Strategies for a sustainable income in retirement

Not FDIC insured
May lose value
No bank guarantee

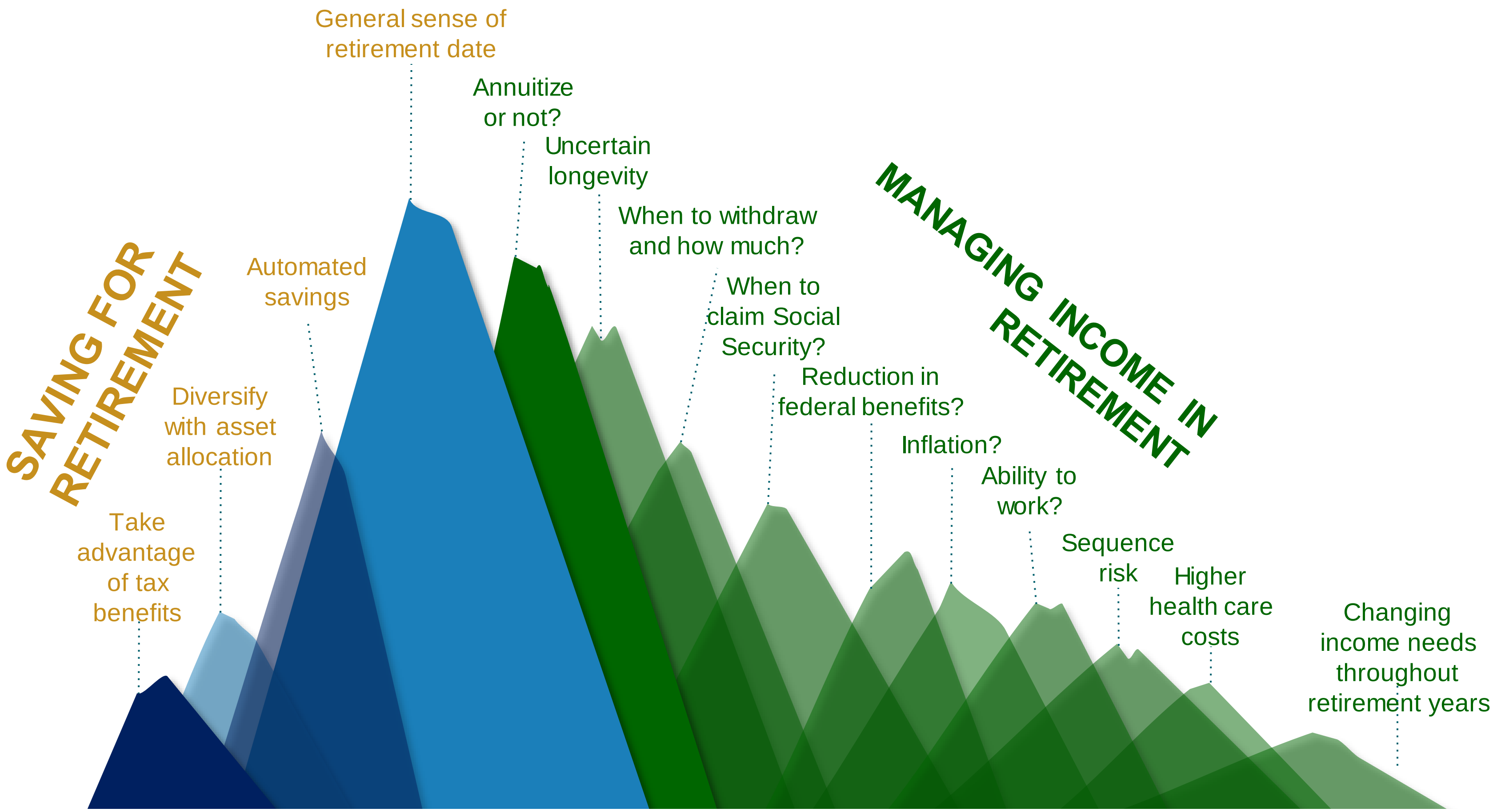
Developing income strategies to address the challenges faced by today's retirees

Topics for today

- Challenges to prepare for in retirement
- Planning concepts for achieving a successful retirement
- Practical approaches to managing income

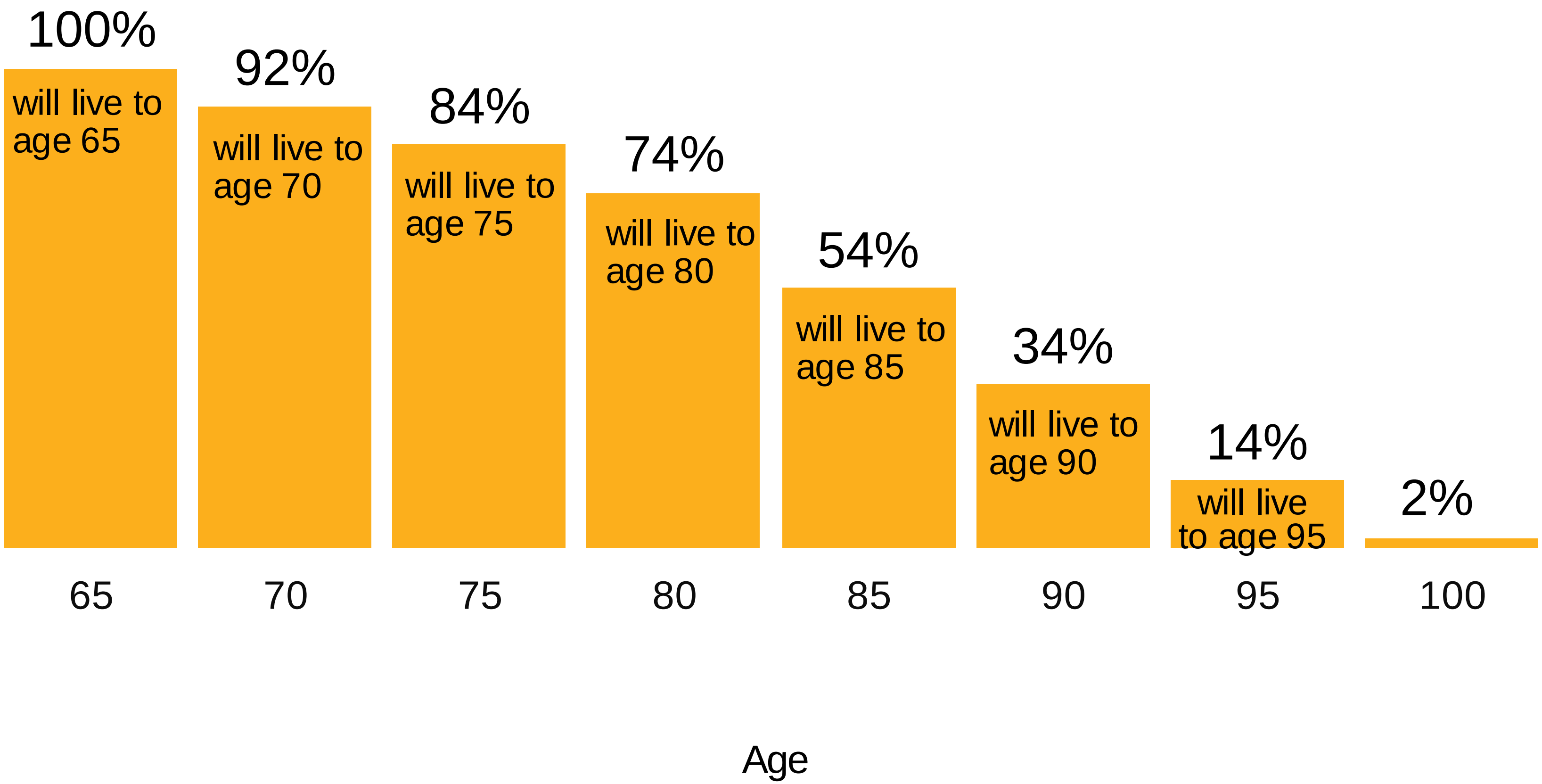
Challenges to prepare for in retirement

It's easier going up the mountain than down



Longevity risk is the big unknown

Your life span probability after reaching age 65



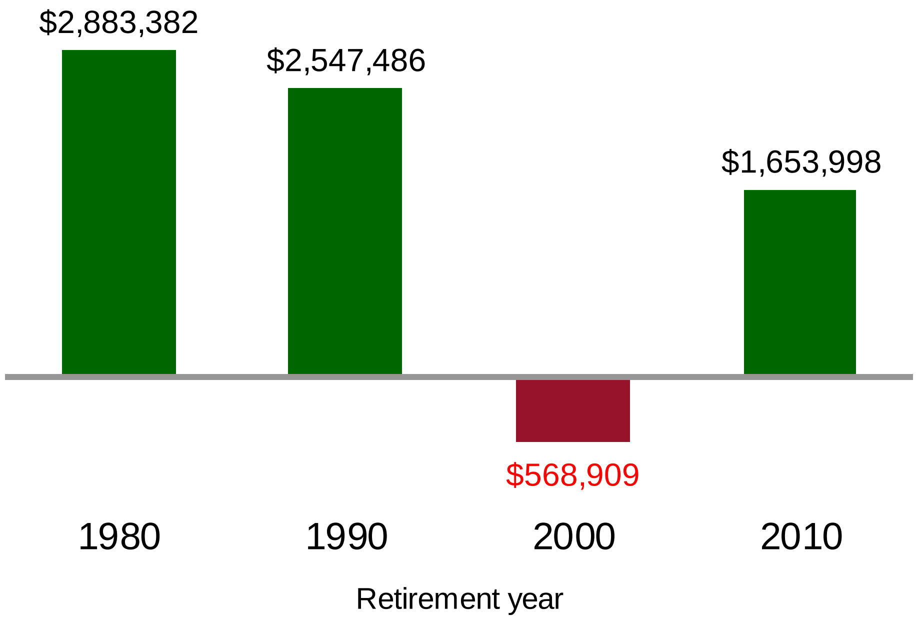
Source: CDC.gov, 2018 U.S. Life Tables, November 2020.

Sequence risk — When you retire can make a big difference

Assumptions

- $1 million portfolio
- 5% withdrawn annually and increased each year to keep up with inflation
- Invested in a portfolio of 60% stocks, 30% bonds, and 10% cash

Portfolio balance remaining after 10 years of withdrawals



Source: Putnam research. Hypothetical portfolio assumes S&P 500 for stocks, Bloomberg U.S. Aggregate Bond Index for bonds, and U.S. 3-Month Treasury Bill Index for cash (no rebalancing). Assumes 3% annual inflation rate for withdrawals.

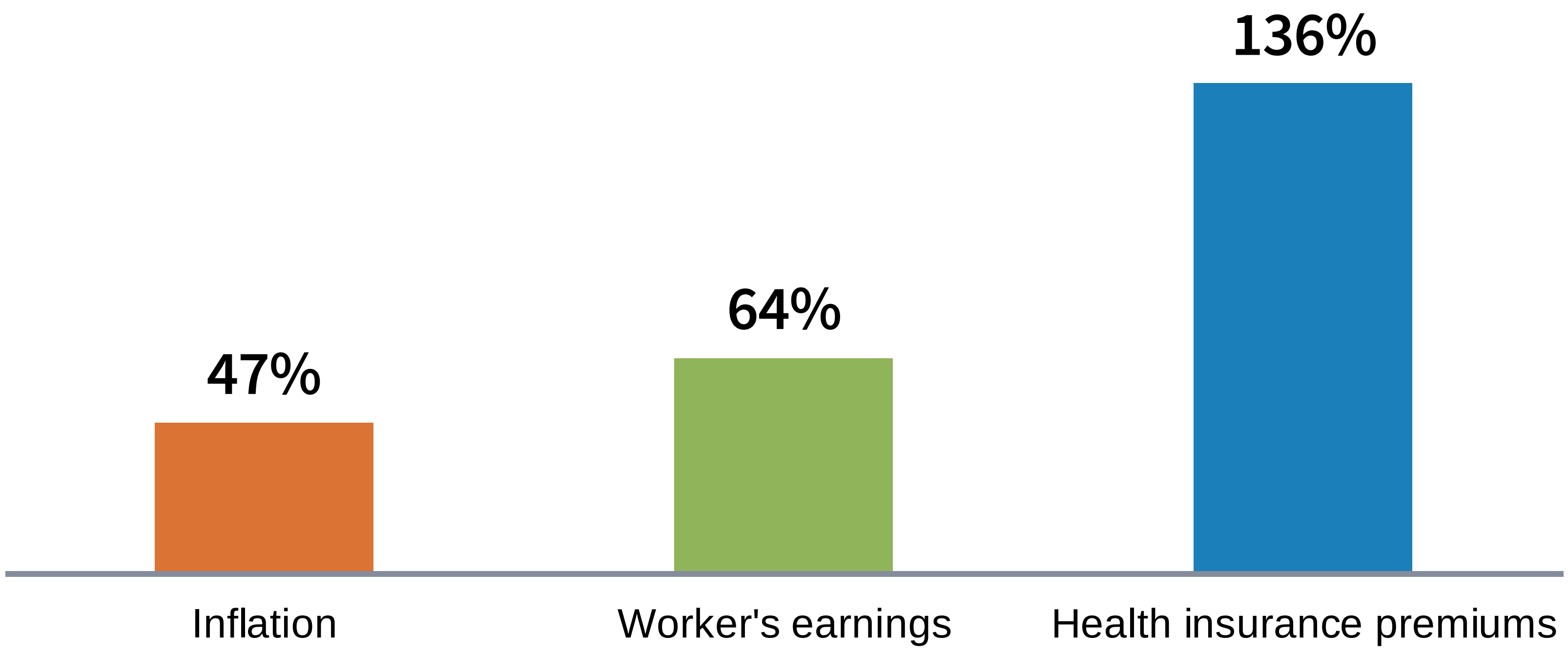
Erosion of purchasing power

	New home	Gallon of milk	Gallon of gas
2001	$175,200	$2.89	$1.26
2021	$343,152	$3.62	$3.48
2041 (projected)	$781,964	$5.82	$5.76

Sources: U.S. Census Bureau, U.S. Department of Labor, Bureau of Labor Statistics. Projections for milk and gas based on historical CPI data, projection for housing based on historical Case-Shiller index data.

Health care costs pose a serious challenge

Cumulative percentage increase, 2001–2021

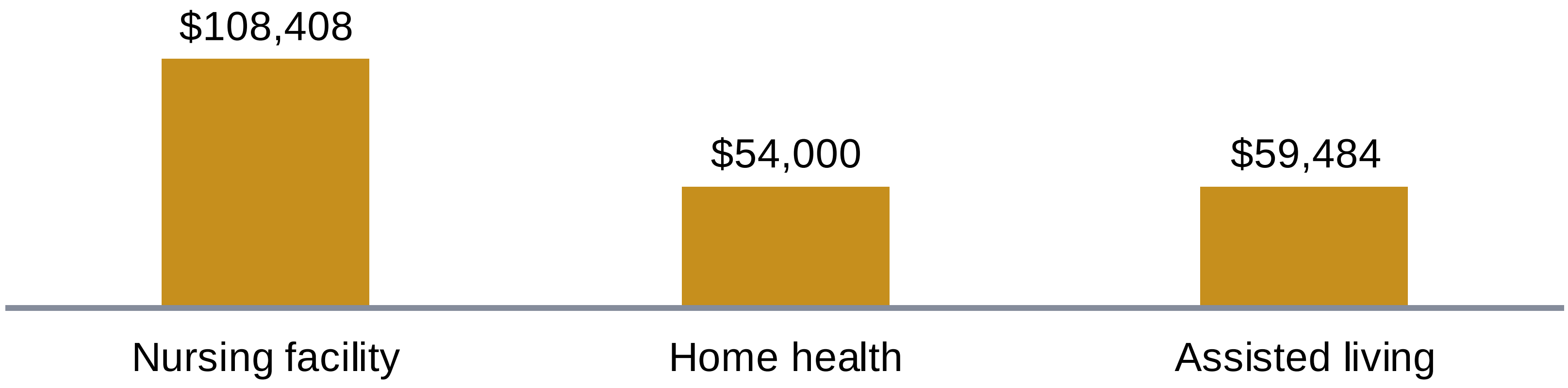


Source: Kaiser Family Foundation, 2021.

Long-term care costs can be staggering

Long-term services and supports are expensive, often exceeding what beneficiaries and their families can afford

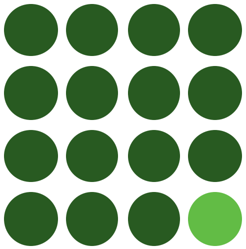
Median annual care costs by type of service, 2022



Source: Genworth, Genworth 2022 Cost of Care Survey. Nursing facility assumes private room.

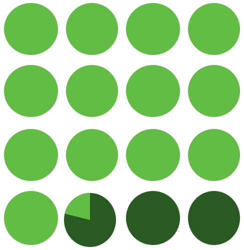
What about Social Security?

1950



There were 16 U.S. workers for each Social Security beneficiary

Today



2.8 workers for each beneficiary

Today

$

$

Benefits owed currently exceed taxes collected

2033

$

0

The Social Security trust fund will be exhausted

Source: Social Security Administration 2023 Annual Report.

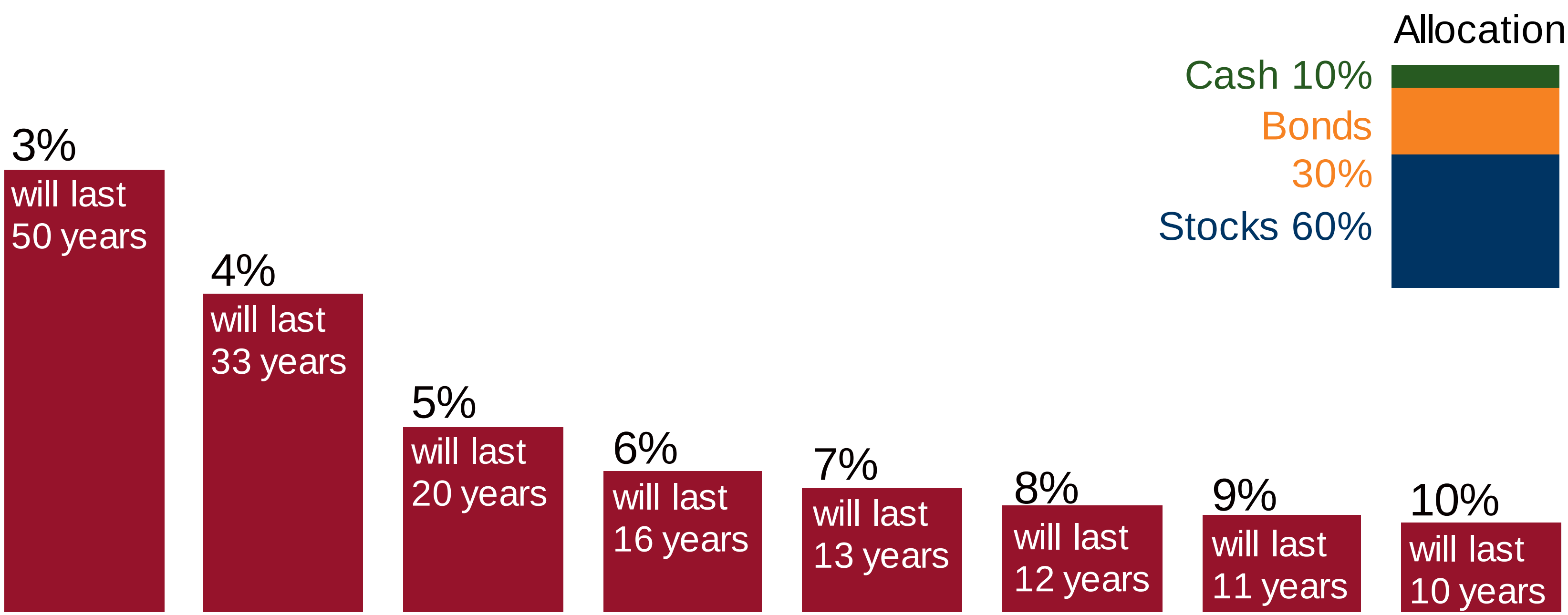
Achieving a successful retirement

Achieving a successful retirement

- Make sure you're not withdrawing too much
- Address longevity risk
- Understand the benefit of guaranteed income
- Be smart about taxes
- Make the right decision on Social Security
- Have a plan for unexpected risks

How long would your money have lasted?

Choose the right withdrawal rate



Percentage of your portfolio's original balance withdrawn each year

This example assumes a 95% probability rate. These hypothetical illustrations are based on rolling historical time period analysis and do not account for the effect of taxes, nor do they represent the performance of any Putnam fund or product, which will fluctuate. These illustrations use the historical rolling periods from 1926 to 2021 of stocks (as represented by an S&P 500 composite), bonds (as represented by a 20-year long-term government bond (50%) and a 20-year corporate bond (50%)), and cash (as represented by U.S. 30-day T-bills) to determine how long a portfolio would have lasted given various withdrawal rates. A one-year rolling average is used to calculate performance of the 20-year bonds. Past performance is not a guarantee of future results. The S&P 500 Index is an unmanaged index of common stock performance. You cannot invest directly in an index.

Address longevity risk

Historical success of two asset mixes
(assumes 5% withdrawal rate, adjusted for inflation annually)

Portfolio type	Allocation	20 years	30 years	40 years
Conservative	20% stocks 50% bonds 30% cash	90%	37%	14%
Balanced	60% stocks 30% bonds 10% cash	97%	79%	60%

- 80%–100% probability
- 50%–79% probability
- 0–49% probability

The information at left shows how various asset allocations affect a portfolio's expected longevity. It assumes that 5% of the original account balance is withdrawn each year and that withdrawals were increased each year to account for inflation.

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Adjust your plan as you go

Withdrawal rule	If portfolio experiences a negative portfolio return	then	don't adjust spending for inflation
Capital preservation rule	If withdrawal rate > 20% of initial withdrawal rate	then	cut spending by 10%
Prosperity rule	If withdrawal rate < 20% of initial withdrawal rate	then	increase spending by 10%

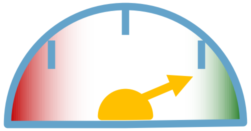
Source: Jonathan Guyton & William Klinger, Decision Rules and Maximum Initial Withdrawal Rates, 2006.

Adding guaranteed income may improve results

No guaranteed income

1 million
portfolio invested
60% equities,
30% bonds,
10% cash

5% withdrawal
rate adjusted annually
for inflation



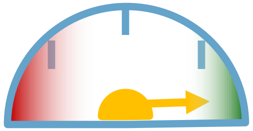
Over 30 years, there is a **79%** chance the portfolio is not depleted

Add guaranteed income

$750K
portfolio invested
60% equities,
30% bonds,
10% cash

$250K
used to purchase
a fixed annuity

5% withdrawal
rate adjusted annually
for inflation



Over 30 years, there is a **93%** chance the remaining portfolio is not depleted

Illustrations based on a rolling historical time period analysis and do not account for the effect of taxes, nor do they represent the performance of any Putnam fund or product, which will fluctuate. These illustrations use historical returns from 1926 to 2021 of stocks (as represented by an S&P 500 composite), bonds (as represented by a 20-year long-term government bond (50%) and a 20-year corporate bond (50%)), and cash (U.S. 30-day T-bills) to determine how long a portfolio would have lasted various withdrawal rates. A one-year rolling average is used to calculate performance of the 20-year bonds. Annuitized income derived from allocating 25% of the portfolio to purchasing a single premium immediate annuity (SPIA) based on market rates as of November 2021 based upon 65-year-old male living in state of MA (www.immediateannuity.com). Past performance is not a guarantee of future results. The S&P 500 Index is an unmanaged index of common stock performance. You cannot invest directly in an index.

Be smart about taxes

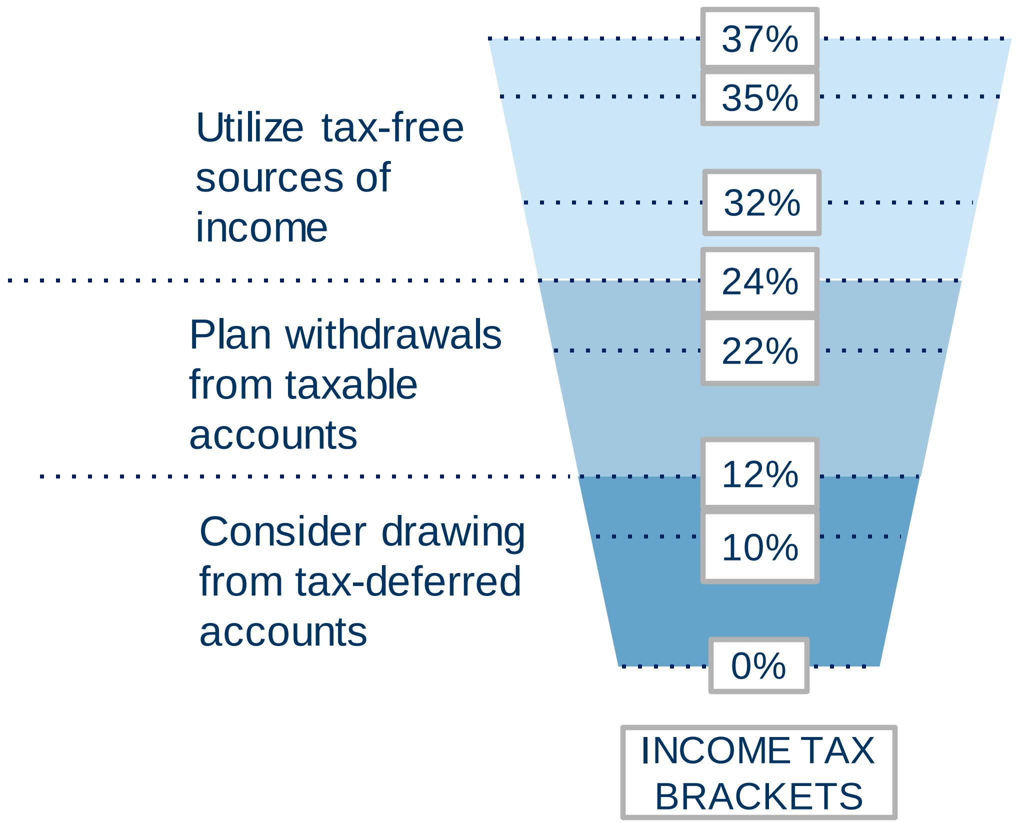
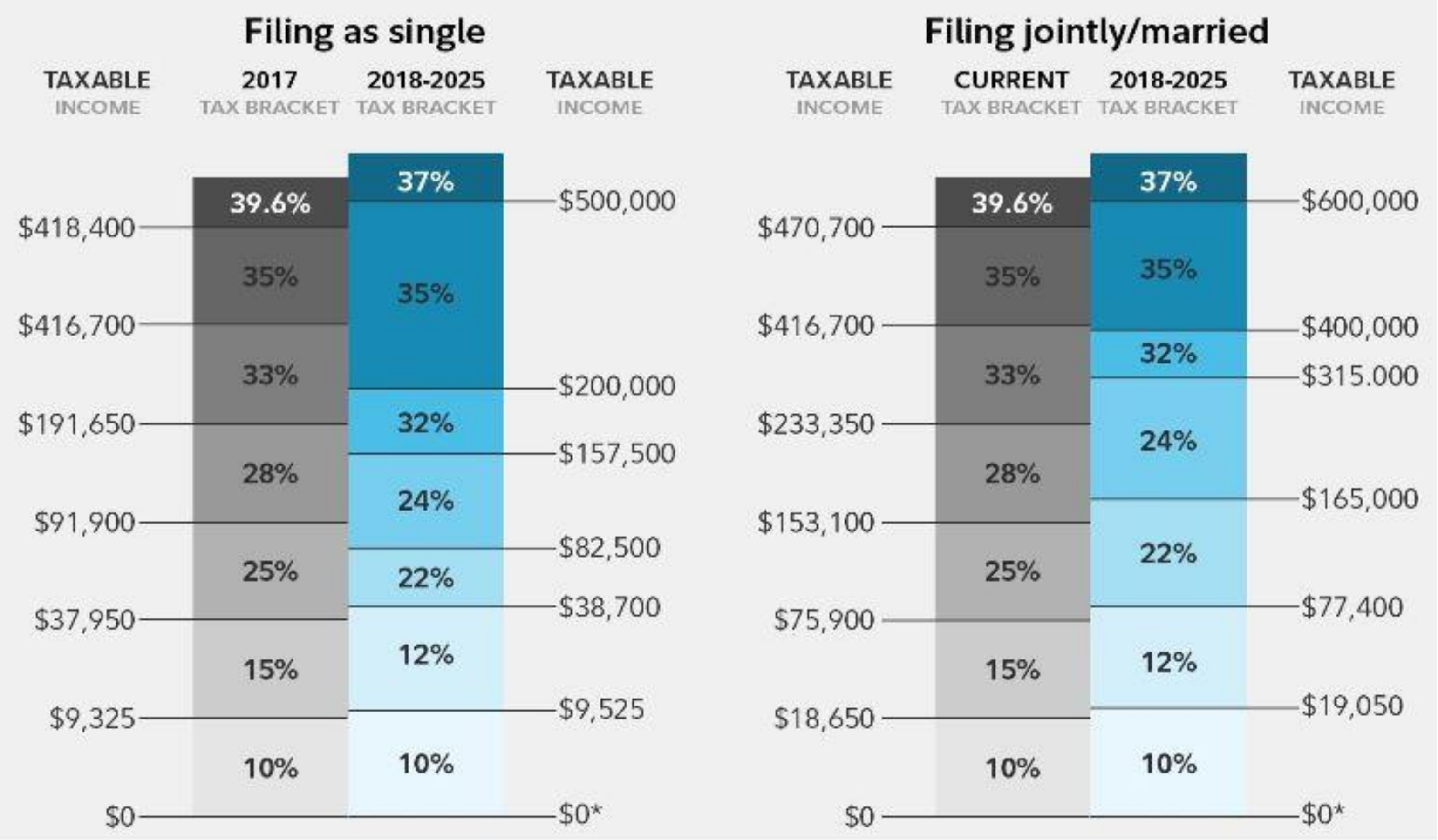


Illustration intended to provide general considerations on drawing income from various sources in retirement. Retirees should consult with a qualified tax professional on their personal financial situation.

Be smart about taxes



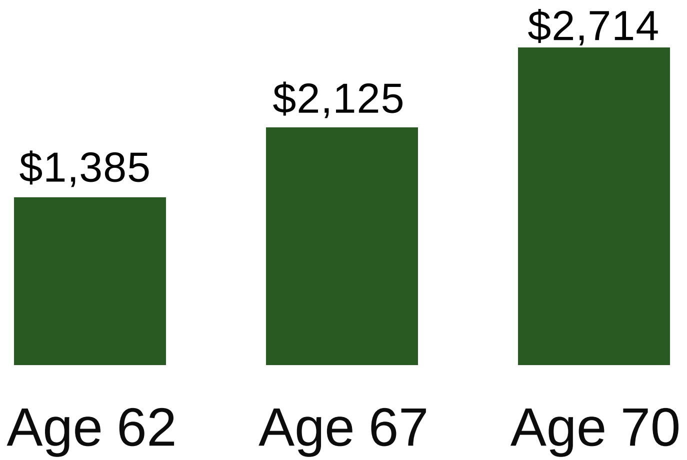
Use a Roth strategy to control your tax bill

- Source of tax-free income in retirement
  - Access to tax-free source of income provides more options on where to draw income from
- No mandatory withdrawals (RMD's) at age 73
- Having a portion of retirement savings in a Roth Account can provide a hedge against the threat of rising taxes in retirement
- Act now before rates rise and RMDs begin

Make the right decision on Social Security

- Only source of guaranteed income for many retirees
- Expected life expectancy a factor but consider spouse before claiming early!
- Consider maximizing survivor benefit to address longevity risk

Monthly benefits increase as you delay Social Security



Social Security Quick Calculator benefit estimate based on an individual age 62 with $75,000 in current earnings. Does not include increases in benefit levels due to regular cost-of-living adjustments.

Address other specific risks

Post-retirement risk	Risk management tool
Unexpected health care costs	Supplemental Medicare coverage or health care "emergency fund"
Catastrophic medical or long-term-care costs	Traditional or hybrid long-term-care insurance
Lawsuits or creditors	Irrevocable trusts or Umbrella Liability
Cost of probate	Smart estate planning
Spending the children's inheritance	Life insurance/irrevocable life insurance trust (ILIT)
Inability to fulfill charitable intent	Charitable trust or DAF's

Practical approaches to managing income

Consider a bucket approach

Short-term income bucket (0–3 years)

Meet immediate cash-flow needs, emergency fund, etc.

- Cash
- CDs/money market
- Short-term bonds
- Immediate annuities
- Social Security, pension income
- Wages

Mid-term income bucket (3–10 years)

Mix of growth and income, replenish short-term bucket, guard against market volatility

- Bonds
- Deferred annuities
- Absolute return funds
- Asset allocation funds, balanced funds

Long-term income bucket (10+ years)

Inflation hedge, address longevity risk

- Growth stocks/funds
- Real estate
- Commodities

Match expenses with income sources

Discretionary expenses
- Travel
- Entertainment
- Other discretionary

- Portfolio withdrawals
- Employment income
- Gifts
- Bequests

Essential expenses
- Housing/utilities
- Food
- Health care
- Transportation
- Taxes

- Social Security
- Pension income
- Annuities
- Fixed income
- RMDs
- Dividends

Emergency expenses
- Health-related "shock"
- Long-term care
- Family emergency
- Other unforeseen events (legal issue, etc.)

- Insurance
- Emergency savings
- Home equity

Closing thoughts

- ✓ It’s critical for investors to prepare for certain (and uncertain!) risks
- ✓ A thoughtful income strategy can help you address these challenges and attain the lifestyle in retirement you desire
- ✓ Meet with your financial advisor to assess your personal situation

Additional resources

On the web

- AARP, www.aarp.org
- Social Security Administration, www.ssa.gov
- American Savings Education Council, www.asec.org
- ElderWeb, www.elderweb.com
- Medicare, www.medicare.gov
- National Association of Home Care Providers, www.nahc.org

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Contact Information

Richard Hill CRPC®, AIF®
Compass Financial Group
Raleigh, NC 27615

www.compassfinancialgrp.com

Office: 919-714-7491
Richard.hill@compassfinancialgrp.com

Follow me on LinkedIn for more tips on how to write your retirement story and navigate this phase of life!

linkedin.com/in/richardhillcfg

Retirement is a journey, not a destination!