Four Pillars of a Successful Retirement

Are You Ready?

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Are You Prepared for One of the Biggest Transitions in Your Life?

Retirement is usually seen as life's reward for working hard, supporting a family, and saving your hard-earned dollars. You celebrate with a big party and then move into this exciting, new life stage. Is that how you envision it?

In the past, retirement often meant switching from a paycheck to a pension check, contacting Social Security to get benefits in motion, and maybe supplementing that income with the proceeds from downsizing a home or renting a property.

But times have changed. Retirement can now mean piecing together a big puzzle, composed of a variety of different resources, to ensure you have enough to live on — and maybe have something left to pass on to heirs if that's one of your goals.

Do you have the **time**...

...the **desire**...

...and most important, the **knowledge**...

...to build a financial strategy for retirement?

Four Pillars of a Successful Retirement

These four factors could affect your retirement lifestyle:

Social Security	Deciding carefully when and how to tap your Social Security benefits
Income Strategy	Developing an income strategy that covers your everyday expenses and basic needs, funds your "wants," and still leaves room for "surprises"
Tax Planning	Making sure that Uncle Sam doesn't get more than his fair share
Legacy Planning	Planning for your later years and beyond, especially if one of your objectives is to leave a legacy

Understanding a little more about the nuances within each pillar — and how they relate to each other — can help you become better prepared for what lies ahead.

Introduction

Three Risks

Your ability to live the retirement lifestyle you want — and deserve — may depend on how well you're able to prepare for and manage these three risks:

- Inflation, or the rising cost of living
- Health-care costs
- Unpredictability of the financial markets

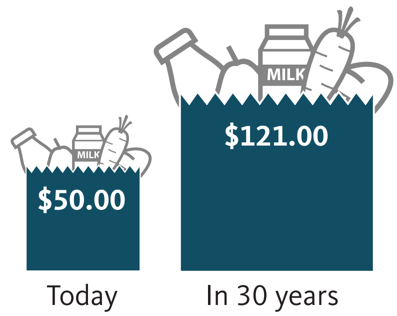
Inflation Danger

Inflation was relatively low over the ten-year period from 2013 to 2022, when it averaged 2.6%. But inflation was especially challenging in 2021 and 2022, rising 7.0% and 6.5% respectively — the largest 12-month increases since 1982.

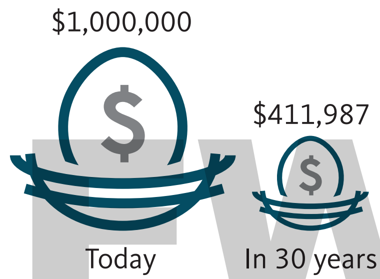
Source:
U.S. Bureau of Labor Statistics, 2023

Inflation

Inflation, the rise in consumer prices over time, has an effect on everything — from the cost of a car and a home, to energy prices, to a bag of groceries. Inflation is also the reason your money loses purchasing power over time.



Consider how a 3% 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!

These hypothetical examples of mathematical principles are used for illustrative purposes only. Actual results will vary.

Why Inflation Really Matters

A healthy 65-year-old can expect to spend 20 or more years in retirement. You don't want to run out of money before you run out of time.

Source:
Social Security Administration, 2022

Rising Costs of Health Care

Many people underestimate the potential cost of health care in retirement, forgetting the premiums, copays, deductibles, and prescription drugs they might have to cover — even with Medicare, which typically covers approximately 60% of the average retiree's health-care costs.

If Medicare benefits remain unchanged, it's estimated that 65-year-olds who retired in 2021 might need to save the following amounts to cover their health expenses in retirement (assuming median drug expenses).

And consider that medical costs could be even higher if you have a chronic illness or high prescription drug costs. Further, other costs such as dental expenses, glasses, and hearing aids aren't captured in these figures.

Source: Employee Benefit Research Institute, 2023

Introduction

Long-Term Care

Another risk you might face is the need for long-term care. Long-term care refers to the assistance needed to manage a chronic illness, disability, or cognitive impairment. It includes nursing home care as well as care provided in an assisted-living facility, adult day-care center, or even at home.

The statistics surrounding long-term care can be scary. Consider that:

- People turning 65 today have a nearly 70% chance of needing some form of long-term care during their lifetimes[1]
- The national median cost of a private room in a nursing home was $108,000 in 2021, and in many states the cost is much higher[2]

Unfortunately, Medicare and traditional medical insurance offer little or no relief for this type of care. And if you qualify for Medicaid by spending down your assets, it typically means you lose some control over where you receive care and, subsequently, the type of care offered.

Sources: 1) U.S. Department of Health and Human Services, 2022 (most current data available); 2) Genworth Financial, Inc. 2022 (2021 data).

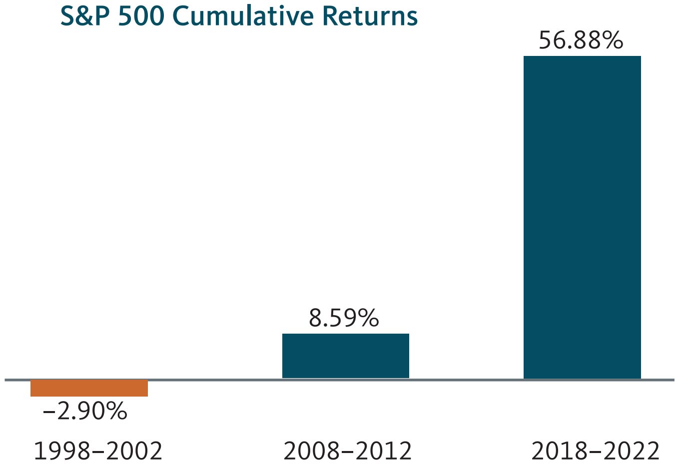
Unpredictability of the Financial Markets

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 be unsettling to say the least.

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

S&P 500 Cumulative Returns



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.

Rising Costs

If long-term care costs rose at just 4% a year, a one-year stay in a nursing home (currently $108,000 for a private room) could reach nearly $237,000 in 20 years.

This cost projection is a hypothetical example of mathematical principles and is used for illustrative purposes only. Actual results will vary.

Introduction

Bear Market Retiree

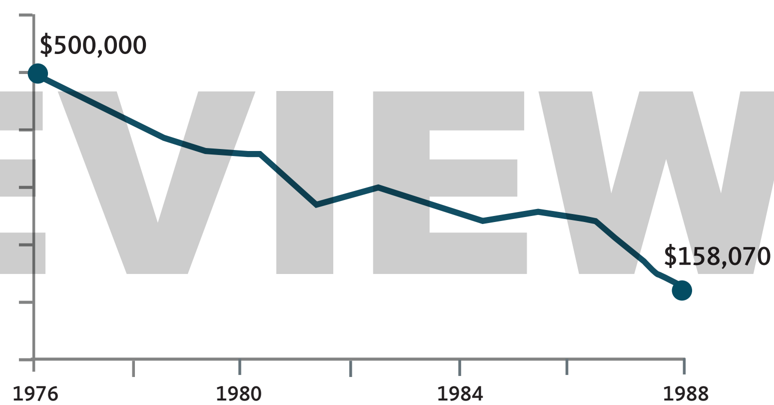
Would you be concerned about the longevity of your portfolio if a bear market occurred as you were about to retire, or soon after you retired? Consider this hypothetical example.

Steven retired in 1976 and experienced a bear market environment — a period during which the prices of securities are generally falling, resulting in a downturn of 20% or more in several broad market indexes and occurring over a period of several months or longer.

His initial $500,000 retirement portfolio, held in tax-deferred accounts, was balanced evenly between stocks and bonds. Steven planned to take $40,000 annual portfolio withdrawals, adjusted for inflation, for income.

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

Steven's Portfolio



Source: Refinitiv, 2022, for the period 1/1/1976 to 12/31/1988. This hypothetical example is used for illustrative purposes only and does not reflect any specific investment. The original $500,000 portfolio held 50% stocks and 50% 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 S&P 500 composite index total return, which is generally considered to be representative of U.S. stocks. Bonds are represented by 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. 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

The bull market that began in March 2009 and ended in February 2020 was the second longest in U.S. history, with an S&P 500 cumulative return of about 400%.

It helps to remember that the economy and the stock market are cyclical. There have been 11 bear markets since 1950. On average, bull markets lasted longer than bear markets over this period, and the average bull market advance (192%) was greater than the average bear market decline (–35%). The takeaway is that the market recovered eventually every time.

Source: Yardeni Research, October 28, 2022

Social Security

Income That Will Last a Lifetime

One of the greatest concerns of retirees and near-retirees is the fear of outliving their assets. Although traditional pensions once provided a steady income for many retirees, the number of companies offering such plans has declined dramatically.

Social Security offers benefits similar to a pension, plus a lot more. Not only does it provide a guaranteed income stream, but it also offers longevity protection, spousal protection, and even some inflation protection. Yet the ultimate value of Social Security benefits is often overlooked.

For example, did you know that if you delay claiming benefits past full retirement age, you could increase your payments by as much as 8% a year? It would be hard to find a risk-free investment that currently offers that kind of payout.

Whether you're single, married, divorced, or widowed, there are strategies that might increase the monthly and lifetime benefits you receive from Social Security. It is important to understand the claiming options that may be available to you — and to avoid costly mistakes that could reduce the Social Security income that you, and possibly your spouse, receive.

History Behind America's Retirement Safety Net

The Old-Age, Survivors, and Disability Insurance (OASDI) program, which is the official name of Social Security, was created as part of Franklin Delano Roosevelt's New Deal legislation during the Great Depression. It was signed into law in 1935 and is now the federal government's largest single program.

Social Security benefits were intended as a *supplement* for retirees, not as a sole means of support. But over time, many retirees — as well as some disabled individuals and families of deceased workers — have become very dependent on their monthly Social Security payments.

- Social Security is an important source of income for retirees

Claiming Strategies

There are many combinations for how a married couple can claim Social Security retirement benefits and spousal benefits, as well as other filing strategies.

According to the Social Security Administration, the claiming-age combinations that married couples might choose range from nearly 10,000 to 40,000, depending on their respective birth years.

Social Security

To create a *my* Social Security account and view your Social Security Statement online, visit ***ssa.gov/myaccount/***.

Who Is Eligible for Social Security Benefits?

If you have worked and accumulated a minimum of 40 work credits, which is 40 fiscal quarters or about 10 years of work, you are entitled to receive Social Security retirement benefits.

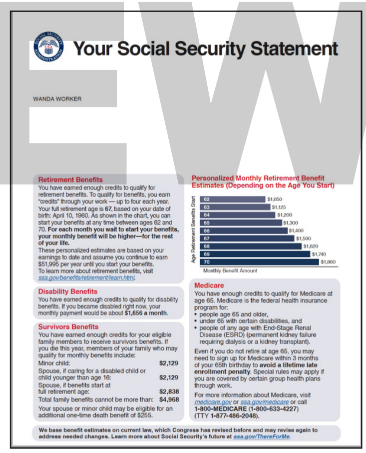
Your benefit is based on an average of the highest 35 years of earnings in which you paid Social Security payroll taxes.

If you worked fewer years, worked part-time, or had long periods of unemployment, the years in which you had low or zero earnings will be averaged into the calculation and could affect your benefits.

- The spouse of an eligible worker can collect Social Security spousal benefits regardless of whether he or she worked or not
- Even the former spouse of an eligible worker may be entitled to Social Security benefits based on the ex's work record if they were married for at least 10 years and the individual has not remarried
- The surviving spouse of an eligible worker is eligible for survivor benefits

Social Security Statement

Your Social Security Statement summarizes your annual earnings that were subject to payroll taxes, shows how much you and your employer(s) paid in Social Security and Medicare taxes, and estimates your retirement benefits based on up to nine different claiming ages, including age 62, full retirement age, and age 70.


Your Social Security Statement

WANDA WORKER

Retirement Benefits
You have earned enough credits to qualify for retirement benefits. To qualify for benefits, you earn "credits" through your work — up to four each year. Your full retirement age is **67**, based on your date of birth: April 10, 1960. As shown in the chart, you can start your benefits at any time between ages 62 and 70. **For each month you wait to start your benefits, your monthly benefit will be higher—for the rest of your life.**
These personalized estimates are based on your earnings to date and assume you continue to earn $51,995 per year until you start your benefits.
To learn more about retirement benefits, visit ssa.gov/benefits/retirement/learn.html.

Personalized Monthly Retirement Benefit Estimates (Depending on the Age You Start)

Age Retirement Benefits Start	Monthly Benefit Amount
62	$1,050
63	$1,125
64	$1,200
65	$1,300
66	$1,400
67	$1,500
68	$1,620
69	$1,740
70	$1,860

Disability Benefits
You have earned enough credits to qualify for disability benefits. If you became disabled right now, your monthly payment would be about **$1,656 a month**.

Survivors Benefits
You have earned enough credits for your eligible family members to receive survivors benefits. If you die this year, members of your family who may qualify for monthly benefits include:

Minor child:	**$2,129**
Spouse, if caring for a disabled child or child younger than age 16:	**$2,129**
Spouse, if benefits start at full retirement age:	**$2,838**
Total family benefits cannot be more than:	**$4,968**

Your spouse or minor child may be eligible for an additional one-time death benefit of $255.

Medicare
You have enough credits to qualify for Medicare at age 65. Medicare is the federal health insurance program for:
- people age 65 and older,
- under 65 with certain disabilities, and
- people of any age with End-Stage Renal Disease (ESRD) (permanent kidney failure requiring dialysis or a kidney transplant).

Even if you do not retire at age 65, you may need to sign up for Medicare within 3 months of your 65th birthday to **avoid a lifetime late enrollment penalty.** Special rules may apply if you are covered by certain group health plans through work.
For more information about Medicare, visit medicare.gov or ssa.gov/medicare or call **1-800-MEDICARE (1-800-633-4227)** (TTY **1-877-486-2048**).

We base benefit estimates on current law, which Congress has revised before and may revise again to address needed changes. Learn more about Social Security's future at ssa.gov/ThereForMe.

You can view your Statement online by creating your own personal account on the Social Security website. Even after you start receiving benefits, an online personal account can be helpful. You can access your account to print Social Security and Medicare benefit information, update your address, and change your direct deposit data.

Social Security

Understanding COLAs

Because Social Security benefits are indexed for inflation, your monthly benefit could increase as the cost of living rises from year to year. Thanks to these cost-of-living adjustments (COLAs), some people refer to Social Security as an inflation-protected asset that will help maintain the purchasing power of those benefits.

Under the current system, the automatic COLA is equal to the annual percentage increase — if any — in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Since 1975, the average annual COLA has been about 3.75%. Social Security beneficiaries have received a COLA almost every year since 1975, but there was no COLA for 2010, 2011, or 2016 because inflation was too low to trigger an increase. After factoring in the 2023 COLA, the average monthly benefit for a retired worker is about $1,827.

Source: Social Security Administration, 2022

Year	COLA
2012	3.6%
2013	1.7%
2014	1.5%
2015	1.7%
2016	0%
2017	0.3%
2018	2.0%
2019	2.8%
2020	1.6%
2021	1.3%
2022	5.9%
2023	8.7%

Waiting to Claim Benefits

In 2021, only about 7% of men and 9% of women delayed claiming Social Security benefits to age 70.

Source: Social Security Administration, 2022

When Can You Claim Social Security Retirement Benefits?

Security benefits are based on how much you earned during your working career and the age when you start claiming benefits.

62 — **Age 62** is the earliest age to claim benefits. *(Surviving spouses, however, can claim survivor benefits as early as age 60).*

FRA — **Full retirement age (FRA)** ranges from 66 to 67, depending on year of birth.

70 — **Age 70** is when you can receive your *maximum* Social Security retirement benefit.

Social Security

How Does Filing Early or Later Affect the Monthly Benefit?

Many people automatically associate age 65 with retirement. But full retirement age (FRA), when you are entitled to receive 100% of your full Social Security retirement benefit — also called the primary insurance amount or PIA — now ranges from 66 to 67 for those born after 1942.

You can see here how full retirement age is changing based on year of birth, and how claiming Social Security early at age 62 or delaying benefits up to age 70 would affect your monthly payouts.

Year of birth	Full retirement age (FRA)	Age 62 benefit	FRA benefit	Age 70 benefit
1943–54	66	75.00%	100%	132.00%
1955	66 and 2 months	74.17%	100%	130.67%
1956	66 and 4 months	73.33%	100%	129.33%
1957	66 and 6 months	72.50%	100%	128.00%
1958	66 and 8 months	71.67%	100%	126.67%
1959	66 and 10 months	70.83%	100%	125.33%
1960 & later	67	70.00%	100%	124.00%

At age 62, the amount you receive each month would be permanently reduced by 25% to 30% of the full retirement age amount, depending on the year you were born. With each month you wait to claim benefits after age 62, your monthly benefit increases slightly.

By electing to start retirement benefits at your full retirement age, you would be entitled to 100% of your primary insurance amount.

For each month you wait to claim Social Security *after* reaching full retirement age, your monthly benefit would continue to increase until you reach age 70, when you would be entitled to receive up to 132% of your full benefit (depending on year of birth). By waiting past full retirement age, you earn delayed retirement credits. There is no advantage to waiting longer than age 70 to file for benefits.

Dependent Benefits

If you're receiving Social Security retirement benefits, your unmarried children who are under age 18 (or up to age 19 if your child is a full-time student who has not graduated from high school) may be eligible to collect Social Security dependent benefits based on your earnings record.

How Claiming Age Affects Monthly and Annual Benefits

Here are some hypothetical examples to put some dollar amounts behind these benefit percentages for two people born in different years.

	Claiming age	Benefit percentage	Monthly benefit	Annual benefit
Todd	62	70%	$1,400	$16,800
	(67) FRA	100%	$2,000	$24,000
	70	124%	$2,480	$29,760
Marian	62	70%	$1,680	$20,160
	(67) FRA	100%	$2,400	$28,800
	70	124%	$2,976	$35,712

Todd was born in 1961. His full retirement age is 67, when he would be entitled to a $2,000 full monthly benefit. If Todd claimed his worker benefit at age 62, it would be permanently reduced to 70% of the primary insurance amount. So a monthly benefit that would have been $2,000 at full retirement age would be reduced to about $1,400 if he claimed it at age 62. On the other hand, if Todd delayed claiming his worker benefit until age 70, it would be 124% of his primary insurance amount, or $2,480 per month.

Marian was born in 1962. Her full retirement age is 67, when she would be entitled to a $2,400 full monthly benefit. If Marian claimed her worker benefit at age 62, it would be permanently reduced to 70% of the primary insurance amount. So a monthly benefit that would have been $2,400 at full retirement age would be reduced to about $1,680 if she claimed it at age 62. On the other hand, if Marian delayed claiming her worker benefit until age 70, it would be 124% of her primary insurance amount, or $2,976 per month.

You can also see that on an annual basis, these percentage differences can add up and significantly affect retirement income.

This hypothetical example is based on Social Security Administration rules and is used for illustrative purposes only. Actual benefits and results will vary.

If your health is good, you are working, and you have family members who have lived well into their 80s and 90s, delaying benefits could provide you with greater lifetime Social Security benefits.

How Claiming Age Affects Lifetime Benefits

Your decision on when to file for Social Security should be based on a combination of factors, including your health, life expectancy, work situation, retirement goals, and other sources of income.

If you delay filing for Social Security, you might increase not only your monthly benefits but also your lifetime benefits, depending on how long you live.

For some individuals, working longer and claiming benefits later may provide the most Social Security income over their lifetimes. Others may not have a choice because they need the income at an earlier age. And people who don't live as long might receive more Social Security income over their lifetimes by collecting benefits at an earlier age.

Social Security

Spousal Benefit

Married individuals are eligible to receive a Social Security benefit based on their own earnings history or a spousal benefit based on the spouse's primary insurance amount. *(This is also true for unmarried, divorced individuals who were married for at least 10 years.)*

If you're married, you can claim a spousal benefit whether you have worked or not. But in order to qualify for the spousal benefit, you must be at least age 62, you must have been married for at least one year, and your spouse must have filed for Social Security benefits. *(An eligible, unmarried divorced spouse does not have to wait until his or her ex files for benefits, but the ex must be at least age 62.)*

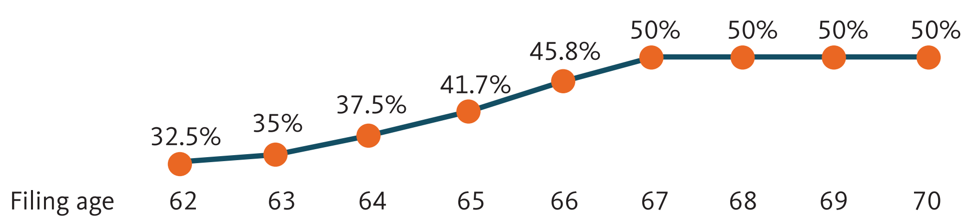
If you elect to receive a spousal benefit before you reach full retirement age, you would receive a permanently reduced amount, unless you are caring for a qualifying child. The benefit reduction is based on *your* age when you claim the spousal benefit.

If you claim the spousal benefit upon reaching your full retirement age, the benefit would be one-half of your spouse's primary insurance amount (PIA).

The spousal benefit is never higher than 50% of the primary worker's full benefit. So, for example, if your spouse's PIA is $2,400, you could receive a $1,200 monthly spousal benefit by claiming it at your full retirement age.

How Claiming Age Affects the Spousal Benefit

This chart shows how the Social Security spousal benefit would be affected by claiming it at different ages.



Assumes a full retirement age of 67. The percentages for the spousal benefit are based on the primary worker's full benefit amount.

Because the spousal benefit is based on the primary worker's PIA, the maximum spousal benefit is 50% of the worker's PIA. So a spousal benefit claimed at age 62 would be only 32.5% of the spouse's PIA instead of 50%.

Here's a hypothetical example that assumes the PIA of the primary worker is $2,000. The maximum spousal benefit would be 50% of that, or $1,000, if claimed at full retirement age (or later). If the spousal benefit was claimed at age 62, it would be reduced to $650, which is 32.5% of the primary worker's PIA. That's a difference of $350 per month or $4,200 a year!

As you can also see, there's really no advantage to waiting longer than full retirement age to claim the spousal benefit.

Excess Spousal Benefit

If you file for Social Security retirement benefits before reaching full retirement age and later qualify for a spousal benefit, the combined benefit might be lower than what the spousal benefit would have been had you waited until your spouse filed and you reached full retirement age.

This is often referred to as the **excess spousal benefit**, and it comes into play when your PIA is less than half of your spouse's PIA.

