Passport to Retirement®

PREVIEW

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Introduction

How to Retire

Are you prepared for one of the biggest transitions in your life? What steps have you taken thus far to prepare for retirement?

This is not something that can be accomplished overnight. Initially, you'll have to analyze everything from your current income, to your net worth, to your potential sources of retirement income, to your health. You'll need a comprehensive plan to accomplish your goals, and then you'll need to review and revise your plan on an ongoing basis to make sure you're on track.

Whether you're 10 months, 10 years, or longer away from retirement, there are a number of key issues to address before you can make that move.

Retirement Reality

One reality you might face is that your retirement expenses could be higher than you expected.

According to a consumer expenditure survey:[1]

- Total household spending by Americans aged 65 and older is only about **28% less** than spending by younger consumers
- Yet older Americans' household incomes are about **40% lower** than those of younger households

In an Employee Benefit Research Institute survey, 36 percent of retirees said their overall expenses were higher than expected, and 37 percent said their health-care expenses were higher than they expected.[2]

Why do some people find that their retirement reality doesn't match their expectations?

Sources: 1) Consumer Expenditure Survey, U.S. Bureau of Labor Statistics, 2021;
2) Employee Benefit Research Institute, 2022

When you retire, your financial focus often takes a dramatic shift. The guidelines for managing money are different than when you were working.

Instead of saving money to accumulate assets, you need to determine how to withdraw assets efficiently for income and avoid running out of money.

Obstacles to a Successful Retirement

Your ability to pursue the retirement lifestyle you desire — and deserve — will depend to a great extent on how well you are able to overcome six obstacles.

1. Lack of Knowledge/Failure to Plan

In a retirement income literacy survey, nearly eight out of 10 retirement-age Americans could not pass a basic quiz on how to make their savings last throughout retirement. And only a third considered themselves highly knowledgeable about retirement income planning.[1]

Moreover, only 46 percent of workers have tried to calculate a retirement savings target.[2]

Sources: 1) The American College RICP® Retirement Income Literacy Survey, 2020 (most current data available); 2) Employee Benefit Research Institute, 2022

Financial Barometer Quiz

This self-analysis quiz will give you a quick snapshot of your financial knowledge. It's not meant to be a comprehensive test of your abilities, just a quick look at where you stand.

SCORE

Rate yourself from 1 to 10 (10 being best) for your level of knowledge and confidence for each question.

If you scored between 46 and 60, you may be in great shape financially.

If you scored between 30 and 45, professional financial management may be necessary to help you build a strong financial future.

If you scored below 30, take action immediately. We have ideas that may help.

This scale is not intended to predict success. It is designed to help identify financial management needs.

1. Are you satisfied with the yield on your savings program? Is it sufficient to cover your living expenses for several months?

_______ points

2. Will your retirement plan meet your future needs? Will it provide sufficient income to maintain the lifestyle you'd like, even after inflation?

_______ points

3. Is your tax liability excessive? Are you adequately informed on tax-law changes? Are you reducing or deferring as much tax as possible?

_______ points

4. Do you have adequate insurance protection? Is your life and disability coverage sufficient to help protect you and your family?

_______ points

5. Are you satisfied with your investment performance? Are you comfortable with the risk factor? Are your investments well diversified?

_______ points

6. Is your estate designed to minimize probate fees and estate taxes? Have you reviewed your estate plan within the last two years?

_______ points

Diversification does not guarantee a profit or protect against investment loss.

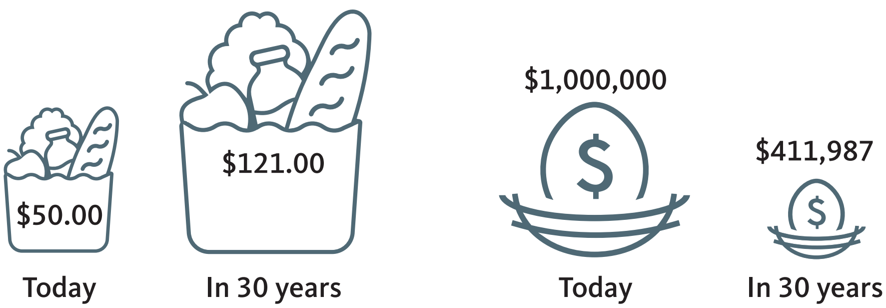
A financial professional can evaluate your objectives and available resources and help you consider appropriate long-term financial strategies, but there is no assurance that working with a financial professional will improve investment results.

Obstacles to a Successful Retirement

2. Inflation

Inflation is the rise in consumer prices and the loss of purchasing power over time. It has an effect on everything — from the cost of a bag of groceries, to a car, to a home.

Consider how a 3 percent inflation rate over 30 years could affect the cost of a $50 bag of groceries — or the purchasing power of a $1 million retirement nest egg. The cost of groceries would more than double, and the $1 million nest egg would have the purchasing power of $411,987!



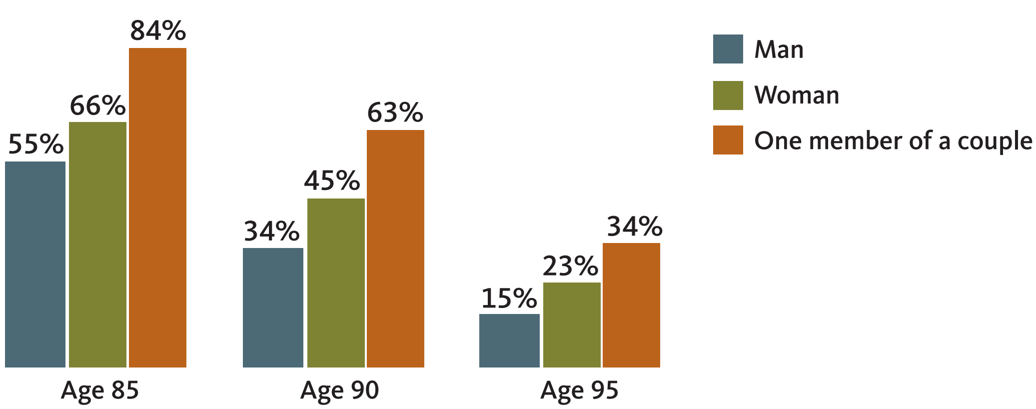
Assumes a 3% annual inflation rate. These hypothetical examples of mathematical principles are used for illustrative purposes only. Actual results will vary.

Longevity Risk Compounds Inflation Risk

Keep in mind that your retirement might last for 20 or more years. The challenge is making sure that you don't run out of money before you run out of time.

Based on life-expectancy statistics, a retired 65-year-old man in average health has a 34 percent chance of living to age 90, and a 65-year-old woman in average health has a 45 percent chance of living to age 90. And for a couple, the odds are even more striking.

How confident are you that you will be able to live comfortably to age 90 or 95?



Source: Society of Actuaries, 2023

Inflation Danger

Inflation was relatively low during the five-year period from 2017 to 2021, when it averaged 2.9%. But inflation was especially challenging in 2022, when it reached an annual rate of 9.1% in June, the highest 12-month increase since 1981.

Source:
U.S. Bureau of Labor Statistics, 2022

Obstacles to a Successful Retirement

The Rule of 72

The Rule of 72 demonstrates the impact that inflation can have on your purchasing power. To determine how long a given rate of inflation would take to cut the purchasing power of your money in half, divide 72 by the expected rate of inflation.

6% inflation:

72 ÷ 6 = ______ years

3% inflation:

72 ÷ 3 = ______ years

The lower federal income tax rates implemented by the Tax Cuts and Jobs Act in 2018 are scheduled to expire after 2025.

3. Steady Burden of Taxes

Unless your income comes from tax-exempt vehicles, the rest will be taxed by Uncle Sam. Managing your tax liability in retirement is important. Many people forget about the impact of annual required minimum distributions (RMDs) from traditional IRAs and most workplace retirement plans when they turn 73. When your income exceeds specific thresholds, you could be pushed into a higher tax bracket, a higher percentage of your Social Security benefits could become taxable, and your monthly premiums for Medicare Part B (medical insurance) and Part D (prescription drug coverage) may be higher. Here are some key tax considerations to bear in mind:

- Federal income taxes on most income sources, including a portion of your Social Security benefits
- Capital gains taxes on the sale of appreciated assets
- Ordinary income taxes on withdrawals from tax-deferred accounts

4. An Unexpected Health Crisis

Do you know someone, a family member or a friend, who has experienced an unexpected and costly health crisis? A personal health crisis could derail your plans and deplete your retirement savings.

Not only are medical bills expensive, but a prolonged injury or illness could lead to time away from work — and lost income.

Here are some statistics to consider:

- People turning age 65 have a nearly 70% lifetime chance of needing some type of long-term care services at least once during their lifetimes[1]
- An estimated 43% of 40-year-olds and 36% of 50-year-olds will suffer a long-term disability prior to age 65[2]

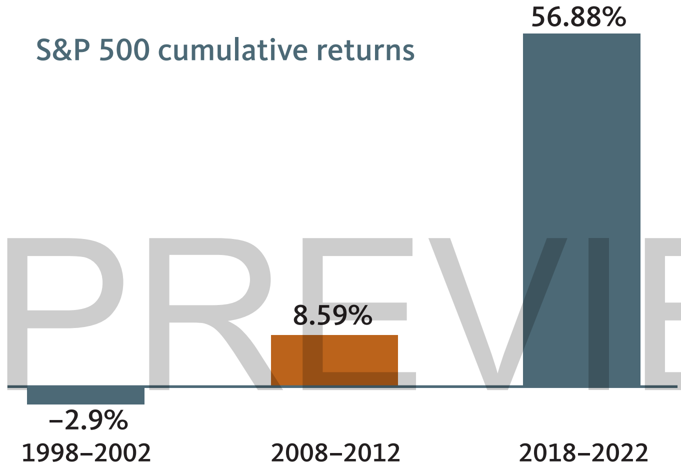
Sources: 1) U.S. Department of Health and Human Services, 2021;
2) *2020 Field Guide*, National Underwriter (most current data available)

5. Unpredictability of the Financial Markets

It's a hard truth of investing: The financial markets change, often unexpectedly and sometimes dramatically. Generally, it's a case of *when* and not *if* it happens.

And *if* it happens *when* you're about to retire — or when you're in the midst of drawing down your investments for income — it can affect the longevity of your retirement assets.

The following outcomes illustrate the cumulative returns of the S&P 500 composite stock index over three different five-year periods. Although two of the cumulative returns were positive, the five-year period from 1998 through 2002 had a negative cumulative return.



Source: Refinitiv, 2023, for the periods 1/1/1998 to 12/31/2002; 1/1/2008 to 12/31/2012; and 1/1/2018 to 12/31/2022. The S&P 500 composite index total return is generally considered to be representative of U.S. stocks. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

Maintaining Perspective

It helps to remember that the economy and the stock market are cyclical. From 1970 to 2022, there were seven bear markets, lasting about 16 months, on average.

Historically, even the worst bear market has bounced back and eventually gone on to reach new highs.

Source: Yardeni Research, 2022, for the period 5/26/70 to 10/28/22. The market is represented by the S&P 500. The 16-month average excludes the bear market that began in January 2022.

6. Procrastination

The most common and perhaps the most difficult obstacle to overcome is procrastination. Some people never quite get around to taking steps to prepare for the future. As a result, they often fail to reach their financial goals.

Perhaps you intended to contribute to your IRA last year or open a new Roth IRA this year. Maybe you contribute to a 401(k) plan but aren't putting in the maximum amount each year; perhaps you're not even receiving the full employer match, if one is available.

Even if you are behind schedule in saving for retirement, any savings increase you make now is better than none.

Obstacles to a Successful Retirement

Your Passport to a Successful Retirement

To overcome these obstacles — and help determine how to retire the way you want — it might help to address these eight key steps that serve as a passport to helping you realize a comfortable retirement.

Envision Retirement	Defining your vision to create the type of retirement that encompasses your dreams and objectives
Assess the Costs	Determining how much your retirement will cost and calculating a retirement savings goal
Evaluate Sources of Income	Assessing the primary sources of income you expect to have in retirement and making the most of Social Security benefits
Manage Your Tax Liability	Taking steps to help reduce your income tax liability and make sure Uncle Sam doesn’t get more than his fair share
Protect Your Health and Wealth	Evaluating Medicare options and insurance strategies to help protect yourself from common types of risks
Invest for the Future	Building an investment portfolio to help meet current and future retirement needs
Choose a Distribution Method to Tap Assets	Tapping your retirement assets to avoid outliving your assets
Preserve Wealth in Your Estate	Managing the distribution of your estate and leaving a legacy for heirs

