LPL Financial

Retirement Income Planning

Planning for a Financially Successful Retirement

Basic Questions

- What does retirement mean to you?
- When do you plan to retire?
- How long will your retirement last?

Early Retirement Considerations

- Fewer accumulation years
- Longer distribution period
- Impact on Social Security
- Health care / Medicare
- Impact on pension benefit

Delayed Retirement Considerations

- More accumulation years
- Shorter distribution period
- Impact on Social Security
- Impact on health care

Working During Retirement

- Earnings reduce demands on personal savings
- Potential access to health care
- Effect on Social Security
- Nonfinancial benefits

Phased Retirement Programs

- Increasingly common
- Allow you to receive all or part of your pension benefit once you've reached retirement age
- You continue to work on a part-time basis for the same employer

How Long Will Retirement Last?

- We’re living longer
- Average 65-year-old American can expect to live another 18.4 years*
- Average life expectancy is likely to continue to increase
- Retirement may last 25 years or more

*Source: NCHS Data Brief, Number 456, December 2022 (most current data available)

Retirement Income Planning: Goals

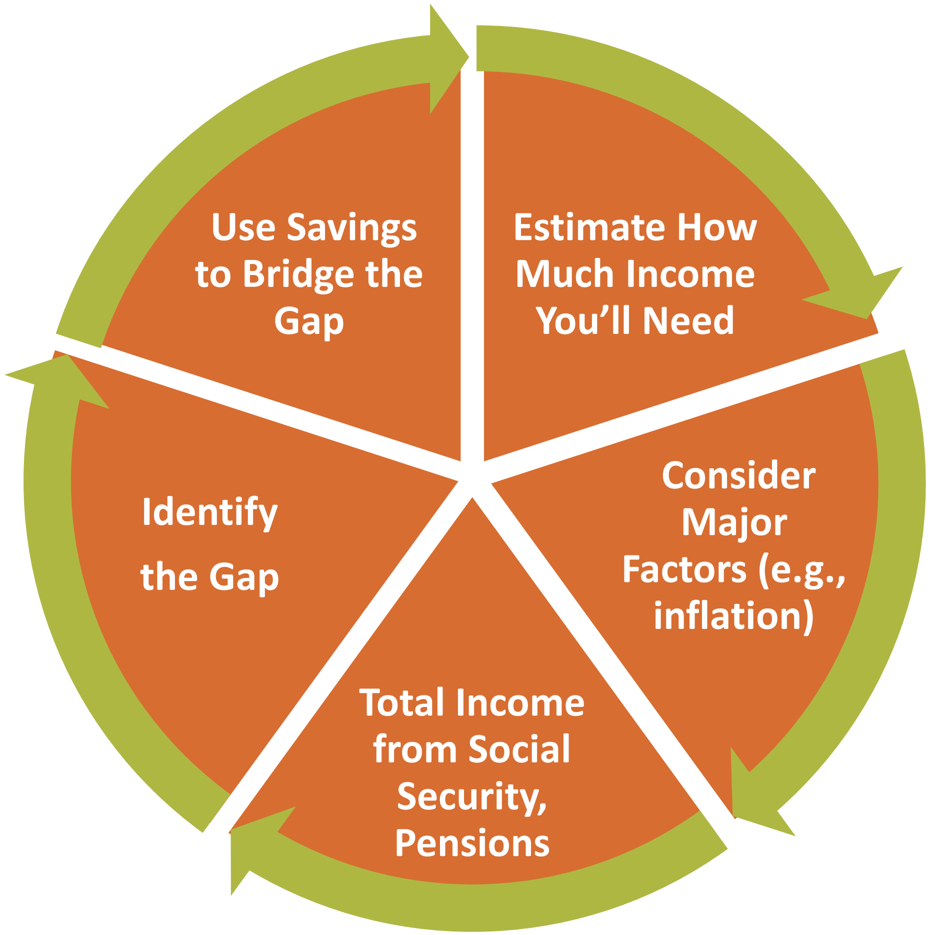
Every retirement income plan should strive to balance three main goals to help

Enhance your ability to enjoy retirement

Manage the risk of outliving your income

Address the risk of unexpected life events

Retirement Income Planning: The Process

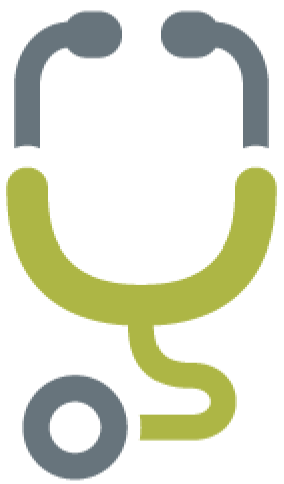


How Much Annual Income Will You Need?

- General guidelines (e.g., you'll need 60% to 90% of pre-retirement income) are easy but not always helpful
- Think about what expenses will change (e.g., mortgage may decrease, health-care costs may increase)
- Include costs for special retirement pursuits (e.g., travel, hobbies)
- List your expenses

Accounting for Health-Care Costs

- Medicare coverage at age 65
- Medicare prescription drug coverage
- Medigap policies
- Medicare will not pay for long-term care



Accounting for the Cost of Long-Term Care

- What is long-term care?
- Most individuals over age 65 will need long-term care at some point in their lives*
- National median annual cost of nursing home = $116,800**

Options

- Pay out of pocket
- Rely on Medicaid
- Long-term care insurance

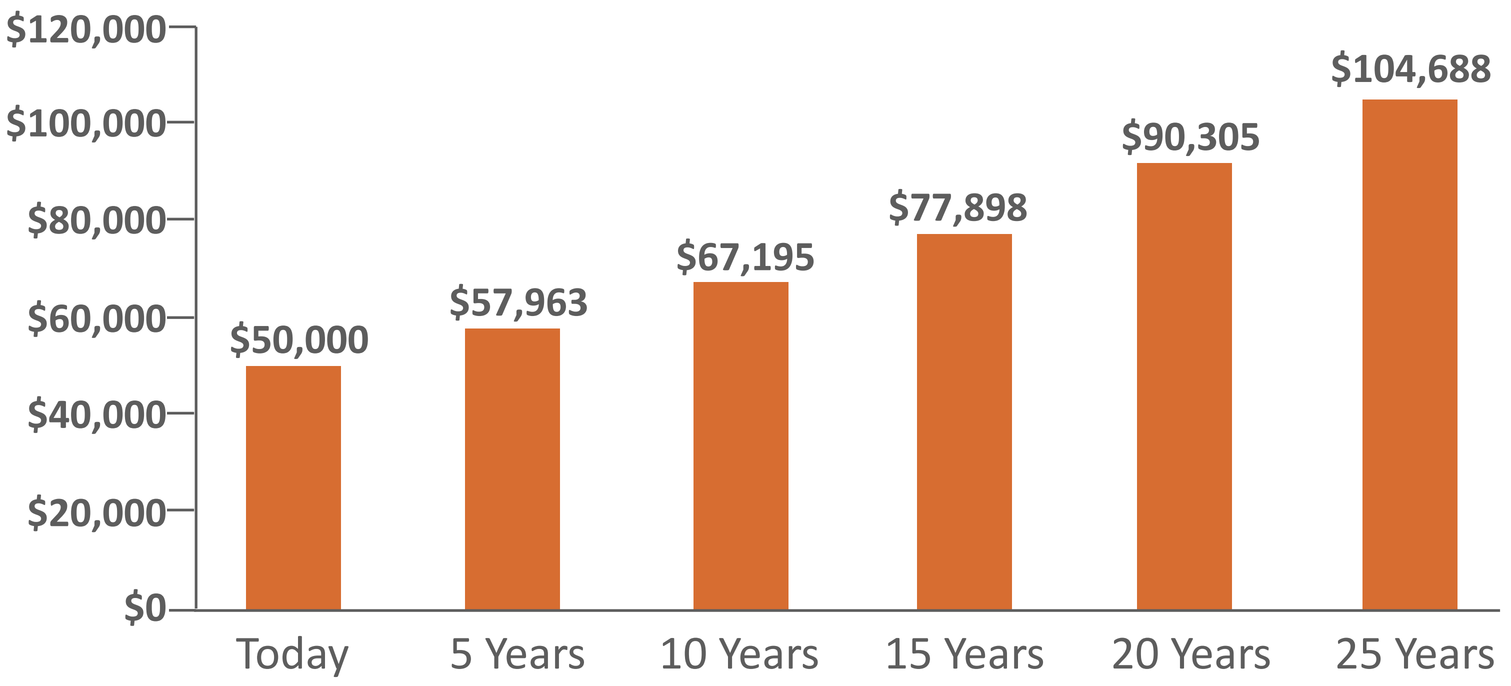
*Source: U.S. Department of Health and Human Services, acl.gov/ltc/basic-needs/who-needs-care, accessed March 2023
**Source: 2024 Genworth Cost of Care Survey

Major Factors to Consider

- Accounting for inflation
- Recognizing the impact of taxes
- Understanding potential risk

Accounting for Inflation

Assuming 3% inflation, in 25 years it will cost you over $100,000 to buy the same goods and services that $50,000 would purchase today.



This hypothetical example is for illustrative purposes only.

Impact of Taxes

- Ordinary income tax (e.g., interest)
- Special tax rates for long-term capital gains and qualifying dividends
- Tax-free income
- Special rules for tax-advantaged accounts

Understanding Risk

- Market risk
- Reinvestment risk
- Interest-rate risk

Sources of Retirement Income

The "Three-Legged" Stool

- Social Security
- Employer pension
- Individual savings & investments

Social Security Basics

- Benefit calculation
- Start date
- Working in retirement
- Inflation
- Bottom line: Social Security will likely meet only a portion of your retirement income needs

When do benefits begin?

- Earliest — age 62
- Benefits before normal retirement age: monthly benefit permanently reduced
- Balance reduced benefits against more benefit payments

How much annual income will you receive?

- Number of years worked
- Amount you've earned
- 35 highest earning years
- Annual Social Security statement provides estimates

Employer Pension Basics

- Understand payout options
  - Single-life annuity
  - QJSA
  - Other options (e.g., lump sum)
- Inflation adjustments?
- Read plan explanation of benefits

Identifying the "Gap"

Annual income needed in retirement − Annual income from Social Security, pension = Additional annual income needed

Personal Savings: General Considerations

- Investment / asset allocation strategy
- Specific investment and product choice
- Withdrawal rate
- Order of withdrawals
- Required minimum distributions (RMDs)

Personal Savings: Asset Allocation

- Transition from accumulation to distribution
- Immediate income vs. long-term returns
- Effective asset allocation plan can help:
  - Provide ongoing income
  - Manage asset volatility
  - Enhance the likelihood that savings will last as long as needed
  - Keep pace with inflation

Personal Savings: Investments

- Bonds, bond funds
- Dividend-paying stock

All investing involves risk, including the possible loss of principal. You should not invest in any of these options without a full understanding of the advantages and disadvantages the investment offers, as well as an understanding of how any earnings are taxed.

Before investing in an exchange-traded fund or a mutual fund, carefully consider the investment objectives, risks, charges, and expenses of the fund. This information is available in the prospectus, which can be obtained from the fund. Read it carefully before investing.

The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.

Personal Savings: Investments

- Certificates of deposit (CDs)
- Treasury Inflation-Protected Securities (TIPS)
- Retirement income mutual funds

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Before investing in a mutual fund, carefully consider the investment objectives, risks, charges, and expenses of the fund. This information is available in the prospectus, which can be obtained from the fund. Read it carefully before investing.

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution.

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of TIPS fluctuates with changes in market conditions. If not held to maturity, TIPS may be worth more or less than their original value. Unless you own TIPS in a tax-deferred account, you must pay federal income tax on the income plus any increase in principal, even though you won't receive any accrued principal until the bond matures.

Personal Savings: Annuities

- Contract between you and an insurance company
  - You pay premium(s)
  - Issuer promises to make payments for fixed time or for life
- Can provide potential income stream for life
- Fixed income means less flexibility
- Relative return on investment
- Bottom line: can be a full or partial solution, but they're not right for everyone

Personal Savings: Withdrawal Rate

- Current vs. future income needs
- “Sustainable withdrawal rate”
- Calculation methods
- Typical withdrawal rate around 4%
- Particularly important in early years of retirement

Personal Savings: Order of Withdrawals

- Types of accounts
  - Tax-deferred (e.g., traditional IRAs)
  - Tax-exempt (e.g., Roth IRAs)
  - Taxable accounts
- Income concerns vs. estate planning concerns
- Your individual circumstances should govern

Required Minimum Distributions (RMDs)

- Annual distributions
- After age 73 or 75
- Traditional IRAs, 401(k)s, 403(b)s
- No lifetime RMDs for Roth IRAs or Roth employer accounts
- 25% tax penalty may apply

Other Potential Sources of Income

- Your home
- Existing cash value life insurance policies

Recap

- When do you plan to retire?
- How long a period should you plan for?
- How much annual income will you need?
- How much annual income can you expect from Social Security? Employer pension?
- Personal savings
  - Investment plan / asset allocation
  - Investment considerations
  - Withdrawal rates
  - Order of withdrawals
  - Other potential income sources

Thank You

Disclaimer

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

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