PASSPORT *to* RETIREMENT

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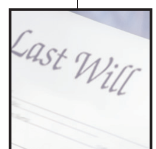

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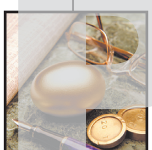

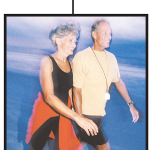


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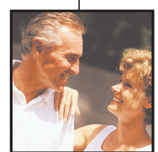

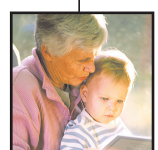

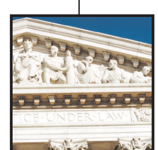

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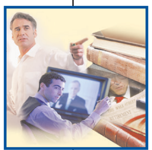
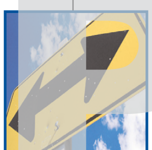
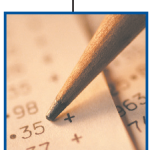


Cost of Living

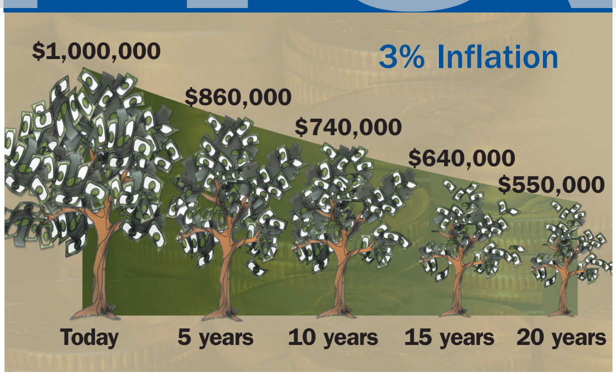
The next roadblock is rising prices. Inflation can have an effect on everything from the cost of a home to a hamburger at McDonald's.

If you could purchase a high-end automobile today for $50,000, what would it cost in the future? This chart should give you some idea.

EFFECTS OF 3% INFLATION

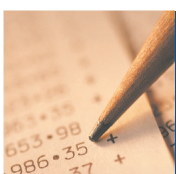
Impact of Inflation on Your Net Worth

DECLINE IN PURCHASING POWER



What can happen to your net worth if it is not protected from inflation?

At that same 3 percent rate of inflation, you can see how dramatically the value of your net worth could decline. With inflation at 3 percent, your money would be cut in half in 24 years. As a result, the purchasing power of a million-dollar nest egg would be reduced to $550,000 over the course of a 20-year retirement.



The Rule of 72

The Rule of 72 demonstrates the impact that inflation can have on your purchasing power. To determine how long a given rate of inflation would take to cut the purchasing power of your money in half, divide 72 by the expected rate of inflation.

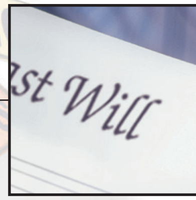
6% inflation:

72 ÷ 6 =____ years

3% inflation:

72 ÷ 3 =____ years

ROADBLOCKS



Source: Tax Foundation, 2016

The Burden of Taxes

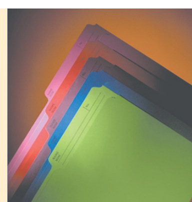
Another roadblock we all face is the steady burden of taxes. For the past 40 years or so, Americans have paid roughly 30 cents out of each dollar to taxes. And tax reforms have done little to simplify the complexity and ever-changing nature of the tax laws.

As you can see on this chart, taxes have remained fairly steady as a percentage of household income since 1976.

Impact of Taxes and Inflation

When you combine the effects of taxes and inflation, you might say that some investments offer only "a safe way to lose money."

Initial investment		**$10,000**
Return after one year (4%)		**$ 400**
Less federal income taxes (28%)	**–**	**$ 112**
Net after-tax return		**$ 288**
Net after-tax investment		**$10,288**
Divide by 1.03 (3% inflation)	**÷**	**1.03**
Net after 3% inflation		**$ 9,988**
Total return after inflation and taxes		**–0.12%**



Assumptions:

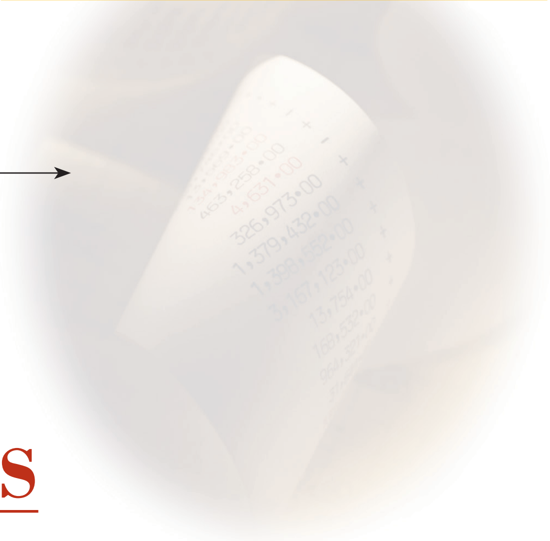
4% return on investments

28% federal income tax bracket

3% inflation rate

This hypothetical example is used for illustrative purposes only. Only federal taxes are considered. Actual results will vary.



Assess the Costs

Regardless of whether you are planning on moving to a warmer climate and spending your days playing golf, touring the country in a new motor home, or traveling around the world, one thing remains constant: All these things cost money. And that brings us to our next critical question:

How much will your retirement cost?

Social Security Expectations

You may be eligible to receive Social Security retirement benefits if you work, if your spouse is an eligible worker, or if you were married for at least 10 years to an eligible worker and are unmarried.

Currently, you are entitled to 100% of your full benefit (Primary Insurance Amount) when you reach "full retirement age," which ranges from 66 to 67, depending on the year you were born. If you claim retirement benefits at age 62 (the earliest eligibility age), the amount you receive each month could be reduced by up to 30% of your full benefit. If you wait until you reach age 70 before claiming benefits, you could be entitled to receive up to 132% of your full benefit (depending on year of birth).[1]

In 2015, only about 2% of men and 4% of women delayed claiming Social Security benefits to age 70 or older.[2]

Source: 1–2) Social Security Administration, 2016

ASSESS THE COSTS

Estimating the Cost of Retirement

This worksheet will help you estimate how much income you may need in retirement and the savings necessary to produce that income.

Enter your **Current Annual Income** in the first space. Multiply your current annual income by 80 percent (multiply your current income by 0.80) and enter this number in the last space. Remember, this will provide an estimate of the amount you need in retirement in current dollars.

CURRENT ANNUAL INCOME			ANNUAL RETIREMENT INCOME NEEDED
$ 70,000	x	0.80	= $ 56,000
$	x	0.80	= $

Subtract your estimated Social Security benefit from your Annual Retirement Income Needed (from above) and enter that number in the last space. [See the bottom of page 24 for information on how to obtain a retirement benefit estimate from the Social Security Administration.]

ANNUAL RETIREMENT INCOME NEEDED		ESTIMATED SOCIAL SECURITY BENEFIT	INCOME NEEDED AFTER SOCIAL SECURITY
$ 56,000	–	$ 24,000	= $ 32,000
$	–	$	= $

Use the second row for your own situation.

Roughly estimating how much income you will need in retirement and determining whether your current program of savings and investments will provide that income is only the beginning. You should consider a more comprehensive cash-flow analysis that considers all sources of income and expenses.

This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investments. The example shown is based on a 50-year-old couple who expects to retire in 15 years and spend 25 years in retirement. Actual results will vary.

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Why Multiply by 80 Percent?

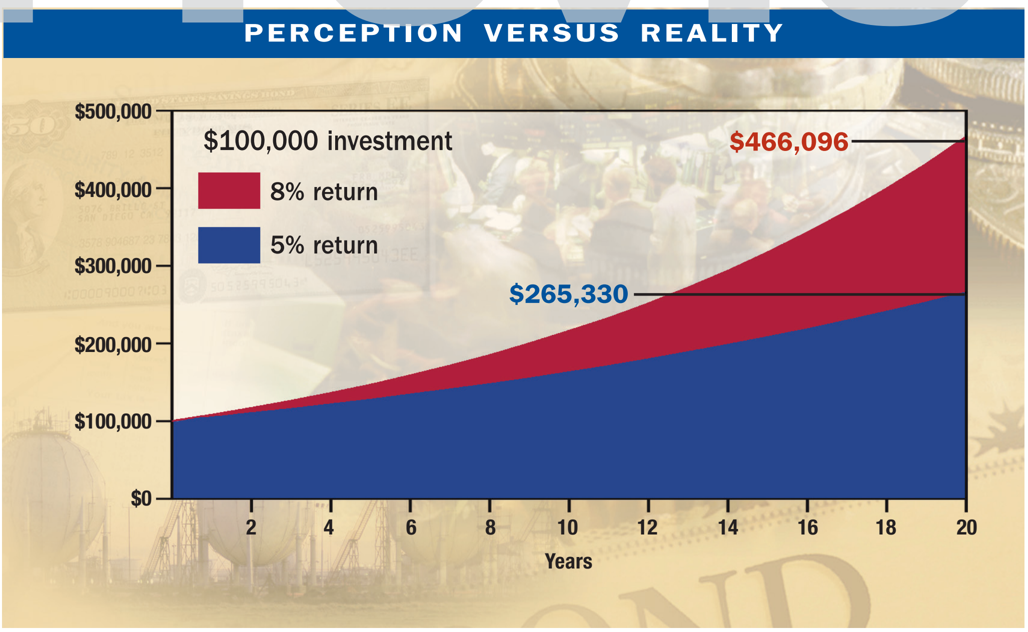
Some financial experts estimate that you will need approximately 80 percent of your pre-retirement income to maintain your lifestyle in retirement. Of course, it's very possible that you might need more than this, considering potential health costs and inflation.

Regardless of how busy you intend to be in retirement, your lifestyle is going to change. And you need to account for those changes — making adjustments to your current income to reflect the lifestyle changes you expect to experience after you retire.

The Downside of High Expectations

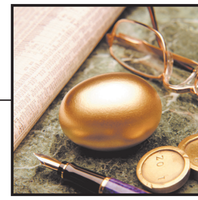
The downside of high expectations could be insufficient funds for retirement. If you project a high rate of return on your investments and they fail to perform at those levels, you may have to adjust your lifestyle or work longer to fund your retirement.

A $100,000 investment portfolio returning a hypothetical 8 percent rate of return would grow to $466,096 in 20 years. The same $100,000 invested at a hypothetical 5 percent rate of return would grow to $265,330 — a sizable amount, but far less than what you may be counting on. This could leave you far short of what you need in retirement.



This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment or class of investments. Actual results will vary. Investments offering the potential for higher rates of return also involve a higher degree of risk. Rates of return will vary over time, particularly for long-term investments.

INVEST FOR THE FUTURE


BONDS

When you buy a bond, you're essentially lending money to a government, corporation, or other entity. You are investing in its debt. A bond is simply an IOU. It certifies that you have loaned money to a government or a corporation and describes the terms of the loan.

New bonds are issued at "par" or "face" value — that is, the price at which the bond is sold by its issuer, usually $1,000 or $5,000 — and then pay interest to the bondholder on a regular basis. The bond's face value is promised to be repaid when the bond comes due.

Credit Risk

Bonds are subject to a number of risks. One of these is credit risk, or the risk of default. A bond issuer defaults when it fails to pay either the interest or principal as promised. The poorer the issuer's financial health, the greater this danger becomes.

Some municipal bonds have their principal and interest payments guaranteed by an insurance company. In exchange for this additional level of security, the bonds typically pay a lower interest rate, and the issuer pays a fee to the insurance company.

INTEREST RATE RISK

Bonds are essentially fixed-interest loans, so the market value of a bond is at risk when interest rates fluctuate. Bond prices generally fall when interest rates rise.

- **Inverse relationship between bond prices and bond yields**
- **Rates may go up or down**
- **Bond prices fluctuate until maturity**

If a bond is sold prior to maturity, you may receive back more or less than the original amount invested.

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