Welcome to class 2!

Retirement Income
Making it Last – Retirement Income Modules

1. Retirement Income Challenges
2. Social Security Choices
3. Building Retirement Income Strategies
4. Tax-Smart Withdrawals
5. Installing Guardrails For Volatile Markets
RETIREMENT INCOME CHALLENGES

- Life Expectancy and Your Retirement Strategy
- Assessing Your Retirement Readiness
- Behavioral Barriers to Retirement Success
How long will I live?

How much will I spend?

Have I saved enough?
How Long Will I Live?

US Life Expectancy at Birth
1900-2019

The Longer You Live, the Longer You’re Likely to Live

In 2019, if you were… Your AVERAGE life expectancy is…

<table>
<thead>
<tr>
<th>Age</th>
<th>Life Expectancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Born</td>
<td>78.7</td>
</tr>
<tr>
<td>55</td>
<td>82.4</td>
</tr>
<tr>
<td>60</td>
<td>83.0</td>
</tr>
<tr>
<td>65</td>
<td>84.4</td>
</tr>
<tr>
<td>70</td>
<td>85.7</td>
</tr>
<tr>
<td>75</td>
<td>87.2</td>
</tr>
</tbody>
</table>

How $50,000 of Annual Retirement Income Can Add Up

$1,822,963

+5 years

$1,250,000

$1,000,000

+3% Inflation

$2,378,771

This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund. Past performance does not guarantee future results.

How Much Will I Spend?
How Retirement Phases May Impact Expenses

Active Retirement
- African Safari
- RV

Relaxing Retirement
- New Car
- Pay Off Mortgage

Resting Retirement
- Medical Bills
- Downsize Home
- Assisted Living

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MARY
Age: 62
Retirement Savings: $500K
Retirement Expenses: $50K/yr

DON
Age: 62
Retirement Savings: $1.5M
Retirement Expenses: $150K/yr

Retirement Readiness
$500K/$50K = 10 Years

$1.5M/$150K = 10 Years

Underfunded
Constrained
Well-Funded
### MARY
- **Age:** 62
- **Retirement Savings:** $500K
- **Retirement Expenses:** $50K/yr
- **Social Security:** -$15K/yr
- **Pension:** -$20K/yr
- **Net Retirement Expenses:** $15K/yr

#### Retirement Readiness
\[
\frac{500K}{15K} = 33 \text{ Years}
\]

### DON
- **Age:** 62
- **Retirement Savings:** $1.5M
- **Retirement Expenses:** $150K/yr
- **Social Security:** -$25K/yr
- **Rental Income:** -$50K/yr
- **Net Retirement Expenses:** $75K/yr

#### Retirement Readiness
\[
\frac{1.5M}{75K} = 20 \text{ Years}
\]
Three Retirement Income Behavioral Barriers

**Saver’s Paradox:** The inability of lifetime savers to suddenly convert to lifetime spenders once in retirement.

**Hyperbolic Discounting:** Placing too much value on rewards today while discounting future benefits.

**Hyper-Loss Aversion:** For retirees, the pain of financial loss can be 5-10 times as intense as the pleasure from financial gain.

1. You’re likely to live longer than you think. Plan for whatever you can, adjust when you must.

2. Retirement readiness is less about what you’ve saved and more about how much income those savings must generate.

3. Don’t let behavioral barriers derail your retirement income strategy.
BUILDING RETIREMENT INCOME STRATEGIES

• A Retirement Income Reality Check
• Multi-Asset Plus Reserve Strategy
• Time-Based Bucket Strategy
A Retirement Income Reality Check
Money Market Yield on a $100,000 Investment

1981 = 16.4%
$16,400

2020 = 0.36%
$360

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The average annual total return of the S&P 500 Index from 1926-2020 was:

S&P 500 Index Average Annual Total Returns (1990–2020)

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Past performance does not guarantee future results.

Source: © 2021 Morningstar, Inc. Indexes are unmanaged and one cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges.
Multi-Asset growth and income investments

STOCKS

BONDS

Retirement Assets

Reserve
2-3 years of cash/fixed income investments

Multi-Asset Plus Reserve Strategy
Multi-Asset Plus Reserve Strategy

Multi-Asset growth and income investments

UP Market

Reserve 2-3 years of cash/fixed income investments
Multi-Asset Plus Reserve Strategy

**Multi-Asset** growth and income investments

**Don’t Use**

**DOWN Market**

**Reserve**
2-3 years of cash/fixed income investments
Multi-Asset Plus Reserve Strategy

Multi-Asset growth and income investments

Market RECOVERY

Reserve
2-3 years of cash/fixed income investments
INSTALLING GUARDRAILS FOR VOLATILE MARKETS

• The #1 Concern About Retirement
• What Was Memorable About 1966
• Small Adjustments Make a Big Difference
Pre-retirees #1 concern about retirement is RUNNING OUT OF MONEY.
– Franklin Templeton 2020 RISE Survey
From Rocket Science to Retirement Income
What Was Memorable About 1966

- DORITOS WERE SOLD FOR THE FIRST TIME.
- CHEVY INTRODUCED THE CAMARO.
- STAR TREK DEBUTED ON CBS.
- THE YEAR'S #1 HIT SONG WAS "I'M A BELIEVER," BY THE MONKEES.
What We Can Learn From 1966

Annual Account Balance
$1 Million Savings, 60/40 Stock/Bond Allocation, $50K Initial Withdrawal, 3% Annual Increase

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Source: © 2021 Morningstar, Inc. Assumes an initial $1 million investment into a 60% stock/40% bond portfolio on 12/31/1965 and 12/31/1966, rebalanced annually. Withdrawals start at $50,000, are increased 3% annually and are taken at the beginning of each year. Stocks and bonds are represented by the Ibbotson S&P 500 Index and the Ibbotson US Long-Term Government Index, respectively. Indexes are unmanaged and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.
What We Can Learn From 1966

Annual Account Balance
$1 Million Savings, 60/40 Stock/Bond Allocation, $50K Initial Withdrawal, 3% Annual Increase

Guardrail Approach
No increase after negative years

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Withdrawals Still Increased Significantly Over Time

Annual Withdrawals With a Guardrail
$1 Million Savings, 60/40 Stock/Bond Allocation, $50K Initial Withdrawal

Annual withdrawals are flat after poor years, but no cuts.

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Source: © 2021 Morningstar, Inc. Assumes an initial $1 million investment into a 60% stock/40% bond portfolio on 12/31/1965, rebalanced annually. Withdrawals start at $50,000, are increased 3% if the portfolio grew the prior year and are taken at the beginning of each year. Stocks and bonds are represented by the Ibbotson S&P 500 Index and the Ibbotson US Long-Term Government Index, respectively. Indexes are unmanaged and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.
Implementing a Guardrail Approach in 2000

Annual Account Balances
$1 Million Savings, $50K Initial Withdrawal, 60/40 Stock/Bond Allocation

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Source: © 2021 Morningstar, Inc. Assumes an initial $1 million investment into a 60% stock/40% bond portfolio on 12/31/1999, rebalanced annually. Withdrawals start at $50,000 and are taken at the beginning of each year. Stocks and bonds are represented by the Ibbotson S&P 500 Index and the Ibbotson US Long-Term Government Index, respectively. Indexes are unmanaged and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.
Three Protective Guardrail Benefits

1. May help offset poor returns early in retirement
2. Emphasizes small, incremental changes over large, disruptive changes
3. Can be implemented or modified at any time
“Retirement is wonderful if you have two essentials — **much to live on** and **much to live for**.”

– Unknown