Making the Transition
Retirement Income Planning
Basic Questions

- What does retirement mean to you?
- When do you plan to retire?
- How long will your retirement last?
Early Retirement Considerations

- Fewer accumulation years
- Longer distribution period
- Impact on Social Security
- Health care / Medicare
- Impact on pension benefit
Delayed Retirement Considerations

- More accumulation years
- Shorter distribution period
- Impact on Social Security
- Impact on health care
Working During Retirement

Phased Retirement Programs
- Increasingly popular
- Allow you to receive all or part of your pension benefit once you’ve reached retirement age
- You continue to work on a part-time basis for the same employer

- Earnings reduce demands on personal savings
- Potential access to health care
- Effect on Social Security
- Nonfinancial benefits
How Long Will Retirement Last?

- We’re living longer
- Average 65-year-old American can expect to live another 19.3 years*
- Average life expectancy is likely to continue to increase
- Retirement may last 25 years or more

*Source: NCHS Data Brief, Number 168, October 2014
Retirement Income Planning: Goals

Maximize your ability to enjoy retirement

Manage the risk of outliving your income

Manage the risk of unexpected life events

Every retirement income plan has to balance three main goals
Retirement Income Planning: The Process

- Estimate How Much Income You’ll Need
- Consider Major Factors (e.g., inflation)
- Total Income from Social Security, Pensions
- Identify the Gap
- Use Savings to Bridge the Gap
How Much Annual Income Will You Need?

- “Rules of thumb” (e.g., you’ll need 60% to 90% of pre-retirement income) are easy but too general
- Think about what expenses will change (e.g., mortgage may decrease, health-care costs may increase)
- Include costs for special retirement pursuits (e.g., travel, hobbies)
- List your expenses
Accounting for Health-Care Costs

- Medicare coverage at age 65
- Medicare prescription drug coverage
- Medigap policies
- Medicare will not pay for long-term care
Accounting for the Cost of Long-Term Care

- What is long-term care?
- 40% of individuals over age 65 will need long-term care*
- Average cost of nursing home = $74,820*

*Source: National Clearinghouse for Long-Term Care Information, 2011

Options
- Pay-out-of-pocket
- Rely on Medicaid
- Long-term care insurance
Major Factors to Consider

- Accounting for inflation
- Recognizing the impact of taxes
- Understanding potential risk
Accounting for Inflation

Assuming 3% inflation, in 25 years it will cost you over $100,000 to buy the same goods and services that $50,000 would purchase today.

This hypothetical example is for illustrative purposes only.
Impact of Taxes

- Ordinary income tax (e.g., interest)
- Special tax rates for long-term capital gains and qualifying dividends
- Tax-free income (e.g., certain municipal bonds)
- Special rules for tax-advantaged accounts
Understanding Risk

- Market risk
- Reinvestment risk
- Interest rate risk
Sources of Retirement Income

The “Three-Legged” Stool

- Social Security
- Employer pension
- Individual savings & investments
Social Security Basics

- Benefit calculation
- Start date
- Working in retirement
- Inflation
- Bottom line: Social Security will likely meet only a portion of your retirement income needs

How much annual income will you receive?
- Number of years worked
- Amount you've earned
- 35 highest earning years
- Annual Social Security statement provides estimate

When do benefits begin?
- Earliest -- age 62
- Benefits before normal retirement age: monthly benefit permanently reduced
- Balance reduced benefits against more benefit payments
Employer Pension Basics

- Understand payout options
  - Single-life annuity
  - QJSA
  - Other options (e.g., lump sum)
- Inflation adjustments?
- Read plan explanation of benefits
Identifying the “Gap”

Annual income needed in retirement

Additional annual income needed

Annual income from Social Security, pension
Personal Savings: General Considerations

- Investment / asset allocation strategy
- Specific investment and product choice
- Withdrawal rate
- Order of withdrawals
- Required minimum distributions (RMDs)
Personal Savings: Asset Allocation

- Transition from accumulation to distribution
- Immediate income vs. long-term returns
- Effective asset allocation plan:
  - Provides ongoing income
  - Minimizes asset volatility
  - Maximizes likelihood that savings will last as long as needed
  - Keeps pace with inflation
Personal Savings: Investment Considerations

- Bonds, bond funds
- Dividend-paying stock
- Certificates of deposit (CDs)
- Treasury Inflation-Protected Securities (TIPS)
- Distribution funds

All investing involves risk, including the possible loss of principal. You should not invest in any of these options without a full understanding of the advantages and disadvantages the investment offers, as well as an understanding of how any earnings are taxed.

Before investing in a mutual fund, carefully consider the investment objectives, risks, charges, and expenses of the fund. This information is available in the prospectus, which can be obtained from the fund. Read it carefully before investing.
Personal Savings: Annuities

- Contract between you and an insurance company
  - You pay premium(s)
  - Issuer promises to make payments for fixed time or for life
- Can provide guaranteed* income stream for life
- Fixed income means less flexibility
- Relative return on investment
- Bottom line: can be a full or partial solution, but they’re not right for everyone

*Guarantees subject to claims-paying ability of annuity issuer
Personal Savings: Withdrawal Rate

- Current vs. future income needs
- “Sustainable withdrawal rate”
- Calculation methods
- 4% to 5% typical withdrawal rate
- Particularly important in early years of retirement
Personal Savings: Order of Withdrawals

- Types of accounts
  - Tax-deferred (e.g., traditional IRAs)
  - Tax-exempt (e.g., Roth IRAs)
  - Taxable accounts
- Income concerns vs. estate planning concerns
- Your individual circumstances should govern

Required Minimum Distributions (RMDs)

- Annual distributions
- After age 70½
- Traditional IRAs, 401(k)s, 403(b)s
- No lifetime RMDs for Roth IRAs
- 50% penalty tax applies
Other Potential Sources of Income

- Your home
- Existing cash value life insurance policies
Recap

- When do you plan to retire?
- How long a period should you plan for?
- How much annual income will you need?
- How much annual income can you expect from Social Security? Employer pension?

- Personal savings
  - Investment plan / asset allocation
  - Investment considerations
  - Withdrawal rates
  - Order of withdrawals
  - Other potential income sources
Conclusion

I would welcome the opportunity to meet individually with you to address any specific concerns or questions that you may have.
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