plan accumulations and determining annual withdrawal rates that could help your portfolio go the distance.

How Long Would a Retirement Portfolio Last?

This graph illustrates the impact of earning a 4 percent versus an 8 percent rate of return on a retirement portfolio from which annual withdrawals are taken for income.



Helping It Last

One common recommendation for a sustainable withdrawal rate is 4%, but you should be open to make adjustments as needed.

Withdrawal Decisions

These tables provide a rough estimate of how long retirement portfolios of various values might last based on different withdrawal amounts and rates of return.

4% rate of return

Initial Annual Withdrawals	Account Value $250,000	$500,000	$750,000	$1,000,000
$ 25,000	10 years	23 years	36 years	over 50 years
$ 50,000	5 years	10 years	16 years	23 years
$ 75,000	3 years	7 years	10 years	14 years
$100,000	2 years	5 years	8 years	10 years

6% rate of return

Initial Annual Withdrawals	Account Value $250,000	$500,000	$750,000	$1,000,000
$ 25,000	12 years	30 years	over 50 years	over 50 years
$ 50,000	5 years	12 years	20 years	30 years
$ 75,000	3 years	7 years	12 years	17 years
$100,000	2 years	5 years	8 years	12 years

8% rate of return

Initial Annual Withdrawals	Account Value $250,000	$500,000	$750,000	$1,000,000
$ 25,000	14 years	over 50 years	over 50 years	over 50 years
$ 50,000	6 years	14 years	26 years	over 50 years
$ 75,000	3 years	8 years	14 years	21 years
$100,000	2 years	6 years	9 years	14 years

These hypothetical examples are used for illustrative purposes only and do not represent the performance of any specific investments. They provide a rough estimate of how long different savings amounts might last in retirement (the years represent *complete* years before funds would be depleted sometime in the succeeding year). They do not consider any investment fees and expenses or the effect of taxes on distributions.

The tables assume a 3% annual increase in withdrawal amounts to compensate for inflation. Rates of return will vary over time, especially for long-term investments. Investments seeking to achieve higher rates of return generally involve greater risk. Actual results will vary. Distributions from tax-deferred accounts are taxed as ordinary income. Early withdrawals (prior to age 59½) may be subject to a 10% federal income tax penalty.

Distribution Methods

Before making any retirement plan distribution decisions, it's important to evaluate the main distribution methods that may be available to you. You can always choose a combination of these methods.

Stay put

Lump-sum distribution

Systematic withdrawals

Lifetime annuity

You might decide to leave your money in your current employer's retirement plan, where it would continue to accumulate tax deferred. Keep in mind that you must start taking annual required minimum distributions from employer-sponsored retirement plans and traditional IRAs once you reach age 70½.

If you decide to work in retirement, you might be able to move the funds in your former employer's plan to a new employer's plan, if the new employer offers a retirement plan and allows rollover funds.

Lump-Sum Distribution

If you elect a lump-sum distribution, you will receive the entire balance of your vested retirement account in one payment. This is a tempting option because it gives you immediate access to and control over your funds. You receive a check and are free to invest it or spend it wherever and however you wish.

The downside is that income taxes are due on the total amount of the distribution and are payable in the year in which you cash out. A large distribution could easily move you into a higher tax bracket. Moreover, employers issuing you a distribution check are required to withhold 20 percent for federal income taxes.

Retirement plan distributions are generally taxed as ordinary income. Distributions from employer-sponsored retirement plans and traditional IRAs prior to age 59½ may be subject to a 10% federal income tax penalty.

Systematic Withdrawals

- Fixed dollar amount on a regular schedule
- Specific percentage of account value on a regular schedule
- Total value of account in equal distributions over a specified period of time

Lifetime Annuity

Your retirement plan may also allow you to take payment as a lifetime annuity. Annuitization converts your account balance into guaranteed monthly payments based on your life expectancy. If you live longer than expected, the payments continue anyway, so there is no chance of outliving your savings.

Although this option can provide a great deal of financial security, you will lose control over your retirement accumulation and will not be able to access additional funds in the event of an emergency. Your particular plan may offer single-life and joint-and-survivor payout options.

Which Distribution Method Might Be Best for You?

Before you make a decision, consider your age now and the number of years you anticipate spending in retirement, your liquidity needs, market volatility and the preservation of your funds, your current and future income needs, and your tax situation. If you don't need immediate access to your employer plan assets, you might consider rolling them over to your own individual retirement account.

IRA Rollover

- Continued tax deferral
- Generally, more investment options
- Can consolidate assets from multiple plans
- Potential to "stretch" savings to future generations
- Mandatory distributions at age 70½ (for traditional IRAs)

An IRA rollover is an alternative strategy and can be an effective way to help your retirement savings last. If you move assets to a traditional IRA, the rollover enables you to postpone paying current income taxes, and your savings would continue to accumulate on a tax-deferred basis. You would pay ordinary income taxes only on withdrawals.

Generally, IRAs offer more investment options than you might have had with your former employer's plan. You can consolidate assets from several former employer plans into one IRA. And if you eventually want to pass the assets to your heirs, an IRA may give you more options for stretching the tax-deferred savings to benefit future generations.

Stretch IRA

If you move retirement plan assets to an IRA, it's possible to pass the IRA on to your heirs and significantly increase the long-term value of your legacy.

IRA Rollover Considerations

Rollover transactions must be completed within 60 days of the distribution; otherwise, the entire distribution could be taxable. You can avoid potential rollover problems by electing a trustee-to-trustee transfer (direct rollover). Because the money never touches your hands, it avoids being subject to any withholding, current taxes, and penalties. Usually, a trustee-to-trustee transfer is as simple as filling out a few forms with the employer plan custodian and the new IRA trustee.

If moving funds from one IRA to another, you should be aware that you can make only one tax-free IRA-to-IRA rollover in any 12-month period, regardless of how many IRAs you have. All IRAs — traditional, Roth, SEP, and SIMPLE — are treated as one IRA when applying the one-rollover-per-year rule. However, there is no limit on the number of trustee-to-trustee transfers that can be made in a 12-month period.

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

Retirement Plan Distribution Rules

If you are younger than age 59½, distributions from an employer-sponsored retirement plan or an IRA may be subject to a 10 percent federal income tax penalty. Of course, you must pay ordinary income taxes on distributions of tax-deferred assets. Most tax-deferred plans have certain exceptions to this early-withdrawal penalty.* Certain criteria must be met, and other exceptions may apply.

*Exceptions include distributions resulting from death, disability, or separation from service after age 55 (or before age 55 if you arrange a series of substantially equal periodic payments), and distributions that are used to pay unreimbursed, qualified medical expenses that exceed 7.5% of adjusted gross income in 2018 (10% thereafter). The age 55 exception does not apply to IRAs, annuity contracts, or modified endowment contracts (MECs); the exception for death does not apply to MECs.

IRAs allow additional exceptions to avoid the early-withdrawal penalty: distributions used to pay qualified higher-education expenses, distributions to purchase a first home ($10,000 lifetime limit), and distributions that are part of a series of substantially equal periodic payments.

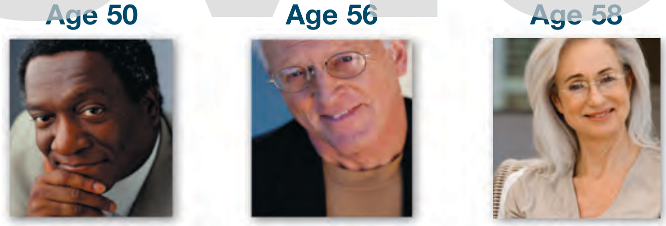
By the Numbers

The number of Americans age 65 and older is expected to increase from about 49 million in 2016 to about 95 million in 2060.

Source:
U.S. Census Bureau, 2018

Penalty-Free Early Distribution

Age 50 | Age 56 | Age 58



9½-year payout period | 5-year payout period | 5-year payout period

An exception to the 10 percent early-withdrawal penalty involves distributions following separation from service that are part of a series of substantially equal periodic payments. For example, if you decided to tap your funds at age 50, you may be able to do so without penalty as long as you receive payments over a period of 9½ years — that is, until you turn 59½. If you tapped your funds starting at age 56 or 58, you would have to receive periodic payments over a period of at least five years *(the rule is five years or until age 59½, whichever occurs later)*. The size of the payments would be based on your life expectancy when you begin withdrawals.

20% Withholding Rule

Lump-sum distributions from 401(k) and 403(b) plans are subject to mandatory 20 percent federal income tax withholding by employers. When you receive your check, it will be only 80 percent of your vested interest in the account.

Account balance	**$500,000**
20% withholding	**– $100,000**
Your distribution	**$400,000**

Required Minimum Distributions

Generally, you must begin taking required minimum distributions (RMDs) from tax-deferred plans starting at age 70½. The required beginning date (latest date) for the first distribution is April 1 of the year following the year in which you turn 70½, but this would require that you take two distributions in the same year. RMDs must be taken no later than December 31. Failure to take a minimum distribution could result in a 50 percent excess accumulation penalty on the amount that should have been withdrawn. Distributions from tax-deferred plans are taxed at your federal income tax rate.

The annual RMD will depend on your age, the value of your account(s) on December 31 of the previous year, and your life expectancy. You can use the IRS Uniform Lifetime Table (or the Joint and Last Survivor Table, in certain situations) to calculate RMDs for your own situation. Of course, you can always take more than the minimum amount.

RMDs are designed to ensure that taxes and distributions from tax-deferred plans are not deferred indefinitely.

Current age: 71
Account value: $500,000
Life expectancy factor: 26.5

Estimated RMD = $18,868

This hypothetical example is used for illustrative purposes only. Calculation is based on the IRS Uniform Lifetime Table.

Potential Advantages of a Roth IRA

Unlike the case with tax-deferred retirement plans, there are no required minimum distributions from a Roth IRA during the lifetime of the original owner, and investors can contribute to a Roth IRA past age 70½ as long as they have earned income. Eligibility to contribute to a Roth IRA phases out at higher income levels: $120,000 for single filers and $189,000 for joint filers in 2018.

Although you don't receive an income tax deduction on *contributions* to a Roth IRA, qualified distributions are tax-free. Moreover, qualified Roth IRA distributions do not affect your modified adjusted gross income and thus do not affect your income tax liability or the taxability of your Social Security benefits. Having an income source that is not taxable may be important to high-income taxpayers — and for all taxpayers if tax rates increase in the future.

With a Roth IRA, you can *lock in* your tax obligation at current tax rates.

Regardless of your income, you can transfer tax-deferred assets directly to a Roth IRA. Tax-deferred assets converted to a Roth IRA are considered taxable income and must be reported on your tax return for the year in which the conversion takes place. Unless you're over age 59½, it's generally advisable to use non–tax-deferred funds to pay the taxes owed on the conversion; otherwise, it could trigger a 10 percent early-withdrawal penalty. To qualify for a tax-free and penalty-free withdrawal of earnings (and assets converted to a Roth), Roth IRA distributions must meet the five-year holding requirement and take place after age 59½. Exceptions to the 10 percent early-withdrawal penalty include the original owner's death, disability, unreimbursed medical expenses in excess of 7.5 percent of adjusted gross income in 2018 (10% thereafter), qualified higher-education expenses, and a qualified first-time home purchase ($10,000 lifetime maximum).

The Tax Cuts and Jobs Act permanently eliminated the ability for investors to recharacterize (reverse) a conversion from a traditional IRA to a Roth IRA.

Spending Down Assets: Which Assets to Liquidate First

You may not realize it, but the order in which you spend down your assets could affect the longevity of your portfolio. One sound strategy is to consider this order:

1. Taxable accounts
2. Tax-deferred accounts
3. Tax-free accounts

Taxable savings and investments generally refer to investments that aren't in tax-deferred plans. Be aware that when you sell taxable investments, you may owe taxes on any capital gains. But historically, long-term capital gains have been taxed at a lower rate than the highest federal income tax rate.

By delaying distributions from tax-deferred plans, you give the assets more time to compound and can delay paying taxes until you take distributions. Of course, the way in which you liquidate taxable, tax-deferred, and tax-free assets will depend on your income tax liability in retirement.

How Delaying Distributions Could Result in Higher Taxes

Delaying distributions from tax-deferred plans is one way to help avoid outliving your assets. But this strategy could result in higher taxes for married couples if they have accumulated large tax-deferred accounts and delay taking any distributions until they must start taking RMDs after age 70½.

CASE STUDY

80-year-old married couple

$30,000 annual income
Joint filers, 12% tax bracket
$600,000 traditional IRA earning 7%

RMDs on IRA over 10 years: **$447,000**
Taxes on RMDs over 10 years: **$54,000**

If one spouse died at age 80, the survivor would have to take the same RMDs, which would affect his or her tax liability.

Single filer, 22% tax bracket
Taxes on RMDs over 10 years: **$98,000**

In this hypothetical example, an 80-year-old couple has a $600,000 traditional IRA earning a 7 percent rate of return. Over the next 10 years, they would have to take $447,000 in RMDs from the IRA and would owe $54,000 in taxes on these distributions (assumes a 12 percent tax rate). However, if one spouse died at age 80, the survivor would still have to take the same RMDs from the traditional IRA. As a single filer, the surviving spouse would be taxed at a 22 percent rate and would owe $98,000 in taxes on those same distributions. *That's 82 percent more!*

So one lesson here is that if you have accumulated a large tax-deferred nest egg and your required distributions would bump you and/or your surviving spouse into a higher tax bracket, you may want to consider taking small distributions in the years prior to reaching the age of RMDs in order to spread out your tax bill.

This hypothetical example is used for illustrative purposes only. It assumes that RMDs are taken at the end of the year. The $30,000 annual income is before any IRA distribution. The $600,000 is the IRA balance on December 31 of the year in which the couple was age 79. Numbers have been rounded to the nearest thousand.

Control

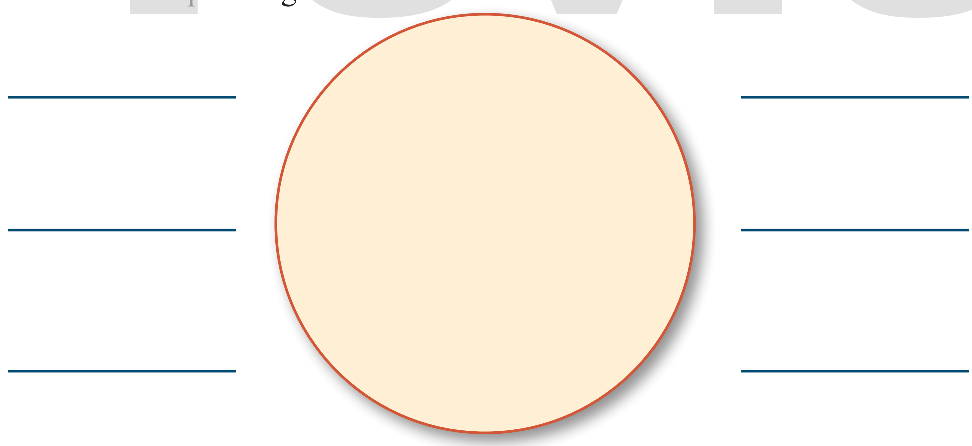
Manage Investments for Income, Growth Potential, and Stability

Developing an investment strategy for retirement involves selecting an optimal mix of assets that will provide a stable income, selecting appropriate investments in each class, and choosing accounts and financial vehicles that will hold your funds and provide a reliable source of income that has the potential to last throughout your retirement years.

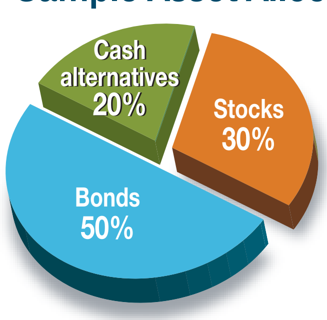
How Are *Your* Assets Allocated?

Take a moment to divide your portfolio using this pie chart to show your current asset allocation. You can allocate your assets by asset class (stocks, bonds, cash alternatives) or you can do it by type of investment account (such as employer-sponsored retirement plans, IRAs, brokerage accounts, bank savings accounts). Asset allocation does not guarantee a profit or protect against investment loss; it is a method used to help manage investment risk.

Asset allocation is a systematic approach to diversification that helps determine an efficient mix of assets for an investor. It utilizes sophisticated statistical analysis to determine how different asset classes perform in relation to one another, and its goal is to achieve an appropriate balance of income, security, and growth potential.



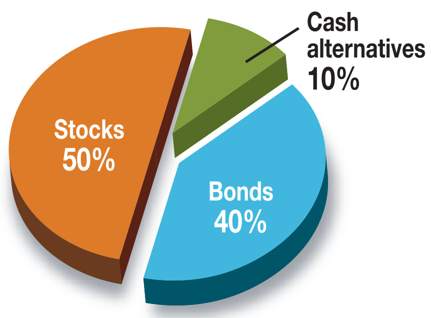
Sample Asset Allocation Models



Conservative

Time frame: 20 years

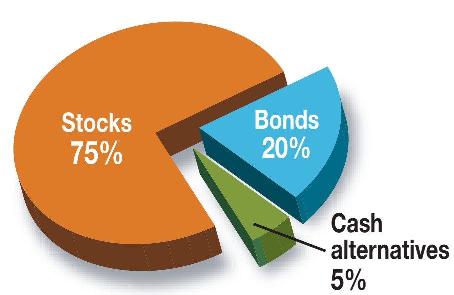
Primary goal:
minimize volatility



Moderate

Time frame: 20 years

Primary goal:
pursue moderate growth while managing volatility



Aggressive

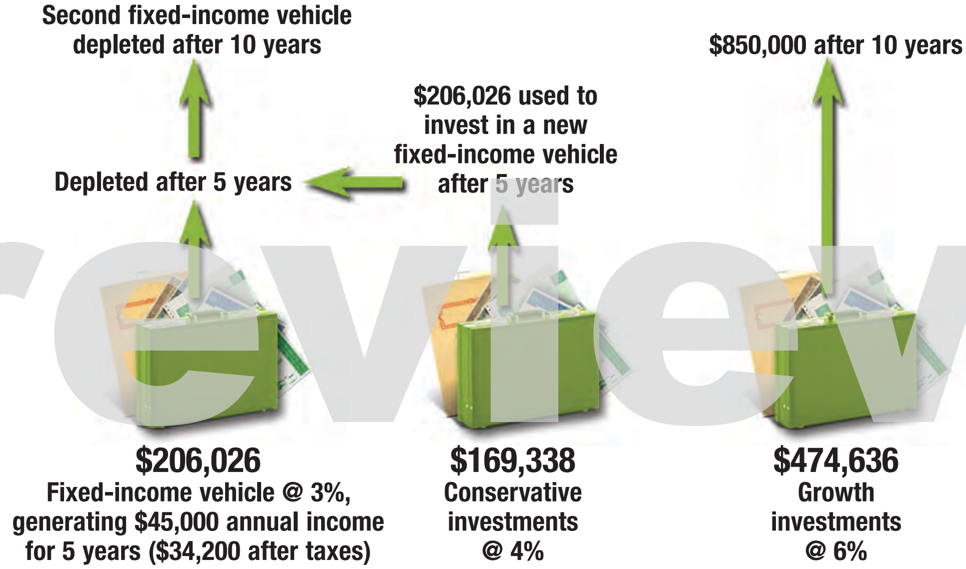
Time frame: 20 years

Primary goal:
pursue growth

These hypothetical models are used for illustrative purposes only. They are not recommendations.

Investing for a Long Retirement

One strategy for providing current income and future growth potential involves allocating a portfolio into different parts — or, as shown in this example, into three briefcases holding assets for different purposes. 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.



Assumes a 24% federal income tax rate. This hypothetical example is used for illustrative purposes only and does not represent any specific financial vehicles. Investments seeking to achieve higher rates of return also involve a higher degree of risk. Investment fees 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.

Position Some Assets for Growth Potential

A portfolio that is positioned too conservatively is subject to interest-rate risk, may not outpace inflation, and may not go the distance.

Fixed-Income Vehicles

- CDs and money market accounts
- U.S. Treasuries and Inflation-Protected Securities (TIPS)
- Investment-grade corporate bonds
- Municipal and agency bonds

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. Unless you own TIPS in a tax-deferred account, you must pay federal income tax on the income plus any increase in principal, even though you won't receive any accrued principal until the bond matures. Traditional savings accounts and CDs with FDIC-insured institutions are insured for up to $250,000 (per depositor, per institution) by the FDIC. They offer a fixed rate of return, whereas the value of money market mutual funds can fluctuate. *Money market funds are neither insured nor guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in such a fund.*

The return and principal value of TIPS, bonds, and stocks will fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. If you sell TIPS or bonds at a profit, you could incur capital gains taxes. The interest earned on Treasury bonds is exempt from state and local taxes. Interest on municipal bonds is generally exempt from federal income tax. If you buy municipal bonds of the state or city in which you live, the interest may be exempt from state or local income taxes. Some municipal bond interest could be subject to the federal AMT. Corporate bonds generally have a higher yield than government bonds, but the income is fully taxable and they involve a higher risk of loss. If not held to maturity, bonds may be worth more or less than their original value.

Income Mutual Funds

Income funds invest primarily in a variety of high-quality corporate bonds, lower-grade bonds, dividend-paying stocks, or a combination of these securities, depending on the fund's objectives.

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

Dividend-Paying Stocks

Some companies distribute part of their profits to stockholders in the form of a dividend. Rather than keep all the profits to fuel internal growth, these companies have decided to return a portion of their profits to shareholders. It's important to understand that dividends are paid at the discretion of a company's board of directors. Though dividends can increase, there is no guarantee that a dividend will not be reduced or eliminated.

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

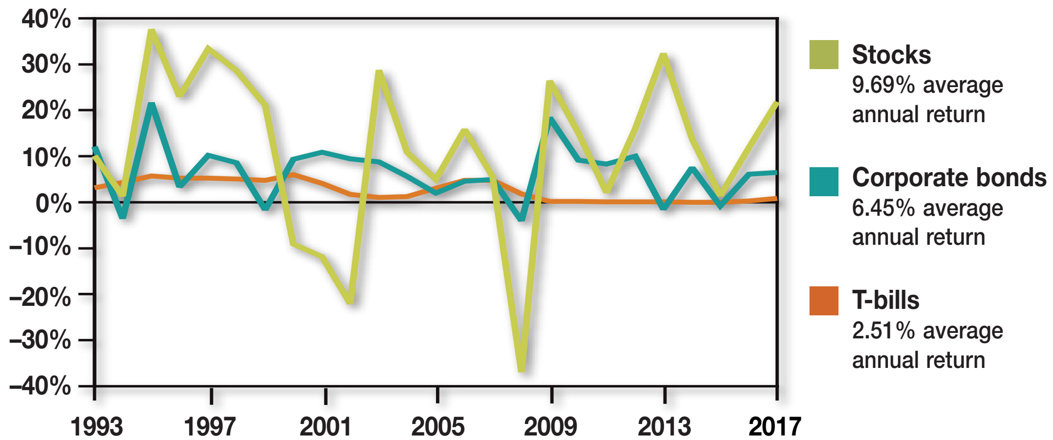
Note: Qualified corporate dividends receive preferential tax treatment. Dividend income is taxed at a maximum rate of 20%. Dividends from investments held in tax-deferred accounts do not qualify for the reduced tax rate and are taxed as ordinary income when withdrawn.

Payout *and* Performance?

Since 1956, dividends have accounted for about one-third of the total return of the S&P 500.

Source:
Standard & Poor's, 2018

Historical Investment Performance



Source: Thomson Reuters, 2018, for the period 1/1/1993 to 12/31/2017. 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, an unmanaged index that is generally considered representative of the U.S. corporate bond market. T-bills are represented by the Citigroup 3-Month Treasury Bill Index. 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.

Past performance is not a guarantee of future results. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Actual results will vary.

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

Searching for Guarantees?

Many investors are searching for guarantees to help ensure that their incomes can last throughout their lifetimes.

Perhaps that's why many retirees are looking at annuities as a potential source of a guaranteed lifetime income.

Create Your Own Pension with a Fixed Annuity

Fixed annuities can help retirees turn their retirement savings into a reliable income stream, similar to a traditional pension. They can help protect against the risk of living a long time, because they provide an option for income that is guaranteed to last your entire lifetime.

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

Fixed annuities are available at prevailing interest rates at the time you purchase the annuity. Your rate may be adjusted, but it will never fall below a guaranteed minimum rate specified in your annuity contract. This guaranteed rate acts as a "floor" to protect you from periods of low interest rates. Contributions to annuities are made with after-tax dollars, but any earnings accumulate on a tax-deferred basis. Annuity owners are not required to take mandatory distributions due to age.

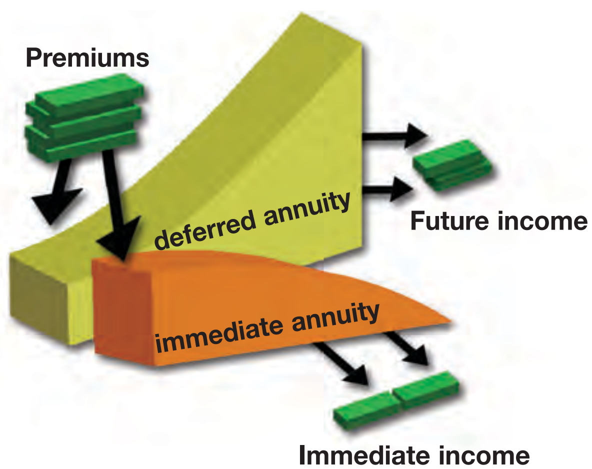
The guarantees of fixed annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company. Most annuities have surrender charges that are assessed during the early years of the contract if annuity is surrendered. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty. The earnings portion of annuity withdrawals is taxed as ordinary income.

A split annuity strategy can be an excellent way to achieve the dual benefits of a stable, current income stream and a future income stream.

Pursuing Growth and Income Simultaneously with Annuities

An immediate fixed annuity and a deferred fixed annuity can be used to provide income and pursue growth simultaneously. This illustration shows an approach that takes advantage of a "split annuity" strategy. Generally, this involves dividing the initial premium into an immediate fixed annuity contract and a deferred fixed annuity contract. This strategy would generate an immediate, steady income stream while potentially stretching some retirement savings for future income.

During the early years of retirement, the immediate fixed annuity would provide a steady income. Once the immediate annuity has paid out all its value and this income source is depleted, the funds from the deferred annuity could potentially be used as a replacement source of income.



Bear in mind that you will have to pay taxes on the growth of the deferred annuity and the interest portion of the immediate annuity income.

A Bear Market Can Maul Your Retirement Savings

A bear market is often defined as a period during which the prices of securities are generally falling, resulting in a downturn of 20 percent or more in several broad market indexes, typically over a period of several months or longer, and accompanied by investor pessimism.

Bear markets are inevitable. Fortunately, on a historical basis, bear markets are typically shorter in duration than bull markets. Even so, a bear market could maul your retirement savings. The bear market that took place from October 2007 to March 9, 2009, when stocks hit bottom (falling 57 percent from their October 9, 2007 high), lasted 17 months and was the worst bear market since the Great Depression.[1]

A bull market, on the other hand, is typically defined as a period during which the market is rising, resulting in a gain of about 20 percent or more in several broad market indexes, and generally accompanied by investor optimism. The most recent bull market reached its ninth birthday on March 9, 2018.[2]

Sources: 1) CNBC, August 24, 2015; 2) CNBC, March 9, 2018

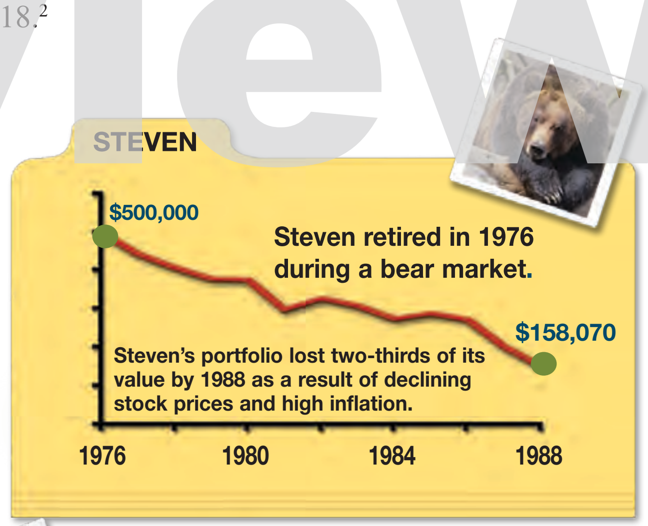
The bull market that began in March 2009 is the second longest since 1945. Over the first 9 years, stocks averaged 16.7% on an annual basis.

Source: CNBC, March 9, 2018

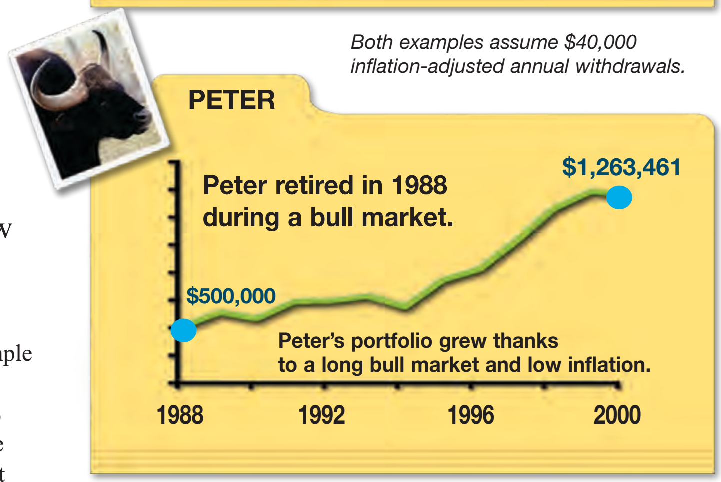
Bull and Bear Market Retirees

Here's a hypothetical tale comparing what could happen if you retired in a bear market environment versus a bull market environment. Both Steven and Peter had a beginning balance of $500,000 in their tax-deferred retirement portfolios, balanced evenly between stocks and corporate bonds. Each planned to take $40,000 annual portfolio withdrawals (adjusted for inflation) for income.

Steven retired in 1976. By 1988, his portfolio had lost two-thirds of its value, largely as a result of declining stock prices and high inflation. Peter retired in 1988. Even though he made continuous withdrawals, his portfolio grew thanks to a long bull market and low inflation.



Both examples assume $40,000 inflation-adjusted annual withdrawals.



Source: Thomson Reuters, 2018, for the periods 1/1/1976 to 12/31/1988 and 1/1/1988 to 12/31/2000. This hypothetical example is used for illustrative purposes only and does not reflect any specific investments. The original $500,000 portfolios held 50% stocks and 50% corporate 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. Corporate 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.

Timing

Address Potential Weaknesses

Perhaps bad timing or other issues resulted in a severe investment loss or a loss of income from being downsized. Maybe you are forecasting an income shortfall. How can you help enhance your situation?

Too Aggressive?

Investors who are approaching retirement or already retired may want to have a mix of assets that could help protect them from severe market downturns.

Lost Wealth

During the Great Recession, the net worth of U.S. households fell by about $17 trillion by the first quarter of 2009.

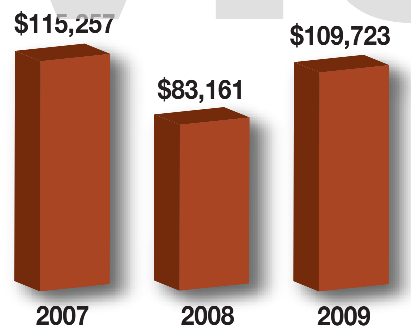
By 2017, Americans' total net worth reached new highs as a result of rising stock prices and home values.

Source: Federal Reserve, 2018

Effect of Market Losses on 401(k) Plans

At the beginning of 2008, nearly 40 percent of investors ages 56 to 65 had more than 70 percent of their 401(k) assets invested in equities, and almost 25 percent had more than 90 percent of their asset balances in stocks.[1] So it's not surprising that their accounts were affected when the market tumbled during the period from 2007 to early 2009, when stocks experienced a 57 percent drop.[2]

The average 401(k) account balance fell 27.8 percent in 2008 but rose 31.9 percent in 2009 after the market started to recover.[3] Even so, many investors lost ground, especially those who had higher initial account balances at the start of the market downturn.



Sources: 1) Social Security Administration, 2010; 2) *Money,* June 2010; 3) Employee Benefit Research Institute, 2010

Making Up for a Potential Shortfall

If you need to make up for a potential shortfall and haven't yet retired, one of the first action items is to boost and/or maximize your retirement contributions by setting aside more of your income. Here are several scenarios for investors who are currently age 50, 55, or 60 to accumulate $400,000 by age 65 — or, if they delay retirement, by age 67.

Annual savings needed to accumulate $400,000 by age 65 or 67

	If you're 50	If you're 55	If you're 60
By age 65	$17,200	$30,350	$71,000
By age 67	$14,175	$23,700	$47,650

Assumes a 6% average annual return. These hypothetical examples are used for illustrative purposes only and do not reflect the performance of any specific investments or consider investment expenses and taxes. Actual results will vary. Rates of return will vary over time, particularly for long-term investments.

Build a Cash Reserve

If you have time to build a safety net of cash reserves that could carry you through the first few years of retirement, you may be able to avoid selling tax-advantaged investments in the event of a down market. Having this flexibility could give your growth-oriented assets a longer time to recover and potentially grow.

More Options to Consider

Postpone retirement or work part-time in retirement. Postponing retirement or working part-time once you've left the workforce full-time may help improve your financial situation. By working longer, not only would you generate additional retirement savings but you would reduce the number of years over which you need to rely on those savings.

Delay claiming Social Security. If you delay claiming Social Security benefits until you reach full retirement age — or up to age 70 — your monthly checks will be higher and stay that way throughout retirement. This strategy might also leave a surviving spouse with a higher survivor benefit.

Lower your portfolio withdrawal rate. Lowering the withdrawal rate from your retirement portfolio and/or not increasing withdrawals based on inflation may help your nest egg last longer. Many experts recommend a low initial withdrawal rate, generally 3 or 4 percent, to help ensure that a retirement portfolio is sustainable over a 25- to 30-year retirement.

Reduce debt / Slash expenses. An increasing number of Americans are retiring with significant debt. Reducing debt before you retire, such as paying off auto loans and credit cards, will lower your income needs so you can get by on less. Paying off a mortgage is also a sound strategy, but remember that mortgage debt may offer some valuable tax deductions in your retirement years, especially if you are in a higher income tax bracket. Of course, you could slash your expenses by living more frugally now in order to benefit your lifestyle in retirement.

Make your money work harder. Although you might be tempted to assume greater investment risk in the pursuit of higher average annual returns, this can be a mistake when you are closing in on retirement or already retired because it could take years to recover from a major loss of principal.

That's why you may want to consider some professional guidance. Working with a financial professional who focuses on your specific needs may help you make informed decisions about your money and consider opportunities that you might not have considered to help your assets work harder for you.

Lack of Preparation

About 27% of Americans surveyed said their households were not saving any of their income for retirement, and 50% said they were not confident that they were saving enough.

Source:
2017 Consumer Financial Literacy Survey, National Foundation for Credit Counseling

WHAT TO BRING

Please bring the following documents to your consultation:

1.
2.
3.
4.
5.

Your consultation is scheduled for:

Date Time

REYNOLDS & Associates

broker-dealer disclosure
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