focus On®

Retirement Income

Charting a Course to Help Your Money Last

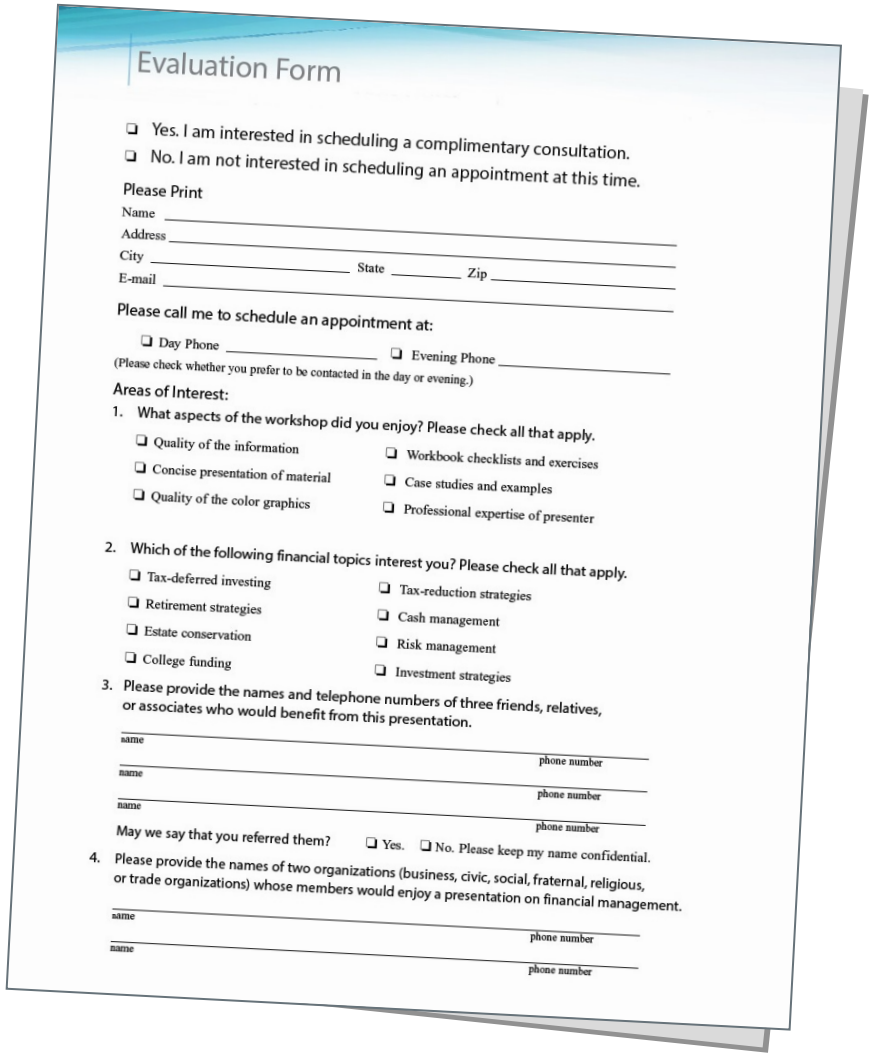
Peter Murphy, CFP®
Financial Partners

Investment Advice offered through Financial Partners, LLC, a Registered Investment Advisor.

Our Commitment

- Provide sound financial information
- Help you identify goals
- Offer complimentary, no-obligation consultation

Workbook and Evaluation Form



Evaluation Form

❑ Yes. I am interested in scheduling a complimentary consultation.
❑ No. I am not interested in scheduling an appointment at this time.

Please Print

Name _____

Address _____

City _____ State _____ Zip _____

E-mail _____

Please call me to schedule an appointment at:

❑ Day Phone _____ ❑ Evening Phone _____

(Please check whether you prefer to be contacted in the day or evening.)

Areas of Interest:

1. What aspects of the workshop did you enjoy? Please check all that apply.
   - ❑ Quality of the information
   - ❑ Concise presentation of material
   - ❑ Quality of the color graphics
   - ❑ Workbook checklists and exercises
   - ❑ Case studies and examples
   - ❑ Professional expertise of presenter
2. Which of the following financial topics interest you? Please check all that apply.
   - ❑ Tax-deferred investing
   - ❑ Retirement strategies
   - ❑ Estate conservation
   - ❑ College funding
   - ❑ Tax-reduction strategies
   - ❑ Cash management
   - ❑ Risk management
   - ❑ Investment strategies
3. Please provide the names and telephone numbers of three friends, relatives, or associates who would benefit from this presentation.

   name _____ phone number _____

   name _____ phone number _____

   name _____ phone number _____

   May we say that you referred them? ❑ Yes. ❑ No. Please keep my name confidential.
4. Please provide the names of two organizations (business, civic, social, fraternal, religious, or trade organizations) whose members would enjoy a presentation on financial management.

   name _____ phone number _____

   name _____ phone number _____

What Happens When You Retire?

What will change in retirement?

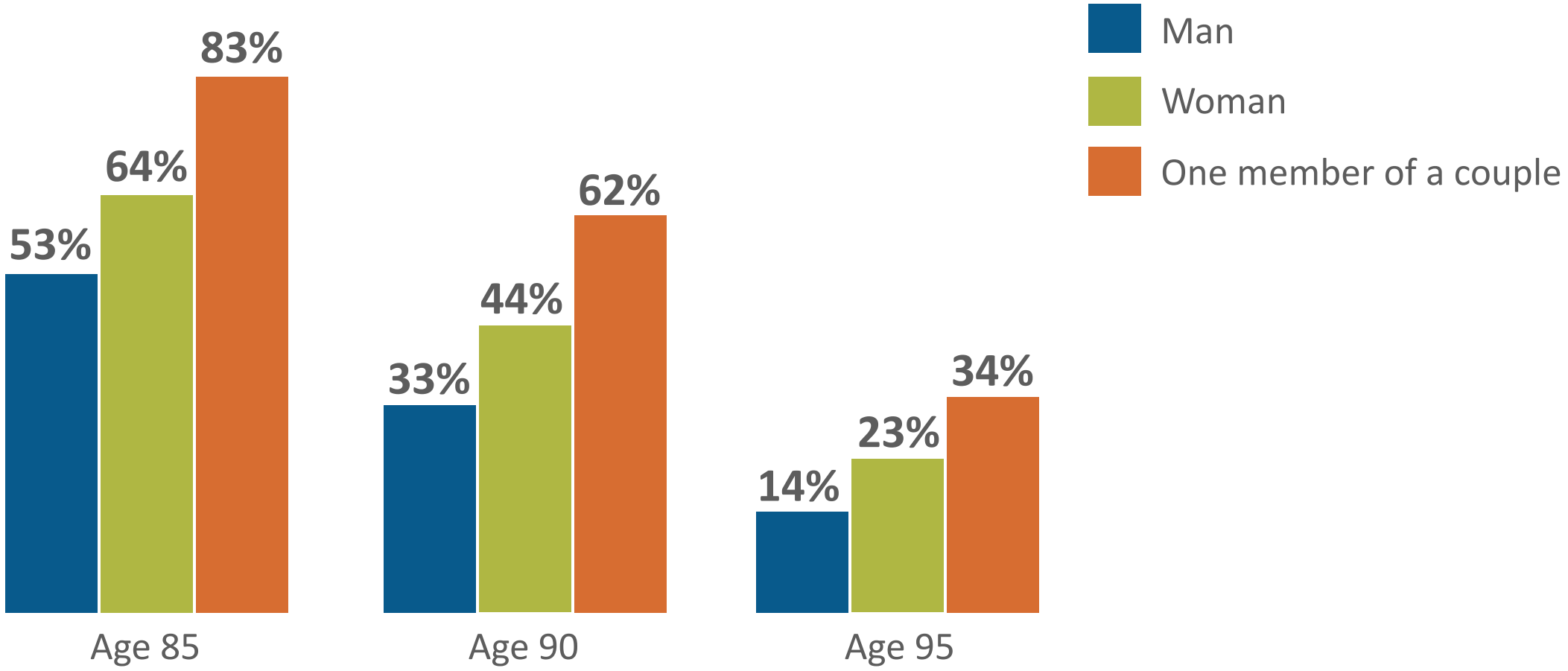
- Financial focus shifts
- Change from *accumulating* assets to *withdrawing* assets
- Generate an income stream that will last a lifetime

4 Steps to Developing an Income Strategy

1. **Prepare for the Unexpected**
2. Envision Your Retirement
3. Refine Your Investment Mix
4. Choose a Distribution Method for Tapping Assets

Longevity Risk

Probability that a healthy 65-year-old will live to the following ages



Source: Society of Actuaries, 2019

Inflation Risk: The Loss of Purchasing Power

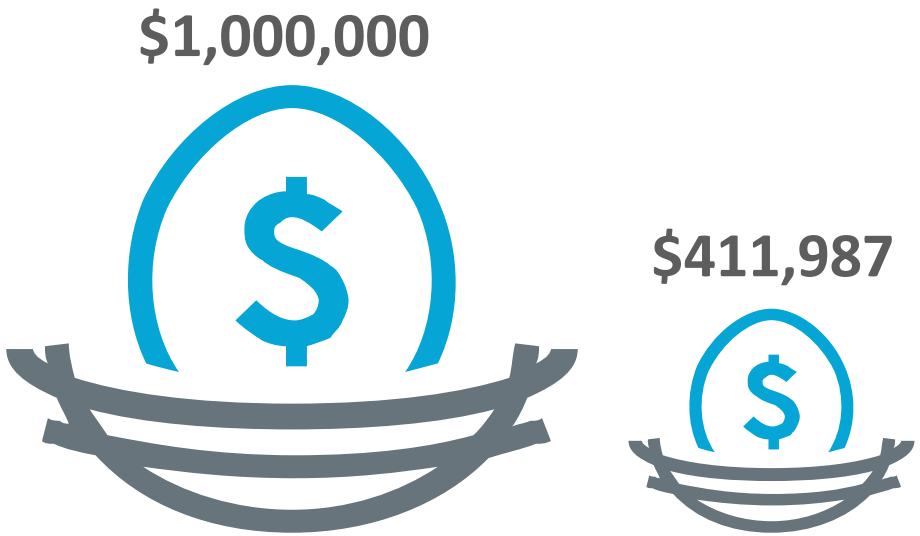
Effect of 3% annual inflation

Bag of groceries

Today

In 30 years

Retirement portfolio



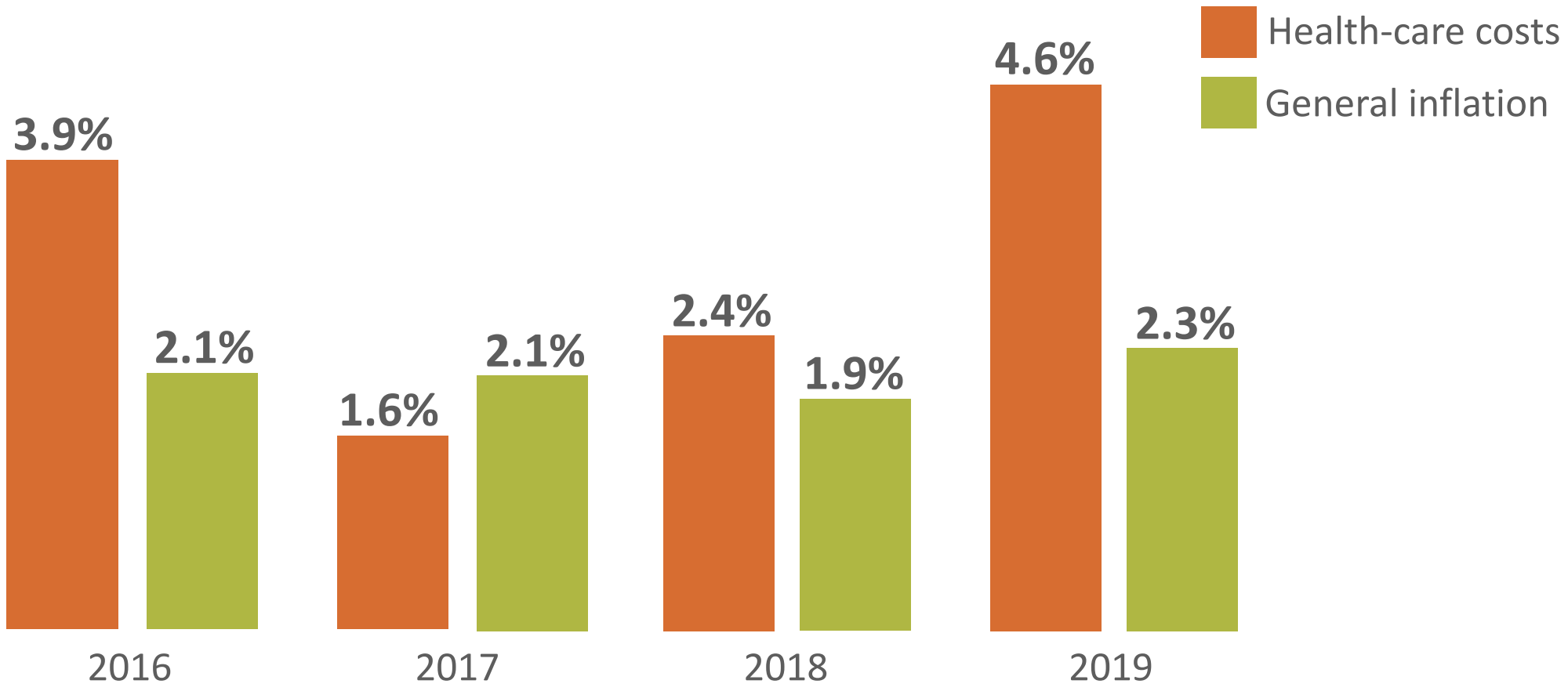
Today

In 30 years

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

Rising Cost of Health Care

A 65-year-old couple who retired in 2019 may need $301,000 to cover their health expenses in retirement



Sources: Employee Benefit Research Institute, 2019; U.S. Bureau of Labor Statistics, 2020

Risk of a Personal Health Crisis

The Wilsons

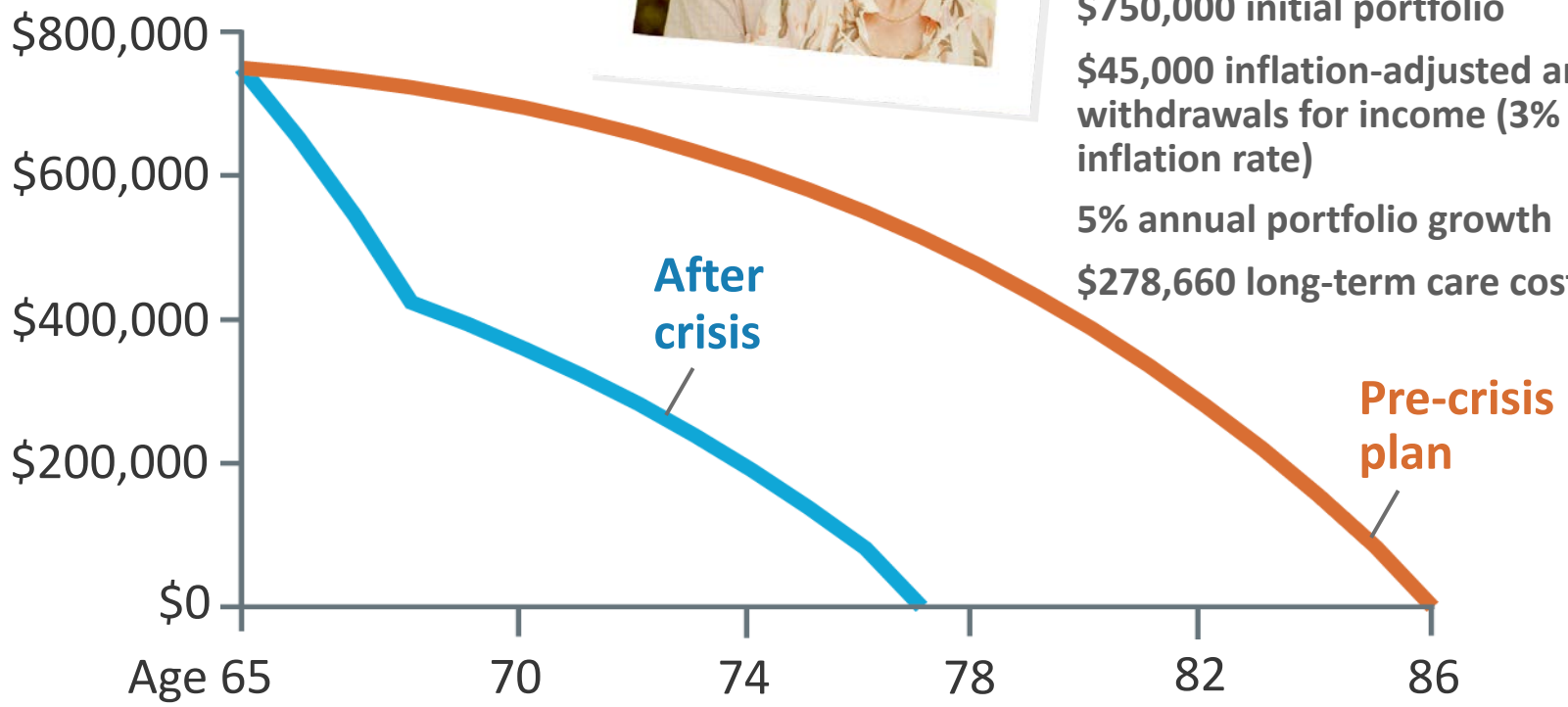
Assumptions:

$750,000 initial portfolio

$45,000 inflation-adjusted annual withdrawals for income (3% annual inflation rate)

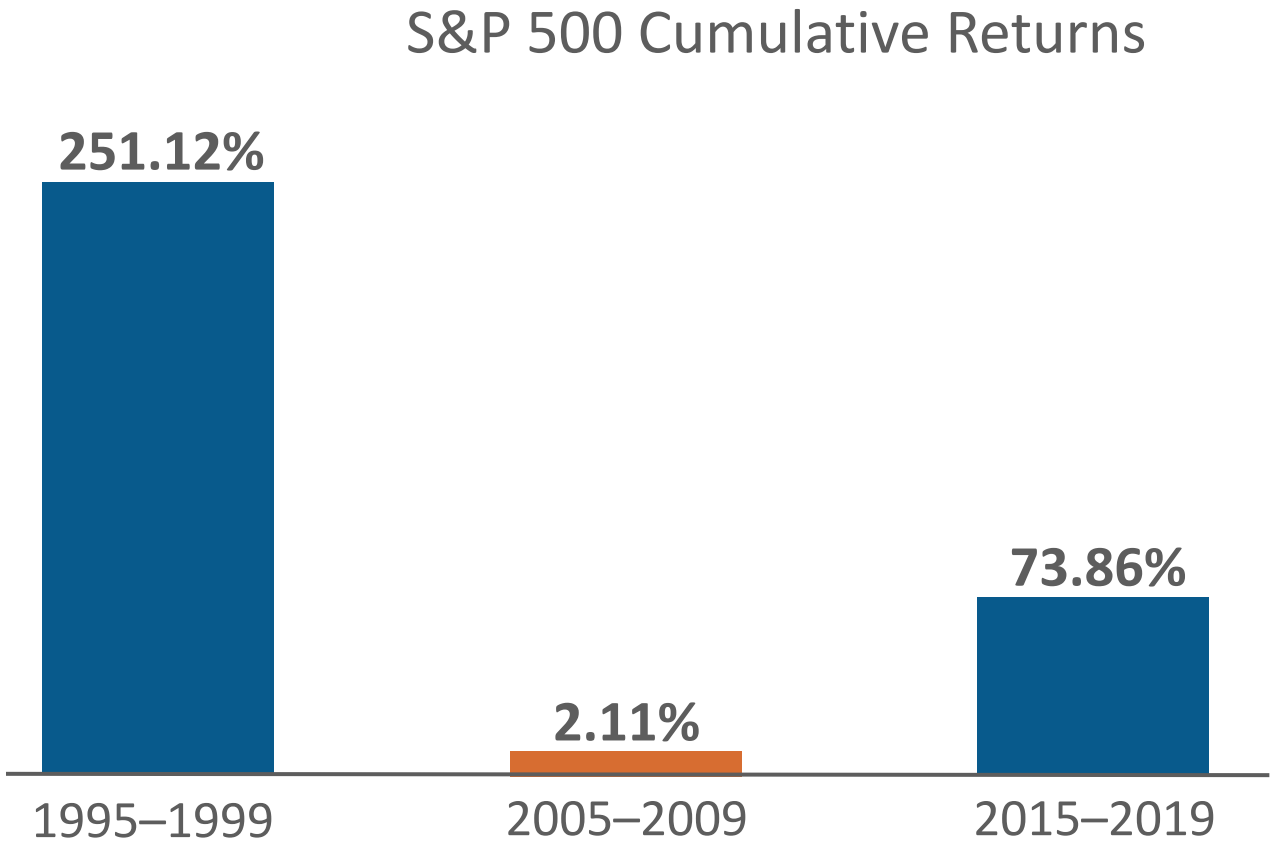
5% annual portfolio growth

$278,660 long-term care costs over 3 years



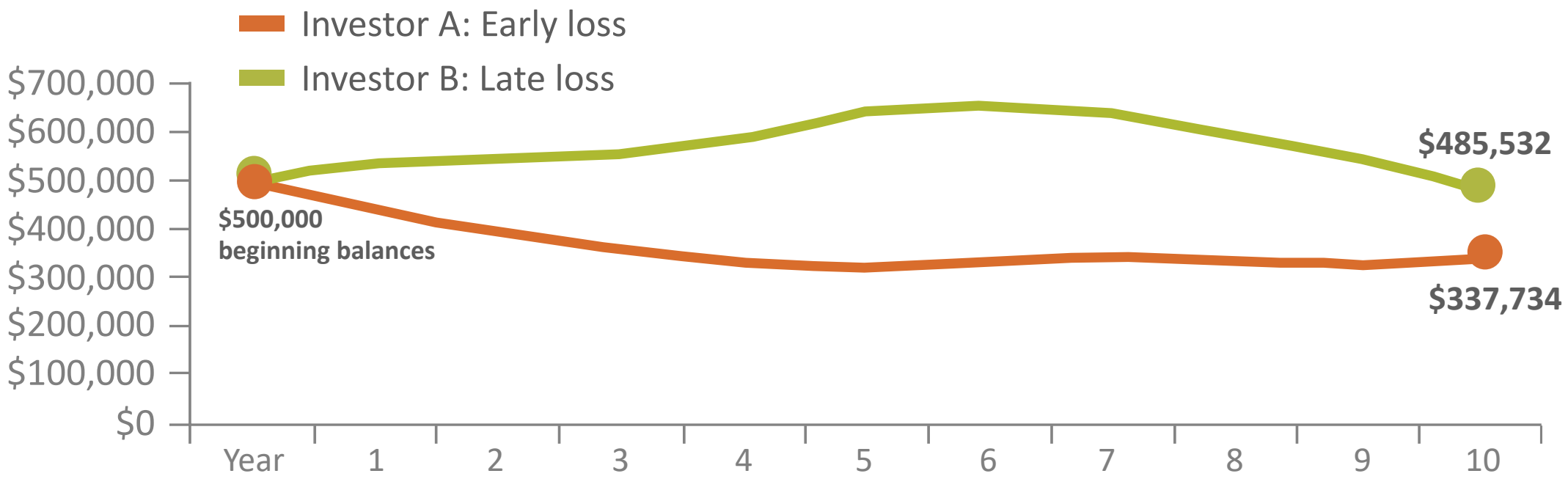
This hypothetical example is used for illustrative purposes only.
Taxes and investment expenses are not considered. Actual results will vary.

Unpredictability of the Financial Markets



Source: Refinitiv, 2020, for the periods 1/1/1995 to 12/31/1999, 1/1/2005 to 12/31/2009, and 1/1/2015 to 12/31/2019. The S&P 500 composite index total return is generally considered 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.

Sequence-of-Returns Risk



	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Investor A (early loss)	**–5%**	**–2%**	**–1%**	**3%**	**7%**	**15%**	**12%**	**9%**	**8%**	**14%**
Investor B (late loss)	**14%**	**8%**	**9%**	**12%**	**15%**	**7%**	**3%**	**–1%**	**–2%**	**–5%**

Assumes $35,000 annual withdrawals. This hypothetical example is used for illustrative purposes only and does not reflect any specific investments. Inflation, fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Actual results will vary.

4 Steps to Developing an Income Strategy

1. Prepare for the Unexpected
2. **Envision Your Retirement**
3. Refine Your Investment Mix
4. Choose a Distribution Method for Tapping Assets

How Do You Envision Retirement?

- How do you want to spend your life in retirement?
- How will you support your desired lifestyle?
- What will you do if you haven’t accumulated enough?

You may need 70% to 80% of your pre-retirement income to maintain your lifestyle and live comfortably in retirement.

Sources of Retirement Income

Personal savings and investments

Social Security

Continued employment earnings

Personal Savings and Investments

Tax-advantaged vehicles

Employer-sponsored retirement plans

IRAs

Annuities

Taxable vehicles

Brokerage accounts
(outside of retirement accounts)

CDs and bank savings accounts

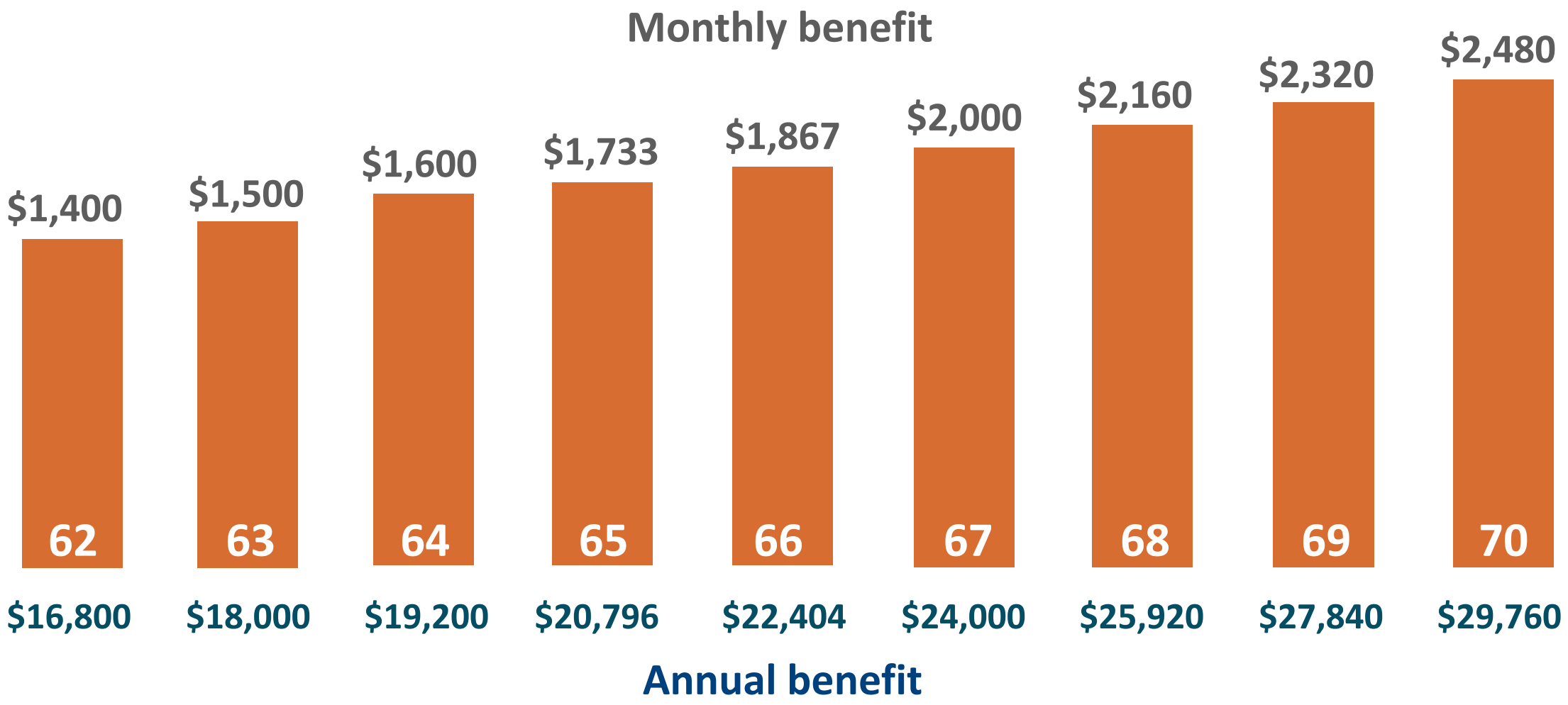
Other non–tax-advantaged investments

Social Security Benefits

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

Source: Social Security Administration

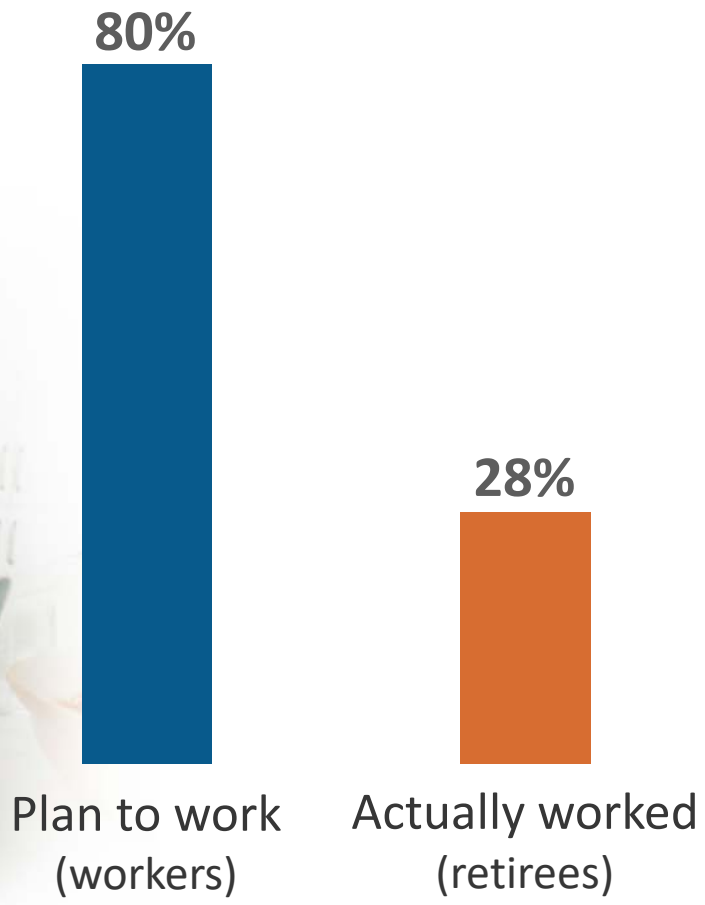
How Claiming Age Affects Monthly and Annual Benefits



Assumes a full retirement age of 67 and a $2,000 primary insurance amount.

This hypothetical example is used for illustrative purposes only. Actual benefits and results will vary.

Continued Employment Earnings



Although 8 in 10 workers think they will work for pay in retirement, only 28% of retirees actually do.

Working for pay prior to reaching full retirement age can affect your Social Security benefits.

Source: Employee Benefit Research Institute, 2019

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Developing a Sound Investment Strategy

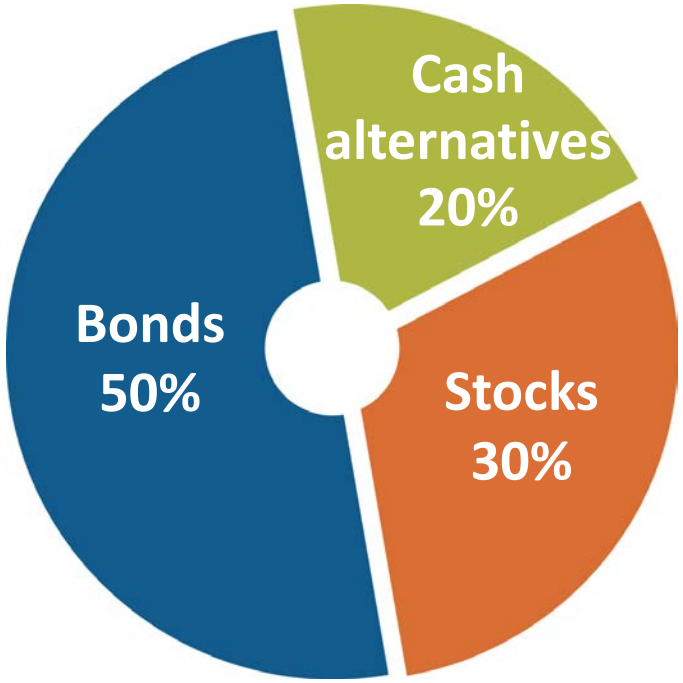
- Investment objectives
- Time frame
- Risk tolerance

Asset Allocation

A systematic approach to diversification that determines an efficient mix of assets for an investor.

Sample Asset Allocation Models

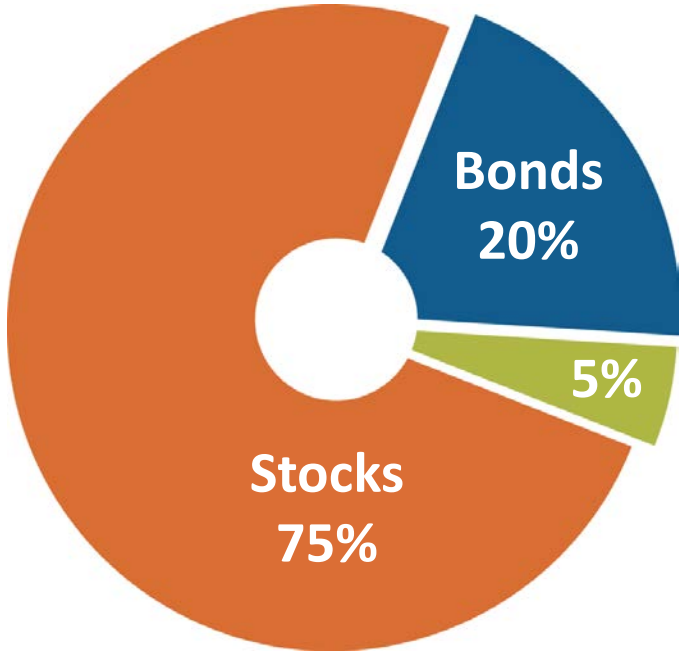
Conservative portfolio



2000–2019 performance

Best year	18.08%
Worst year	–10.85%
Avg. annual	5.49%

Aggressive portfolio



2000–2019 performance

Best year	26.67%
Worst year	–26.13%
Avg. annual	5.93%

Source: Refinitiv, 2020. Past performance does not guarantee future results. The returns shown do not include taxes, fees, and other expenses. Actual results will vary. These hypothetical examples are used for illustrative purposes only and are not recommendations.

Choose a Well-Diversified Investment Mix

Cash alternatives for preservation of principal

Bonds for stability and income

Stocks for growth potential

Mutual funds and ETFs for a variety of goals

Managing Your Tax Liability in Retirement

- Ordinary income tax rates:
  10%, 12%, 22%, 24%, 32%, 35%, 37%
  - Bond interest, rents, royalties, wages, short-term capital gains
  - Taxable portion of Social Security benefits
  - Withdrawals from tax-deferred accounts
  - Most pension income
- Qualified dividend and long-term capital gains rates: 0%, 15%, 20%
- Tax-exempt rate: 0%
  - Tax-exempt bonds
  - Qualified Roth IRA income

Income-Producing Vehicles

- Fixed-income investments
- Income-oriented mutual funds and ETFs
- Dividend-paying stocks
- Tax-exempt investments
- Income annuities

Mutual funds and exchange-traded 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, is available from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Structuring a Fixed-Income Ladder

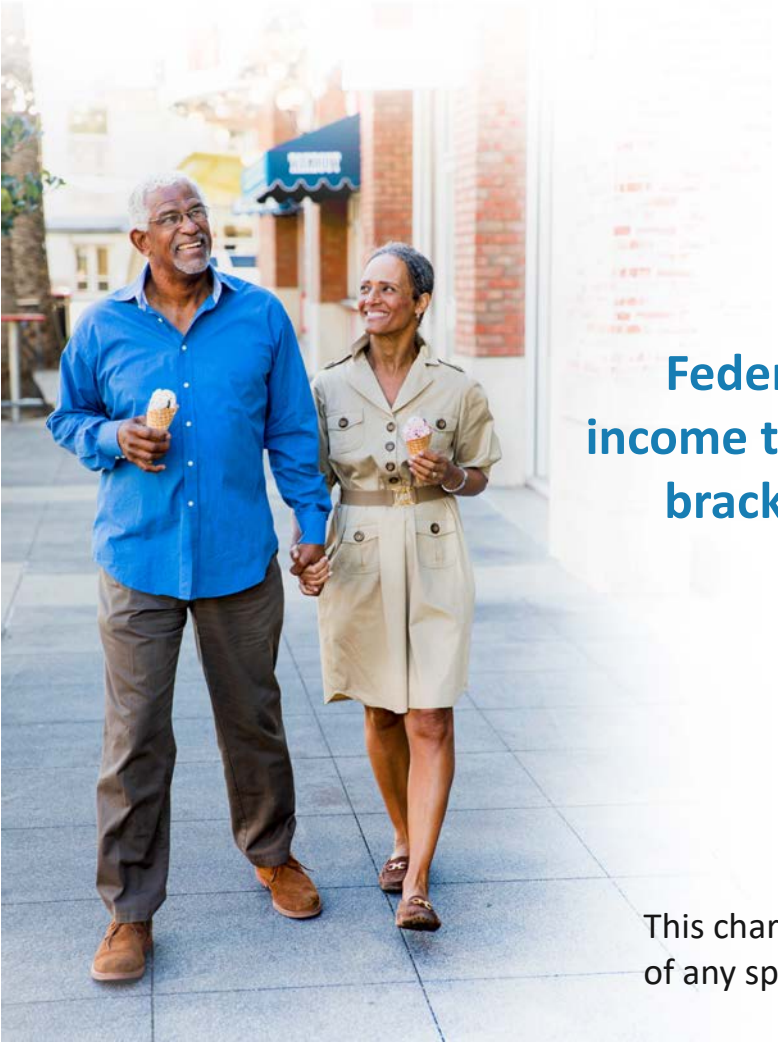
- Regular, fixed income
- Principal repaid upon maturity

Bond ladder

Dividend-Paying Stocks

- Dividend stocks can serve double-duty in your portfolio by providing income and an element of potential growth
- Qualified corporate dividends receive the same favorable tax treatment as long-term capital gains

Is Tax-Exempt Investing Appropriate for You?



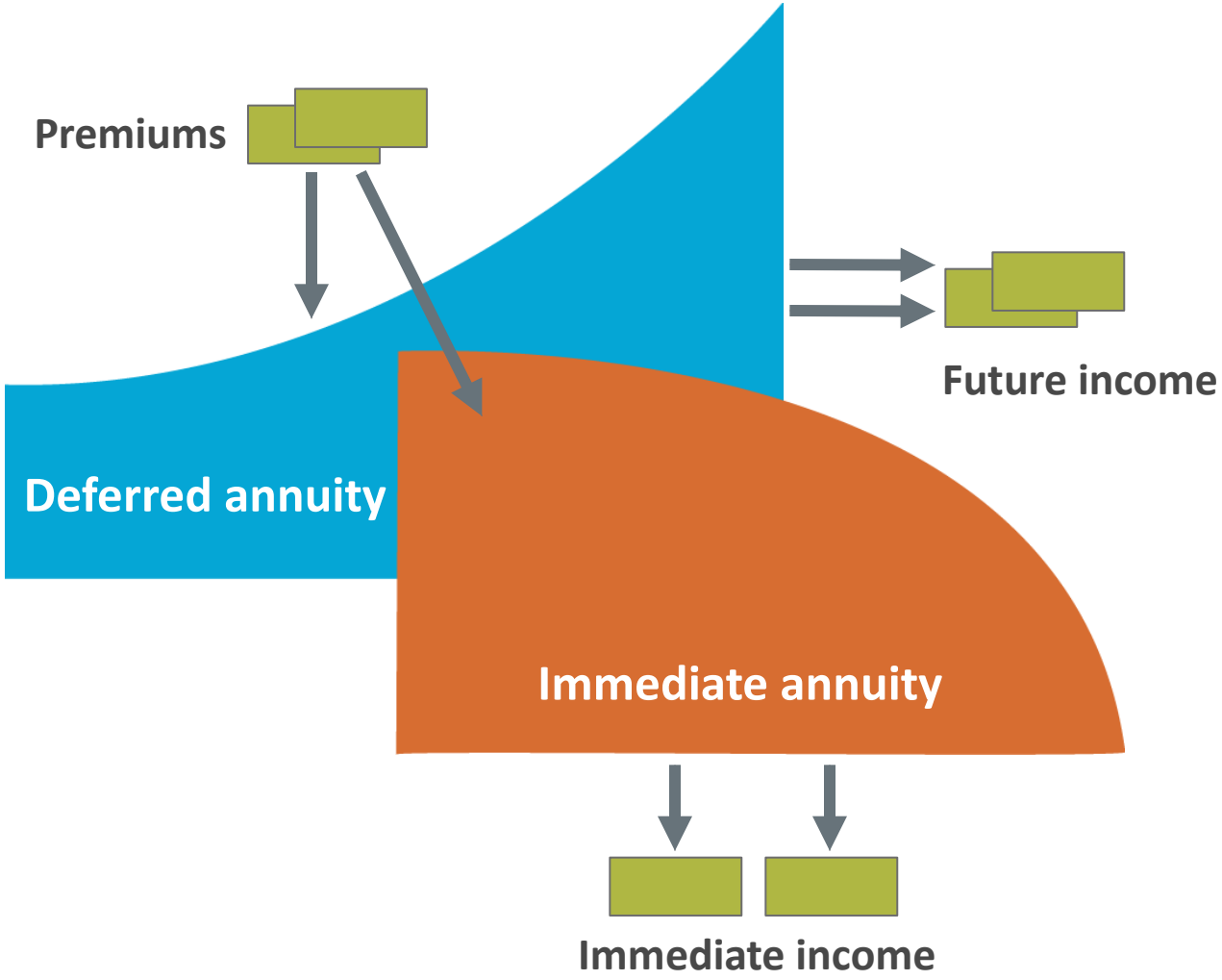
Tax-exempt yield

Federal income tax bracket	2%	3%	4%	5%
10%	2.22%	3.33%	4.44%	5.56%
12%	2.27%	3.41%	4.55%	5.68%
22%	2.56%	3.85%	5.13%	6.41%
24%	2.63%	3.95%	5.26%	6.58%
32%	2.94%	4.41%	5.88%	7.35%
35%	3.08%	4.62%	6.15%	7.69%
37%	3.17%	4.76%	6.35%	7.94%

Taxable equivalent yield

This chart is used for general illustrative purposes and does not reflect the performance of any specific investment.

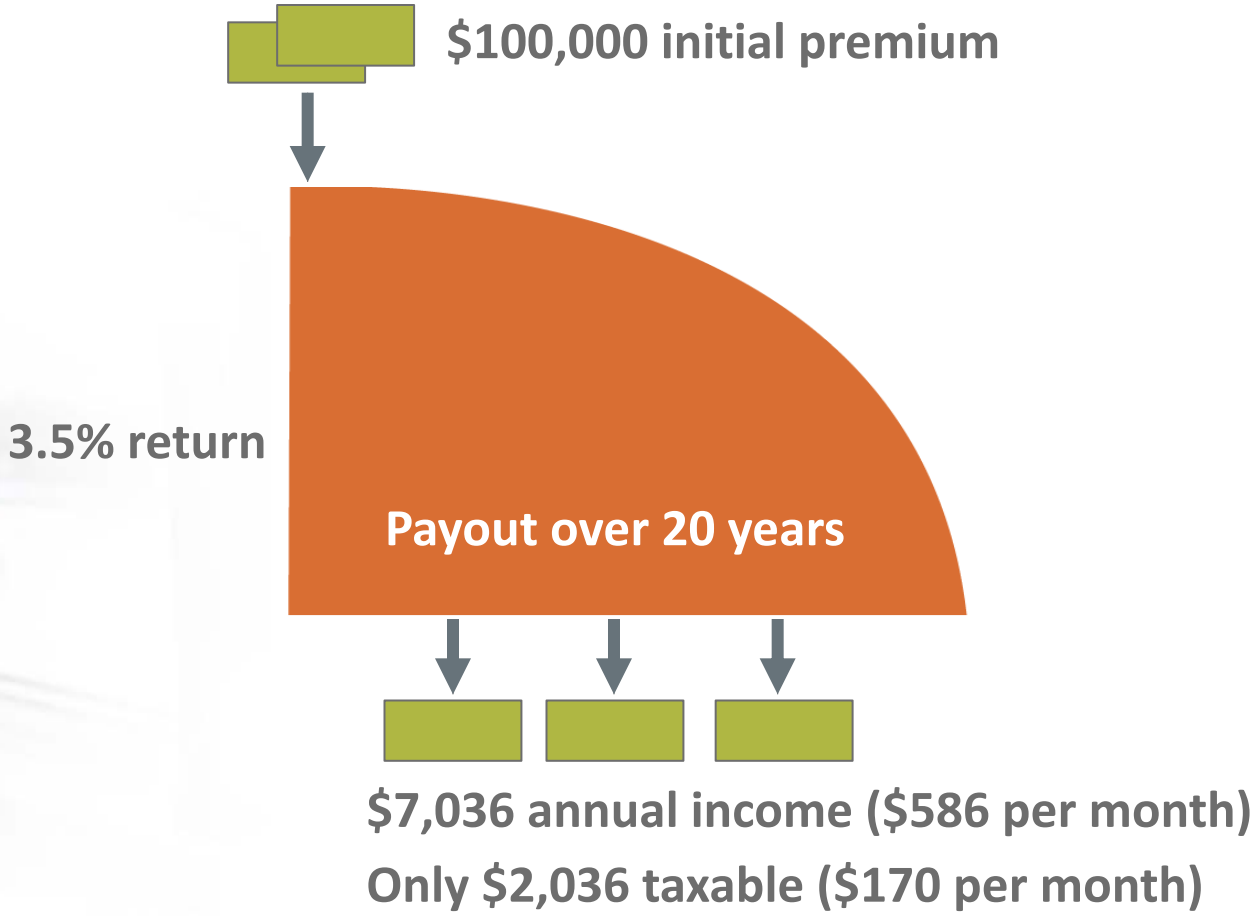
Creating Your Own "Pension" with an Annuity



Annuities are insurance-based contracts that offer an option for guaranteed lifetime income, providing longevity protection*

*The guarantees of annuity contracts are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Immediate Annuity



This hypothetical example is used for illustrative purposes only; actual results will vary. Any annuity guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Qualified Longevity Annuity Contract (QLAC)

- Can use lesser of $135,000 or 25% of account balance to purchase a QLAC
- Annuity's value is excluded from account balance used to determine RMDs
- Payments must begin by age 85
- Income payments are fully taxable

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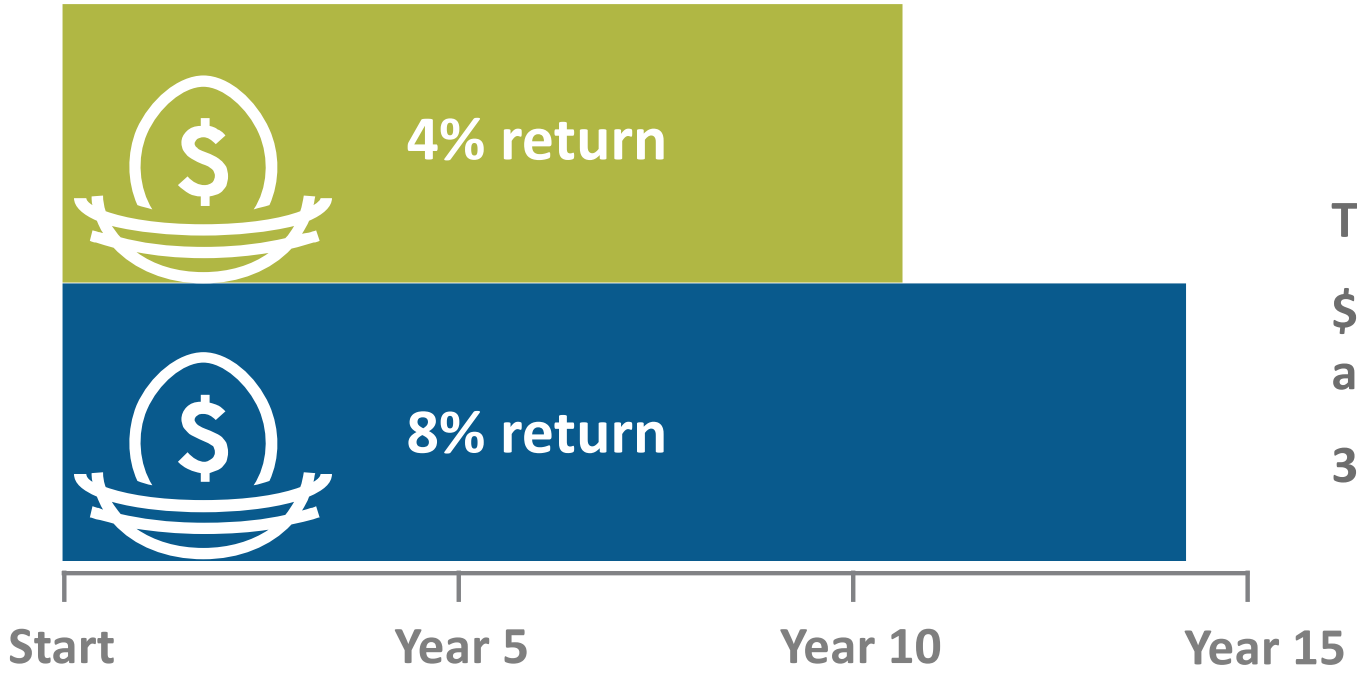
How Long Would a Retirement Portfolio Last?



Two $500,000 tax-deferred accounts

$50,000 inflation-adjusted annual withdrawals

3% annual inflation rate

This hypothetical example is used for illustrative purposes only and does not reflect the performance of any specific investment. It compares two $500,000 portfolios: one earning 4% annually, the other earning 8% annually. The principal values and yields of securities will fluctuate with changes in market conditions so that investments, when sold, may be worth more or less than their original cost. Taxes, fees, and other expenses were not considered.

Assess Drawdown Strategies

- There's no "perfect" strategy
- The decisions you make will largely depend on three factors:
  1. Value of your portfolio at retirement
  2. Actual investment returns
  3. Amount and timing of withdrawals
- Strategies to consider:
  - Life-expectancy method
  - 4% rule
  - Three-tiered strategy

Life-Expectancy Method

- Withdraw an increasing percentage of portfolio based on life expectancy
- Each year, divide portfolio value by remaining life expectancy:
  - For 25-year life expectancy, you would withdraw 4%: $1 \div 25 = 4\%$
  - For 20-year life expectancy, you would withdraw 5%: $1 \div 20 = 5\%$

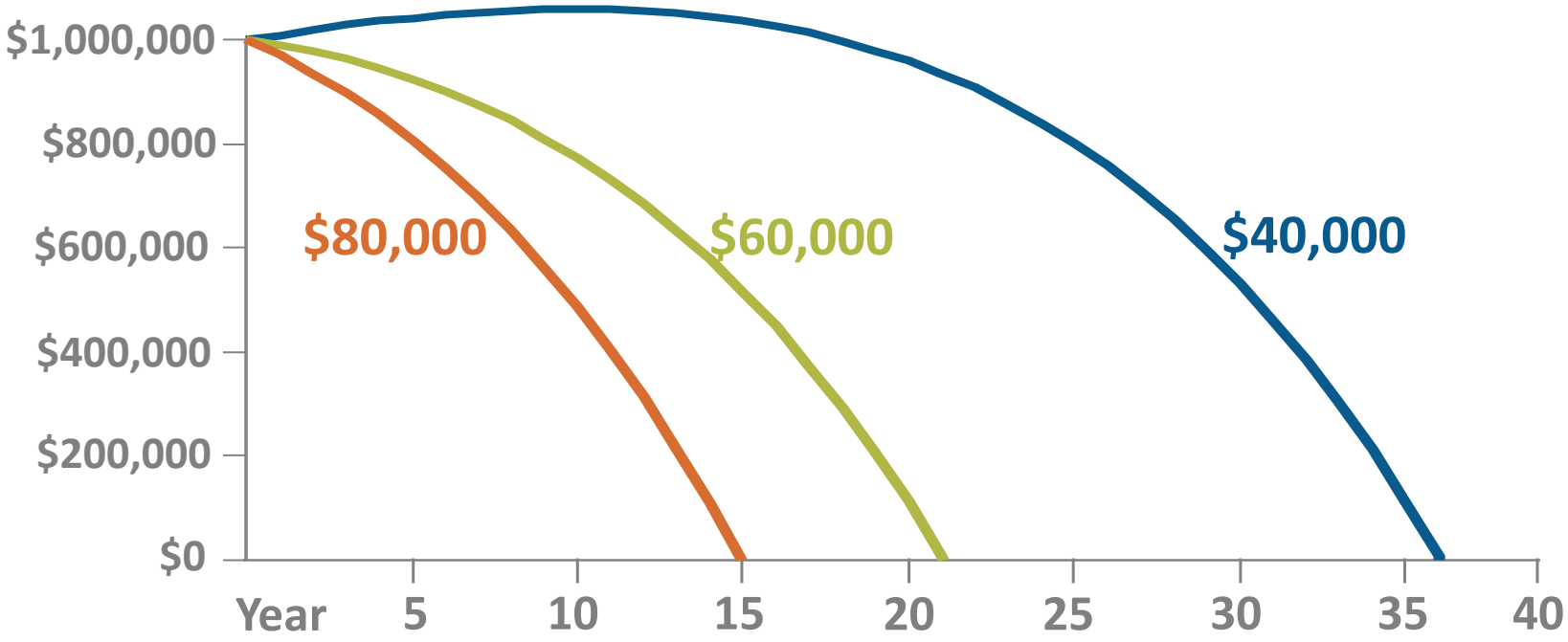
Advantage: Withdrawal percentage increases each year, which helps address the rising cost of living

Disadvantage: Poor market performance can reduce income in any given year

4% Rule (versus 6% and 8%)

Initial portfolio value: $1,000,000

First-year withdrawal amounts: **$40,000 (4%)** vs. **$60,000 (6%)** vs. **$80,000 (8%)**



Assumes a 5% annual rate of return. Withdrawals are adjusted by 3% annually for inflation. This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. The withdrawal amounts are taken at the end of the first year. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Three-Tiered Strategy

- Divide your portfolio into three tiers
  - Tier 1 (short term) 2 to 3 years: Conservative assets that you could draw on regardless of market conditions
  - Tier 2 (medium term) 3 to 10 years: Mostly fixed-income vehicles; possibly some stocks
  - Tier 3 (long term) more than 10 years: Primarily stocks

Advantage: Manageable long-term strategy; provides a way to balance current income and future growth

Disadvantage: Requires active management; depends on market performance; may be challenging to coordinate

Example of Three-Tiered Strategy

Initial portfolio value: $850,000
Annual income goal: $45,000

Tier 3 $474,636

Growth investments @ 6%

Worth $850,000 after 10 years; used to begin strategy again

Tier 2 $169,338

Fixed-income investments @ 4%

Worth $206,026 after 5 years; used to invest in new conservative investments

Tier 1 $206,026

Conservative investments @ 3%

Withdraw $45,000 annual income for 5 years, until depleted

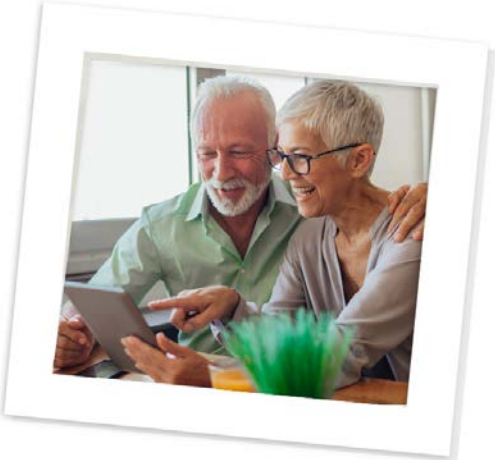
This hypothetical example is used for illustrative purposes only and does not represent any specific investments. Taxes, fees, and other expenses are not considered. Actual results will vary.

Identify What to Spend First

- Consider taxable assets before tax deferred
- Liquidate winners before losers
- Not an easy decision
- Considerations:
  - Tax consequences
  - Opportunity costs
  - Emotional implications

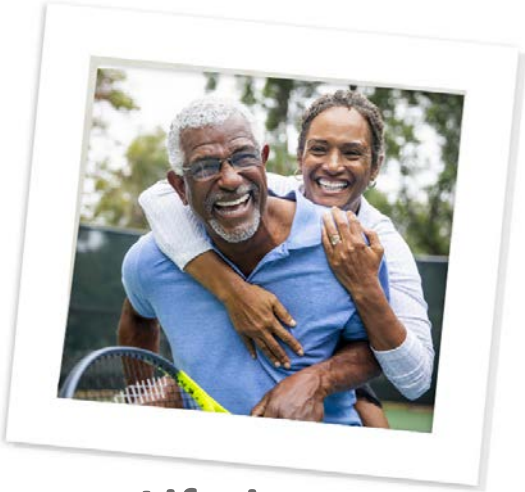
Retirement Plan Distribution Options

Keep in former employer plan



Lump-sum distribution

Systematic withdrawals



Lifetime annuity

OR… consider an **IRA rollover**

Lifetime Annuity Payment Options

	Retiree Monthly Benefit	Survivor Monthly Benefit
Single life	$1,667	$0
Joint and 100% survivor	$1,175	$1,175
Joint and 50% survivor	$1,500	$750

This hypothetical example is used for illustrative purposes only and does not represent any specific annuity payment.

Which Distribution Method Is Appropriate for You?

- Age
- Liquidity needs
- Market volatility vs. preservation of funds
- Income needs
- Tax situation

IRA Rollover/Transfer

- Continued tax deferral*
- Generally, more investment options
- Can consolidate funds from multiple plans
- Potential legacy planning benefits

*Assets converted to a Roth IRA are taxable in the year of the conversion, but qualified distributions are free of federal income tax. Roth IRAs are exempt from required minimum distributions.

Required Minimum Distributions (RMDs)

- Must start for the year you turn age 72 (the RMD starting age remains at 70½ if you reached it prior to 2020)
- First RMD can be postponed to no later than April 1 of the year following the RMD starting age
- Timing could affect tax situation
- Failure to take the required amount could result in hefty tax penalty: **50%** of the amount that should have been withdrawn
- Use the life-expectancy tables in IRS Publication 590-B to calculate RMD amounts

QCD: A Tax-Efficient Way to Donate Money to Charity and Reduce RMDs

- A qualified charitable distribution (QCD) can be made directly from an IRA to an eligible charity
- Must be age 70½ or older to make a QCD
- A QCD counts toward your annual required minimum distribution and can keep your adjusted gross income within a desired range
- QCD exclusion is limited to $100,000 per year

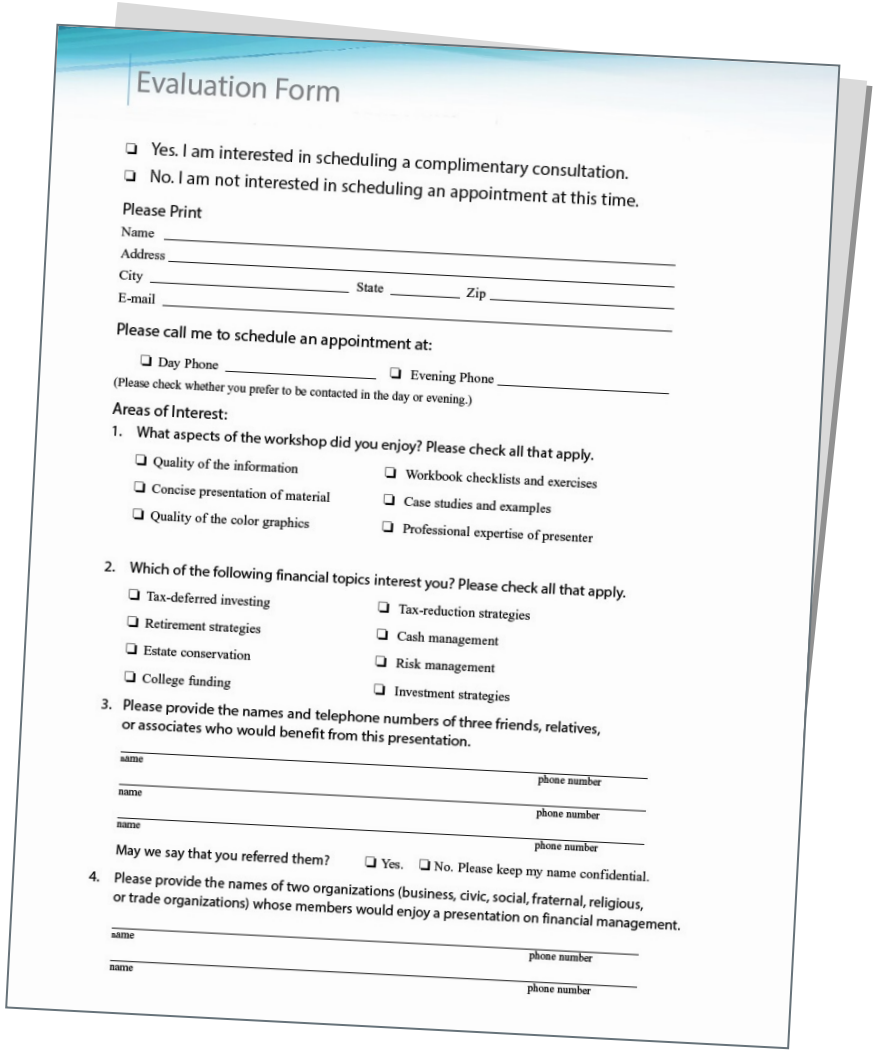
Advantages of a Roth IRA

- Qualified distributions are **tax-free** and do not affect taxability of Social Security or cost of Medicare premiums
- Contributions (not earnings) can be withdrawn at any time, for any reason
- Not subject to lifetime RMDs during original owner's lifetime
- Consider a Roth conversion for a future source of tax-free income

Putting Your Knowledge to Work

- Do it yourself
- Work with us
- Procrastinate

Evaluation Form and Complimentary Consultation



Evaluation Form

❑ Yes. I am interested in scheduling a complimentary consultation.
❑ No. I am not interested in scheduling an appointment at this time.

Please Print

Name _____

Address _____

City _____ State _____ Zip _____

E-mail _____

Please call me to schedule an appointment at:

❑ Day Phone _____ ❑ Evening Phone _____

(Please check whether you prefer to be contacted in the day or evening.)

Areas of Interest:

1. What aspects of the workshop did you enjoy? Please check all that apply.

❑ Quality of the information
❑ Concise presentation of material
❑ Quality of the color graphics
❑ Workbook checklists and exercises
❑ Case studies and examples
❑ Professional expertise of presenter

2. Which of the following financial topics interest you? Please check all that apply.

❑ Tax-deferred investing
❑ Retirement strategies
❑ Estate conservation
❑ College funding
❑ Tax-reduction strategies
❑ Cash management
❑ Risk management
❑ Investment strategies

3. Please provide the names and telephone numbers of three friends, relatives, or associates who would benefit from this presentation.

name _____ phone number _____

name _____ phone number _____

name _____ phone number _____

May we say that you referred them? ❑ Yes. ❑ No. Please keep my name confidential.

4. Please provide the names of two organizations (business, civic, social, fraternal, religious, or trade organizations) whose members would enjoy a presentation on financial management.

name _____ phone number _____

name _____ phone number _____

Thank You