WILL YOU HAVE ENOUGH INCOME IN RETIREMENT?

Prepared on behalf of:

TRANSITION
ADVISOR GROUP

Conventional wisdom says you should plan to generate 80 percent of your working income in retirement, but the truth is there isn't one specific number that's right for everyone. Income needs in retirement are unique to each individual – so only you can really say how much income you'll need. We can help you ask the right questions to arrive at the number that makes sense for you.

THE ESSENTIAL QUESTIONS

If answered honestly and accurately, these six essential questions can help you plan for your retirement income:

1 How much do you spend right now?

A lot of people think they know what they're spending every month, but when they go through a process of saving their receipts and recording their expenses, they're surprised at what they learn. For at least three months, keep track of all your spending. Note necessary costs like groceries, as well as gifts, eating out and savings. Record everything. It's important to know not only what you spend, but what you spend it on.

2 How will your spending change in retirement? Do you dream of traveling? Plan to move out of state?

While some costs, like traveling to and from work, should decrease, other factors may bring additional expenses. Consider the costs of a cross-country trip or the possibility of medical needs or illnesses that necessitate long-term care. It's important to be realistic about your retirement goals and lifestyle needs when calculating retirement income. The financial professionals at our firm can help make sure you don't overlook something that could affect your lifestyle in retirement.

3 Will family issues affect your spending?

While we hope our children will be grown, gainfully employed and pursuing their dreams when we retire, that may not be your reality. If you have an adult child or a grandchild to support, it may change the way you plan for retirement income. Also, it's important to consider the complexities that may arise if your spouse were to die, including lost income and tax implications. Working with a tax advisor, we can help you prepare for these types of things.

4 Will your taxes be higher or lower in retirement?

Predicting tax policy is a tricky business, but there are some things for which you can prepare. For instance, if you have a lot of assets in pre-tax retirement accounts, any distributions from those accounts could push you into a higher tax bracket. Or, if you aren't withdrawing from those accounts appropriately, you may incur penalties. Working with a financial professional from our team and a tax advisor can help you prepare for any future tax changes and avoid unnecessary taxes or penalties.

5 How could inflation impact your retirement assets?

We can't predict the future, but it seems reasonable to prepare for increases in inflation over the course of retirement. It doesn't take long for even small changes in inflation to add up. This should be factored into your retirement income strategy, and we can help you identify strategies to address the potential impacts of inflation on your retirement assets.

6 How long will you live?

If we knew the answer to this question, planning for retirement income would be much easier. Life expectancies will vary, but in general, people are living longer than ever before. That means your retirement could last much longer than your parents' or grandparents' retirements. The longer you live, the more factors like health care costs and inflation are likely to impact your retirement income. We can help you approximate your life expectancy and prepare for the possibility of a long life and long retirement.

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FIVE RETIREMENT PLANNING MIS-STEPS TO DODGE

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Whether you're 25 or 55, if you don't have retirement on your radar, you're going to speed through life and run right into it.

YOUR LIFE
NEEDS A ROADMAP.

THAT'S WHERE WE COME IN.

Planning for your retirement can be overwhelming and probably a little bit scary. We get it. But this is what we do, and we'd like to think we're pretty good at it. Our goal is to help our clients plan for exciting, fulfilling futures, and we want to do the same for you.

Through the years, we've identified five common mistakes people often make before they hit retirement. Do any of these sound familiar?

1. You don't have a fully mapped out retirement strategy.

Or, maybe you do, but you haven't updated it in the past five years. You know the old saying: If you don't know where you're going, how will you know when you get there? Having a strategy in place can help you know where you're going – as long as that strategy is up to date. With fluctuating market conditions and possible changes to your financial situation, we recommend that you review and, if necessary, update your financial strategy at least every three years.

2. You're living beyond your means, contributing little or nothing to the savings you'll need after your paychecks stop.

A key to good retirement income planning is having a budget and sticking to it.

3. You are under the impression you will be healthy forever — and therefore may be ignoring the cost of health care in retirement.

Or, at the very least, you're underestimating what those costs might be. It's estimated that a 65-year-old married couple that retired in 2016 will need about $260,000 for health care costs in retirement.[1]

4. You aren't saving enough to account for inflation.

The value of the dollar is constantly changing — but you probably already know that from your weekly trips to the grocery store. These increases, along with the other potential impacts of inflation, should be factored in when planning your financial future.

5. You haven't planned for the possibility of long-term care.

It's estimated 70 percent of those over 65 will require long-term care at some point in their lives,[2] and the average cost of a private nursing home room is more than $92,000 a year![3]

If you identified with one or more of these, you're probably not alone! The good news is, these are the kinds of issues we help people address every single day. That's not to say your issues are similar to everyone else's – because they're not – but it's important to know you aren't alone.

If you're looking for a cookie-cutter financial strategy, you won't find that here. We take pride in treating all of our clients as individuals. So, take the first step in learning more about us. Once you realize the necessity for a lifelong financial strategy, we will gladly sit down with you to start creating your roadmap.

The first step toward your financial goals is to start thinking about it now. Maybe the age at which you plan to retire is far away, or maybe it's closer than you want to admit. It doesn't matter. The fact is: People are living longer than ever before, which means their savings need to last longer than ever — at least 20, 30 or possibly even 40 years. Saving and planning for your financial future should be high priorities.

Don't overlook these common retirement mistakes. Let us help you prepare for a more confident retirement.

[1]Fidelity. Aug. 16, 2016. "Health Care Costs for Couples in Retirement Rise to an Estimated $260,000." https://www.fidelity.com/about-fidelity/employer-services/health-care-costs-for-couples-in-retirement-rise. Accessed June 13, 2017.

[2] U.S. Department of Health and Human Services. Feb. 21, 2017. "Who Needs Care?" hps://longtermcare.acl.gov/the-basics/who-needs-care.html. Accessed June 21, 2017.

[3] Genworth Financial. June 22, 2016. "Compare Long Term Costs Across the United States." hps://www.genworth.com/about-us/industry-expertise/cost-of-care.html. Accessed June 21, 2017.

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7 ANNUITY BASICS

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Over the past several decades, the responsibility for providing retirement income has shifted from employers and government programs, such as Social Security, to individuals. Because of this shift, many retirees and pre-retirees now use a fixed income product, like annuities, to help ensure a part of their income will be guaranteed.

Below are seven annuity basics that can give you a better understanding of annuities and whether this type of product may be suitable for a portion of your retirement assets within your overall financial strategy.

If you are considering an annuity, it is a good idea to work with a financial professional who can help you see a complete view of your financial picture, including how your retirement assets are integrated and work with one another. If you have any questions while reading this guide or would like to speak with a financial professional, please call 717.718.5790.

1 ANNUITY DEFINED

An annuity is a contract between you and an insurance company where you pay a premium in exchange for guaranteed income for a set period of time or for the remainder of your life. The guarantees of an annuity are backed by the financial strength and claims-paying ability of the issuing insurer.

There are two phases of annuities: the accumulation phase, where your contract value accumulates interest earnings, and the distribution phase, where you receive income payments.

2 DIFFERENT TYPES OF ANNUITIES

Immediate annuities: An immediate annuity is purchased with a lump sum payment to the insurance company. In return, the insurance company provides a guaranteed series of payments that begin right away. The amount of income you receive depends on a number of factors. The payouts may be level, or they may increase over a fixed number of years or until the end of your life, whichever is longer. Once you decide to receive payments for life, the transaction is irreversible, and you no longer have access to your assets in a lump sum. When you die, any remaining contract value is forfeited to the insurance company.

Deferred annuities: With a deferred annuity, you make one or multiple payments over a longer period of time. You can begin drawing regular income payments according to the terms of your contract. Taxes on your interest are deferred until you receive money from the contract.

Below are three different types of deferred annuities:

- **Traditional fixed annuities:** When you purchase a fixed annuity, you'll receive a guaranteed interest rate for a predetermined number of years that can help you conservatively accumulate assets for retirement. Fixed annuities provide stable, guaranteed income and often appeal to those who favor protection over growth.
- **Fixed index annuities:** Like a traditional fixed annuity, a fixed index annuity provides guaranteed income with protection of principal from market losses, but it also has the potential to provide higher interest earnings. Interest earnings from a fixed index annuity are linked to the performance of an external market index, like the Standard & Poor's 500. This means you are earning interest without actually participating in the stock market. The amount of interest you receive from a fixed index annuity can vary, and there is a limit on how much interest you could earn.
- **Variable annuities:** Those willing to assume a higher degree of risk in exchange for the potential for greater returns may consider a variable annuity. In this type of annuity, your premium is invested in professionally managed portfolios, therefore offering greater growth potential. Like fixed annuities, taxes are deferred on your interest until you begin receiving money from the contract, but unlike fixed annuities, variable annuities are invested in the market and have the potential to lose money as a result of market declines.

3 COSTS ASSOCIATED WITH ANNUITIES

Annuities contain certain costs, and, because they are long-term contracts, there may be charges or penalties for taking money out early. If you're under the age of 59 ½, there may also be a 10 percent federal tax penalty. Fees, expenses and charges for annuities may include, but are not limited to:

- **Surrender charges:** These are penalties levied against withdrawals made during the early years of contract ownership, known as the surrender charge period. Usually, you can withdraw 10 percent a year with no penalty, but if you withdraw more than the amount specified in the annuity contract, there will be a surrender charge.
- **Commissions:** The financial professional who sells you the annuity earns a commission. Commissions are built into the cost of the product and are paid by the insurance company directly to the financial professional.
- **Load fees:** These fees are generally associated with variable annuities in order to cover the cost of the marketing and management of funds of the annuity. Examples include management fees based on a percentage of premium or a percentage of net assets; contract fees charged annually or at a flat rate; or transaction fees that may be charged when money is moved from one investment to another.
- **Rider fees:** There are various optional riders that you can purchase with an annuity that provide additional benefits, but they may come at additional costs.

Consider consulting with a financial professional to help ensure you understand all of the costs associated with the annuity you are considering.

4 ANNUITY DEATH BENEFITS

If you pass away before you begin to receive scheduled income payments, your beneficiary(ies) will receive a death benefit. Even if you pass away after income payouts have begun, it's still possible your beneficiary will receive a death benefit. The value and the manner in which your beneficiaries can receive the death benefit may vary based on the product selected and insurance company that issues it.

5 ACCESSING THE PRINCIPAL OF AN ANNUITY

While annuities are designed to be long-term income products, most offer options that allow you to withdraw a percentage of your contract value each year up to a certain limit.

However, withdrawals will reduce the contract's accumulation value, death benefit and income account value, if applicable. In addition to any possible surrender charges, all withdrawals are subject to ordinary income tax, and if taken prior to age 59 ½ may be subject to an additional 10 percent federal tax. A financial professional can help you understand your options with regard to early withdrawals.

6 LENGTH OF INCOME RECEIVED FROM AN ANNUITY

Annuities pay income in a variety of ways. Sometimes the income amount is guaranteed for life and can even cover a spouse's life. Others pay only until the account value is depleted, or through a specific time period.

7 RESEARCHING THE STABILITY OF INSURANCE COMPANIES

Because annuities are backed by the financial strength and claims-paying ability of the issuing insurance company, some buyers wish to do some research about the insurance company that is providing the annuity before making a purchase.

To inquire about the insurance company, you may contact the insurance company, or your state insurance department.

Annuities are designed to meet long-term needs for retirement income. Interest on annuities is earned on a tax-deferred basis, which means no taxes are paid on interest credited until payments are received or withdrawals are taken.

We are an independent financial services firm helping individuals create retirement strategies using a variety of insurance and investment products to custom suit their needs and objectives.

If you would like more information about annuities and how they may fit into your overall financial strategy, please call 717.718.5790.