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Reliable Retirement Income

You have your own unique vision of what retirement will look like—perhaps a time of relaxation and enjoying new hobbies, or pursuing specific goals, such as travel. Therefore, it is important to have sufficient assets in place, and a plan designed for your goals that seeks to generate reliable retirement income that can help sustain your vision for many years to come.

What are some issues to prepare for in developing a retirement income plan?

Retirement today, on average, lasts longer than at any time in history. At the same time, the cost of living continues to rise, particularly for expense categories that become increasingly important at an older age, like health care. These factors mean generating reliable income in retirement can be considerably more complex.

As you enter your retirement years, your plan needs to seek to address critical issues that may affect your income needs:

- **Longevity:** With life expectancies on the rise, retirement can last 20 to 30 years or more. You need a plan for income that you will not outlive.
- **Market Volatility:** A downturn in the market can deplete your assets quickly. Your investment plan needs to position your portfolio in a manner that strives to reduce the effects of market fluctuation.
- **Inflation:** The rising costs of goods and services can erode purchasing power. You may want to consider investing for potential growth in your portfolio in order to help keep up.
- **Unforeseen events:** You should have funds set aside to potentially cover unexpected expenses, such as helping out a loved one, medical costs or long-term care.

What are investments that can generate income?

Here are some of the more common investments retirees may turn to in order to generate income from their personal savings:

Certificates of Deposits: Possibly one of the safest investment vehicles available, as principal is generally guaranteed by the FDIC per depositor and per institution.[1]

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[1] The standard insurance amount is $250,000 per depositor, per insured bank, for each account ownership category. Any funds deposited with the issuer bank, whether in checking, savings, money markets and/or certificate of deposit are all aggregated together up to $250,000, anything in excess of that amount will not be eligible for FDIC insurance, so you should consider and inform your advisor if you have other deposits at the issuing bank. The FDIC provides separate coverage for deposits held in different account ownership categories. For details on the requirements, please visit www.fdic.gov/deposit/deposits. You may also contact the FDIC Call Center at 877-275-3342.

Please see disclosures on page 4.

The trade-off is they may deliver low yields that often can't keep pace with inflation.

Bonds: These are issued by entities such as governments or corporations. Bonds typically pay interest periodically for the life of the bond. Bonds can fluctuate in value, but usually not as dramatically as stocks. It's important to remember that we are currently in an environment of low interest rates. As interest rates rise, the price of bonds typically decrease.

High-yield instruments: These are products that might offer income potential superior to that of CDs or bonds but usually with much greater risk. Investors who purchase these products are generally more willing to accept greater market fluctuation and possible loss of principal in return for the potential for more income.

Immediate annuity: This annuity offers a guaranteed stream of income for a set period of time or throughout the life of the annuitant, subject to the claims-paying ability of the issuing insurance company. When an immediate annuity is purchased, the individual enters into a contract with an insurance company, which calculates the amount of income they can provide based on the type and term of the annuity along with an individual's age and gender (to determine life expectancy). Certain risks are associated with this product, such as your beneficiaries not receiving all of the original principal if your life was shorter than the life expectancy calculated by the insurance company, or due to the quality of the insurance company offering the contract.

Variable annuity with guaranteed income feature:[2]
This annuity offers guaranteed lifetime income that cannot be reduced due to market fluctuation. This annuity is a long-term investment vehicle designed for retirement purposes. A deposit is made into a number of variable subaccounts that can fluctuate in value and are subject to market risk. For an additional fee, variable annuities can include optional riders that can offer guaranteed lifetime income streams regardless of how underlying subaccounts perform, if certain conditions are met.

When looking at variable annuities with this feature, you need to completely understand the terms of the rider and contract, the costs associated with purchasing the guarantee and the quality of the insurance company offering the product. The election of an optional rider may result in limitations on the investment options. Guarantees are subject to the claims-paying ability of the issuing insurance company. Excess withdrawals may effect the income stream. Please read the prospectus for complete details before investing.

Cash dividends from stock: Some companies may pay a cash dividend to shareholders of their stock. The amount of the dividend paid can vary depending on the company's performance, and can be changed or removed by the company at any time.

What strategies can help generate income throughout retirement?

The appropriate retirement income strategy depends on various factors, such as a person's age, the level of income that needs to be generated from investments and an investor's risk tolerance. There are a variety of approaches to consider:

Systematic withdrawal plan: This approach involves taking a fixed amount from an investment portfolio on a periodic basis—such as monthly. This strategy may be appropriate for those who want to maintain a mix of equity and bond investments in their portfolio. If income generated from these investments is not sufficient, you may be able to sell assets to help meet your income requirement.

Retirement income strategy: This strategy seeks to incorporate a number of different income-generating products. A retiree can combine systematic withdrawals from a traditional asset allocation mix, with a lifetime immediate annuity. Income from the annuity along with Social Security might cover essential living expenses, such as health care costs, food and shelter, taxes, etc. The systematic withdrawal plan could cover flexible income needs, such as travel.

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[2] If you are buying a variable annuity to fund a qualified retirement plan or IRA, you should do so for the variable annuity features and benefits other than tax deferral. In such cases, tax deferral is not an additional benefit of the variable annuity. References throughout this material to tax advantages, such as tax-deferral and tax-free transfers, are subject to this consideration.

BUCKET STRATEGY

	BUCKET 1	BUCKET 2	BUCKET 3
TIMEFRAME	for use in the next 3 years	for use in 3–10 years	for use beyond 10 years
INVESTMENT TYPES	LEAST RISK & GROWTH Cash CDs Money market funds Short-term U.S. Treasury bonds	MODERATE RISK & GROWTH Mutual funds CDs Bonds Fixed annuities	MOST RISK & GROWTH Equities Commodities Real estate Variable annuities

Buckets will need to be redistributed over time, based on each buckets' objective, to continue to help meet its intended use.

Bucket Strategy: This strategy involves segmenting retirement assets into different "buckets of money" that seek to help meet needs at different stages of life. Each bucket of assets seeks to cover a certain period of time during retirement. For example, the first bucket contains cash, cash equivalents and/or immediate annuities to help meet spending needs for the next three years. The second bucket is intended to help meet spending needs starting in years three through ten of retirement. This bucket may be invested slightly more aggressively than the first, looking for an opportunity to potentially grow assets modestly and seeking to create a larger stream of income that can keep pace with inflation. Keeping in mind that a more aggressive investment style exposes the bucket to more risks. The third bucket contains mostly longer-term investments that carry the highest amount of risk when compared to buckets one and two. It seeks to grow assets for distribution starting in the 10th year of retirement and beyond, which may allow sufficient time to overcome market fluctuations. Of course, all investing involves risk and the potential for loss. There is no guarantee of success with these strategies and you should and consider speaking with a financial professional about your situation before implementing such a plan.

How can taxes play a role in retirement?

Retirees will still be required to pay income taxes in a number of circumstances, including those below. Consult with your own tax advisor for tax implications and strategies for your situation.

Social Security benefits: Social Security benefits may be completely tax-free or partially subject to tax, depending on the household's income level in a given year.

Pension and/or annuity income: Pension or annuity income may be fully or partially taxable. If all contributions to the pension plan were made before taxes were deducted, then all distributions will be fully taxable. If contributions to fund a plan came from dollars that were already taxed, then only part of the withdrawal (representing earnings) is subject to tax.

401(k)/403(b) plan distributions: Distributions from an employer's defined contribution plan are fully taxable assuming all contributions to the plan were made on a pre-tax basis.

Individual Retirement Account (IRA) distributions: The type of IRA that is being withdrawn determines whether distributions will be taxed. If it is an IRA where contributions were deducted from taxes, then distributions are fully taxable. If it is a Traditional IRA where contributions were made on an after-tax basis, than part of the distribution (representing earnings) is taxable. However, qualified distributions from a Roth IRA are completely tax-free, assuming holding period requirements are met. Non-qualified withdrawals are subject to all applicable federal and state income taxes, and may be subject to a 10 percent federal penalty.

What steps should I consider taking now to help prepare for retirement?

Maintain enough cash to cover one year of expenses. The main purpose of this money is to help meet any unexpected emergencies that might occur in retirement.

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Consider consolidating your accounts to one financial institution. With one institution, taking withdrawals is less cumbersome, and monitoring your assets becomes easier.

Rebalance your portfolio to help stay aligned with your goals. Establishing and maintaining the appropriate asset allocation mix for your investment portfolio is important. This may mean selling existing positions in asset classes that have experienced favorable market conditions and, as a result, come to represent a larger position in the portfolio, and buying additional investments in assets that have a reduced weighting in the portfolio. Rebalancing a portfolio seeks to help it to stay in line with your financial goals and risk tolerance.

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