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SAVINGS, INCOME AND LIFESTYLE: KEYS TO RETIREMENT INCOME PLANNING

For many, the retirement equation appears complicated and overwhelming. Thankfully, at the most basic level, it comes down to just three relatively straightforward buckets: savings, income and lifestyle.

SAVINGS

Throughout your career, you grow your savings by accumulating money and assets. Money includes your cash, the dollars in your checking account or your savings account. Your assets include things you've accumulated over time like your home, car or investments, including your 401(k) through work.

INCOME

Income for pre-retirees is the paycheck you receive from your employer or business, and the money earned from investments. Social security also falls into the income category upon retirement, but with one important benefit – you will continue to receive it for the rest of your life. That's why it is called protected lifetime income. Other forms of protected lifetime income include pensions (for those lucky enough to have one) and annuities. Protected lifetime income streams are particularly important for retirement planning, since you will no longer receive regular paychecks from your occupation.

LIFESTYLE

What do you eat? How do you dress? Where do you live? What do you do for fun? The answers to all of these questions and more make up your lifestyle. Certainly, lifestyles and accompanying expenditures change as people move through various life stages, but not as much as you might think.

"Most financial professionals say you'll need about 70 percent of your pre-retirement earnings to comfortably maintain your

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pre-retirement standard of living," according to the Social Security Administration website.[1] The site continues, "If you have average earnings, your Social Security retirement benefits will replace only about 40 percent."

How do you plan to supplement your social security? What if you don't have a pension? Well, you could re-enter the workforce by getting a part-time or full-time job. That provides a temporary income stream to support your lifestyle today. But how long are you willing and able to work?

You've spent your life working to establish a lifestyle. When you're done working, you want to at least maintain that lifestyle, if not improve it with the extra time you have. And you certainly do not want to see a dramatic decline in your lifestyle.

THE RETIREMENT PLANNING EQUATION

Let's think about how these three buckets (savings, income and lifestyle) impact whether you're able to live the life you want in retirement. The goal here is to protect your lifestyle, and a good retirement plan provides enough income to do just that when you're done working. The question is, how do you position your savings and income to have the best shot at protecting and even improving your lifestyle?

Asked another way, if we were to experience a significant drop in the markets as you are heading into retirement or during the first few years of your retirement, would you be more concerned with the value of your savings or income?

Most people look at it from an intuitive but not necessarily correct viewpoint, the savings drive the income which pays for the lifestyle. If markets go down, people assume that their savings will decline, driving down their income and therefore impacting their lifestyle. Let's explore that further.

PROTECTING YOUR LIFESTYLE WITH PROTECTED INCOME

With life expectancy nearly doubling in the 20th century,[2] the biggest question for many when thinking about retirement is, "How long will my savings last?" If you intend to rely on withdrawals from your savings to support your lifestyle, you must decide if you want your plan to invest and spend to be conservative, moderate or aggressive. If aggressive, you can be negatively impacted by market ups and downs and quickly be caught up in the "exponential growth within the ranks of older bankruptcy filers."[3]

If you take a moderate investment and spending approach you may be able to maintain your lifestyle for a time, but again, market ups and downs or unexpected expenses could derail your moderation and leave you in a situation where dramatic lifestyle adjustments are necessary.

If you take a very conservative approach to your savings and spending – you've already sacrificed your lifestyle and still have no guarantees of protection. As long as your savings are exposed to market ups and downs, your lifestyle is also exposed.

This is why a good retirement income plan is so important. The first step in the planning process is to calculate your monthly expenses. Divide those expenses into needs, wants and wishes. What can you not live without? What expenses are pretty important, but not necessary? And what could be considered luxuries? The prioritization of retirement expenses is different for everyone. For some, a golf membership or monthly travel to see grandchildren could be essential, while for others those expenses could be seen as luxuries. There are no right or wrong answers.

In order to ensure you are able to continue to cover essential living expenses, cover your needs with protected lifetime income. Some examples of your monthly needs can include a mortgage, utilities, groceries, medical expenses, transportation, rent, property taxes or a whole host of other essential expenses that are non-negotiable to you in retirement.

By securing protected lifetime income streams for your needs in retirement, you can utilize a mix of investments and protected income streams to best position yourself to afford your wants and wishes. Even if your savings are negatively impacted by market ups and downs, having your needs covered means you will still be able to stay in your home, afford groceries and pay your bills. Protected income streams act to insulate your lifestyle from market swings that can impact your savings.

We know Social Security can account for a portion of what you will need and a lucky few have pensions, but where else can you go for protected lifetime income sources? This is where annuities play an important role. Annuities are insurance products you can purchase that can provide protected lifetime income that doesn't run out. There are many different types of annuities, but the important element to consider is protection.

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Protected lifetime income streams can help to ensure that even with an unexpected decline in your savings, you are still able to maintain your lifestyle.

RETIREMENT INCOME PLANNING IS IMPORTANT

A good retirement plan focuses on income and not necessarily on the value of your savings, because income is something you can protect and therefore control. If you build your plan right, even if your savings are negatively impacted by market changes, you can still rely on protected income streams to maintain your lifestyle.

Talk to a financial professional about building a retirement income plan that includes protected lifetime income to help you be secure through volatile markets and have confidence that you will be able to achieve the lifestyle you want in retirement.

Visit www.ProtectedIncome.org/ to learn more.

[1] Social Security Administration Website: https://www.ssa.gov/planners/retire/r&m6.html

[2] NIH National Institute on Aging, https://www.nia.nih.gov/living-long-well-21st-century-strategic-directions-research-aging/introduction

[3] "Graying of U.S. Bankruptcy, Deborah Thorne, Pamela Foohey, Robert M. Lawless & Katherine Porter, Pg. 10

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company. Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½. Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

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