

# Welcome to class 2!

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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





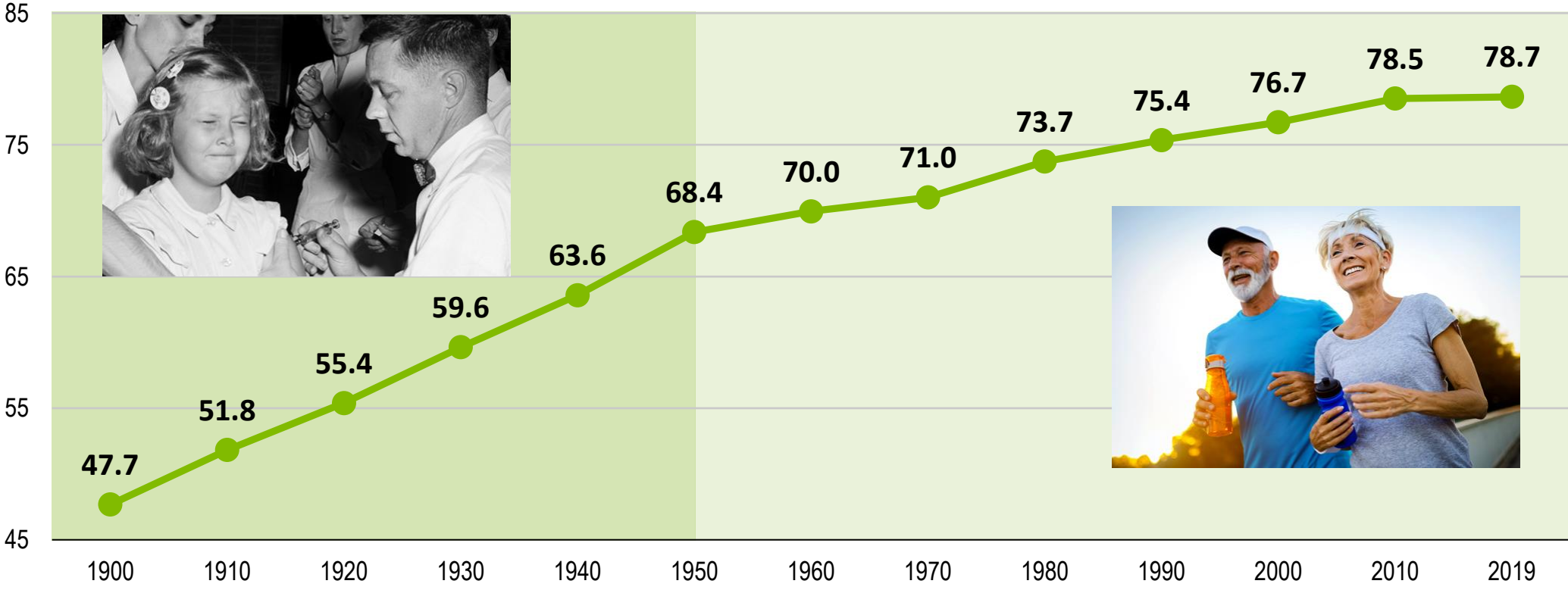
**How long  
will I live?**

**How much  
will I spend?**

**Have I saved  
enough?**

# How Long Will I Live?

## US Life Expectancy at Birth 1900-2019

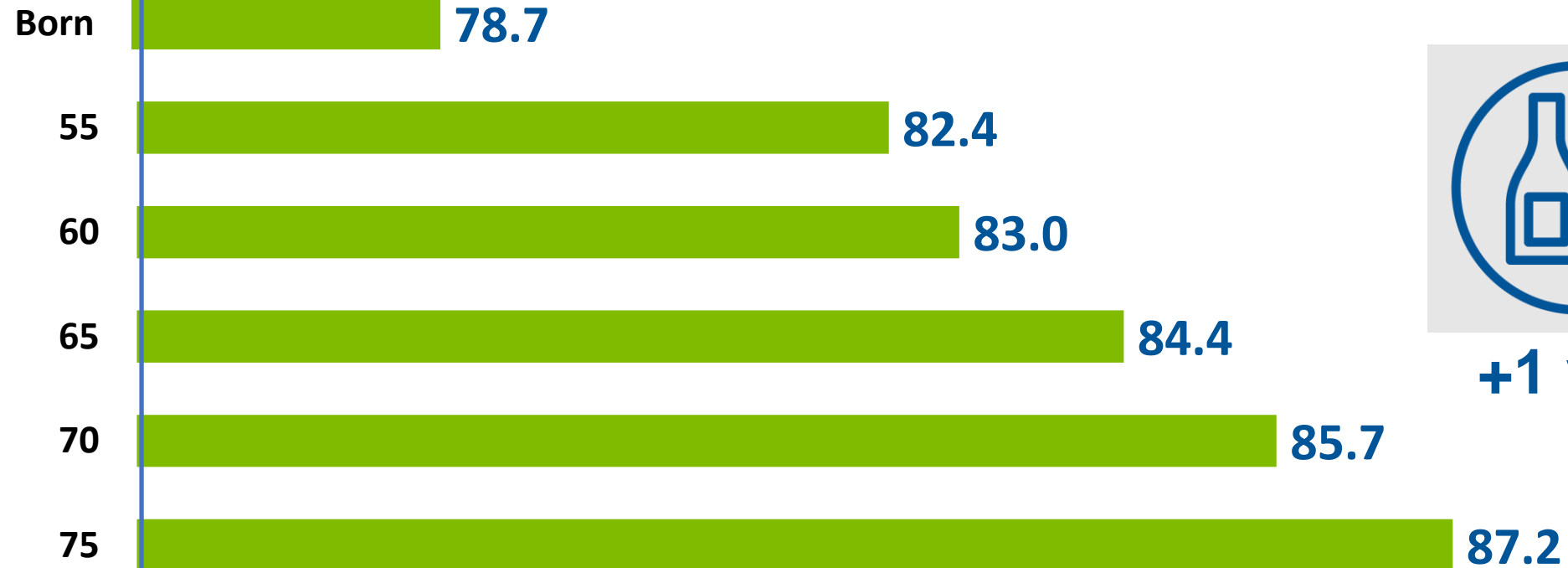


Source: Social Security Administration: Actuarial Study No. 120, *Life Tables for United States Social Security Area 1900-2100*; Period Life Tables for 2010 and 2019 (most recent data available). Penn Wharton, University of Pennsylvania, June 2016: *Mortality in the United States: Past, Present and Future*. Journal of Economic Perspectives, 2012: *The New Demographic Transition: Most Gains in Life Expectancy Now Realized Late in Life*.

# The Longer You Live, the Longer You're Likely to Live

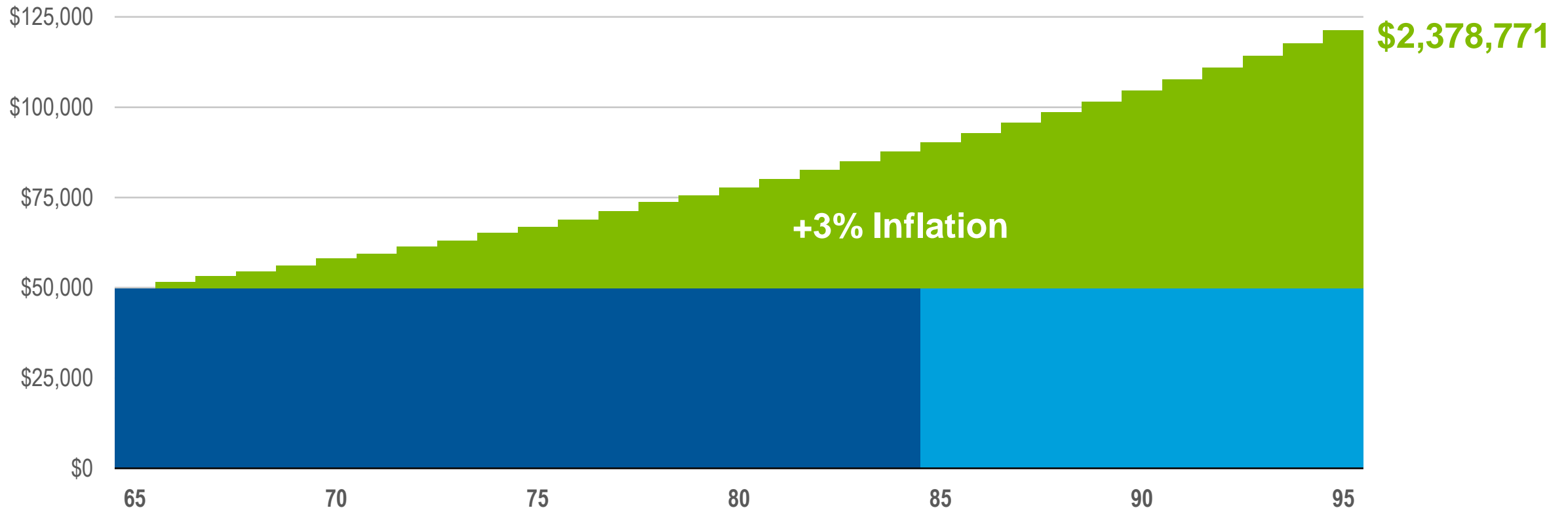
In 2019,  
if you were...

Your **AVERAGE** life expectancy is...



Sources: Social Security Administration: Period Life Table, 2019 (most recent data available). Proceedings of the National Academy of Sciences, Mar. 2021: *Life Expectancy in Adulthood Is Falling for Those Without a BA Degree, but as Educational Gaps Have Widened, Racial Gaps Have Narrowed*. Health Affairs, Aug. 2017: *The Population Health Benefits Of A Healthy Lifestyle: Life Expectancy Increased And Onset Of Disability Delayed*. Journal of the American Heart Association, Apr. 2018: *Impact of Healthy Lifestyle Factors on Life Expectancies in the US Population*. Journal of the American Diabetic Association, Oct. 2008: *Alcohol Consumption by Aging Adults in the United States: Health Benefits and Detriments*.

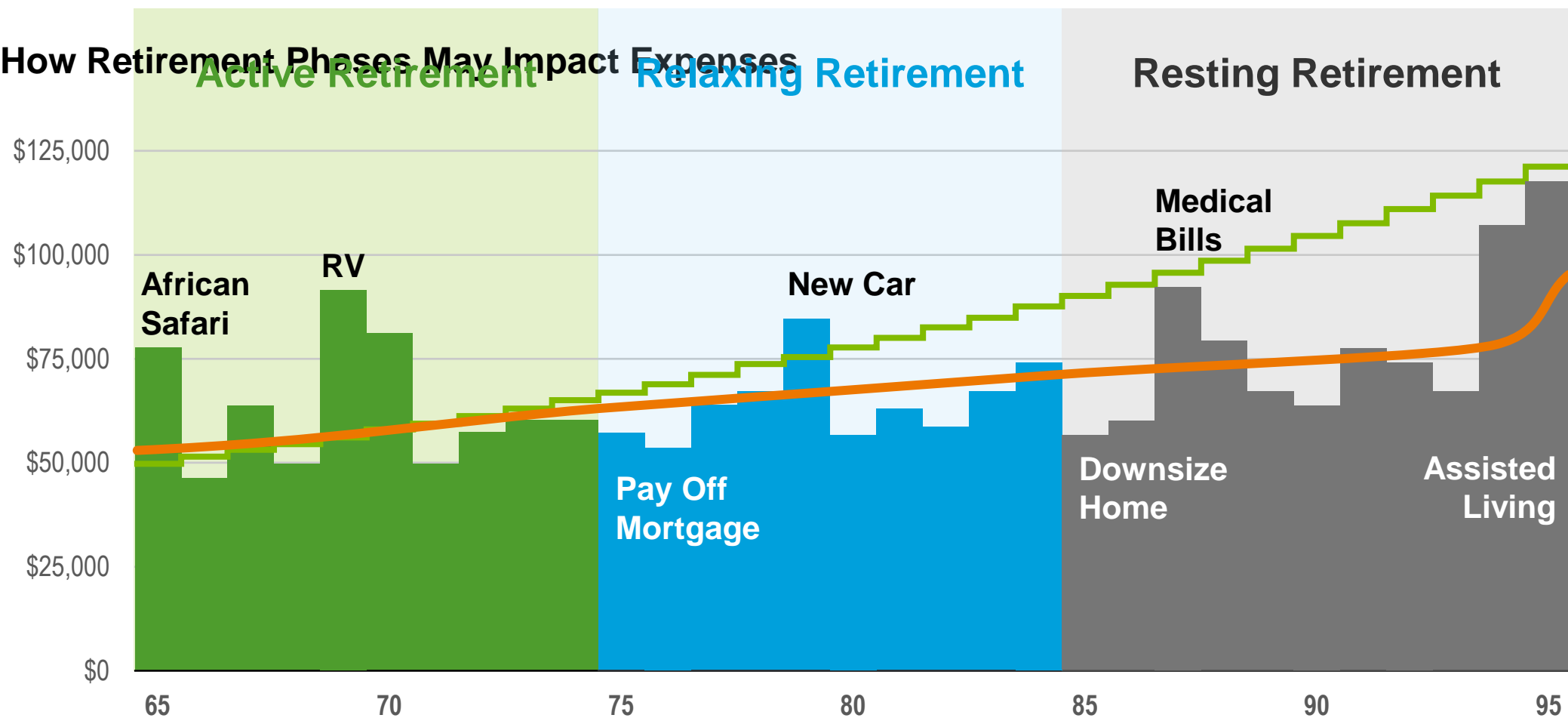
## How \$50,000 of Annual Retirement Income Can Add Up



*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



*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.*

Source: Journal of Financial Planning, May 2014: *Exploring the Retirement Consumption Puzzle*.





**MARY**

Age: **62**

Retirement Savings: **\$500K**

Retirement Expenses: **\$50K/yr**



**DON**

Age: **62**

Retirement Savings: **\$1.5M**

Retirement Expenses: **\$150K/yr**

**Retirement Readiness**

$\$500K / \$50K = 10 \text{ Years}$

**Retirement Readiness**

$\$1.5M / \$150K = 10 \text{ Years}$



**YEARS**  
When Ready to Retire?

5

10

15

20

25

30

35

40



## MARY

Age: **62**

Retirement Savings:	<b>\$500K</b>
Retirement Expenses:	<b>\$50K/yr</b>
Social Security:	<b>-\$15K/yr</b>
Pension:	<b>-\$20K/yr</b>
Net Retirement Expenses:	<b>\$15K/yr</b>

### Retirement Readiness

$\$500K / \$15K = 33 \text{ Years}$



## DON

Age: **62**

Retirement Savings:	<b>\$1.5M</b>
Retirement Expenses:	<b>\$150K/yr</b>
Social Security:	<b>-\$25K/yr</b>
Rental Income:	<b>-\$50K/yr</b>
Net Retirement Expenses:	<b>\$75K/yr</b>

### Retirement Readiness

$\$1.5M / \$75K = 20 \text{ Years}$



YEARS to Retire? 5

10

15

20

25

30

35

40

# 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**

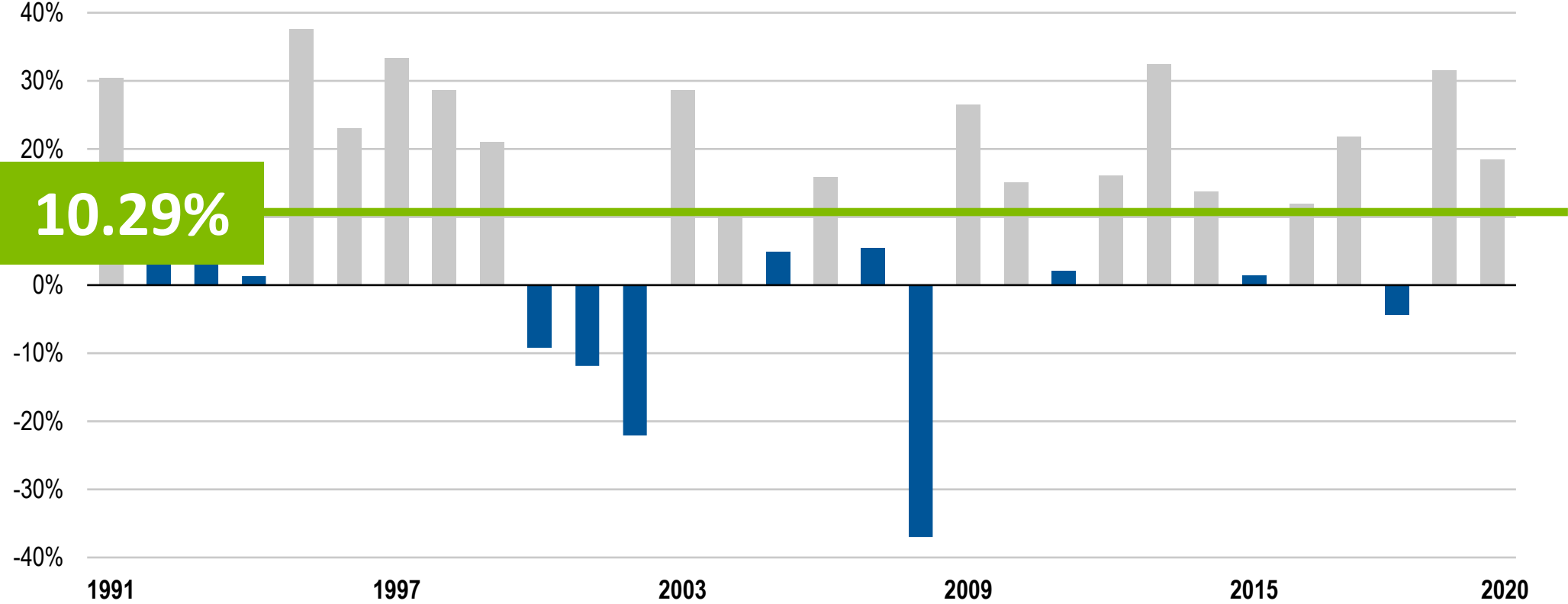


*This chart is for illustrative purposes only and does not reflect the performance of any Franklin Templeton fund.*

Source: Lipper for Investment Management. Based on the average annualized 12-month yield paid by Money Market Funds tracked by Lipper in 1981 and 2020.

# Stocks Have Delivered Strong Historical Returns But the Ride is Often Bumpy

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

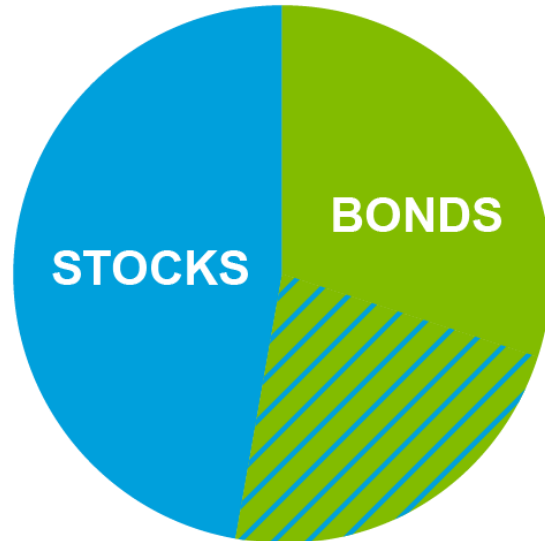


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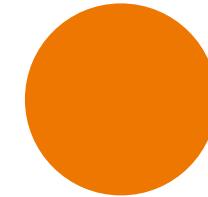
*Past performance does not guarantee future results.*

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



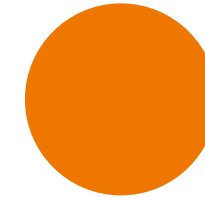
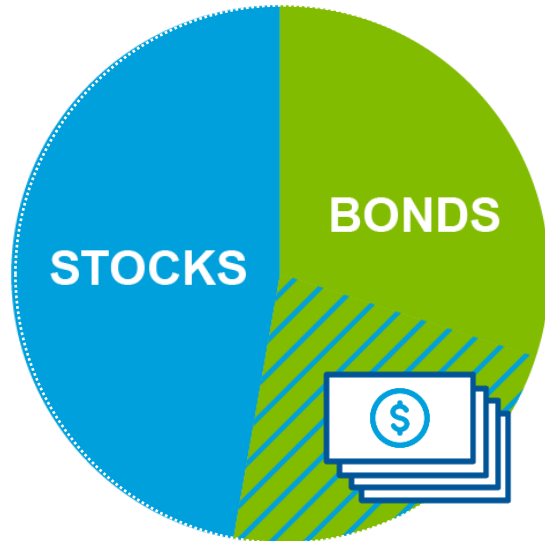
**Retirement Assets**



**Reserve**  
2-3 years of cash/fixed  
income investments



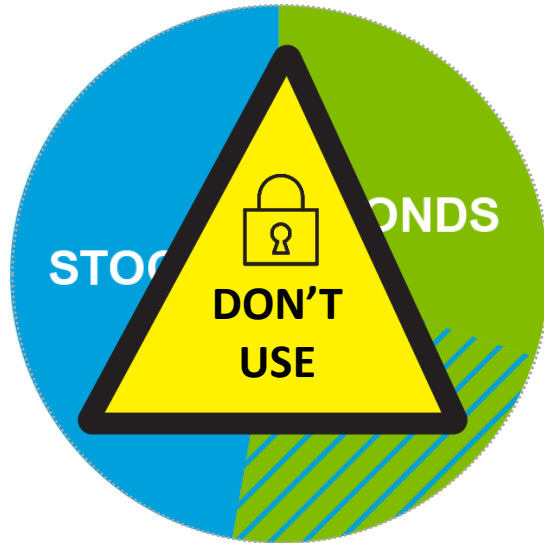
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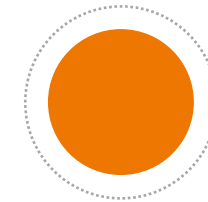
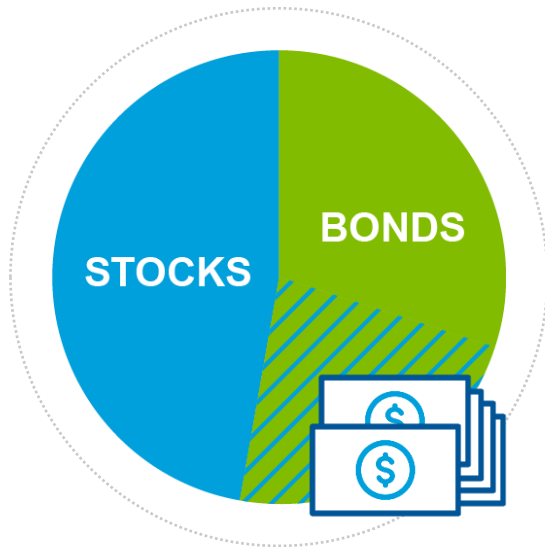
**Multi-Asset**  
growth  
and income  
investments



**Reserve**  
2-3 years of cash/fixed  
income investments



**Multi-Asset**  
growth  
and income  
investments



**Reserve**  
2-3 years of cash/fixed  
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# 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

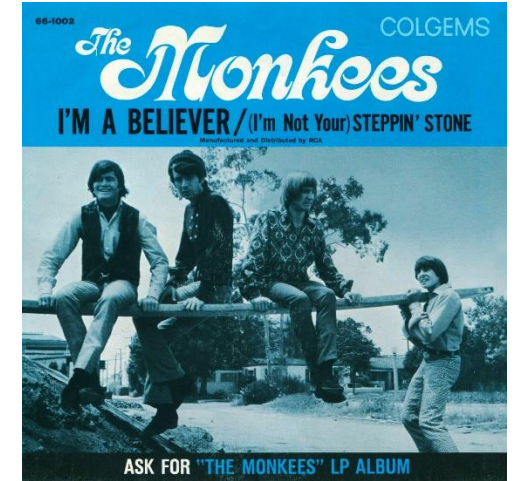
Source: Franklin Templeton Retirement Income Strategies and Expectations (RISE) Survey. The RISE survey was conducted online among a sample of 2,004 adults comprising 1,002 men and 1,002 women 18 years of age or older. The survey was administered between January 31 and February 11, 2020, by ENGINE's Online CARAVAN®, which is not affiliated with Franklin Templeton. Data is weighted to gender, age, geographic region, education and race. The custom-designed program assigns a weighting factor to the data based on current population statistics from the US Census Bureau.

# From Rocket Science to Retirement Income





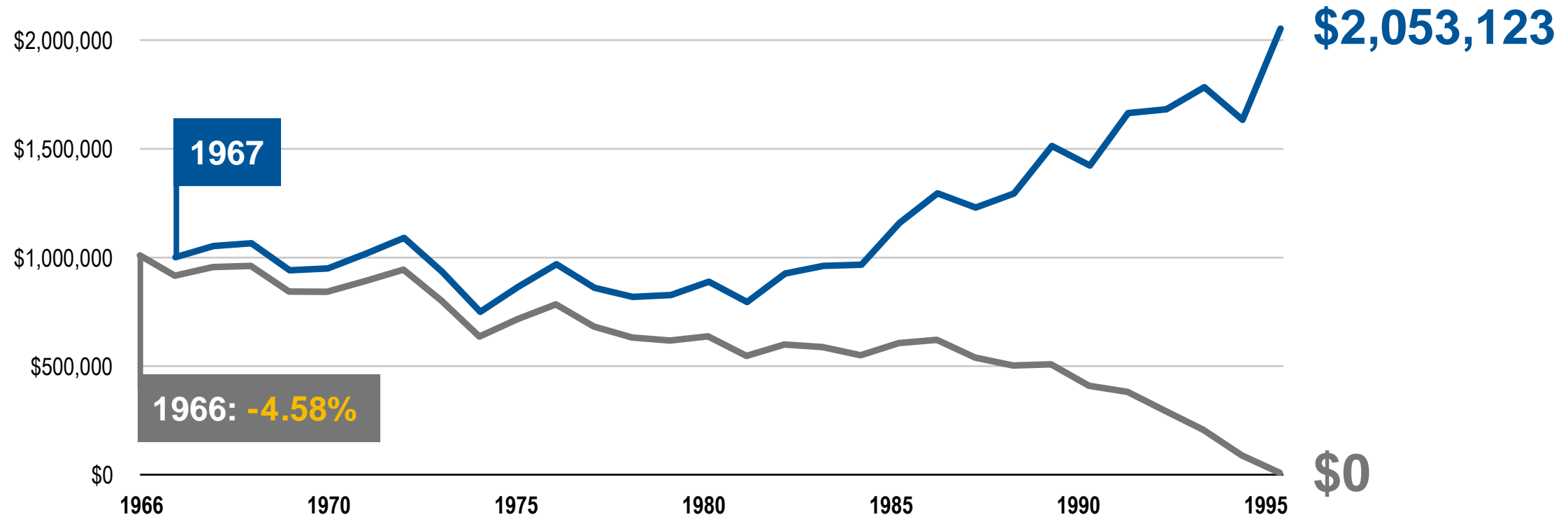
# What Was Memorable About 1966



# 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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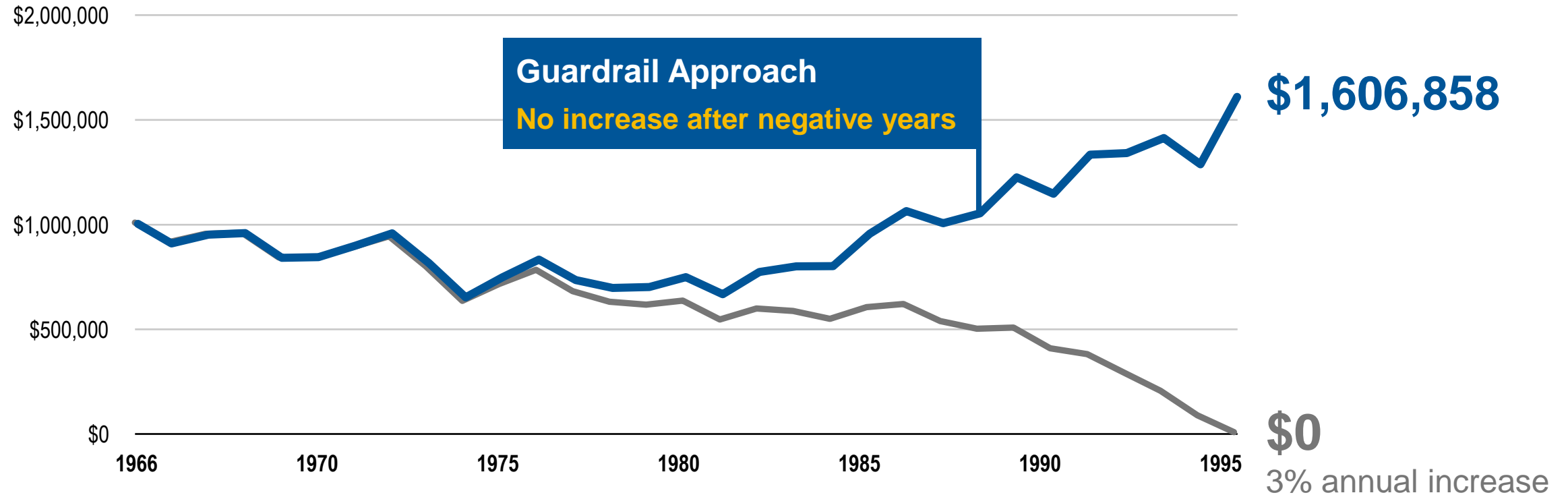
Source: © 2021 Morningstar, Inc. Assumes an initial \$1 million investment into a 60% stock/40% bond portfolio on 12/31/1965 and 12/31/1966, rebalanced annually. Withdrawals start at \$50,000, are increased 3% annually and are taken at the beginning of each year. Stocks and bonds are represented by the 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

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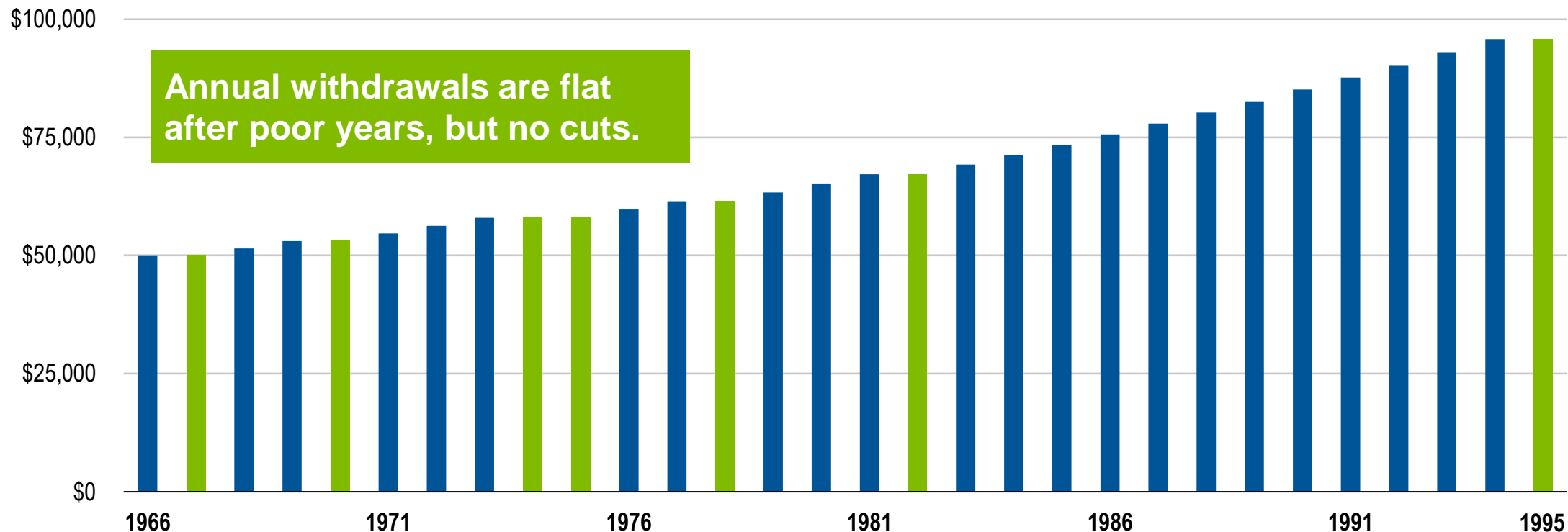
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# Withdrawals Still Increased Significantly Over Time

## Annual Withdrawals With a Guardrail

\$1 Million Savings, 60/40 Stock/Bond Allocation, \$50K Initial Withdrawal



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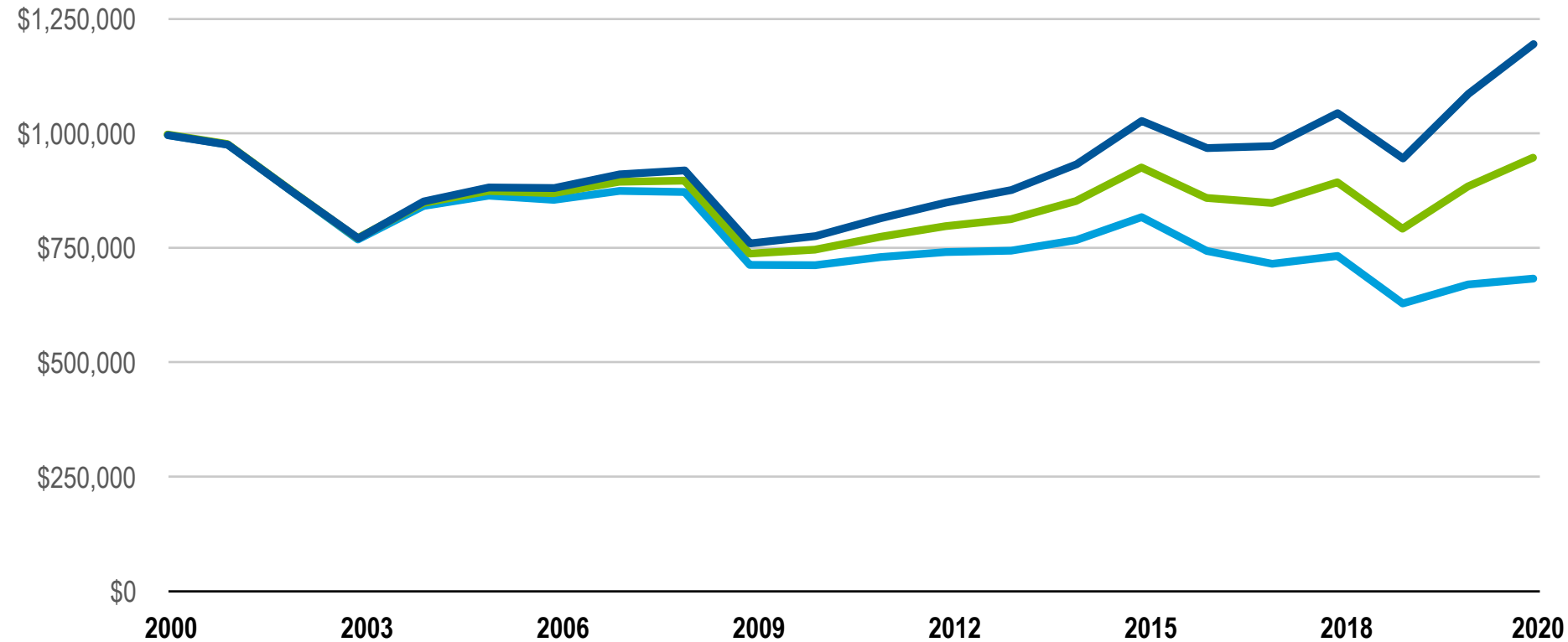
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Source: © 2021 Morningstar, Inc. Assumes an initial \$1 million investment into a 60% stock/40% bond portfolio on 12/31/1965, rebalanced annually. Withdrawals start at \$50,000, are increased 3% if the portfolio grew the prior year and are taken at 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



**\$ 1,199,373**

3% decrease after negative years

**\$ 949,588**

No increase after negative years

**\$ 686,561**

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 12/31/1999, 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