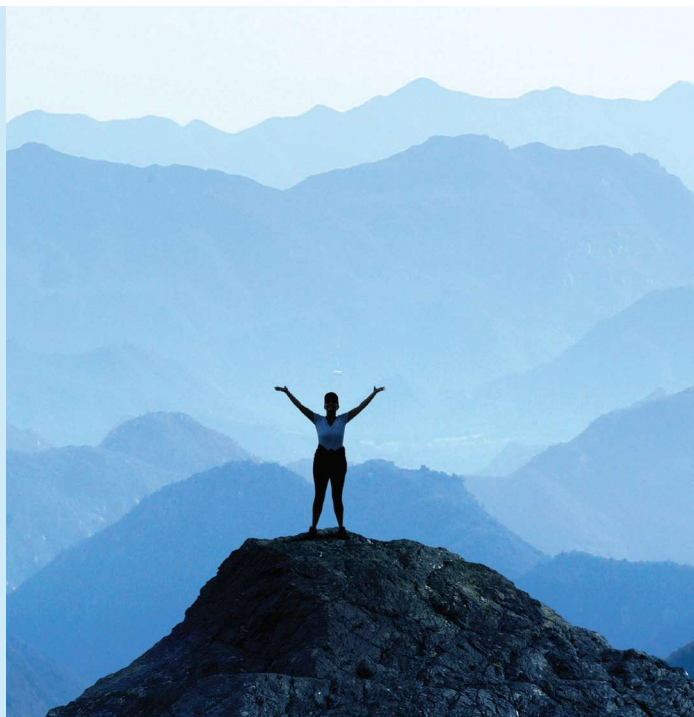


# Making your money last

Develop a retirement income strategy

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## The importance of lifetime income

### **A solid foundation**

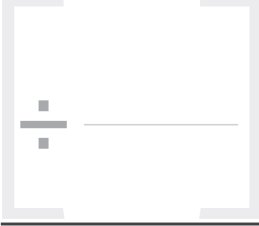
We believe the foundation of your retirement income strategy should be built with lifetime income sources, such as Social Security or a pension. Since certain annuities can offer insured payments for life, they may help fortify this foundation by providing “income insurance” — a lifetime payment stream regardless of market performance or how long you live. However, annuities involve important trade-offs, so our goal is to determine whether they make sense for your situation.

## Understanding the numbers

To determine how solid your income foundation is, start by calculating your reliance and withdrawal rates.

Reliance rate			
The percentage of your income that comes from your portfolio (how much you rely on your portfolio for income). These numbers can be pretax or after tax; they just need to be consistent.	1 -		Income from outside sources (e.g., Social Security, pension)
			Total income needed
			Reliance rate (%)







The more you rely on your investments for your income needs, the more sensitive your retirement strategy could be to market fluctuations. Unless you have a lot of flexibility with your expenses, you may consider options such as annuities to help reduce your reliance rate, especially if it is more than 50%.

Withdrawal rate			
The percentage of your portfolio you use every year			\$ withdrawn from portfolio (pretax)
			Total portfolio size
			Withdraw rate (%)

A modest withdrawal rate (e.g., 4% for a 65-year-old) is a key part of a successful retirement strategy. While annuities can help provide a source of lifetime income and potentially increase income in the early years of retirement, they shouldn't be used to try to support an unsustainable spending and withdrawal rate. If withdrawals are too high, other options — such as working longer, spending less or saving more — should be primary considerations.

## Is “income insurance” right for you?

Along with calculating your withdrawal and reliance rates, answering the following questions with your financial advisor can help determine whether annuities may be appropriate for you.

<p><b>How many of your necessary expenses are covered by outside income sources, such as Social Security and/or a pension?</b></p> <p>If you have enough income from Social Security and a pension to cover your necessary expenses, you may not need an annuity.</p>	<p><b>Most</b></p> 	<p><b>Few</b></p>
<p><b>Rate your ability to reduce spending and expenses in case of unexpected events.</b></p> <p>If you can cut back when the market isn't performing well or have cash reserves to cover unexpected expenses, you may not need an annuity.</p>	<p><b>Higher</b></p> 	<p><b>Lower</b></p>
<p><b>What is your comfort with risk?</b> (You can work with your financial advisor to complete a more detailed risk tolerance questionnaire.)</p> <p>The lower your tolerance for market fluctuations, the more you may want to consider income insurance.</p>	<p><b>Higher</b></p> 	<p><b>Lower</b></p>
<p><b>Given your current health and family history, rate how long you expect to live relative to the average life expectancy of early to mid-80s.</b></p> <p>If you live longer than you expect, you could outlive your money. Lifetime payments from an annuity can help guard against this.</p>	<p><b>Shorter</b></p> 	<p><b>Longer</b></p>
<p><b>Which of the following is more important to you?</b></p> <p>Because you exchange principal for lifetime payments with certain annuities, it may affect the amount you can leave as a legacy.</p>	<p><b>Leaving a legacy</b></p> 	<p><b>Retirement income</b></p>
<p><b>Which of the following is more important to you?</b></p> <p>Guaranteed withdrawal benefits have annual costs that will reduce your investment return. They also may restrict your investment options and access to funds.</p>	<p><b>Greater control over assets</b></p> 	<p><b>Higher lifetime income</b></p>

The more your answers are to the right, the more appropriate annuities with lifetime income may be, while the more your answers are to the left, the less appropriate annuities may be for your situation. Given the potential benefits and trade-offs, we generally recommend investing no more than 35% of your overall portfolio in annuities.

This recommended amount can vary based on the type of annuity you select:

- Immediate annuities and deferred income annuities: Up to 25% of your portfolio
- Deferred fixed and deferred variable annuities with guaranteed lifetime withdrawal benefits: Up to 35% of your portfolio

Since everyone's situation is different, your financial advisor can work with you to determine the proper allocation, if any, to annuities.

## Benefits and trade-offs of annuities providing lifetime income

### Potential benefits

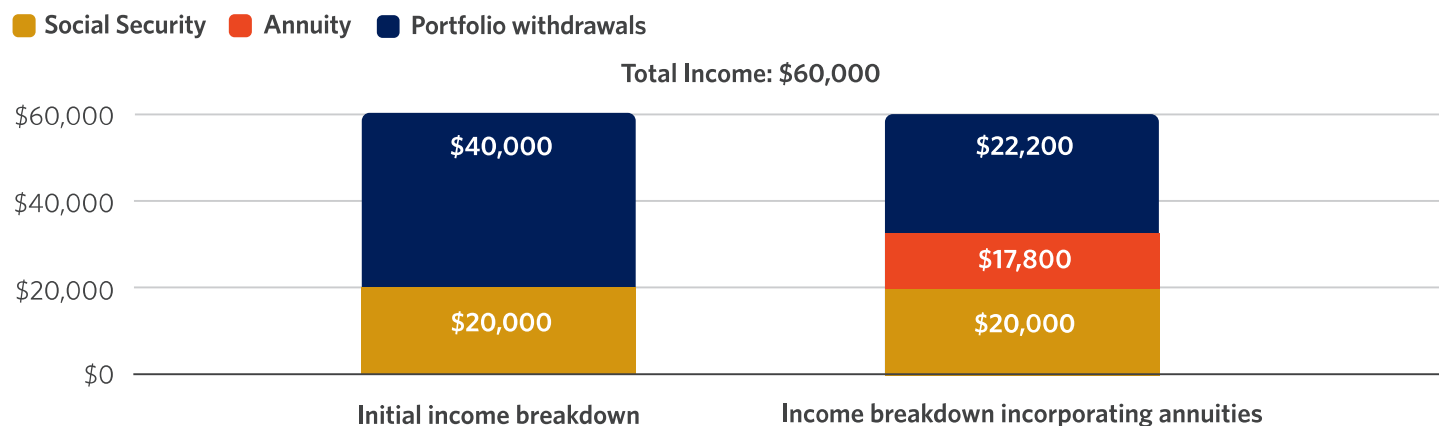
- **Lifetime, predictable cash flow** — Regardless of how long you live or how your investments perform.
- **Higher initial payout** — An annuity can provide an initial payment that, as a share of the invested amount, is higher than our recommended withdrawal rate for a diversified portfolio.
- **Reduced reliance on your investment portfolio for income** — Reducing your reliance and withdrawals could be especially beneficial in the early years of retirement, when market declines could have the greatest effect.

### Trade-offs

- **Higher potential fees and expenses** — Due to the additional cost of insurance.
- **Potential lack of growth** — While initial payments may be higher, they often will not grow to keep up with inflation.
- **Lower flexibility/liquidity** — There may be restrictions on accessing your money or making changes to an annuity contract.

### Incorporating annuities into your income strategy

Assumes \$60,000 in desired income, \$1 million initial portfolio value and subsequent \$250,000 investment in an immediate annuity\*



Potential benefits include lower withdrawal and reliance rates as well as higher lifetime income.

<b>Annuity purchase</b>	\$0	\$250,000
<b>Portfolio value</b>	\$1 million	\$750,000
<b>Total income from lifetime sources (Social Security and annuity)</b>	\$20,000	\$37,800
<b>Initial withdrawal rate</b>	4%	3%
<b>Portfolio reliance rate</b>	67%	37%

\* Immediate annuity quote from Cannex on 8/1/2024 that assumes \$250,000 investment, male annuitant, age 65, Missouri resident, and includes installment refund option. Assumes \$20,000 Social Security income.

Example is for illustration purposes only and does not reflect a specific investment.

## Putting it all together

Given their ability to provide some cushion against market declines, annuities could play an important role as part of a well-diversified portfolio, particularly if you are between the ages of 55 and 75.

That said, annuities will likely play a smaller role in your strategy if:

- You can be flexible with your spending from year to year.
- More of your necessary expenses are covered by outside income sources, such as pensions and Social Security.
- Leaving a financial legacy is important to you.

Other important factors to consider with your financial advisor prior to purchasing an annuity:

- Interest rate environment
- Age/gender
- Inflation protection
- Taxes
- Insurance company<sup>1</sup>

Ultimately, it's important to understand that annuities are just one of many investment options that can provide for your income needs in retirement. Our goal is to offer appropriate advice and investments to help meet your retirement goals. Together, you and your Edward Jones financial advisor can help determine whether annuities make sense for your retirement strategy.

<sup>1</sup> Since all contract and rider guarantees are subject to the claims-paying ability of the insurance company, it is important to consider the credit quality of the insurance company when purchasing an annuity.





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## Choosing the right type of “income insurance”

We consider the following annuity types as primary options for providing income insurance in retirement:

### Income annuities

With an income annuity, you give the insurance company a lump sum in exchange for a stream of payments that lasts for a certain period of time or for life. This means you can receive guaranteed payments for life, regardless of how long you live or how the market performs. Types of income annuities include:

- **Single premium immediate annuity (SPIA):** Payments begin within one year after purchase.
- **Deferred income annuity (DIA):** Payments begin between two and 10 years after purchase.

Because your initial payment is deferred, payments are generally higher with DIAs than with SPIAs (assuming the same initial investment), and the longer the start date is deferred, the higher the initial payment will be.

### Deferred annuities with guaranteed lifetime withdrawal benefits (GLWBs)

With deferred annuities, you retain ownership of your principal, which is invested through the annuity. For an additional cost, these annuities may offer living benefit features, such as GLWBs. With a GLWB, the annuity company guarantees you can withdraw up to a certain amount from your account every year for life (e.g., 5% of the initial investment), even if your account value falls to zero. GLWBs are available on certain variable and fixed annuity contracts.

### Account value and GLWBs

- **Variable annuity with GLWB:** Your account value will fluctuate based on the performance of the investments within the annuity, withdrawals and fees.
- **Fixed annuity with GLWB:** Your account value will grow based on the guaranteed interest rate credited for a specified period of time (e.g., seven years), offset by withdrawals and fees.

The insurance company may offer a crediting rate, which essentially increases the guaranteed withdrawal amount for each year you defer taking withdrawals, up to a limit — usually 10 years. Therefore, the longer you defer taking withdrawals, the higher your guaranteed withdrawal amount. We generally suggest beginning withdrawals from these types of annuities between two and seven years (and no longer than 10 years) in the future.

In general, we believe SPIAs and DIAs are most appropriate for investors whose goal is to maximize their amount of “insured” income, either starting payments now (SPIA) or in two to 10 years (DIA), and who are willing to transfer the ownership of a portion of their retirement assets for this level of insured cash flow. Annuities with GLWBs are generally more appropriate for investors who wish to insure a minimum level of income and prefer to retain ownership and some level of flexibility and liquidity in these assets — although these features result in higher fees and potentially lower payments compared to SPIAs and DIAs.

Each type of annuity has benefits and trade-offs, so it’s important to work with your financial advisor to determine which may make sense for your situation. There are additional features you should consider before purchasing one of these products. Please read the “How annuities work” section of this report.

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## How annuities work

### Income annuities

**Payments** — You generally have the option to receive payments on a monthly, quarterly, semiannual or annual basis. A variety of payout options are available, including lifetime payments. The payments from an income annuity can remain level, or you can choose (at issue) to have your payments increase over time to help offset the effects of inflation (which would result in a lower initial payment).

**Payout options** — There are many different payout options for income annuities, which essentially help determine what happens to the payment stream when you pass away. These payout options also affect the amount of the payment you receive. If you choose the “life only” payout option, payments are the highest of the payout options, but payments stop at your death, regardless of whether you have received your entire principal. Your beneficiaries will not receive additional payments. This is why we generally recommend choosing an installment or cash refund payout option, which will at least repay your initial investment should you pass away early.

**Taxation of payments** — If the money used to purchase the income annuity is from a taxable account, annuity payments are considered part return of principal and part interest. Keep in mind that only the earnings portion is taxed as ordinary income. Once you have received the original principal in the form of payments, any future payments could be fully taxable. If the money is from a traditional IRA or 401(k) (or other qualified plan types), all payments are generally fully taxable as ordinary income.

**Costs** — Annuities have fees and charges that are generally incorporated into the amount of the periodic payment.

**Liquidity** — When you purchase an income annuity, the terms generally can't be altered or canceled. Payments must continue as stated in the contract until the insurance company has met all its obligations and the guarantee expires.

### Deferred annuities with guaranteed lifetime withdrawal benefits (GLWBs)

**Living benefit (e.g., a GLWB)** — Some annuities enable the policyholder to elect an optional living benefit. Such benefits can provide certain guarantees\* for contract withdrawals or annuitization payments during a lifetime. This benefit usually requires additional fees, charges or expenses, and may be subject to eligibility limitations for the living benefit rider.

**Guaranteed death benefit\*** — If the policyholder dies, the beneficiary is usually guaranteed the amount originally invested, minus previous withdrawals. Some variable annuities offer death benefit options, which may increase the death benefit over time.

**Costs** — Annuities contain investment and insurance components that have fees and charges. Optional features of an annuity are generally available for additional fees.

**Tax-deferred growth** — Increases in the value of the annuity are not subject to taxes until withdrawn. At withdrawal, the earnings will be taxed at ordinary income tax rates. There are no tax advantages to investing in an annuity with qualified money, such as assets held in IRAs, 401(k)s or other retirement savings vehicles.

\* Guarantees are backed by the claims-paying ability of the issuing insurance company.

**Potential liquidity** — All deferred annuities allow policyholders to withdraw a portion of their investment, and some allow full withdrawals. However, any withdrawal above the guaranteed withdrawal benefit amount may reduce or eliminate the guaranteed withdrawal benefit. Withdrawal terms are defined in the annuity contract. Potential withdrawals also may be subject to a contingent deferred sales charge, income tax or other penalty.

**Annuitization** — Variable and fixed deferred annuities offer the contractual right to guaranteed lifetime income in the form of annuitization. Essentially, this is the process of converting a deferred annuity to an income annuity. Payments can be based on the life of the annuitant, a certain period of time, or both.

### **Additional features and considerations of deferred variable annuities with GLWBs**

Variable annuities are long-term investment products designed for retirement purposes and are subject to market fluctuation. To decide whether a variable annuity is right for you, consider that its value will fluctuate, it has various costs and it is subject to investment risk and loss of principal.

**Diversification** — Variable annuities enable individuals to invest in professionally managed subaccounts. Subaccounts offer a diversified range of investment objectives, and each subaccount invests in a diversified portfolio of securities. A subaccount is separate from the general assets of the insurance company. Although diversification does not ensure a profit or protect against loss in a declining market, it can help reduce the ups and downs in the annuity's value over time.

**Professional management** — A subaccount is managed by an individual or a team of individuals who select the investments based on the subaccount's investment objectives.

**Asset allocation program** — You can select an asset allocation based on your comfort with risk and your investment objectives. However, the insurance company may restrict how much you can allocate to these asset classes. Since different asset classes and investment options may fluctuate at different rates, you typically can choose when to rebalance your portfolio automatically on a tax-deferred basis — quarterly, semiannually or annually. This way, your original asset allocation and comfort with risk are maintained over time.

### **Important disclosures**

All contract and rider guarantees are subject to the claims-paying ability of the issuing company.

Annuities are long-term investments designed to provide tax-deferred savings for and during retirement. Distributions before age 59½ may be subject to a 10% early withdrawal penalty and contingent deferred sales charge.

***Variable annuities are sold by prospectus. You should consider the investment objectives, risks and charges and expenses carefully before investing. The prospectus will provide you with this information as well as additional information from the insurance company or subaccount investment manager. Your Edward Jones financial advisor can provide a prospectus, which should be read carefully before investing.***

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