retirement income planning

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imagine the possibilities

Thoughts of a fulfilling retirement can be exciting, but they can also be a little daunting. You start to wonder if you'll have enough money to retire comfortably. This worry seems to grow as you add in the uncertainty of Social Security, inflation and health care. Take a look at how you can work to minimize these worries and help protect your retirement dreams.

retire comfortably

Are you worried about the future and not having enough money to retire comfortably? After all, compared to previous generations you can expect to live a longer, healthier life. As much as 30 years longer.

How long will I live?

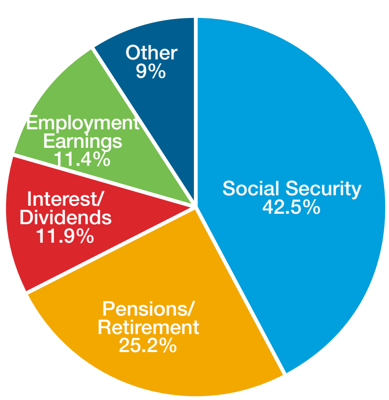
There's a good chance you will live into your 80s and even your 90s.

- A 65-year-old man has a 50% chance of living to age 85[2]
- A 65-year-old woman has a 50% chance of living to age 88[2]
- A married couple, both age 65, has a 50% chance of one survivor living to age 92[2]

How much will I need?

Expect to spend about half of your retirement income on basic living expenses. Only 18% goes to discretionary expenses—all the fun stuff like golf, travel and hobbies. As a result, approximately three in five pre-retirees and half of retirees anticipate needing to tap into their savings just to meet basic expenses.[3]

Sources of Retirement Income for American Retirees[3]



Have you saved—or will you be able to save—enough to enjoy your retirement for 25 or 30 years? What sources of income will you have in retirement? Retirement income can come from sources such as:

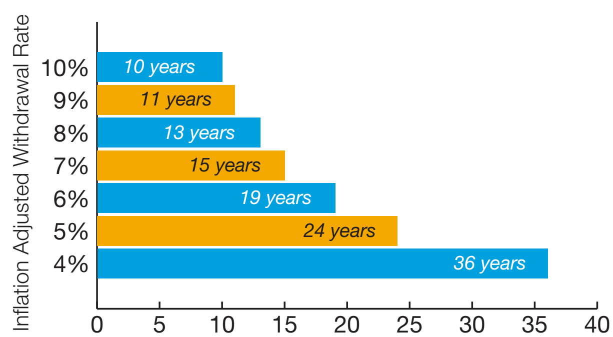
- Social Security
- Pension/Retirement Plan
- Employment
- Interest and Dividends
- Annuities
- Savings

How can I make it last?

Just because you're doing a good job of saving for retirement doesn't mean you're set for life. You need a plan.

Ideally, you want your retirement savings to generate enough revenue so you don't have to dip into the principal. Realistically, that probably isn't going to happen.

Aggressive withdrawals are generally unsustainable—especially when the markets are down. One analysis determined that the maximum sustainable withdrawal rate for a balanced portfolio of stocks and bonds was 5.58% after adjusting for inflation.[4] Withdrawing 4% to 5% may be a reasonable approach for many retirees over the long term.



Years Portfolio May Last[5]

living longer

With the prospect of living longer also comes the real possibility that you might outlive your spouse, or your spouse might outlive you. In fact, one out of three women over the age of 55 and one out of 11 men is widowed.[6]

One of the areas that people often skip over when developing a retirement income plan is how the plan might change when one spouse passes away. You may see a small reduction in expenses if your spouse predeceases you, but the income you had been receiving when you were both living may be reduced drastically:

- Social Security benefits alone are often inadequate for the surviving spouse. You will receive the greater of your own or your spouse's monthly benefit, but not both. It's much less than what you got as a couple.
- If your spouse receives a pension and elected the larger lifetime benefit with no survivor income, that payment stops when your spouse dies. If a joint and survivor option was elected, the continuing income received is usually half of what it was when your spouse was alive.

This is especially important to consider if you're a woman, as women on average outlive men. When a woman outlives her husband, her income decreases by 50% on average, yet expenses only decrease by 20%.[7]

Only 35% of pre-retirees have a written plan to help manage income, assets, expenses and risks in retirement.[8]

inflation

Most people underestimate the impact inflation will have on their retirement plans. Even at relatively low rates, inflation can drastically erode buying power over time.

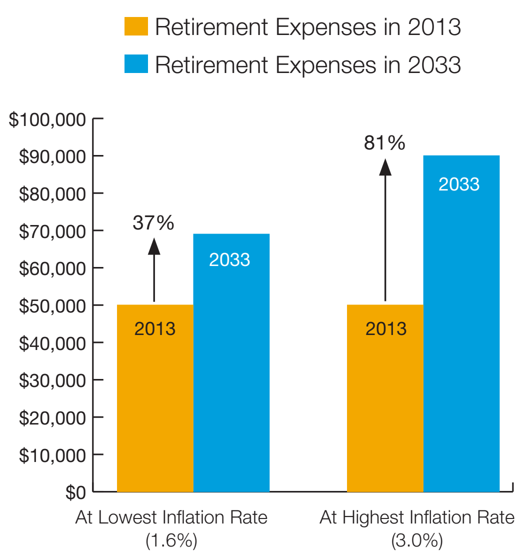
Suppose that you now require $50,000 a year to maintain your lifestyle and would like to maintain that standard of living in retirement. Look at the impact a 3% inflation rate (the historic average—neither low nor high) has over time:

- If you need $50,000 a year to live now, you will need $67,196 a year in 10 years to support the same standard of living
- $90,306 a year in 20 years (age 85 if you retired at 65)
- $136,595 in 34 years (If you retire at 65 and live to 99, you have lived 34 years in retirement)

Don't use your retirement date as the endpoint for your retirement planning. Remember, you could easily live another 20 years or more in retirement—time enough for your cost of living to double yet again.

Impact of Inflation[9]

Keeping Pace from 2012 to 2032



investments

Bear markets—sometimes defined as a drop in a respected index like the S&P 500 Index or Dow Jones Industrial Average of at least 20% in a prolonged market—are not that infrequent. On average, the market takes a significant dive about every three to five years, according to data based on the Dow Jones Industrial Average.

When you shift from saving for retirement to drawing on your savings, you probably want to protect your nest egg by focusing on low-risk investments. However tempting it may be to avoid risk completely, you still need some of your assets in growth-oriented investments so your money has the opportunity to grow faster than inflation and to last throughout retirement.

In the long run, you'll need to consider investing more aggressively to protect your nest egg against the devastating effects of inflation. Without the higher returns offered by stocks and bonds, it will be virtually impossible to outpace inflation.

Appropriate asset allocation, which spreads investments across multiple asset classes such as stocks, bonds and cash, may help limit the effects of market volatility.

health care expenses

Rising health care costs may be much more of a financial drain than you ever imagined.

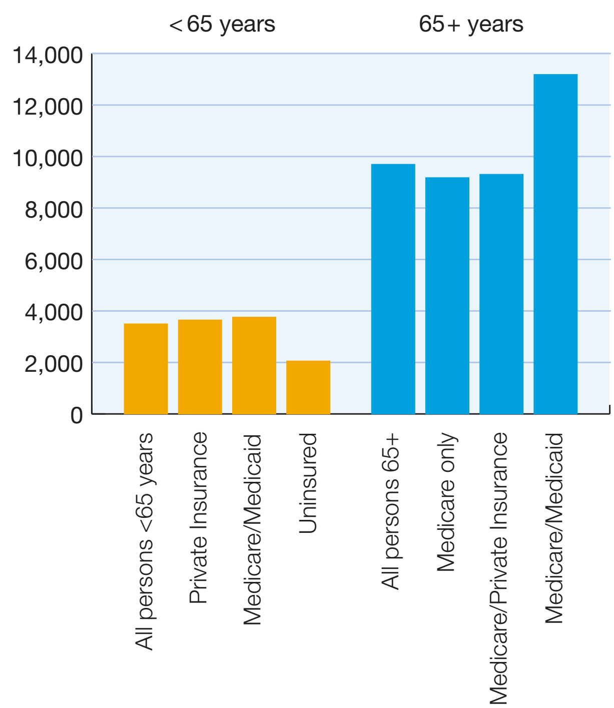
The older you get, the more you can expect to pay for health care. In addition to the premiums you will pay for Medicare, out-of-pocket expenses also increase considerably in retirement. Spending on prescription drugs generally rises throughout retirement, but nursing home costs really accelerate at age 85 and beyond—the point in your life when your resources may be limited.

A typical 65-year-old woman may need up to $242,000 or more for her Medicare and Medigap premiums and out-of-pocket expenses. A similarly situated man may need $173,000 or more.[10]

About 70% of 65-year-olds will need long-term care at some point in their life, with an average long-term stay being about 2½ years. The average daily rate in 2009 for a semiprivate room was $219, which comes to about $70,000 a year.[11]

The cost of medical care has outpaced inflation for over 20 years. These increases are expected to continue in the years ahead. Some industry surveys predict that costs will rise as much as 5-15 percent annually.[12]

Average Annual Out-of-Pocket Health Care Expenses by Age and Insurance Status[13]



In addition to premiums for Medicare, you'll need to pay for prescription medications, dental care, miscellaneous out-of-pocket expenses and long-term care if you need it. Will you have the necessary resources to cover these important costs in retirement?

planning for your future

The first step in planning for your retirement income is to figure out your goals, and then work with a trusted financial professional to help achieve them. Putting a plan in place can help you use your assets in the most efficient manner, helping accomplish things like:

- Making sure your basic needs are covered for as long as you live
- Maximizing your Social Security benefit
- Identifying tax issues and opportunities
- Making sure your money keeps up for the long haul

Are there any guarantees in retirement?

An annuity can turn assets into a steady, guaranteed* income stream. This means that no matter how long you or your spouse live, you can always depend on this source of income. Investments such as savings accounts, CDs and mutual funds generally don't provide a lifetime income.

Positioning some of your assets into an annuity can help provide some assurance that you can cover your essential expenses such as housing, healthcare and food for as long as you live. The remainder of your assets can then be directed to investments with more growth potential to help protect against inflation and market volatility.

There's no better time than now to plan for your retirement. Retirement at its very best.

*Guarantees are based on the claims paying ability of the issuing company.

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[1] 2012 Retirement Confidence Survey, Employee Benefit Research Institute.

[2] U.S. Census Bureau

[3] "The Retirement Income Source Book," LIMRA, 2011

[4] Standard & Poor's. This example is a compilation of all 30-year holding periods from 1926 to 2004, based on a portfolio of 60% U.S. stocks and 40% long-term Treasury bonds, with annual withdrawals adjusted for actual historical changes in the Consumer Price Index. The example is not intended as investment advice.

[5] Fidelity Investments. Hypothetical value of assets held in an untaxed portfolio of 50% stocks, 40% bonds, and 10% short-term investments and inflation-adjusted withdrawal rates as specified. Average rates of return for stocks, bonds, short-term investments and inflation are based on the risk premium approach. Actual rates of return may be more or less. The chart is for illustrative purposes only and is not indicative of any investment. Past performance is no guarantee of future results. Actual number of years a portfolio may last may be more or less.

[6] U.S. Census Bureau

[7] LIMRA Market Facts Quarterly, Fall 2012

[8] www.wellsfargo.com/press/2009/20091105_Retirement

[9] Calculated averages from CPI data, U.S. Dept. of Labor, Consumer Price Index, March 2006. Assumes $50K current expenses.

[10] "Savings Needed for Health Expenses in Retirement: An Examination of Persons Age 55 and 65 in 2011," Notes, June 2011, Vol. 30, No. 6, Employee Benefits Research Institute.

[11] www.healthcarefinancenews.com, last accessed February 17, 2010.

[12] http://crr.bc.edu/briefs/what-is-the-distribution-of-lifetime-health-care-costs-from-age-65/

[13] Center for Financing, Access and Cost Trends, AHRQ, Household Component of the Medical Expenditure Panel Survey, 2011.

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