



RETIREMENT READINESS

Knox County Retirement & Pension Board



IMPORTANT DISCLOSURES

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This presentation has been prepared for general educational purposes only and is not designed to be a comprehensive analysis of any topic discussed herein. It should not be relied upon as the only source of information and is not intended to represent advice or a recommendation specific to your situation. Prior to acting on this information, we recommend that you seek independent advice specific to your situation from a qualified legal/tax/investment professional.

The information, including graphs and tables, presented in this presentation is based on **the J.P. Morgan Guide to RetirementSM 2019 Edition** unless sourced otherwise.



RETIREMENT LANDSCAPE

RETIREMENT LANDSCAPE

Common misconceptions

“I’ll continue to work during retirement.”

- 69% of employed Americans plan to work beyond age 65—but only 31% of current retirees actually did.*
- A number of factors can cause people to retire earlier than expected, including health problems, employer issues and family obligations.

“I need to claim my Social Security benefits as soon as I can.”

- Claiming Social Security before full retirement age can significantly reduce your benefits.
- Increasing life expectancies may make it beneficial to delay benefits.

“My spending patterns won’t change much when I retire.”

- The inflation rate is higher for retirement-age Americans who spend disproportionately more on items that rise fastest in price, such as health care.

*Source: J.P. Morgan Asset Management Guide to Retirement SM 2019 Edition, slide 5.

“Retirement” is different now than it was for previous generations.

These days, individuals have varying expectations for how they wish to spend their retirement years. Many planning factors are interconnected, which require careful consideration when developing a retirement strategy.

**HOW CLOSE
ARE YOU TO
RETIREMENT**

Important Retirement Ages

- Age 59 ½
 - Early withdrawal penalty ends
- Age 62
 - Social Security eligibility begins- reduction of benefits will apply if you choose to begin payments
- Age 65
 - Medicare eligibility begins
- Age 66
 - Individuals born between 1943 and 1954 qualify for full Social Security benefits. For those born between 1955 and 1959 full retirement age gradually increases from 66 and 2 months to 66 and 10 months

Important Retirement Ages

- **Age 67**

- Social Security full retirement age for anyone born 1960 or later

- **Age 70**

- Social Security payments grow by 8% a year for each year you delay claiming up to age 70.

- **Age 73**

- The Internal Revenue Code specifies that annual Required Minimum Distributions (RMDs) must be taken from 401(a) and IRA accounts, upon attaining age 73. The first distribution is due as of April 1st of the year after you turn age 73.
 - The RMD age will be further increased to age 75 for individuals who attain age 74 after December 31, 2032 – Per Secure Act 2.0.
 - NOTE: RMDs are not required from ROTH IRA accounts, nor from a 401(a)-account associated with an employer through whom you are currently employed.

**HOW DO
YOU
FEEL ABOUT
RETIREMENT?**

HOW DO YOU FEEL ABOUT RETIREMENT

The Reality of Retirement

- Only 1 in 6 people have a written plan for retirement¹
Source: Only 16% of workers are using this retirement planning tool to their advantage, report says" Katie Brockman, The Motley Fool, March 3, 2020. [Retirement planning: Should you have a written plan? Not many do. \(usatoday.com\)](#).
- As of 2022, only 28% of American workers felt "very confident" that they would be able to live comfortably in retirement – this is an increase from 23% in 2019² (Source: ©2022 EBRI/Greenwald Research Retirement Confidence Survey, https://www.ebri.org/docs/default-source/rcs/2022-rcs/rcs_22-fs-1_confid.pdf?sfvrsn=e4c83b2f_4)

Sources: ¹Only 16% of workers are using this retirement planning tool to their advantage, report says" Katie Brockman, The Motley Fool, March 3, 2020. [Retirement planning: Should you have a written plan? Not many do. \(usatoday.com\)](#). ²2022 EBRI/Greenwald Research Retirement Confidence Survey, https://www.ebri.org/docs/default-source/rcs/2022-rcs/rcs_22-fs-1_confid.pdf?sfvrsn=e4c83b2f_4)

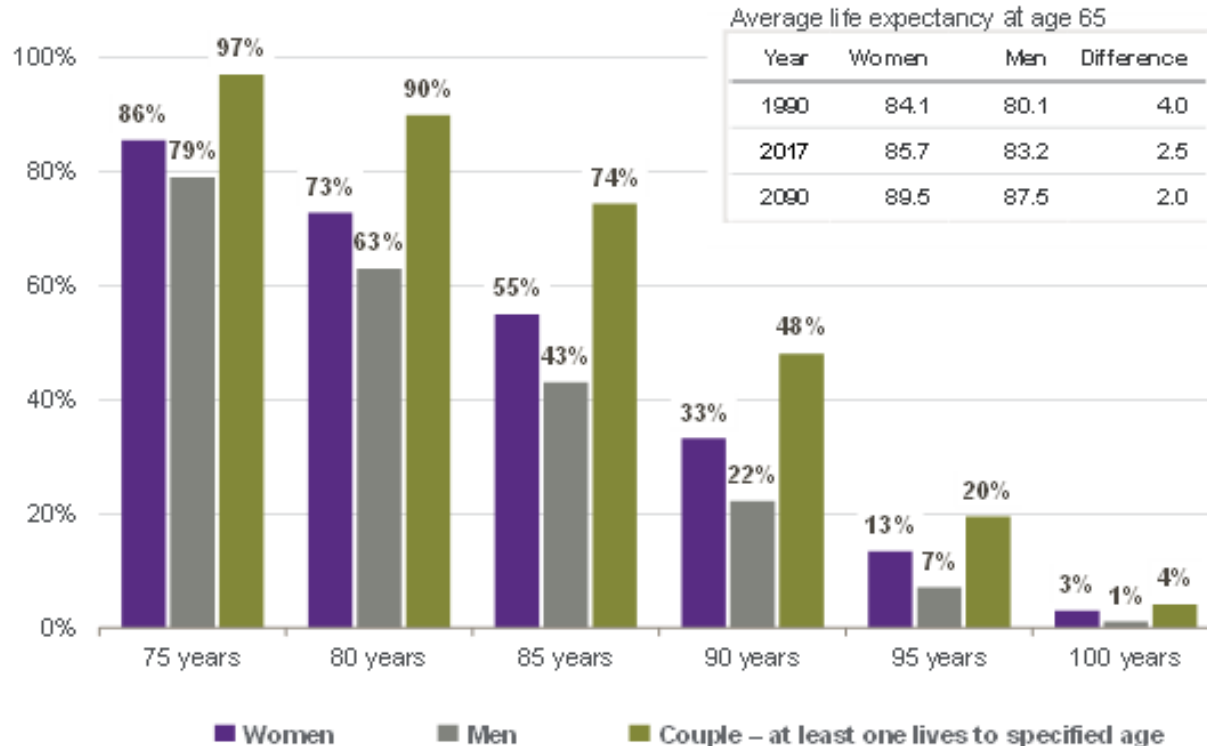
HOW DO YOU FEEL ABOUT RETIREMENT

The average 401(k) plan account balance at the end of 2020 was **\$129,157** far less than most participants will need to retire comfortably.

- Source: [https://www.businessinsider.com/personal-finance/average-401k-balance#average-401\(k\)-balance-by-income-level](https://www.businessinsider.com/personal-finance/average-401k-balance#average-401(k)-balance-by-income-level)

LIFE EXPECTANCY PROBABILITIES

If you're 65 today, the probability of living to a specific age or beyond

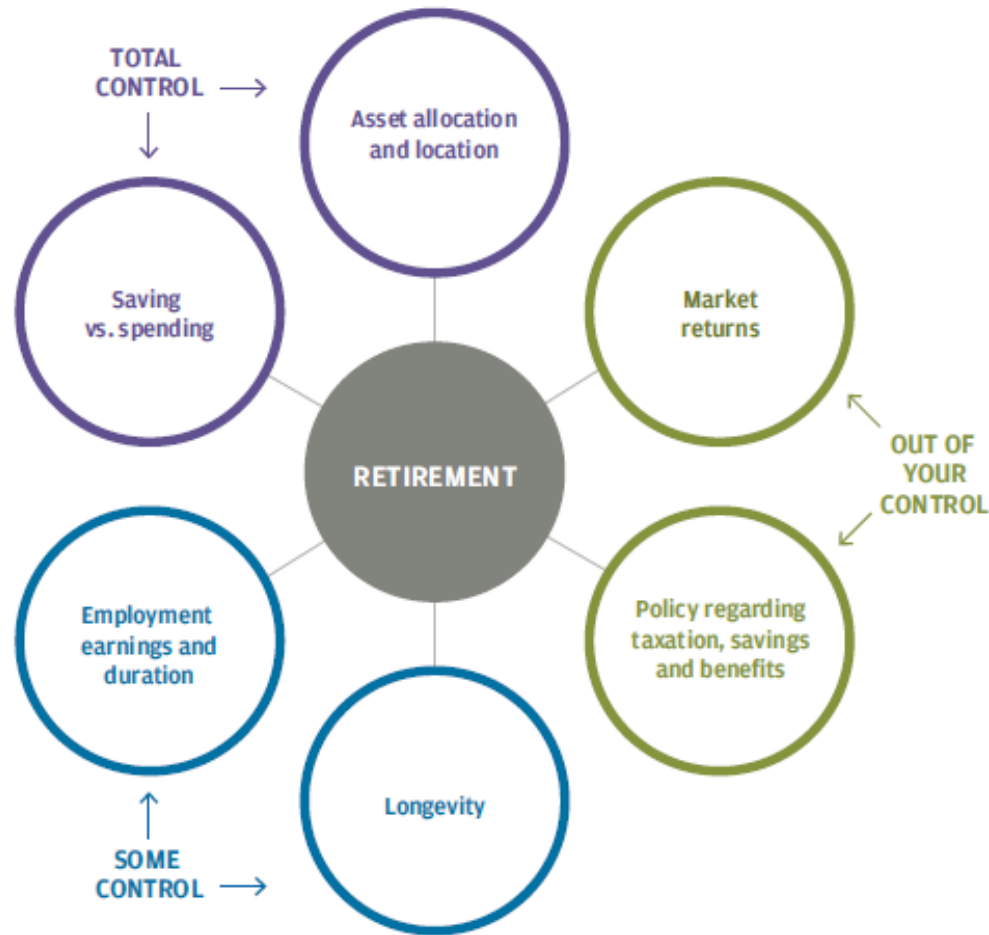


PLAN FOR LONGEVITY

Average life expectancy continues to increase and is a mid-point not an end-point. You may need to plan on the probability of living much longer – perhaps 30+ years in retirement – and invest a portion of your portfolio for growth to maintain your purchasing power over time.

**HOW MUCH
PLANNING HAVE
YOU DONE FOR
RETIREMENT?**

THE RETIREMENT EQUATION



A SOUND RETIREMENT PLAN

Make the most of the things that you can control but be sure to evaluate factors that are somewhat or completely out of your control within your comprehensive retirement plan.

Source: The Importance of Being Earnest, J.P. Morgan Asset Management, 2013.

6 STEP RETIREMENT PLANNING PROCESS

- Find Some Help
- Gather and Share Information
- Analyze and Evaluate Current Conditions
- Create Options
- Implement Plan
- Monitor and Maintain

FACTORS IN RETIREMENT

- Lifestyle
- Investments
- Health Care
- Protection
- Disbursement of Assets





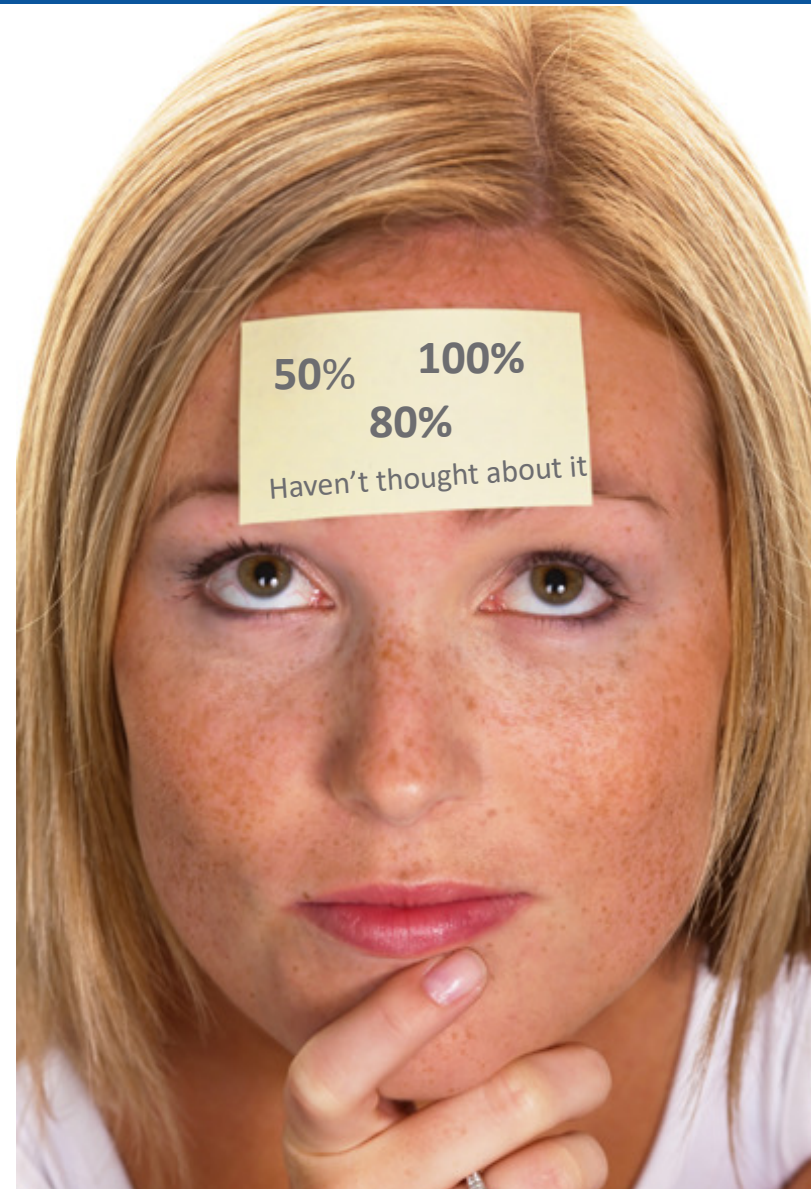
LIFESTYLE

FOCUS IN RETIREMENT

- What do you want to do in retirement?
- What will bring you happiness?
- How long do you suspect your retirement will last?
- Will you work in retirement?
- What resources do you have to support your lifestyle?
- Wildcards

How much do you think your lifestyle will cost?

- 50% of my current income
- 80% of my current income
- 100% of my current income
- I haven't thought about it!



FOCUS IN RETIREMENT

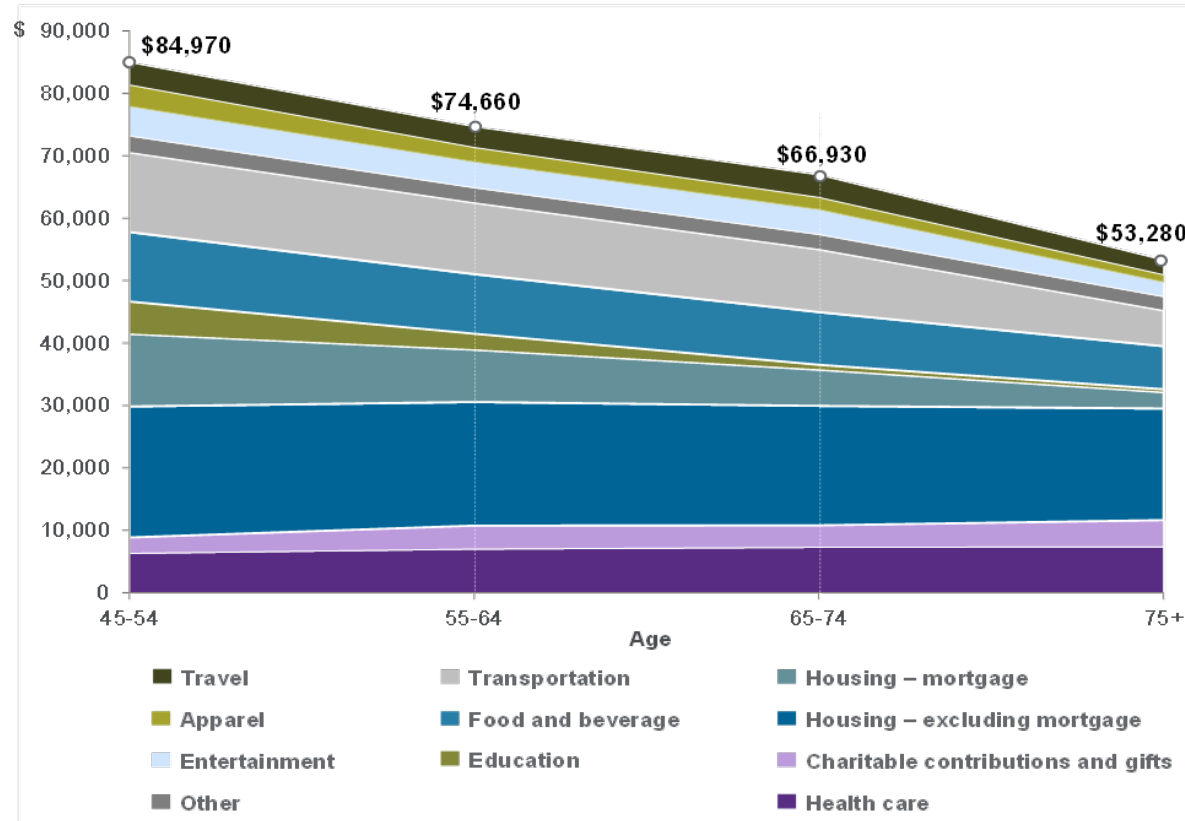
The average American will spend roughly 20 years in retirement and will need 70% to 90% of his or her pre-retirement income in order to maintain the same standard of living in retirement.

Source: <https://www.dol.gov/sites/dolgov/files/EBSA/about-ebsa/our-activities/resource-center/publications/top-10-ways-to-prepare-for-retirement.pdf>



CHANGES IN SPENDING

Average household spending patterns by various age groups
For those with a bachelor's degree or higher



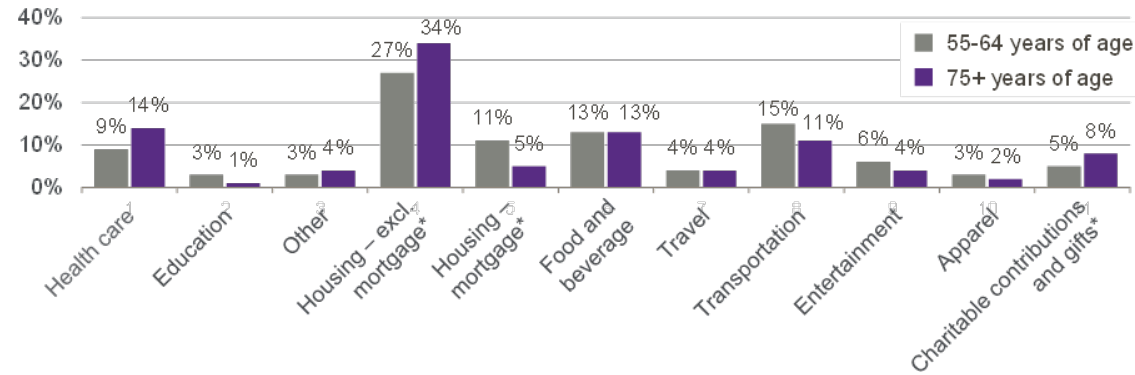
WHAT TO EXPECT

Household spending peaks at the age of 45, after which spending declines in all categories but health care and charitable contributions and gifts. Housing is the largest expense, even at older ages.

Source: J.P. Morgan Asset Management. Estimates based on average consumer expenditure from 2015 to 2017. Consumer Expenditure Surveys (BLS) for each age group excluding pension contributions. Population includes households where a bachelor's degree or higher is achieved by any member. Average household size for age 45-54 is 3.0, age 55-64 is 2.3, age 65-74 is 1.9 and age 75+ is 1.8.

SPENDING AND INFLATION

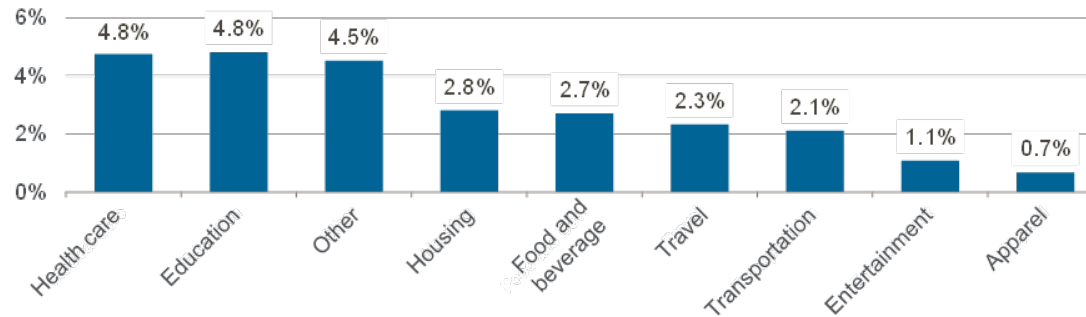
Spending by age and category



LOSING GROUND

Inflation can disproportionately affect older Americans due to differences in spending habits and price increases in those categories.

Average inflation by spending category 1982-2018



*There are no individual inflation measures for these specific subcategories.

Source (top chart): BLS, 2015-2017 average Consumer Expenditure Survey for households where at least one member has a bachelor's degree. Charitable contributions include gifts to religious, educational and political organizations, and other cash gifts. Spending percentages may not equal 100% due to rounding.

Source (bottom chart): BLS, Consumer Price Index, J.P. Morgan Asset Management. Data represent annual percentage increase from December 1981 through December 2018 with the exception of entertainment and education, which date back to 1993, and travel, which dates back to 2001. The inflation rate for the Other category is derived from personal care products and tobacco. Tobacco has experienced 7% inflation since 1986.

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ASSET DECUMULATION

How will you spend your money as you progress through retirement?

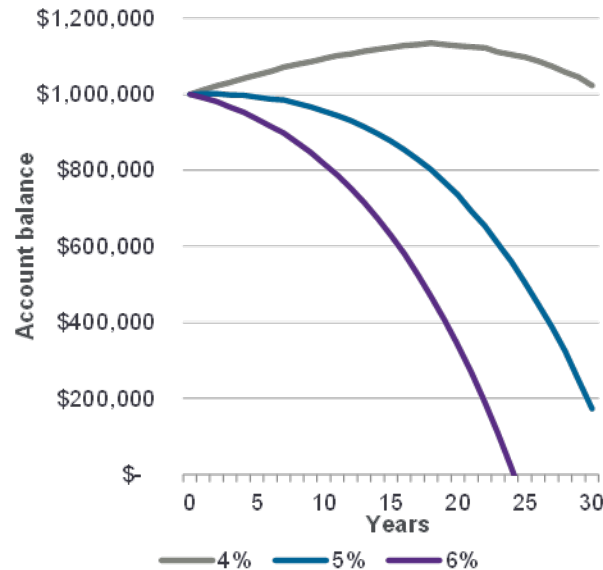
ASSET DECUMULATION

What factors determine your spend down rate?

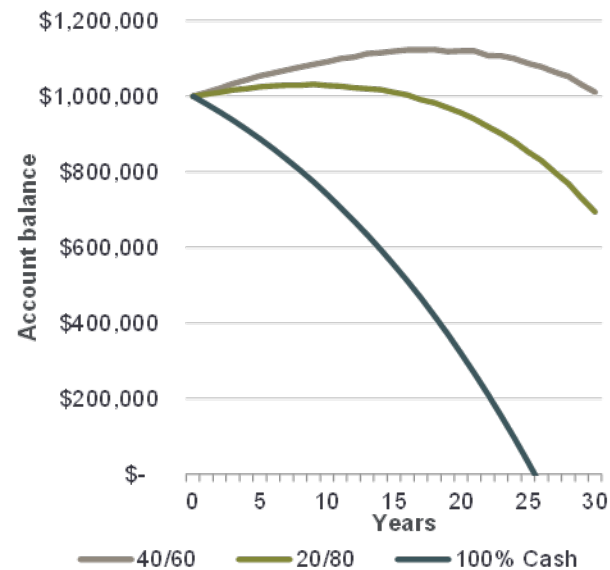
- How long you anticipate living
- What discount rate you use
- What assumptions are made about financial market returns on assets
- Tax rates
- All sources of income and how they draw out

EFFECTS OF WITHDRAWAL RATES AND PORTFOLIO ALLOCATIONS

40/60 portfolio at various initial withdrawal rates
Projected nominal outcomes, 50th percentile



Various portfolios at 4% initial withdrawal rate
Projected nominal outcomes, 50th percentile



ONE SIZE DOES NOT FIT ALL

Higher initial withdrawal rates or overly conservative portfolios can put your retirement at risk. However, setting your spending at retirement too low and not adjusting along the way may require unnecessary lifestyle sacrifices in retirement. You may want to consider a dynamic approach that adjusts over time to more effectively use your retirement savings.

The 50th percentile may be considered the most likely due to the high percentage of outcomes that tend to be clustered near the median. Ending value of the 4% initial withdrawal rate and 40/60 portfolio value is \$1,011,237 (\$558,275 in today's dollars) and the 20/80 portfolio value is \$694,232 (\$383,265 in today's dollars).

These charts are for illustrative purposes only and must not be used, or relied upon, to make investment decisions. Portfolios are described using equity/bond denotation (e.g. a 40/60 portfolio is 40% equities and 60% bonds). Hypothetical portfolios are composed of All Country World Equity, US Aggregate Bonds and US Cash, with compound returns projected to be 6.0%, 4.0% and 2.0%, respectively. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary Long-Term Capital Market Assumptions (10–15 years). The resulting projections include only the benchmark return associated with the portfolio and does not include alpha from the underlying product strategies within each asset class. The yearly withdrawal amount is set as a fixed percentage of the initial amount of \$1,000,000 and is then inflation adjusted over the period (2.0%). Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

The rule of 4%

- While not appropriate for every situation, a common rule of thumb is that a withdrawal rate of **4%** of savings may provide adequate retirement income for **25 years**.

Source: The Balance, February 2020





INVESTMENTS

INVESTMENTS

- How should your assets be allocated?
- Do you know how your investments are allocated today?
- How do you plan to monitor your investments?

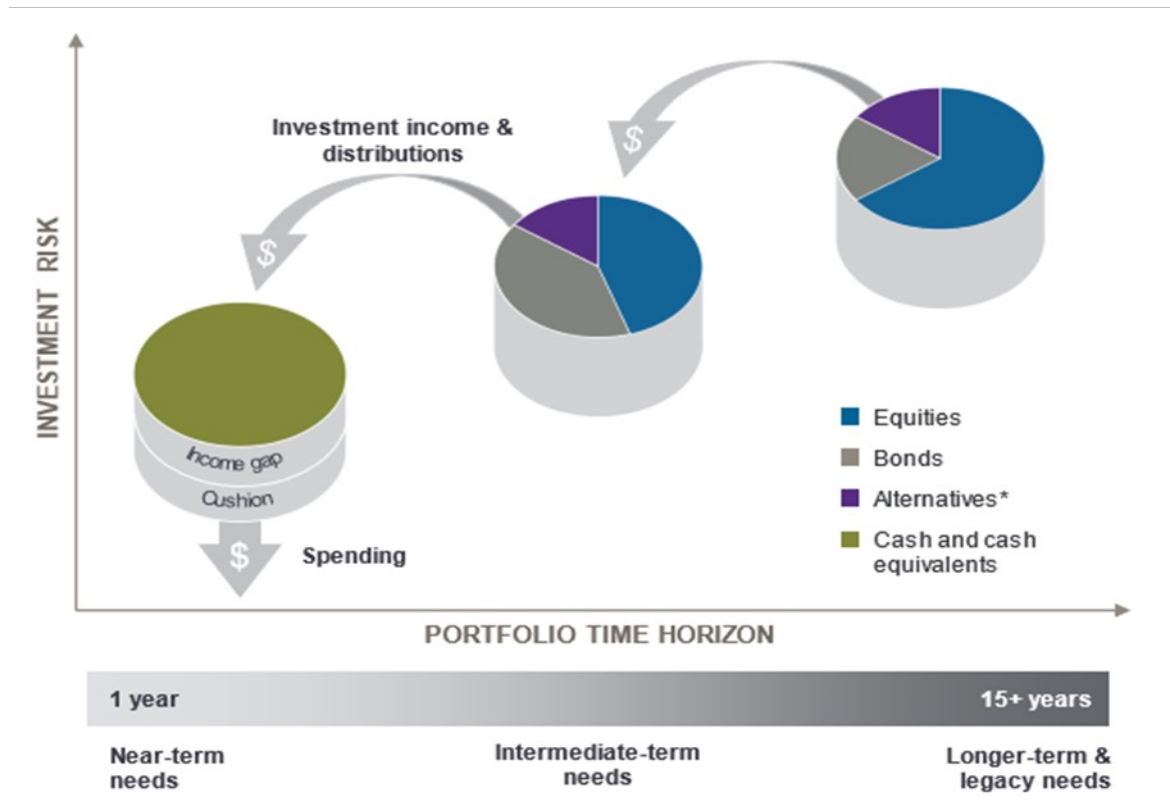
STRUCTURING A PORTFOLIO TO MATCH INVESTORS GOALS IN RETIREMENT



For illustrative purposes only. Source: J.P. Morgan Asset Management. Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise. The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk," meaning that stock prices in general may decline over short or extended periods of time. Investing in alternative assets involves higher risks than traditional investments and is suitable only for the long term. They are not tax efficient and have higher fees than traditional investments. They may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain.

*Equity, fixed income and cash are considered "traditional" asset classes. The term "alternative" describes all non-traditional asset classes. They include private and public equity, venture capital, hedge funds, real estate, commodities, distressed debt and more.

STRUCTURING A PORTFOLIO: THE BUCKET STRATEGY



TIME-BASED SEGMENTATION

Aligning your time horizon with an investment approach may help you be more comfortable with maintaining diversified portfolio allocations in retirement.

For the near-term portfolio, consider maintaining:

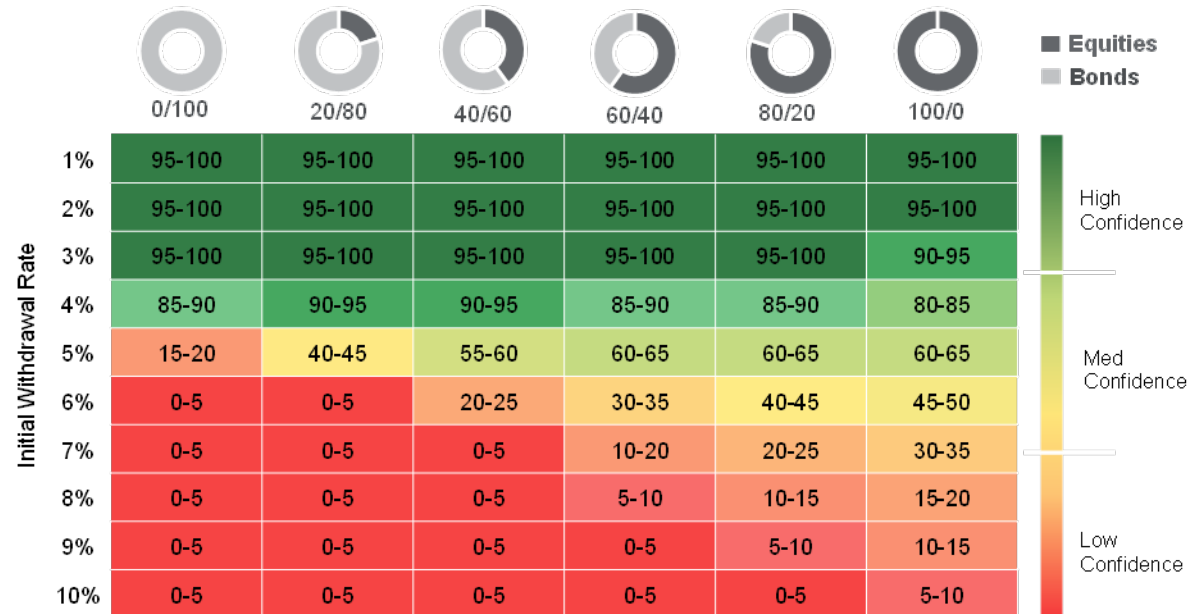
- Funds to cover 1-3 years worth of the gap between your income and spending needs
- A cushion for unexpected expenses

For illustrative purposes only. Source: J.P. Morgan Asset Management. Bonds are subject to interest rate risks. Bond prices generally fall when interest rates rise. The price of equity securities may rise or fall because of changes in the broad market or changes in a company's financial condition, sometimes rapidly or unpredictably. Equity securities are subject to "stock market risk," meaning that stock prices in general may decline over short or extended periods of time. Investing in alternative assets involves higher risks than traditional investments and is suitable only for the long term. They are not tax efficient and have higher fees than traditional investments. They may also be highly leveraged and engage in speculative investment techniques, which can magnify the potential for investment loss or gain.

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ASSET ALLOCATION AND WITHDRAWAL RATES

Likelihood of success after 30 years
Various initial withdrawal rates and asset allocations



FIND YOUR BALANCE

At both the highest and the lowest confidence levels, you may want to consider adjusting your spending and/or asset allocation. An overly conservative withdrawal rate may require unnecessary lifestyle sacrifices, whereas an equity-heavy portfolio may lead to a lower likelihood of success. A well-diversified portfolio with a dynamic withdrawal strategy is typically optimal.

This chart is for illustrative purposes only and must not be used, or relied upon, to make investment decisions. Portfolios are described using equity/bond denotation (e.g. a 40/60 portfolio is 40% equities and 60% bonds). Hypothetical portfolios are composed of All Country World Equity and US Aggregate Bonds, with compound returns projected to be 6.0% and 4.0%, respectively. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary Long-Term Capital Market Assumptions (10-15 years). The resulting projections include only the benchmark return associated with the portfolio and does not include alpha from the underlying product strategies within each asset class. The yearly withdrawal amount (1% to 10%) is set as a fixed percentage of the initial amount of \$1,000,000 and is then inflation adjusted over the period (2.0%). The percentile outcomes represent the percentage of simulated results with an account balance greater than \$0 after 30 years (e.g. "95-100" means that 95-100% of simulations had account balances greater than \$0 after 30 years). Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.



- Consider how your investments are allocated
- Bring it all together – get the big picture view of your investments
- Discuss changes to your portfolio with an advisor



HEALTH CARE

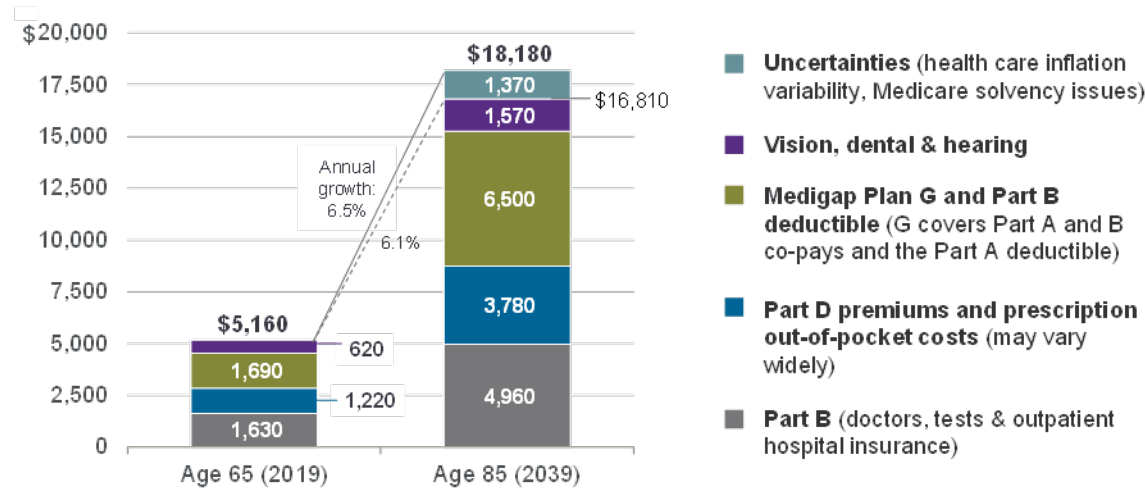
HEALTH CARE

Have you examined your health care options and determined what's right for you?

- Evaluate your retiree health insurance benefits
- Determine how you'll cover your healthcare expenses
- Know the A, B, C, D's of Medicare

RISING ANNUAL HEALTH CARE COSTS IN RETIREMENT (Traditional Medicare)

Traditional Medicare estimated median health care costs per person



A GROWING CONCERN

Given variation in health care cost inflation from year to year, it may be prudent to assume an annual health care inflation rate of 6.5%, which may require growth as well as current income from your portfolio in retirement.

2019 additional premium per person for Modified Adjusted Gross Incomes (MAGI) of:

FILING SINGLE	MARRIED FILING JOINTLY	ADDITIONAL PREMIUM	TOTAL MEDIAN COSTS
\$85,001 – \$107,000	\$170,001 – \$214,000	\$798	\$5,958
107,001 – 133,500	214,001 – 267,000	2,008	7,168
133,501 – 160,000	267,001 – 320,000	3,217	8,377
160,001 – 499,999	320,001 – 749,999	4,426	9,586
>499,999	>749,999	4,829	9,989

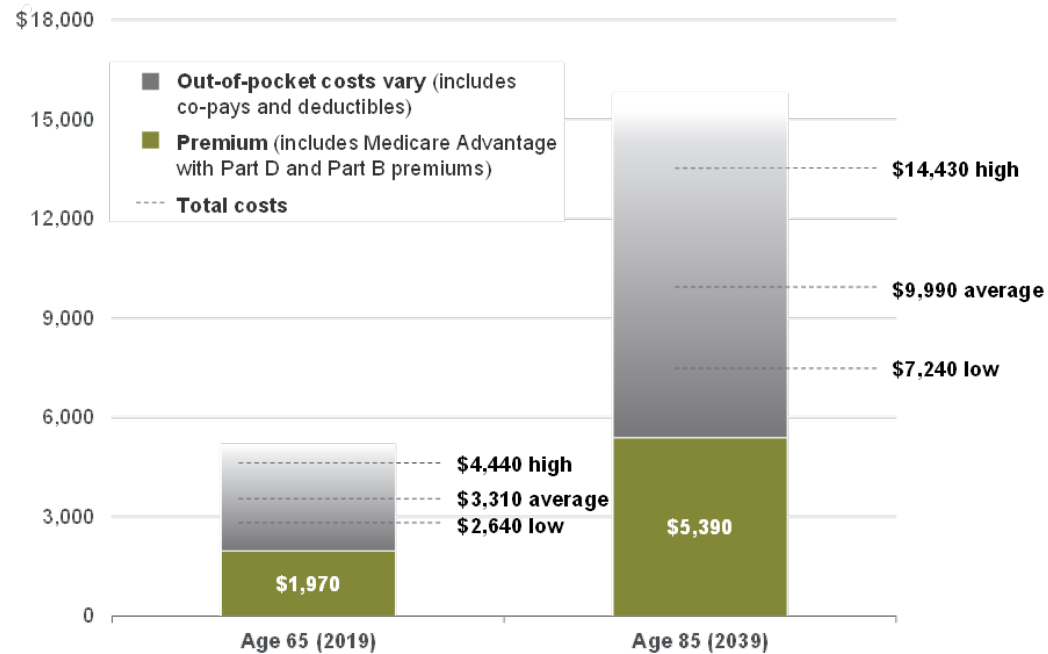
Notes: Age 85 estimated total median cost in 2019 is \$6,776. Medigap premiums usually increase due to age, in addition to annual inflation, except for most policies in the following states: AR, CT, MA, ME, MN, NY, VT, WA, AZ, FL, ID and MO. If Plan G is not available, analysis includes the most comprehensive plan excluding Plan F.

Parts B and D additional premiums are calculated from federal tax returns two years prior; individuals may file for an exception on form SSA-44 if they reduce or stop work. For the definition of MAGI, please see slide 47.

Source: Employee Benefit Research Institute (EBRI) as of January 18, 2019; SelectQuote as of January 18, 2019; Milliman as of January 21, 2019; CMS website as of January 18, 2019; Consumer Expenditure Survey as of January 18, 2019; J.P. Morgan analysis.

VARIATIONS IN MEDICARE ADVANTAGE COSTS

Estimated Medicare Advantage with Part D and out-of-pocket expenses
Annual amount per person



DRAMATIC DIFFERENCES IN COSTS DEPENDING ON HEALTH

Be prepared to pay more for health care in the event you experience a health issue, which becomes more common as one ages.

- Be aware: Although Medicare Advantage plans have out-of-pocket caps, those limits do not include prescriptions.
- Consider maintaining an emergency reserve fund for high out-of-pocket cost periods.

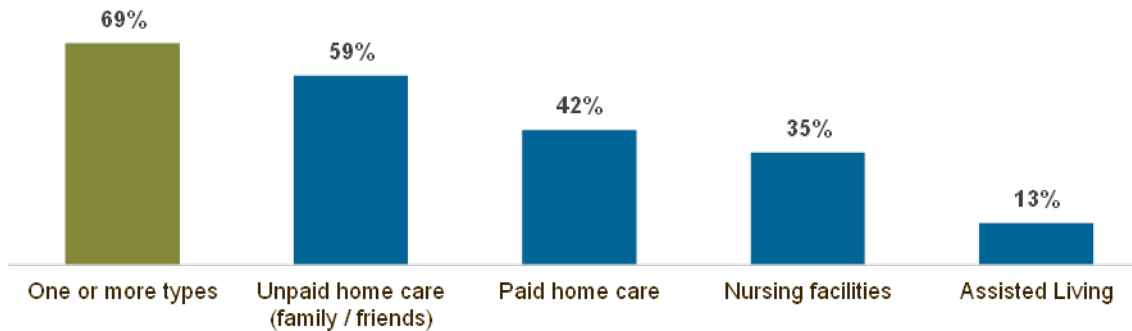
Total costs = annual premium + out-of-pocket costs for those with relatively low costs (average for those in the lowest third of the cost distribution), average costs and high costs (average for those in the highest third of the cost distribution).

Age 85 estimated average cost in 2019 is \$3,923. Cost estimates above show age 85 in 2039 adjusted for inflation and increased use of medical care at older ages. Since plans are sold by private companies, premiums will vary based on plan characteristics. Out-of-pocket expenses, including out-of-pocket prescription costs, will vary by plan and include co-pays and deductibles. Those with high incomes pay higher premiums (above \$85,000 single or \$170,000 Modified Adjusted Gross Income filing jointly).

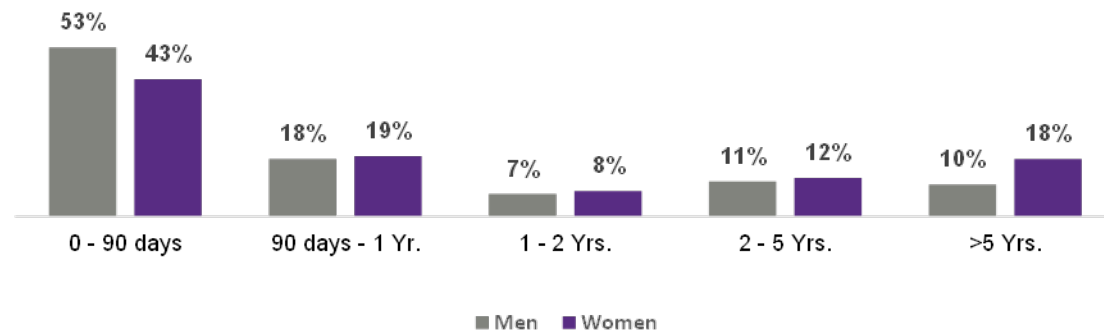
Source: Employee Benefit Research Institute (EBRI) data as of December 18, 2019; SelectQuote data as of January 18, 2019; Milliman as of January 21, 2019; J.P. Morgan analysis.

LONG-TERM CARE PLANNING

Lifetime probability of needing long-term care (LTC) services by type



Lifetime distribution and duration of need for significant LTC at age 65



CONSIDER THE RANGE OF POSSIBLE CARE NEEDS

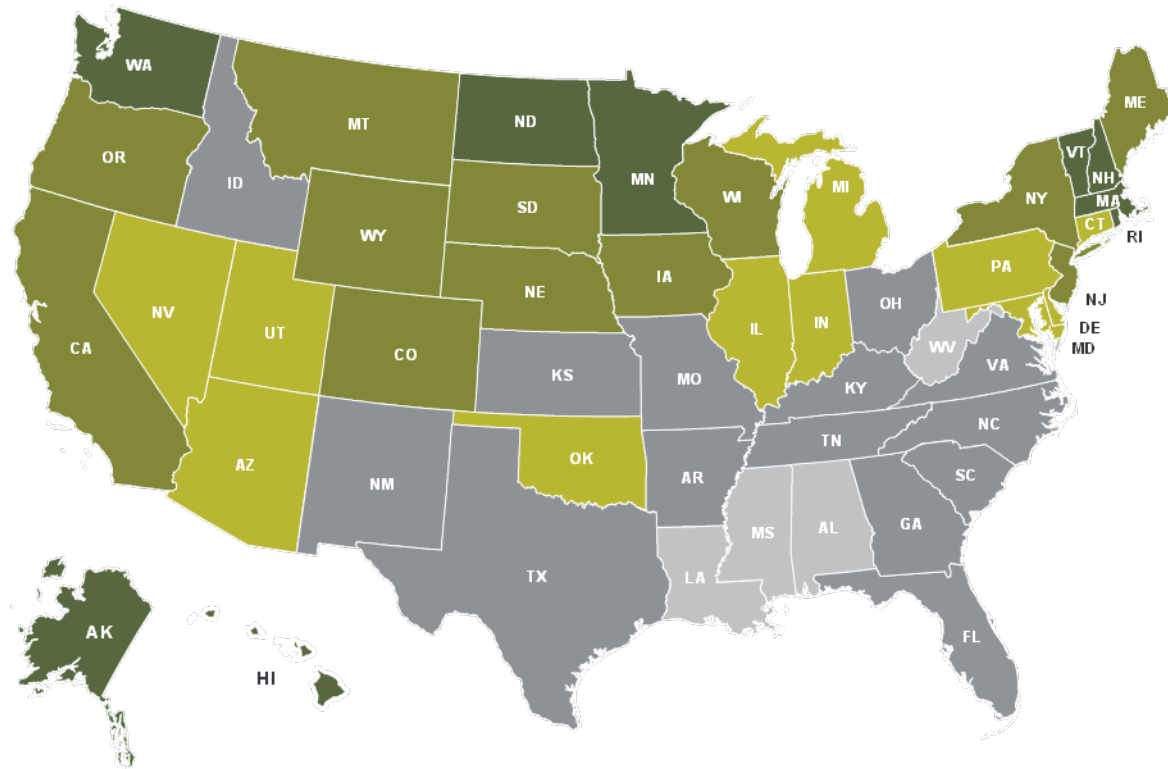
There is a high likelihood of needing care. This often starts at home before progressing to other settings.

While considering the range of possibilities, take into account that 1 in 10 men and nearly 2 in 10 women are projected to have a significant care need for more than 5 years.

Top chart: Includes all types of care including managing finances, taking medications, shopping, using transportation and food preparation, as well as more significant care needs. Bottom chart: Significant care needs includes two or more activities of daily living such as eating, dressing, bathing, transferring and toileting or severe cognitive impairment. Those who meet the cognitive impairment criteria who require care for less than 90 days are included in the 90 days – 1 year category.

Source: Top chart: U.S. Department of Health and Human Services, ASPE Issue Brief, Revised February 2016, Table 1. Bottom chart: U.S. Department of Health and Human Services, Administration on Aging statistics last updated October 10, 2017. Most recent data available as of December 31, 2018.

LONG-TERM CARE PLANNING



THE COST OF CARE

The median cost for a home health aide is \$22 an hour but can vary widely. While the most common starting point for care is at home, it may progress to other settings.

The national annual median cost for a private room in a nursing home is \$100,375. These costs are commonly between \$85,000 and \$120,000 but may be lower or higher. For costs specific to your area see:

www.genworth.com/costofcare

Notes: Costs also vary within states by county and city. Median values are rounded to the nearest dollar. For more information on cost of care in your location see the Genworth website at: www.genworth.com/costofcare
 Source: Genworth Cost of Care Survey 2018, conducted by CareScout®, June 2018. © 2019 Genworth Financial, Inc. All rights reserved.
 Methodology document: <https://pro.genworth.com/vriiproweb/productinfo/pdf/131168.pdf>



PROTECTION

HOW CAN YOU PROTECT YOUR ASSETS?

- Plan ahead – understand your needs
- Think about your financial legacy
- Establish proper legal documents*
- Durable Power of Attorney
- Advance Medical Directives
- Will
- Letter of Instructions
- Beneficiary Forms

*Neither USI nor its affiliates and/or employees/agents/registered representatives offer legal or tax advice. Prior to acting on this information, we recommend that you seek independent advice specific to your situation from a qualified legal/tax professional.

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DISBURSEMENT OF RETIREMENT ASSETS



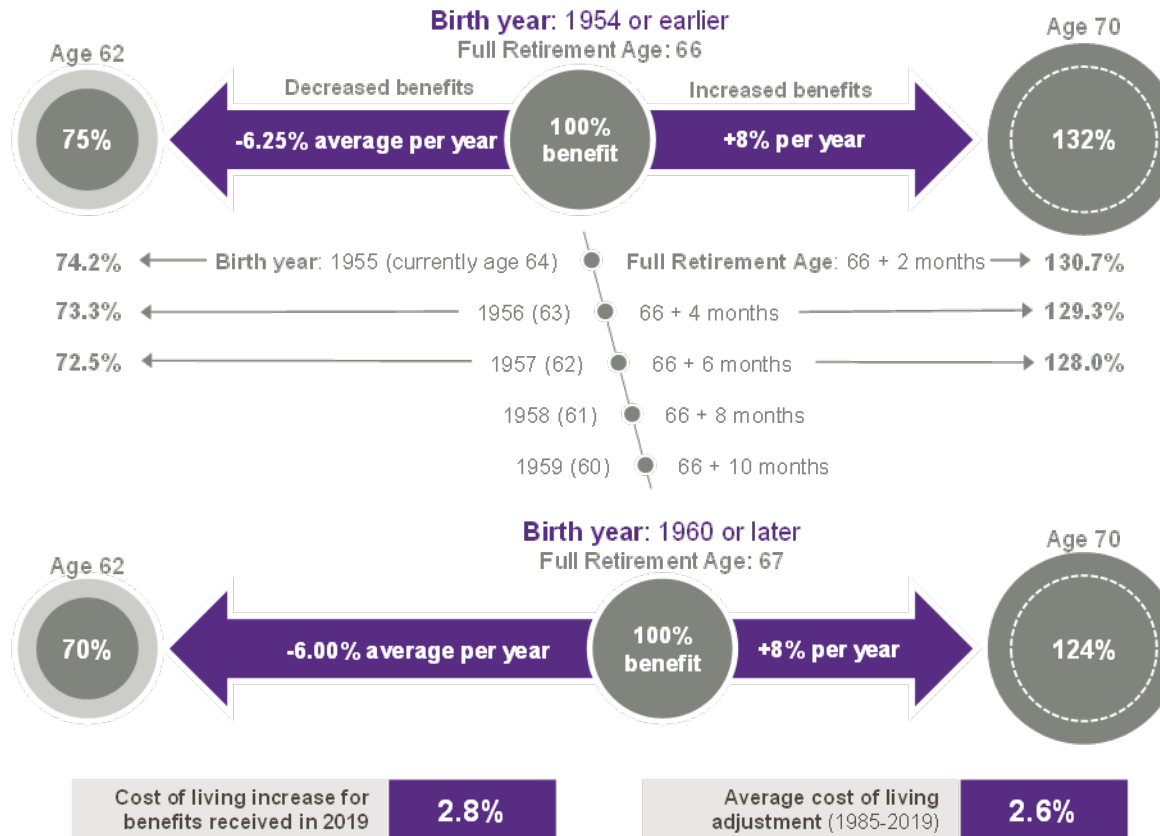
- Identify all your income sources
- Understand your payout options
- Evaluate how you can create a strategy for a lifetime of income

401(a) DISTRIBUTION OPTIONS

- Lump Sum
- Rollover
- Installments

SOCIAL SECURITY TIMING TRADEOFFS

Benefits differ by birth year and claim age
 Full Retirement Age = 100% benefit



UNDERSTAND THE TRADEOFFS

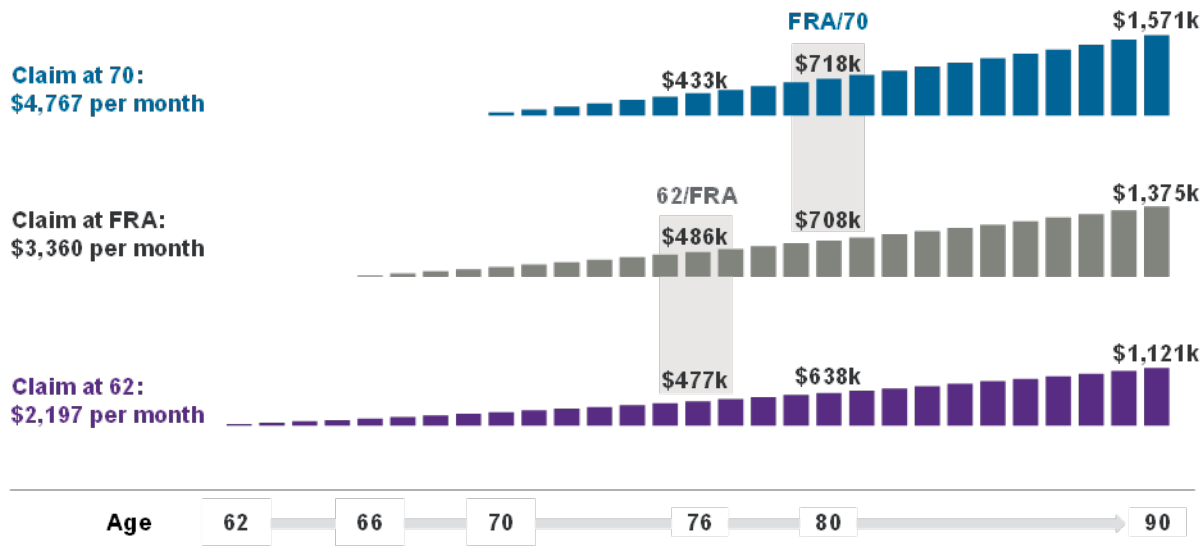
Deciding when to claim benefits will have a permanent impact on the benefit you receive. Claiming before your full retirement age can significantly reduce your benefit, while delaying increases it.

In 2017, full retirement age began transitioning from 66 to 67 by adding two months each year for six years. This makes claiming early even more of a benefit reduction.

MAXIMIZING SOCIAL SECURITY BENEFITS

Cumulative individual maximum benefit by claim age

Full Retirement Age (FRA) = Age 66 & 6 months



PLANNING OPPORTUNITY

Delaying benefits means increased Social Security income later in life, but your portfolio may need to bridge the gap and provide income until delayed benefits are received.

Age	62	66	70	76	80	90
At age 62, probability of living to at least age:	100%	94%	87%	73%	60%	21%
Individual	100%	97%	92%	81%	71%	32%
Couple*	100%	99%	99%	95%	88%	47%

Source: Social Security Administration, J.P. Morgan Asset Management.

*Couple assumes at least one lives to the specified age or beyond. Breakeven assumes the same individual, born in 1957, earns the maximum wage base, retires at the end of age 61 and claims at 62 & 1 month, 66 & 6 months and 70, respectively. Benefits are assumed to increase each year based on the Social Security Administration 2018 Trustee's Report "intermediate" estimates (annual benefit increase of 2.7% in 2020 and 2.6% thereafter). Monthly amounts without the cost of living adjustments (not shown on the chart) are: \$2,197 at age 62; \$3,030 at FRA; and \$3,879 at age 70. Exact breakeven ages are 76 & 4 months and 80 & 5 months.

TAXATION OF RETIREMENT DISTRIBUTIONS

- All pre-tax contributions will be fully taxable at the ordinary income tax rates in effect at the time of distribution.
- Taxability of Social Security is based on total taxable income.
- Register with <https://www.ssa.gov/myaccount/>

Neither USI nor its affiliates and/or employees/agents/registered representatives offer legal or tax advice. Please seek independent advice, specific to your situation, from a qualified legal/tax professional.

MRDs

- Minimum Required Distributions
 - The required minimum distribution for any year is the account balance as of the end of the immediately preceding calendar year divided by a distribution period from one of the IRS's life expectancy tables.*.

*Please consult your tax advisor for more information regarding required minimum distributions.

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THINGS TO CONSIDER

THINGS TO CONSIDER AS YOU APPROACH RETIREMENT*

- Take minimum amounts from 401 (a) plan
- Social Security Income Threshold
- If a Roth IRA account is substantial, take from it until 73
- Determine tax withholdings first
- Distributions should be kept as low as possible to maintain your desired lifestyle
- Save money in other vehicles

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**KEY
ACTIVITIES**

Think about how you and your significant other want to spend your time

- **Consider your longevity**
- **Figure out your budget**
- **Define an affordable lifestyle**
- **Consider allocation of investments**
- **Discuss with a trusted advisor**

Bring them all together
for the overall picture
of YOUR retirement.



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OTHER SUGGESTIONS

- Do some homework
- Make a list of things you have always wanted to do
- Maintain/Expand your social network
- Volunteer
- Come up with a new structure for your days and be prepared to revise it

Dychtwald, K. (2015, January 20). Avoid the shock: How to ease into retirement. *USA Today*, p. 5B

OTHER SUGGESTIONS

- Do things you've put off doing
- Contemplate getting a new job
- Get fit
- Stay mentally alert
- Think of retirement as a period of trial and error

Dychtwald, K. (2015, January 20). Avoid the shock: How to ease into retirement. *USA Today*, p. 5B

Estate taxes may apply. Also, earnings may be subject to tax if the employee dies prior to 5 year period described above.