Your Retirement

YOU DEFINE IT, WE HELP YOU PLAN

WADDELL & REED
Financial Advisors™

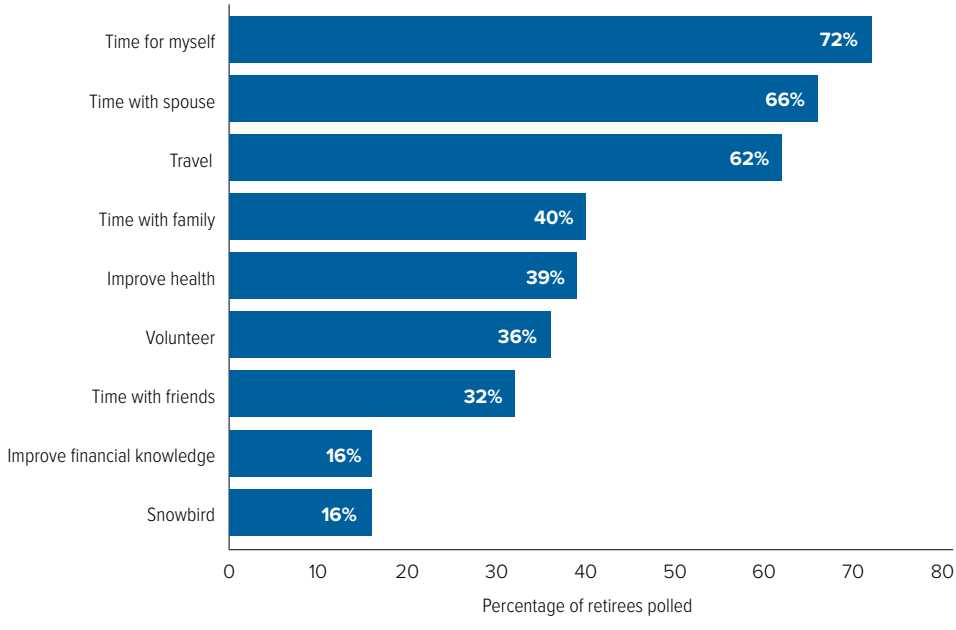
re-tire-ment
/riˈtīrmənt/ noun

1. The realization of my hopes and dreams

As retirement glows on the horizon, imagination gives way to reality as you put definition around your goals and dreams. Where will retirement take you? Or rather, where will you take your retirement?

Today's options are almost as varied as a young graduate's career choices. Retirees are volunteering, traveling, spending time with family and enjoying more "me" time.

HOW RETIREES SPEND TIME



Source: RBC Retirement Myths and Realities Poll, 2015.

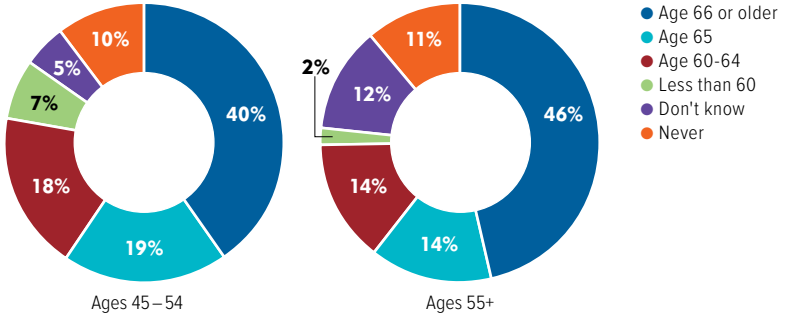
Ultimately, you define your retirement. It's realized by how you plan and manage your resources.

The retirement planning information contained herein is general in nature and should not be considered legal or tax advice. Waddell & Reed does not provide legal or tax advice. This information is provided for general educational purposes only and you should bear in mind that laws of a particular state and your particular situation may affect this information. You should consult your attorney or tax adviser regarding your specific legal or tax situation.

Defining my retirement

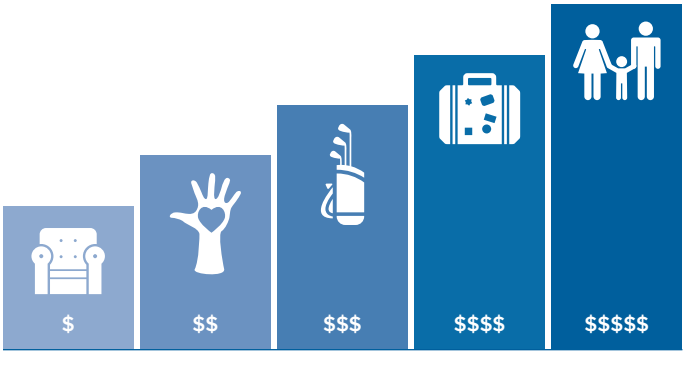
Perhaps one of the first things you think about when defining your retirement is when it will begin. Not surprisingly, the ages at which people plan to retire vary considerably.

WHEN DOES RETIREMENT BEGIN?



Source: Employee Benefit Research Institute, 2015 Retirement Confidence Survey.

Choosing when you want to retire depends largely on when you can afford to retire. And knowing when you can afford retirement all goes back to the original question of how you define your retirement.



As the illustration shows, the price of retirement varies based on the retirement goals and lifestyle you choose. Goals like travel or leaving a legacy ring up considerably higher than staying put or logging time on the golf course. Also impacting the price tag: expenses like health care and taxes, as well as inflation, market volatility and your longevity.

36%

Boomers who anticipate retiring at age 70 or older

(Insured Retirement Institute, 2015 Boomer Expectations for Retirement Survey)

AL, NV, CO, GA, AZ, ID, SC, UT

Fastest-growing populations of 65+-year-old residents

(Administration on Aging, growth from 2003-2013 based U.S. Census Bureau Estimates)

25%

Average volunteer rate of people 55 and older

(Bureau of Labor Statistics, 2014)

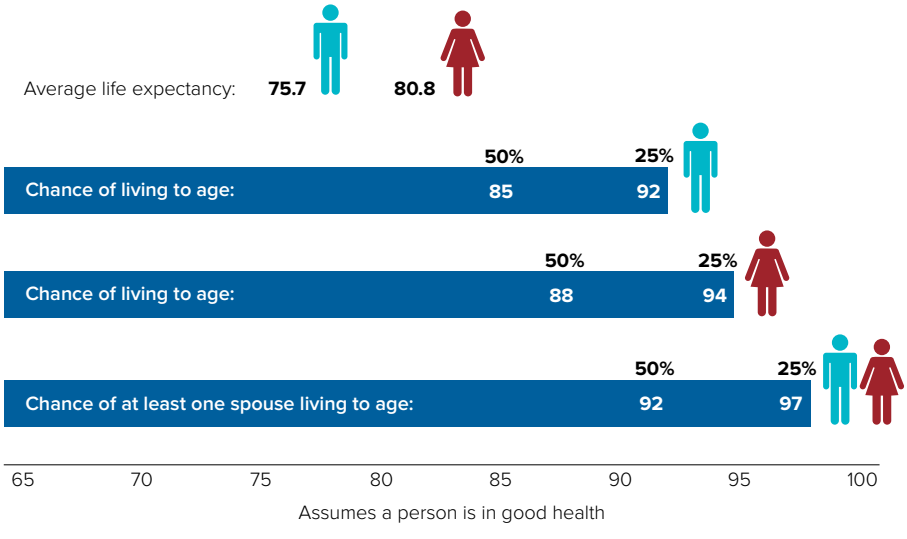
Financial challenges that may impact my plans

As retirement approaches, keep an eye on potential financial challenges that could impact your plan. Because many retirements are predicted to extend 20 – 30 years, not accounting for key risks could threaten a well-planned retirement.

LONGEVITY

People are reaching old age in better health and living longer. As the chart illustrates, men have a 50% chance of living to 85 years old and women to 88. Likewise for a couple, which has a 50/50 chance that one spouse will live to 92.

LIFE EXPECTANCY BEYOND AGE 65



Source: 2011 Society of Actuaries Key Findings: Longevity.

YET LONGEVITY HAS TWO FACES

While people are living longer, many are not planning sufficiently for their retirement income to take the 20 – 30 year journey with them. The Society of Actuaries[1] says:

- When making important financial decisions, 28% of pre-retirees and retirees haven't thought about planning ahead.
- Just 16% of pre-retirees and 19% of retirees look 20 years or more into the future when making financial decisions.

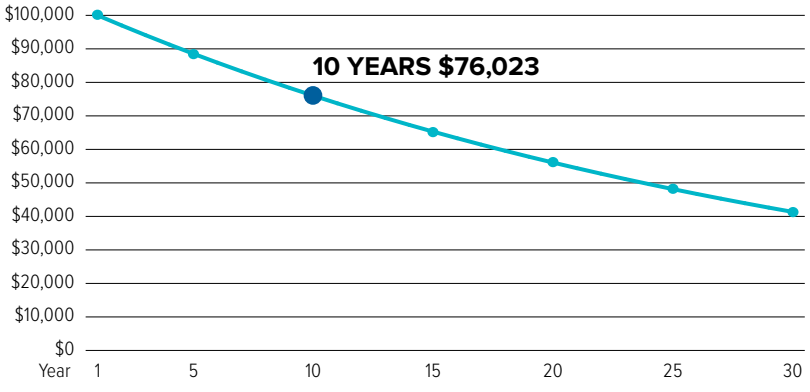
Don't underestimate your life expectancy. Build a retirement income strategy that lasts as long as you do.

[1]Society of Actuaries, 2015 Risks and Process of Retirement Survey.

INFLATION

Inflation is one of the most insidious risks you'll face in retirement. Tracking at an average annual rate of 3%, inflation can reduce the purchasing power of your money because each dollar buys a smaller portion of goods or services. This graph illustrates how the value of $100,000 decreases approximately 25% over 10 years due to the effect of inflation.

IMPACT OF 3% INFLATION OVER TIME



Hypothetical chart for illustrative purposes only.

Viewed in everyday terms, inflation impacts all households, from pantry staples, to health care to your investments.

THE REAL COST OF INFLATION OVER 30 YEARS (% INCREASE CUMULATIVE)

71%
100% ground roast coffee per pound

156%
bread per pound

324%
health care expenses

91%
1 gallon regular unleaded gas

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Indexes, as of November 2015.

STRIVE TO MINIMIZE THE EFFECT OF INFLATION ON YOUR RETIREMENT INCOME:

- Maximize your savings rate to meet worst-case inflation scenarios.
- Think about your expected future taxes to determine how to allocate between taxable and tax-deferred investments.
- Include inflation assumptions in your income needs.
- Consider adding equity investments to your portfolio to increase the likelihood of staying ahead of inflation.

57%

Young Boomers at risk of running out of money for basic retirement costs if they retire at 65

(Employee Benefit Research Institute, 2014)

85

Median age to which retirees expect to live

(Society of Actuaries, 2016)

Equity investments are subject to market risk, and it is possible to lose money by investing in them.

MARKET VOLATILITY

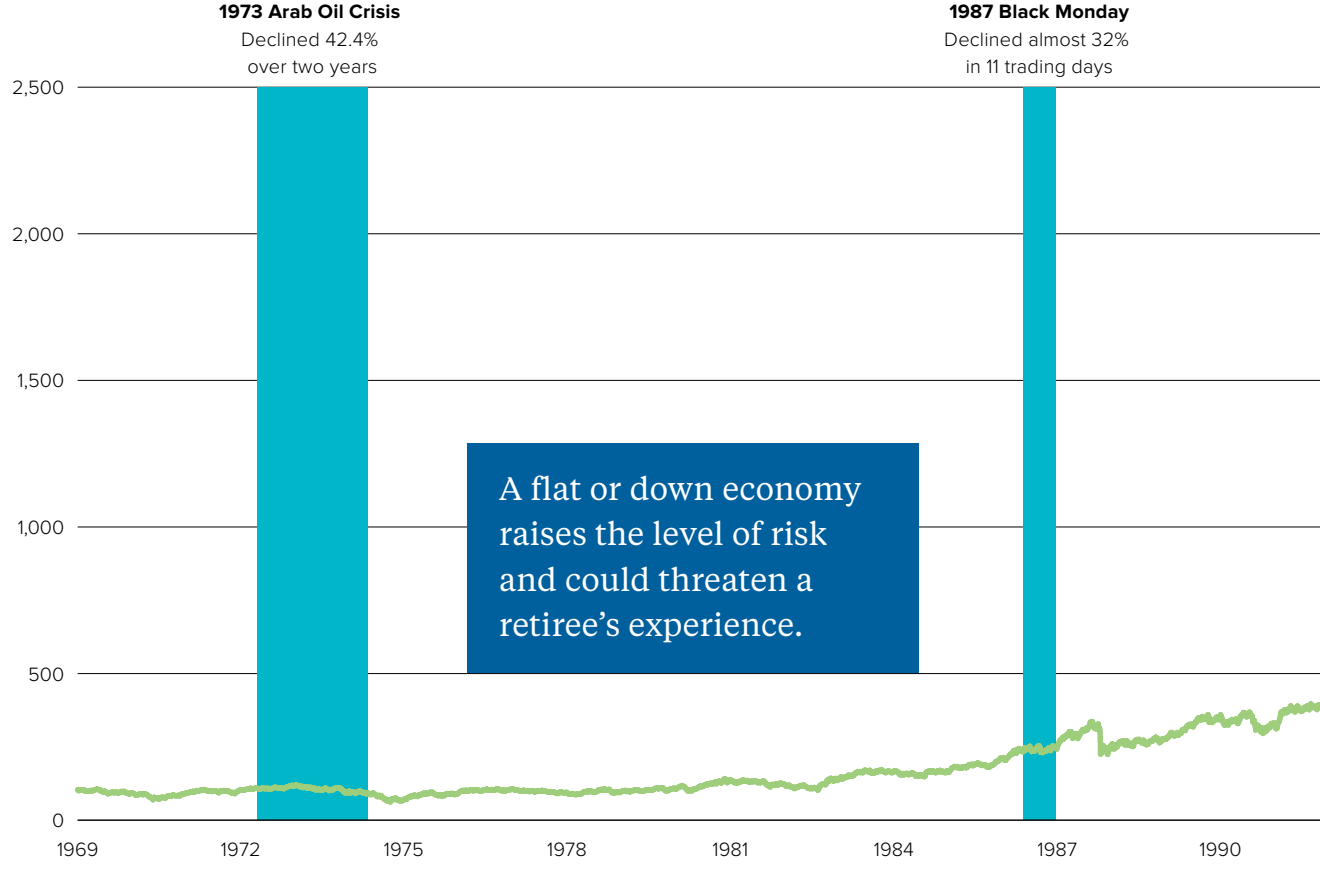
Market volatility can be brutal as fluctuations can reduce the value of your retirement savings. If the start of your retirement were to coincide with a decline, the effect of the decline combined with drawing down your retirement assets may have a lasting impact on your retirement income.

For instance, based on S&P 500 data below, a person who retired in 1990 might have had a much different experience than someone who retired in 2000. The 1990 retiree would have benefited from steep market growth. So even as he or she was spending retirement income, the total portfolio value may have continued to grow.

By contrast, the 2000 retiree would have endured a dramatic market decline in the first 19 months of retirement, having a negative impact on his or her current portfolio and a potentially long-term effect on the portfolio's future growth.

Market movement can impact retirement experience

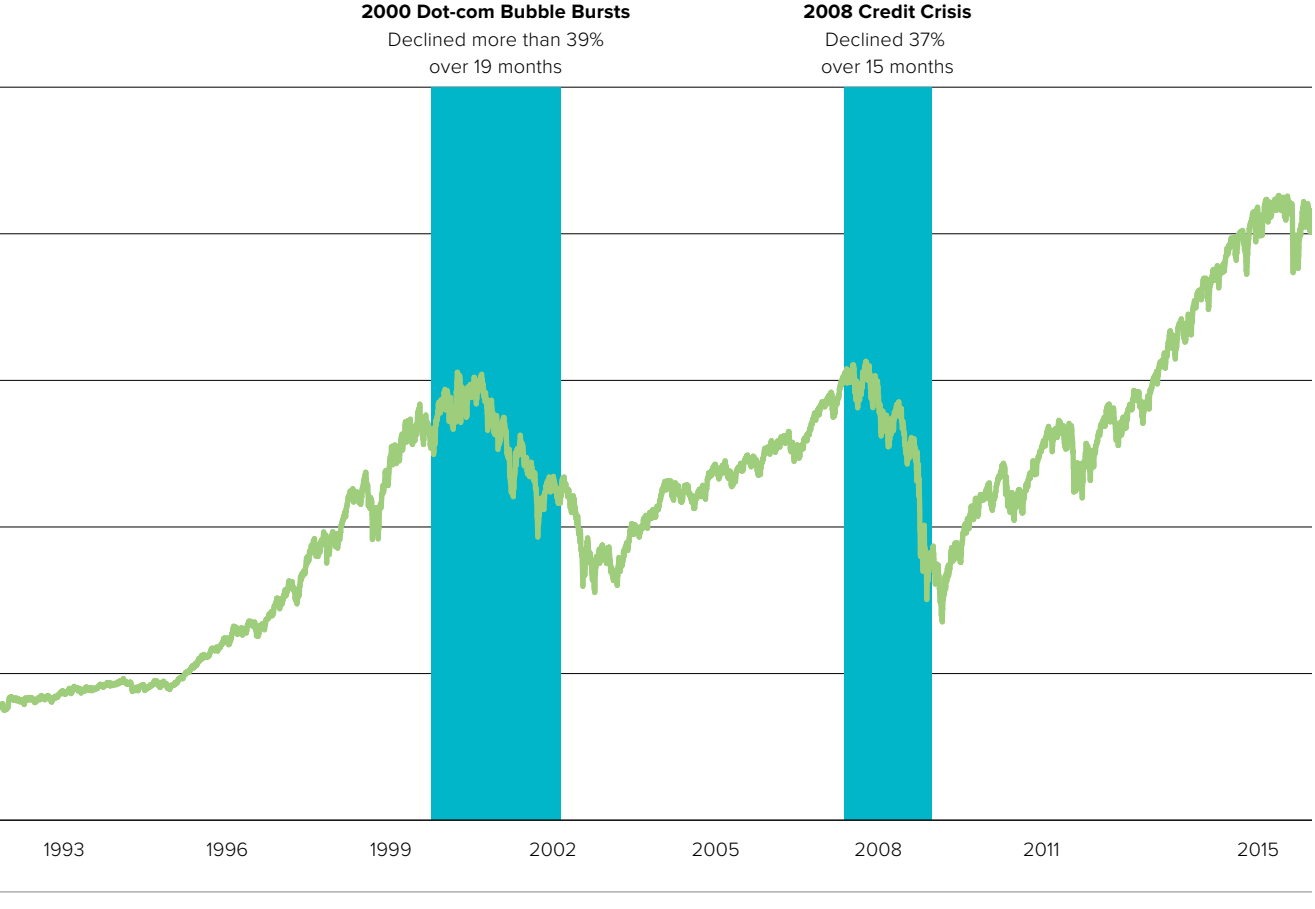
S&P 500 INDEX
12/31/1969 – 12/31/2015



Source: Morningstar.

HELP PROTECT YOUR ASSETS AGAINST MARKET RISK:

- Take a conservative withdrawal approach. Enter retirement with a realistic view of how much income you'll need to support your expected standard of living.
- Maintain a sensible asset allocation. Keep your portfolio divided among stocks, bonds and cash to reduce the impact of any single losing investment.*
- Review and rebalance your portfolio. Periodically review your investment strategies to ensure they still reflect your needs. Should a market fluctuation cause your asset mix to become too heavy in stocks, for instance, rebalance to restore an appropriate weighting among investments.
- Adjust retirement goals and timetables, if needed. As you near retirement, and should it coincide with a period of volatility, your retirement goals and timetable may require re-evaluation. An upswing may mean that retirement could come sooner than you planned, a downswing may mean less money will be available for leisure activities or travel.



The S&P 500 Index is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. Investments cannot be made directly in an index. Past performance is not a guarantee of future results.

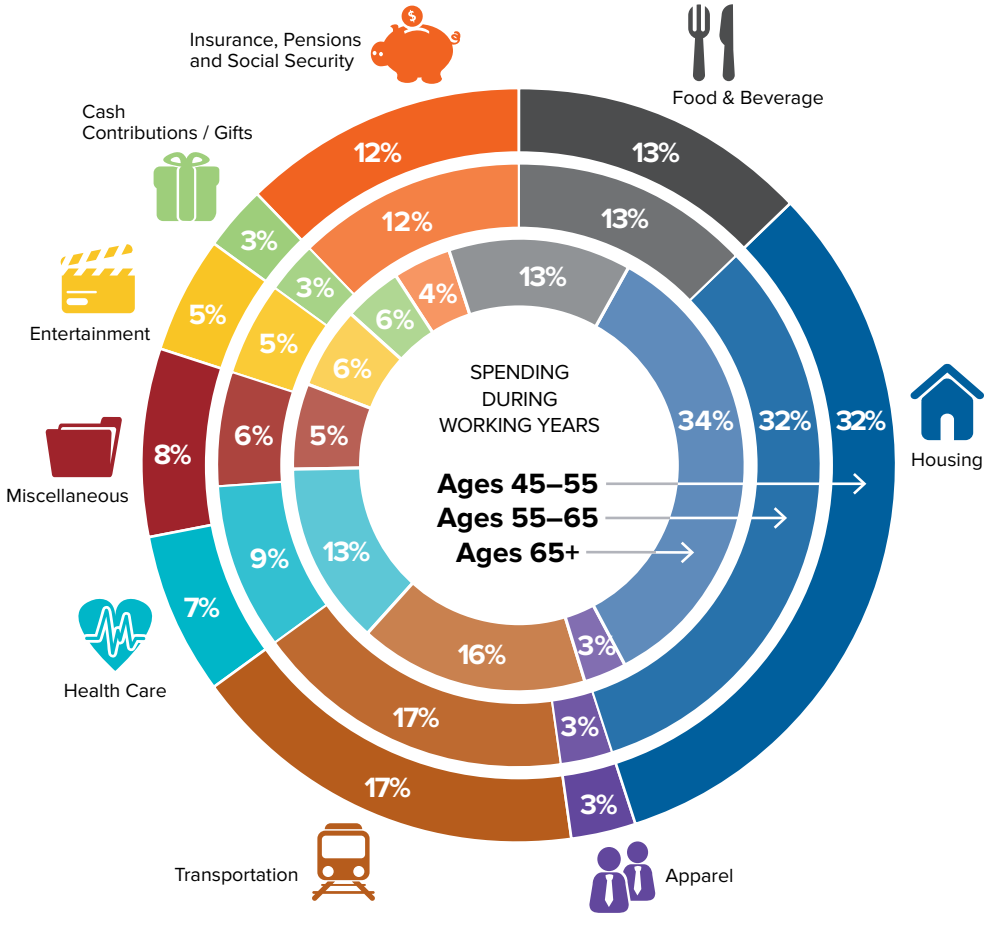
*Diversification and asset allocation cannot ensure a profit or protect against loss in a declining market. It is a method used to manage risk.

MANAGING EXPENSES

Your spending in retirement will include housing, health care, food, transportation, insurance and discretionary expenses. However, your retirement goals and lifestyle also will play a large part in determining your expenses.

Spending during retirement

BELOW ARE KEY CATEGORIES AS A PERCENTAGE OF TOTAL EXPENDITURES IN RETIREMENT.*



* U.S. Bureau of Labor Statistics, Consumer Expenditures Survey, 2014.

CARELESS ABOUT HEALTH CARE EXPENSES

No matter how you spend your retirement years and income, make sure to budget appropriately for health care. As one of the most underestimated expenses in retirement, health care spending often catches people off guard. The biggest oversight — insurance premiums. According to the U.S. Bureau of Labor Statistics, health care expenses include health insurance, medical services, drugs and medical supplies.

Based on a study conducted by Nationwide Financial, a staggering 81% of consumers underestimate or have no idea about health care costs in retirement.

Consumer estimate of annual health care costs in retirement

$16,000+	3%
$11,000 to $15,000	2%
$6,000 to $10,000	9%
$1,000 to $5,000	19%
Don't Know	67%

Source: Nationwide Financial Healthcare and Long Term Care Study, November 2014.

Don't underestimate how much you'll need. Prepare for retirement with the understanding that a couple spending 20 years in retirement will need $245,000 (in today's dollars) to cover out-of-pocket medical expenses.[1]

Your financial advisor can help you estimate expenses as part of your comprehensive retirement financial plan. He or she will work with you to:

- Anticipate expenses, keeping close watch on your fixed (housing, utilities), variable (home, car repairs) and discretionary expenses (entertainment, hobbies).
- Assess your current health and determine a reasonable annual health care budget that includes insurance premiums.
- Understand tax issues in retirement and how taxes impact your spending plan.
- Factor in expenses likely to decrease, such as transportation and work wardrobe expenses.

22%

Pre-retirees whose biggest retirement concern is paying for health care.

(Franklin Templeton, Retirement Income Strategies and Expectations, 2015)

50%

Amount of health care expenses covered by Medicare

(Nationwide Financial, 2014)

0%

Amount of long-term care expenses covered by Medicare

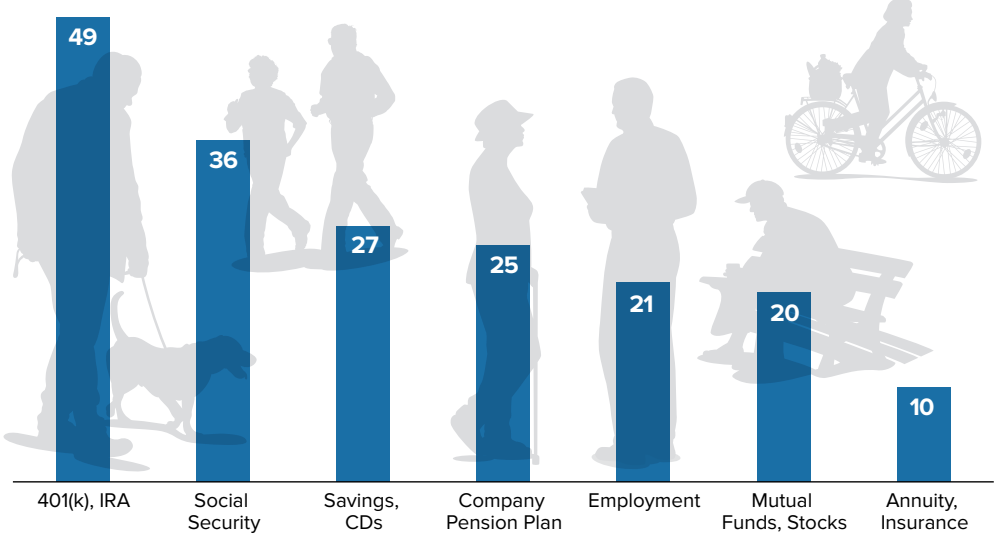
(Medicare)

[1] Fidelity Benefits, 2015. The estimate is based on a hypothetical couple retiring at age 65 or older with average (82 male, 85 female) life expectancies.

Income sources to fund my retirement

You likely can identify the primary income sources you'll use to fund your retirement: Social Security, 401(k) and company pension are just a few. Here's how some responded to a Gallup survey about retirement income.

EXPECTED SOURCES OF INCOME (%)



Source: Gallup, Inc. 2015.

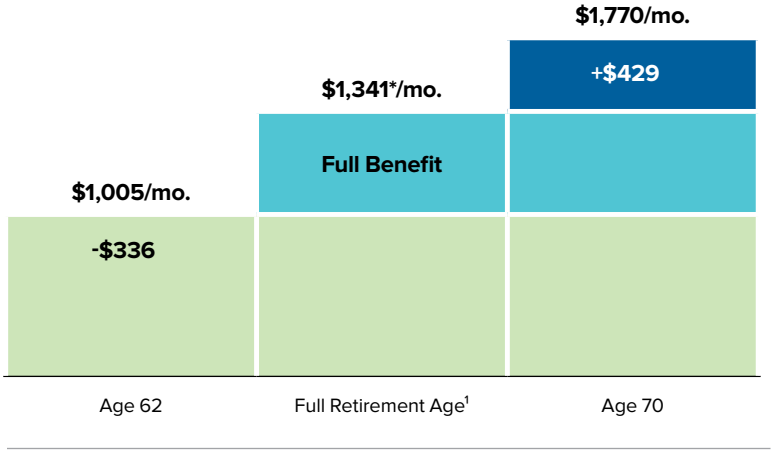
As it turns out, expectations aren't too far from reality. Three primary sources of retirement income — Social Security, company pension plan and personal assets — make the lineup on most retirement income financial plans.

SOCIAL SECURITY

Social Security can provide a foundation of retirement income.

This illustration reflects one of the Social Security payment options available to you. Here, the retiree who chose to file early at age 62 received $1,005/month. If that same retiree delayed filing until full retirement age,[1] the monthly benefit increased to $1,341. Delayed even further to age 70, the benefit increased to $1,770/month, or $5,148 more per year. Keep in mind that if you choose to file early, you generally cannot change that decision once you file.

EARLY VERSUS DELAYED RETIREMENT



*Based on estimated average monthly Social Security benefits payable in January 2016.

The Social Security Administration offers many filing options to support your needs and optimize your benefit. Count on your financial advisor to help you understand and choose the option that's right for you.

View your Social Security statement and read more about benefits at www.ssa.gov.

132%

Social Security benefit for people who wait until age 70 to begin benefits.

As percentage of full retirement benefit based on birth year. Assumes full retirement age of 66.

(Social Security Administration, 2014)

59%

Retirees who file for Social Security before their full retirement age.

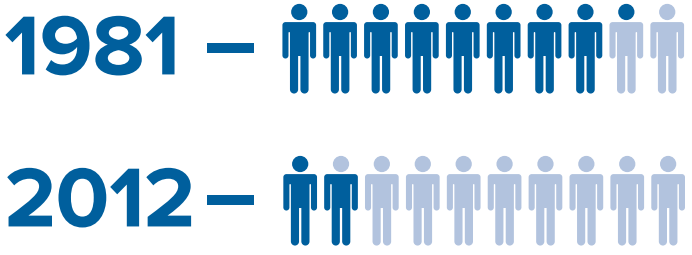
(Franklin Templeton, Retirement Income Strategies and Expectations, 2015)

[1]Assumes full retirement age of 66.

COMPANY PENSION PLAN

Are you one of the fortunate workers who can include a company pension plan as part of your retirement income portfolio? Unfortunately, pension plans have been disappearing since 401(k)s entered the picture.

AMERICANS RECEIVING PENSIONS



Source: Bureau of Labor Statistics, 2012.

Pensions are typically based on your years of service and final salary. Employers generally offer several options for receiving a pension benefit: a monthly income stream over your lifetime or the lifetime of you and your spouse, or as a lump sum distribution.

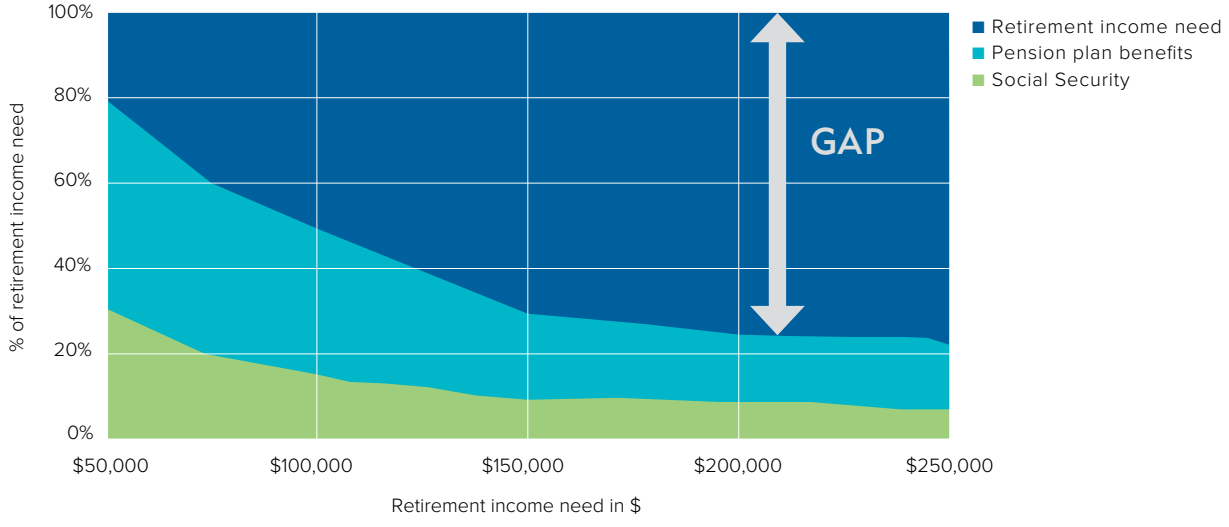
PERSONAL ASSETS

For pre-retirees and recent retirees, personal assets are necessary sources of retirement income.

TYPICAL PERSONAL ASSETS

Whatever your combination of personal assets, count them as critical to bridging the income gap between Social Security and company pension benefits and your total retirement income needs.

FILLING THE GAP



This is a hypothetical example for illustrative purposes only.

Depending on your income needs, Social Security and a company pension will only provide a percentage of what you'll need. If your needs are modest, they may cover about 80%. However, the higher your income needs, the less these sources will cover.

How will personal assets fit into your retirement picture?

Your Waddell & Reed financial advisor can work with you to determine:

- How much retirement income you need to support your retirement goals.
- Your projected Social Security and pension benefits.
- The gap you need to fill.
- Your personal assets available to fill the gap.
- Investment strategies to meet your retirement needs and manage risk.

To run a personal retirement analysis, visit www.waddell.com/rpcalc.

Long-term withdrawal strategies to optimize my retirement income

Over the years you've diligently accumulated retirement savings and paid into Social Security in preparation for what's now just around the corner. All that's left to do is begin living off your retirement income, right?

Yes, but just as you sought your financial advisor's guidance as you saved for retirement, seek an expert's advice now as you begin to spend it. Your advisor will guide you through a deliberate, strategic investment and spending plan that addresses:

- The amount to withdraw
- When to withdraw from which sources
- Tax implications
- When to file for Social Security and pension

HOW MUCH TO WITHDRAW ANNUALLY

You want your retirement income to last the duration of your retirement. Knowing how much to withdraw annually can only be determined by budgeting to your individual retirement income needs.

Get started by meeting with your Waddell & Reed financial advisor to discuss your plans for retirement. Together, you'll review your goals, sources of income and current portfolio value as well as your time horizon, asset allocation and market volatility.

WHEN TO WITHDRAW FROM EACH ASSET

Knowing the order in which to withdraw from each asset is as important as how much to withdraw annually.

Along with your financial advisor, take inventory of your taxable accounts, which include mutual funds, CDs, stocks and bonds. Likewise, assess your portfolio's tax-deferred accounts — 401(k)s, 403(b)s, IRAs — and tax-free accounts, such as savings, Roth 401(k)s and Roth IRAs. You'll discuss which accounts to access first and the supporting tax reasons.

Social Security and company pension filing options also will be part of this conversation, as will any additional sources of income — an inheritance, earnings from employment, proceeds from the sale of a house, etc.

Because everyone's situation is unique, no one income strategy will work for all investors. By determining what's important to you in retirement — growth potential, guaranteed income, flexibility, potential preservation — your financial advisor can help pinpoint the strategy that is right for you.

TAKE ACTION

You've spent your adult life saving for retirement. Now take the next logical step and work with a professional to help you take a smart approach to spending and maximizing your savings. As you near retirement, consult with your Waddell & Reed financial advisor to:

- Review your progress toward saving for retirement to ensure you're on the right track.
- Assess your sources of income and discuss specifics you need to be aware of about each.
- Provide insight to help you navigate risks that may threaten your savings.
- Discuss an investment strategy that will serve you throughout the entirety of retirement.

Your advisor will recommend a distribution strategy that informs your spending behavior and gives you confidence that your retirement savings will last as long as you do.

53%

Pre-retirees who don't know how much retirement savings to withdraw annually in retirement.

(Franklin Templeton, Retirement Income Strategies and Expectations, 2015)

22%

Workers very confident they'll have enough money for a comfortable retirement.

(EBRI Retirement Confidence Survey, 2015)

These are general examples of income and withdrawal strategies. The sustainability of an investor's portfolio will vary based on actual returns, withdrawals and taxes.

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