Retirement Planning Today®

SESSION 1

2020 EDITION

Retirement Needs & Expenses

SECTION 2

Retirement Planning Today®

Introduction

Do you know how much you will need to retire?

In general, people are retiring earlier and living longer. Although this trend presents many opportunities for retirees, it requires more financial planning and resources to ensure that they don't outlive their money.

Since many retirees live on a fixed income, inflation can have a big impact on their financial situations. While you can't control inflation, you can plan for it. In this section, we will examine how inflation can:

- Help you estimate the cost of goods and services in the future
- Erode your purchasing power over time

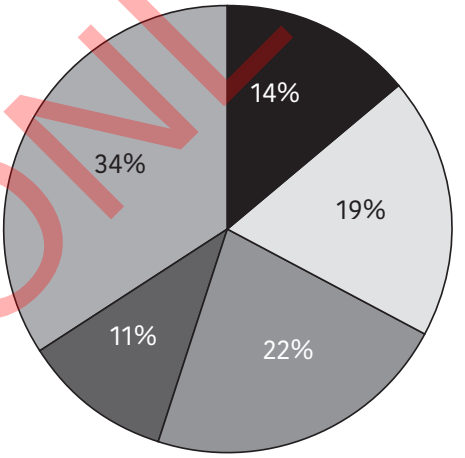
Pre-retirees have varying levels of confidence about their ability to meet their financial needs and goals during retirement. You may be surprised to discover that less than half have tried to determine how much they will need to save!

Americans Retire Early[1]

Are you financially prepared to weather an unexpectedly early retirement? It's an important topic to consider, especially given new research suggesting that many Americans stop working earlier than planned. Are you one of the 67% of workers who plan to work to age 65 or beyond? Would it surprise you to know that 72% of surveyed Americans didn't even make it to 65? In fact, 37% of those surveyed stopped working before age 60!

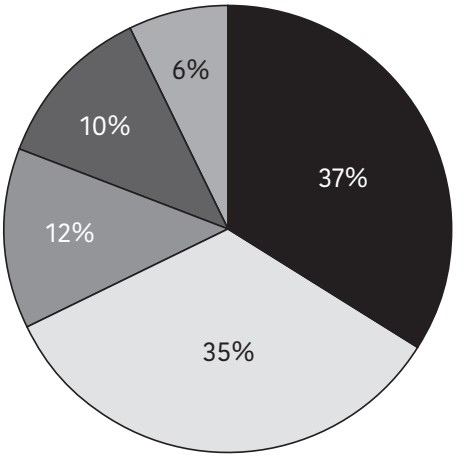
Planned Retirement Age

Before 60	14%
60-64	19%
65	22%
66-69	11%
70+	34%



Actual Retirement Age

Before 60	37%
60-64	35%
65	12%
66-69	10%
70+	6%



[1]The 2019 Retirement Confidence Survey: Greenwald & Associates; Employee Benefit Research Institute.

How Long Must Your Money Last?

The average life expectancy of Americans continues to rise. This may be due to a combination of factors including medical advances, better nutrition and healthier lifestyles.

When planning for your retirement, it is important to consider that you may live to be 80 . . . 90 . . . 100 . . . or more. Your retirement plan should be designed to help you maintain independence and preserve your lifestyle throughout retirement.

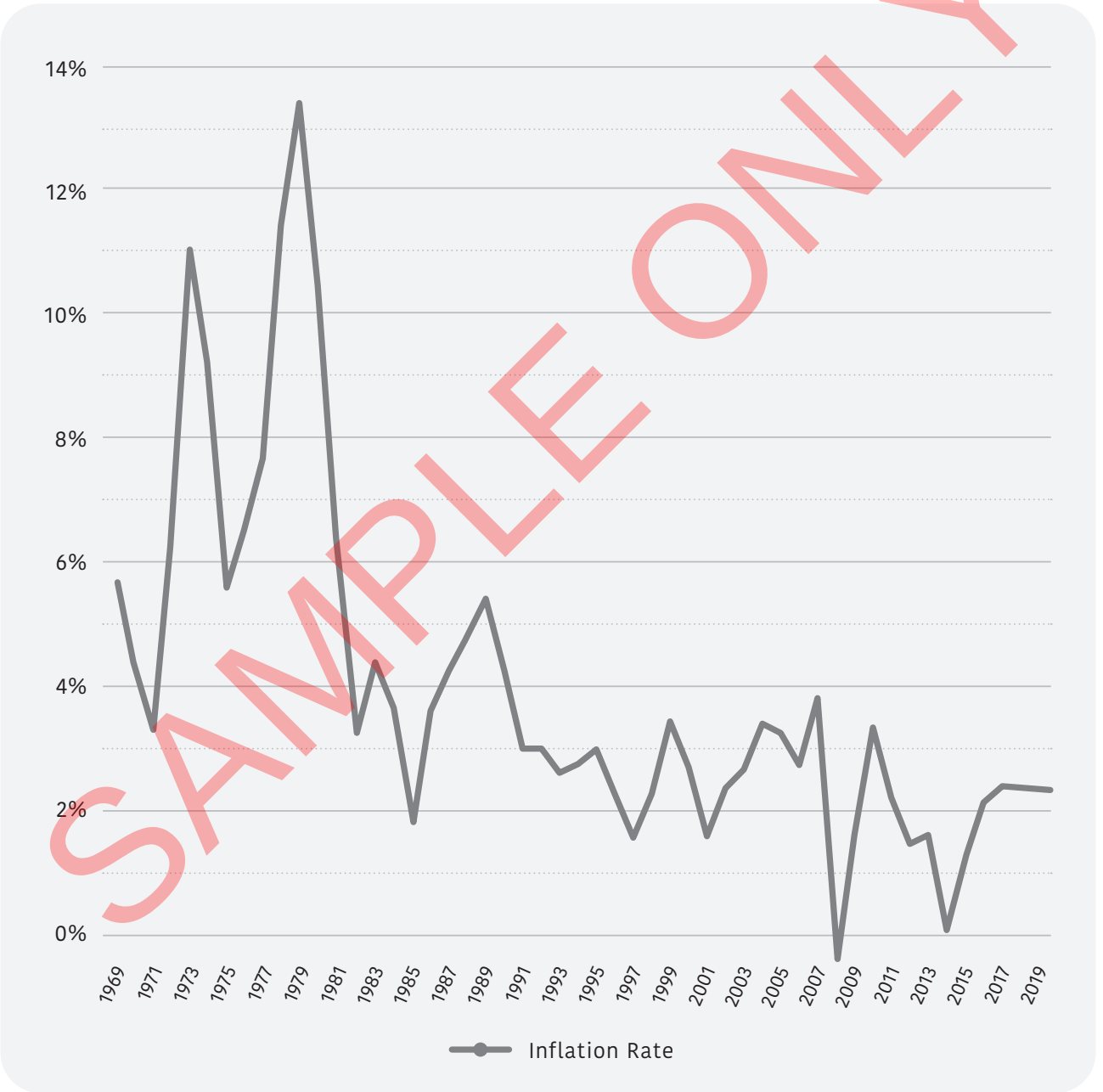
The chart below shows the life expectancy of Americans between the ages of 40 and 80. This chart illustrates that each year you age, your life expectancy increases.

Current age	*Life expectancy*[1]	
	Male	Female
40	78.6	82.5
45	79.1	82.8
50	79.7	83.3
55	80.5	83.9
60	81.6	84.6
65	82.9	85.5
70	84.4	86.6
75	86.2	88.0
80	88.3	89.7

[1] Social Security Administration, 2016 Period Life Table. Please note that the Social Security Administration has temporarily suspended updates to this chart.

Historical Rates of Inflation

Over time, inflation erodes the purchasing power of your dollars. Historical statistics show that inflation can be volatile and unpredictable. A low inflation rate today doesn't guarantee a low or even moderate inflation rate over the next 20–30 years.



Source: Consumer Price Index, 1969 – 2019. For illustrative purposes only.

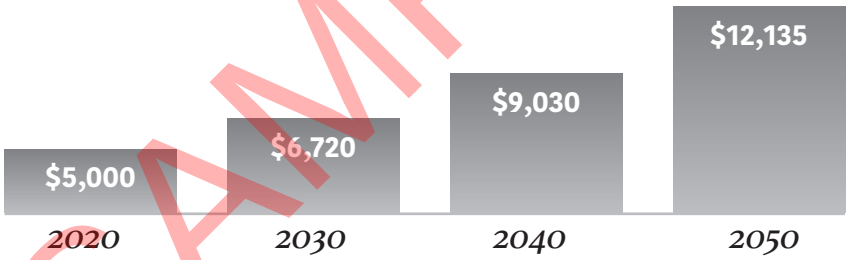
Inflation & Purchasing Power

Inflation erodes the purchasing power of dollars in the future and compounds in a negative direction. This is an important planning consideration, especially for anyone retiring on a fixed income. The following table shows how much money would be required to equal one dollar of today's purchasing power under a number of hypothetical annual inflation scenarios.

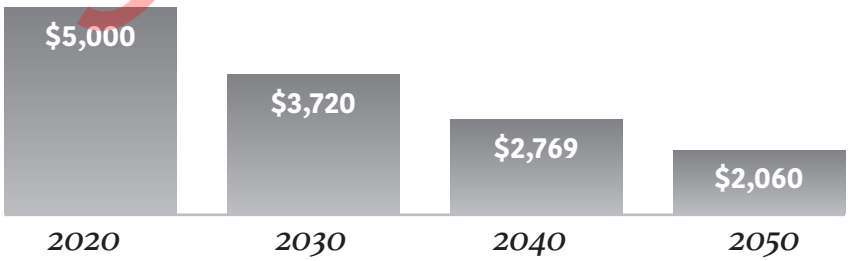
Average inflation	2%	3%	4%	5%	6%
2020	$1.00	$1.00	$1.00	$1.00	$1.00
2025	$1.10	$1.16	$1.22	$1.28	$1.39
2030	$1.22	$1.34	$1.48	$1.63	$1.79
2035	$1.35	$1.56	$1.80	$2.08	$2.40
2040	$1.49	$1.81	$2.19	$2.65	$3.21
2045	$1.64	$2.09	$2.67	$3.39	$4.29
2050	$1.81	$2.43	$3.24	$4.32	$5.74

Note: For illustrative purposes only. Calculations and amounts are approximate due to rounding. Inflation has been compounded annually. This table is not intended to predict or represent any actual historical period.

At a 3% inflation rate, how much monthly income would be required to create the equivalent of $5,000 in today's dollars?



At a 3% inflation rate, what is the future purchasing power of $5,000?



Inflation & Income Taxes

As people approach retirement and eventually retire, they tend to become more conservative with their investment selections. As a rule of thumb, this makes good sense. However, it is important not to become too conservative too early.

This chart illustrates how inflation and income taxes can impact investment returns and purchasing power.

Investment	$100,000
Annualized return (5%)	$5,000
Minus federal income tax (24%)	$1,200
After-tax earnings	$3,800

Investment	$100,000
Plus after-tax earnings	$3,800
Total value	$103,800
Minus inflation (3%)	$3,114
Purchasing power after taxes and inflation	$100,686

Assumptions:

- Annualized return of 5%
- Federal income tax bracket of 24%
- Inflation rate of 3%

Note: This illustration is hypothetical and does not represent the performance of any investment product.

Retirement Expectations

In a recent survey conducted by the Employee Benefit Research Institute:

- 67% of workers are very or somewhat confident they will have enough money to live comfortably throughout retirement.
- 72% of workers are very or somewhat confident they will have enough money to take care of basic expenses throughout retirement.

Worker confidence in having enough money to take care of basic expenses (in retirement)

Very confident	27%
Somewhat confident	45%
Not too confident	18%
Not at all confident	10%

- Only 42% of workers report they or their spouse have tried to calculate how much they will need to save for retirement.

Source: The 2019 Retirement Confidence Survey: Greenwald & Associates; Employee Benefit Research Institute.

How Much Will You Need to Retire?

Many retirement experts estimate that your yearly expenses in retirement will be 80% of your annual pre-retirement expenses. Others estimate your expenses will be 100% of your pre-retirement expenses or more as you'll have more uncommitted time to spend money. Generally speaking, some of your monthly expenses will increase while others will decrease. How much you will need to retire will depend on your individual situation.[1]

STEP 1: DETERMINE YOUR MONTHLY EXPENSES

Let's take a look at the example of Robert & Sophia. This married couple plans to retire in fifteen years and neither intends to work during retirement. They think they can cut back on their expenses in retirement and live on about 80% of what their lifestyle costs today.

$5,500	Monthly expenses today
x .80	(80%)
$4,400	**Estimated monthly expenses at retirement**

[1] Note: All following calculations and amounts are approximate due to rounding.

How Much Will You Need to Retire?

STEP 2: ADJUST FOR INFLATION

As we discussed earlier, $4,400 in 15 years won't have the same buying power as it does today. We'll need to estimate how inflation could affect Robert and Sophia's monthly expenses. For the sake of this hypothetical scenario we'll assume an average inflation rate of 3% over the 15-year period between now and their retirement date.

INFLATION & THE DECREASING VALUE OF A DOLLAR

Annual inflation	2%	3%	4%	5%	6%
Today	$1.000	$1.000	$1.000	$1.000	$1.000
+5 Years	$1.104	$1.159	$1.217	$1.276	$1.338
+10 Years	$1.219	$1.344	$1.480	$1.629	$1.791
+15 Years	$1.346	**$1.558**	$1.801	$2.079	$2.397
+20 Years	$1.486	$1.806	$2.191	$2.653	$3.207
+25 Years	$1.641	$2.094	$2.666	$3.386	$4.292
+30 Years	$1.811	$2.427	$3.243	$4.322	$5.743

$4,400	Estimated monthly expenses at retirement
x 1.558	Inflation factor for 3% over 15 years
$6,855	**Total estimated monthly expenses at retirement (inflation-adjusted)**

How Much Will You Need to Retire?

STEP 3: TURNING A MONTHLY ESTIMATE INTO A YEARLY ESTIMATE

Robert and Sophia's inflation-adjusted estimated monthly expenses will be approximately $6,855 at retirement. Multiply the monthly estimate by 12 in order to estimate their yearly expenses at retirement.

$6,855	Estimated monthly expenses at retirement (inflation-adjusted)
x 12	(months)
$82,260	**Total estimated annual expenses at retirement (inflation-adjusted)**

STEP 4: INFLATION IN RETIREMENT

For the sake of simplicity, let's assume Robert and Sophia are the same age, both expect to retire at age 65 and expect to spend 20 years in retirement.

Let's assume the inflation rate continues at a steady 3% annually over their 20-year retirement but their living expenses stay the same. How much money will they need over this 20 years? As you can see from the next chart, their expenses today of $5,500 a month (or $66,000 a year) may grow to more than two million dollars over the course of their 20-year retirement.

How Much Will You Need to Retire?

YEARLY LIVING EXPENSES DURING RETIREMENT

Years retired	Yearly expenses
0	$82,260
1	$84,728
2	$87,727
3	$89,910
4	$92,625
5	$95,339
6	$98,218
7	$101,180
8	$104,223
9	$107,349
10	$110,557
11	$113,848
12	$117,303
13	$120,840
14	$124,459
15	$128,161
16	$132,027
17	$135,976
18	$140,007
19	$144,284
20	$148,562
Total	$2,359,583

There are many factors involved in accurately estimating your retirement expenses.

Many financial professionals use advanced software to compare different scenarios and calculate retirement expenses.

Can You Retire Today?

Are you ready to retire today? Let's see if you are financially prepared.

The chart below shows the retirement savings you need today based on your life expectancy and the amount of annual income you need during retirement.

Savings needed to retire, given a number of years to live and annual income desired (in today's dollars)

Years to live	$30,000	$40,000	$50,000	$75,000	$100,000
30	$612,032	$816,043	$1,020,054	$1,530,081	$2,040,108
25	$542,882	$723,842	$904,803	$1,357,204	$1,809,606
20	$463,057	$617,409	$771,761	$1,157,642	$1,543,522
15	$370,910	$494,546	$618,183	$927,274	$1,236,365
10	$264,538	$352,717	$440,897	$661,345	$881,793
5	$141,746	$188,995	$236,244	$354,366	$472,488

Assumptions:

- 6% annual yield on balance (average)[1]
- 3% inflation rate
- Savings amount is fully invested
- Principal is $0 at end of life

[1] The 6% yield is hypothetical and does not represent any particular investment.

Note: Potential pension income and/or Social Security benefits are not represented in this illustration. Each investor's results will vary from these shown as investing involves risk, fluctuating returns and the possibility of loss.

How to Save One Million Dollars

The chart below indicates the monthly investment needed to save $1,000,000 depending on the number of years and the rate of return on your investment.

Rate of return	*5 years*	*10 years*	*15 years*	*20 years*	*25 years*	*30 years*
3%	$15,430	$7,138	$4,395	$3,038	$2,237	$1,712
4%	$15,033	$6,769	$4,050	$2,717	$1,939	$1,436
5%	$14,644	$6,413	$3,726	$2,423	$1,672	$1,197
6%	$14,261	$6,072	$3,421	$2,154	$1,436	$991
7%	$13,887	$5,744	$3,137	$1,909	$1,227	$815
8%	$13,520	$5,430	$2,871	$1,686	$1,045	$667
9%	$13,160	$5,129	$2,623	$1,486	$885	$542
10%	$12,807	$4,841	$2,393	$1,306	$747	$439
11%	$12,462	$4,566	$2,179	$1,145	$629	$353
12%	$12,123	$4,304	$1,982	$1,001	$527	$283

Assumptions:

- Investment made at beginning of time period
- Returns are compounded monthly

Each investor's results will vary from these shown as investing involves risk, fluctuating returns and the possibility of loss. These figures shown do not represent any specific product.