Retirement: Making Your Money Last

Participant Workbook

Your Name:

www.edwardjones.com
Member SIPC

Edward Jones®
MAKING SENSE OF INVESTING

Welcome

Retirement: Making Your Money Last

You spend many years looking forward to and saving for retirement. But as retirement gets closer, the purpose of your investments will change. Your portfolio no longer has to get you to retirement – it has to get you through retirement.

Retirement: Making Your Money Last is a program designed to help you prepare to live the retirement you've envisioned – whether you're thinking about retirement or have recently retired. You'll learn factors to consider and tools you can use to help build a strategy designed to last throughout your retirement years.

Seminar Contents

Understand the Possibilities 3

Plan for the Expected 4

Withdrawal and Reliance Rates 7

Your Withdrawal Rate and Trade-offs 8

Prepare for the Unexpected 9

Position Your Portfolio for Both 12

Staying on Track 13

Action Plan: Developing Your Strategy 14

Understand the Possibilities

To develop a strategy to achieve your retirement vision, it's important to have a clear understanding of the possibilities. For example:

What do you think is the average life expectancy for a person who is 65 years old today?

____

____

How can inflation affect expenses over the course of an average retirement?

____

____

____

What do you think is often one of the biggest expenses in retirement?

____

____

____

These are some factors to consider as you develop your retirement income strategy – and we believe a comprehensive strategy consists of three parts:

1. Plan for the expected.

2. Prepare for the unexpected.

3. Position your portfolio for both.

Plan for the Expected

The best way to develop a plan for the expected is to start by defining exactly what you mean by "expected."

What do you expect your retirement to look like? Think about how you hope to spend your time. Do you want to travel, spend more time at home, take up a new hobby, volunteer or work part time? Try to be specific.

Additional items to consider:

- When you plan to retire
- Your spending goals
- Key concerns

Plan for the Expected (continued)

Estimating Your Expenses and Income

After sketching out your retirement picture, the next step is to outline how much you think it will cost to achieve that vision – your annual expenses – as well as your expected income.

Expenses: Separating expenses into necessary and discretionary can give your strategy some flexibility – and don't forget to include taxes.

Income: Start with your outside sources of income, such as Social Security and pensions. This will tell you how much of your expected expenses your savings and investments will need to cover.

An important point is that all of your items need to be the same regarding taxes. For example, if your expense needs are after-tax, then your outside sources of income (and income gap) need to be after-tax as well. If your expense needs are pretax, then your outside sources of income (and income gap) should be pretax as well.

Plan for the Expected (continued)

Expenses

Necessary:	
Mortgage	$ ____________
Utilities	$ ____________
Food	$ ____________
Insurance (Health, Auto, Life)	$ ____________
Out-of-pocket Health Care	$ ____________
Debts	$ ____________
Taxes (Property, etc.)	$ ____________
Discretionary:	
Travel and entertainment	$ ____________
Other	$ ____________
TOTAL	**$ ____________**

Outside Sources of Income

Social Security	$ ____________
Pension	$ ____________
Part-time employment	$ ____________
Rental income	$ ____________
Annuities	$ ____________
TOTAL	**$ ____________**
INCOME GAP	**$ ____________**

Use the Retirement Estimator at www.ssa.gov/estimator to estimate your potential Social Security benefits.

Expenses
\- Outside Sources of Income

Income Gap

Your income gap – the difference between your expenses and outside income sources – is the amount your savings and investments will need to cover.

Withdrawal and Reliance Rates

Withdrawal rate – The percentage of your investments that you withdraw each year. This is the single most important factor in determining how long your money will last.

Edward Jones Initial Withdrawal Rate Guidance		
Age in Retirement	More Conservative	Less Conservative
Early 60s	3.0%	4.0%
Late 60s	3.5%	4.5%
Early 70s	4.0%	5.5%
Late 70s	5.0%	7.0%
80s+	6.0%	8.0%

Reliance rate – The percentage of your expenses that your outside investments must cover (i.e., the rate at which you must rely on your investments to cover your expenses).

Income Gap ÷ Expected Spending = **Reliance Rate**

Example:

A. Expected Spending	$50,000
B. Outside Sources of Income	$20,000
C. Income Gap (A – B)	$30,000

$30,000 ÷ $50,000 = **60%**

My Expected Reliance Rate

Use the numbers you entered on Page 6 to estimate your reliance rate.

Income Gap		Expected Spending		**Reliance Rate**
$	÷	$	=	%

Your Withdrawal Rate and Trade-offs

Scenario: Tom and Julie

- In their early 60s
- Hope to retire at age 64
- Own their home and plan to stay there
- Retirement vision includes some travel

A. Expected Spending $ ______________
B. Outside Income Source (Social Security) $ ______________
C. Income Gap (A – B) $ ______________

Remember, if your income gap is after-tax, you will likely need to withdraw more on a pretax basis to achieve the after-tax income you need. For example, if your income gap is $30,000 after-tax, depending on how your investments are allocated, you may need to withdraw $40,000 pretax to have $30,000 after tax. The pretax withdrawals needed to provide for those after-tax income needs are used to calculate the withdrawal rate.

To fill that income gap, Tom and Julie calculate how much of their portfolio they'll have to withdraw, which is their withdrawal rate:

Income Gap		Portfolio Value		**Withdrawal Rate**
$	÷	$	=	%

What adjustments can Tom and Julie make to reduce their withdrawal rate?

____

____

____

Prepare for the Unexpected

Your plan for the expected should take into account some uncertainties – for example, by factoring inflation and potential health care needs in to your spending calculations. It's also important to develop strategies to help you prepare for the unexpected. Generally, this involves two strategies:

Incorporate – Incorporate potential expenses into your budget

Insure – Insure against potential unexpected expenses

The following table outlines various ways to implement these strategies.

Plan for the Expected	Prepare for the Unexpected	
Risks/Expenses and Assumptions	**Incorporate**	**Insure**
Live longer than expected – Withdrawal rate guidance assumes living to at least age 90	Reduce withdrawal rate to plan for living longer (e.g., age 100)	Immediate, fixed or variable annuity with guaranteed lifetime income[1]
Inflation – Balanced allocation to equities based on risk tolerance; withdrawal rate guidance assumes 3% inflation rate	Consider investments with the potential for rising income Reduce withdrawal rate to incorporate higher inflation rate	Immediate or variable annuity with guaranteed increases in income[2]
Market declines – Diversified portfolio; withdrawal rate guidance incorporates Investment Policy Committee volatility expectations	CD/short-term fixed-income ladder Be flexible with spending, and don't automatically increase for inflation during down years Reduce withdrawal rate to provide more flexibility	Immediate, fixed or variable annuity with guaranteed income[1]
Health care – Incorporate Medicare/ health care premiums and expenses into budget	Include additional health care expense estimates to help buffer unexpected costs Reduce withdrawal rate to provide more flexibility	Supplemental health insurance to bridge gaps Medicare doesn't cover
Long-term care – Outline desired care and how to handle decisions, including who is responsible for them and where care will occur	Include projected care costs in budget Specifically identify assets designated to cover potential long-term care to "self-insure"	Long-term care insurance Life insurance with long-term care benefits
Legacy – The amount remaining at death	Reduce spending to provide for larger legacy Identify assets designated for legacy that are not intended for retirement spending	Life insurance to provide desired legacy amount
Premature death – Outline expected income and expenses should either spouse die, and assess impact to pensions and Social Security; ensure legal documents are current	Emergency cash to cover final expenses Be flexible with spending; reduce spending if necessary after a spouse dies	Life insurance to cover any income gap created by death of spouse (i.e., pension reduction/ elimination, less earned income, etc.)

[1] You could annuitize an existing annuity or purchase an immediate or variable annuity with optional guaranteed income benefits. Income payments are backed by the claims-paying ability of the issuing insurance company. The principal value of the variable annuity can decline with the market and lose principal, but the income stream can be insured by the insurance company for life.

[2] Costs or structure of these options may limit the attractiveness of these options or reduce the ability to act as an inflation hedge. Immediate annuities with the annual increase option will typically start with a much lower initial payment. Deferred variable annuities typically only serve as an inflation hedge until income begins. Once income is started, the chances of an increase are minimal.

Prepare for the Unexpected (continued)

The Value of a CD Ladder

A short-term income or CD ladder can help you better handle market ups and downs – and not let short-term emotions derail your strategy.

During a down market, maturing CDs and short-term bonds can provide cash for current income along with dividends and interest from your portfolio, keeping you from selling long-term investments that may be down in value.

During a strong market, you could use your portfolio's growth to cover some of your current expenses and/or add to your CD ladder.

CD Ladder

Today You Buy a	At Maturity in: 1 year	2 years	3 years	4 years	5 years
1-year CD	1-yr. CD matures, spend or reinvest in a 5-yr. CD				
2-year CD		2-yr. CD matures, spend or reinvest in a 5-yr. CD			
3-year CD			3-yr. CD matures, spend or reinvest in a 5-yr. CD		
4-year CD				4-yr. CD matures, spend or reinvest in a 5-yr. CD	
5-year CD					5-yr. CD matures, spend or reinvest in a 5-yr. CD

Prepare for the Unexpected (continued)

Considering Different Options to Address Concerns

Scenario: Helen

- Retiring soon
- Parents in their 90s
- Helen's concerns:
  - Outliving her money
  - Being able to afford health care

What are some options Helen can consider to help prepare for the unexpected?

Position Your Portfolio for Both

The third component of your retirement income strategy is how you invest your money. Here are some factors to keep in mind as you make investment decisions:

Growth still matters. Investors may think they should shift all their assets to fixed-income investments when they retire, but you still need some growth to keep up with inflation.

Balance is key. Keeping too much in growth investments could make your portfolio too vulnerable to market declines. We believe a balanced allocation among equities (for growth), fixed income (for reliable income) and cash (for preservation of principal) is important.

Different solutions may be appropriate. In addition to the proportions of stocks and bonds, the particular investments, insurance and services may need to change from what was appropriate in your earlier investing years as well.

Following are our recommendations for positioning a portfolio for retirement:

Equities

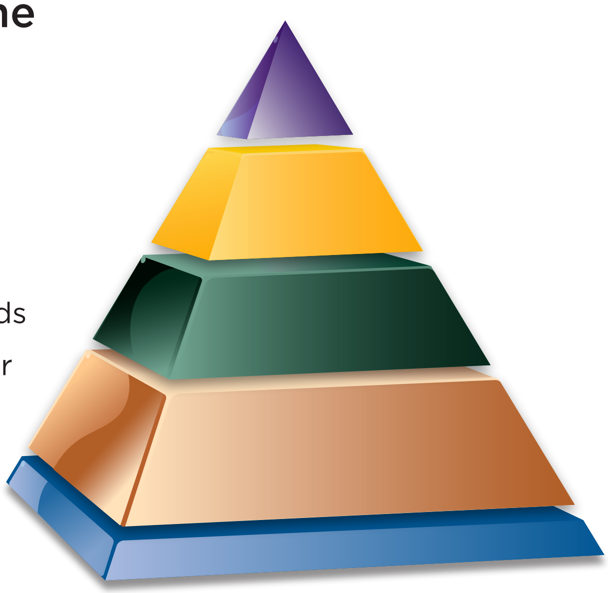
- Majority in quality, large-cap, dividend-paying domestic stocks
- Smaller amount in international, mid-size and small-cap stocks, as appropriate

Intermediate/Long-term Fixed Income

- Ladder by maturity
- Focus on quality
- No more than 5% of the portfolio in any one issuer

Short-term Fixed Income

- Three- to five-year ladder of CDs or short-term bonds
- Amount in each CD to meet income needs each year
- 30% to 40% of your fixed-income portfolio



Cash

- Up to 10% of the portfolio
- Cover 12 months' worth of expense needs from portfolio

Staying on Track

Once you have a strategy in place, it's important to review it regularly to make sure you're on track and to see if changes need to be made.

Things to consider include:

Goals

It's important to make sure your goals and strategies align with your vision if it changes over time.

Life changes

A life change could be anything, including a move, change in employment status, marriage, inheritance, divorce or loss of a spouse.

Investments

You may need to rebalance your investments periodically to make sure your investment mix stays suited to your goals and risk tolerance.

Insurance

Making sure you have the appropriate amount and type of insurance is critical. You should also revisit your beneficiary designations and other legal documents regularly to make sure everything aligns and will work the way you intend.

The Time Is Now

Whether retirement is a few years away or just around the corner, having a strategy in place will better prepare you to reach your goals. Take the first step and schedule an appointment today.

Action Plan: Developing Your Strategy

Don't just imagine the life you want. Take control and make it happen. Take the vision you identified in the beginning of this workbook and plan something you can do NOW.

Retirement Vision

Action Plan Examples:

48 hours:
Write down your vision for retirement. Be as specific as possible. Also write down what concerns you most as you think about having enough money to last throughout your retirement.

Week:
Gather all your financial accounts and statements.

Two weeks:
Develop your expected monthly budget for retirement.

Month:
Schedule an appointment with a financial advisor to translate that information into some realistic goals so you can develop strategies that make sense for you.

Three months:
Put your strategy into action.

Year:
Review your strategy to see if you are on target to reach your goals or if adjustments need to be made.

Action Plan:
Developing Your Strategy (continued)

What can I do in the next:

48 hours:

Week:

Two weeks:

Month:

Three months:

Year:

Questions & Answers

Notes