Principal®

Retirement income planning

Build your business with retirement income planning

Everyone approaches retirement with different expectations. Some will want to travel. Others will want to spend time with family and friends. Still others will want to embrace long neglected hobbies or interests.

Clients will come to you wanting to know if they can live the kind of retirement they want. They'll rely on you to help them put all the pieces together—how to use what they've saved to create the retirement they want.

But retirement is about more than just figuring out how to make the numbers work. Retirement is emotional for people. They may be excited about the freedom retirement offers, but also apprehensive about leaving their social network behind at work. And frankly, they may be afraid.

As a financial advisor, you have a unique opportunity to help people through this vulnerable time. Sure, they need your financial advice. But they might just need you to tell them that they'll make it through this. That you've helped them create a plan that will allow them to live the best life possible in retirement.

The retirement market keeps growing[1]

2016
10,000 Americans reached age 65 everyday

2021
11,000 Americans reaching age 65 everyday

2015
49.5 million retirees

2035
78 million retirees

2015
$13 trillion retirement income market

2025
$25 trillion retirement income market

[1] LIMRA Secure Retirement Institute analysis of 2013 *Survey of Consumer Finances*, Federal Reserve Board, 2014. The retirement income market size estimate reflects consumers aged 25 or over, and households with assets between $50k and $4.9 million.

The changing retirement landscape

For many of the people coming to you for help, the retirement they'll face is a new frontier—for them and you.

Many of the factors past generations have relied on are changing. And you'll need to help them adapt their plan. Consider the following:

- **Many of us are living longer than ever, so your clients will likely spend more years in retirement than previous generations.** On average, people retiring today can expect to live almost 20 years in retirement.[3]
- **Less than 22% of American workers will receive income from an employee pension plan**.[4]
- On average, **Social Security only replaces about 40% of a person's current income**.[5]

More than ever before, the responsibility of saving for retirement has shifted to the individual. And for people who have saved for years, the idea of now spending their savings can be hard. They don't know how much they can spend and they worry about running out. They know they need advice on how to do it. What they want is a plan.

People know that having a written retirement income plan gives them accountability. In fact, 7 out of 10 households feel very prepared and more secure with a retirement income plan in place.[6] Unfortunately, even when retirees are working with an advisor, only 35% of them have a formal written retirement income plan.

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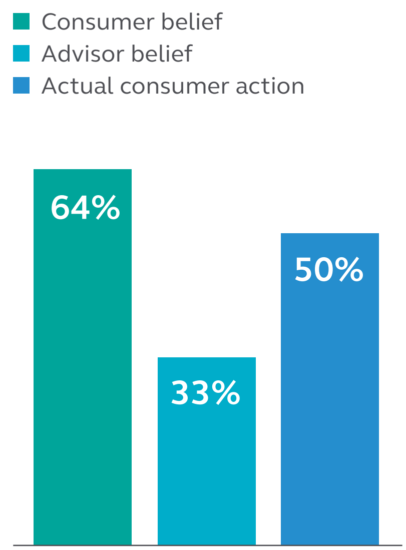
Did you know?



According to a recent study, 64% of consumers believe they need to develop a retirement income plan **5 or more years before they actually retire**. Only 33% of advisors felt the same.[2]

[2] Greenwald & Associates, *The Diversified Services Group Retiree Insights 2017 Survey of Consumers.*

[3] Cdc.gov; Health, United States, 2015.

[4] Federalreserve.gov; 2015 Report on the Economic Well-Being of U.S. Households in 2014.

[5] https://www.ssa.gov/planners/retire/r&m6.html; *Learn About Social Security Programs.*

[6] *Dear Advisor*, LIMRA Secure Retirement Institute, 2017.

How to create a retirement income plan

Step 1: Envision goals

No two individuals picture retirement in quite the same way.

When you talk with your clients, ask them how they envision their retirement. What have they been dreaming about for the last 40 years? How do they want to spend their time? What do they want to spend their money on?

Being prepared for retirement is about so much more than just being financially prepared. For many people it's an emotional experience.[7] They want to feel relevant, so they need to think about what activities will replace the void left by the absence of work responsibilities and relationships.

Retirement can be an emotional time for people, and not everyone welcomes it. Here are a few thoughts from people recently retired or getting ready to.

What happens when the paycheck ends?

Research shows that one of the biggest pain points for clients transitioning to retirement is the emotional aspect of not having a paycheck, and not knowing how much they can withdraw from their savings.[7] Putting an income plan in place can help answer many of their questions about retirement income.

Benefits to your clients

Retirement income planning can help clients:

- Make better decisions by increasing their knowledge of retirement risks.
- Know what assets, income sources and expenses influence their financial situation.
- Feel confident in their spending strategy.

[7] Greenwald & Associates, *The Diversified Services Group Retiree Insights 2017 Survey of Consumers*.

"I'm going to spend the next three years getting emotionally prepared for retirement."

"I wanted to keep working, but they said no, you deserve to retire. But, I wish I hadn't."

"I retired because my family thought I worked enough and I should retire. Was I prepared emotionally? Absolutely not."

Get started

Don't wait until the last minute to start the conversation. Even if your client is 5 to 10 years away from retirement, you can suggest these key planning points to start the process:

- **Consider hobbies and what daily life will look like**
- **Estimate a retirement age**
- **Estimate lifestyle goals and expenses in retirement**
- **Examine their investing approach**—are they earning enough without putting their savings at risk?
- **Taking advantage of 401(k) and IRA catch-up contributions** (if over 50)
- **Review/update beneficiaries**
- **Protect assets with adequate insurance** (life, disability, long-term care, etc.)

Benefits to you

Retirement income planning can help you:

- Differentiate yourself as a retirement income planning expert.
- Build rapport and strengthen client relationships.
- Identify opportunities to match products to specific retirement income needs.

Step 2: Determine expenses

Once you and your client have established a vision for their retirement, it's time to find out how they're going to pay for it. It's time to create a budget.

A budget helps them itemize and estimate expected expenses they'll have throughout retirement.

Clients can categorize expenses into one of two buckets: essential or discretionary. They can also think of these as "must haves" and "want to haves." Once a preliminary budget has been created, walk through the final numbers with your client to make sure they understand the differences between each bucket, as well as where cuts can potentially be made.

Discuss with your client the annual income they'll need to cover all expenses in retirement. Reinforce that building an income plan is the next step in figuring out how to turn that account balance into a paycheck that can last throughout retirement.

Create a budget

Must haves	Want to haves
Utilities	Travel
Groceries	Consumer goods purchases
Known health care costs	Entertainment
Mortgage or rent	Spending on grandchildren

Step 3: Assess sources of guaranteed income

With a budget in place, it's time to figure out income.

Start with their guaranteed income. This is the steady, reliable income your client can always count on. The term "for sure" income might resonate with your clients.

Most of us can count on Social Security. Pensions and annuities are other sources of for sure income that might be available.

Social Security

Social Security is the source of guaranteed income that most clients will benefit from—but it's also complex. Full Retirement Age, earnings history, work status and tax implications are all factors in deciding when to claim Social Security. Not knowing all the factors involved can affect future income.

Help guide your client through the decision-making process by focusing on:

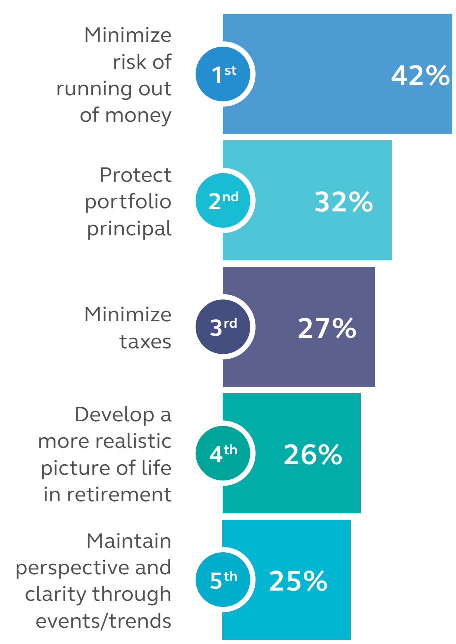
- **How benefit decisions can impact the overall retirement income plan**
- **Questions to ask during the enrollment process**
- **The impact delaying Social Security can have on benefits**
- **How spouses claiming can affect each other**
- **Other special provisions that can help maximize benefits**

Pension plans

While the number of companies offering a pension plan is decreasing, some retirees may still have the guaranteed income it can provide. Understand your client's pension plan so you can make the best recommendations to generate additional income.

Did you know?

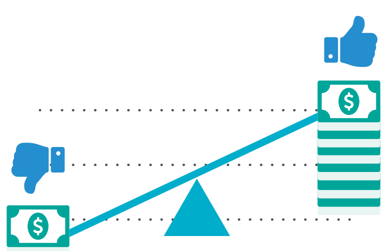
According to a recent LIMRA study, the top 5 most appreciated advisory services from a client's point of view are:[8]



[8] *Dear Advisor…*, LIMRA Secure Retirement Institute, 2017. Pre-retirees' top valued advisor services. Based on three maximum choices.

73% of those who purchase guaranteed lifetime income products say it's very important to their financial security.[10]

Did you know?



Researchers have found that higher levels of guaranteed income in retirement correlate with higher levels of satisfaction in retirement.[11]

Annuities

Annuities are becoming more popular among retirees as the only guaranteed lifetime income they can fund on their own. In fact, monthly guaranteed income is the single most important feature Baby Boomers look for in a retirement investment.[9]

Income annuities can be structured to create a regular paycheck in retirement that your client won't outlive. And variable annuities with a guaranteed income rider can provide market growth potential, downside protection and guaranteed income.

Step 4: Identify assets

Aside from guaranteed sources of income available to your client, you also need to identify all other sources of income they can use to fund their retirement.

This includes retirement plans, IRAs, personal savings and other investments. It might also include rental property or income from a part-time job. Keep in mind, your clients may have some savings earmarked for things like charitable giving and inheritance. Don't include this in their assets total.

Ask your client the following questions:

- **What assets are available for creating income?**
- **How are the assets allocated?**
- **Are they comfortable with these allocations?**

Retirees usually don't like to take big risks with their money as they have no paycheck to replace income if it's lost. To make sure your client's current asset allocation matches how they feel about investment risk, ask about their risk tolerance. Work with them to make sure their assets are properly diversified to align with their financial goals.

[9] Boomer Expectations for Retirement 2018, Insured Retirement Institute, 2018.

[10] 2018 Guaranteed Lifetime Income Study, Greenwald & Associates and CANNEX, 2018.

[11] http:/hrsonline.lsr.umich.edu.

Step 5: Create and implement the plan

Review your client's expenses, sources of guaranteed income and all assets available to fund their retirement income.

Does their available income cover all their expenses? Is there a gap?

This is where your clients need your expertise. Without a regular paycheck, they need you to show them they're going to be okay. Spending money isn't necessarily fun for retirees. They're worried their money won't last and they don't want to touch their savings. With your plan in place, you can show them exactly what they have, how much they can spend each month, and how sticking to the plan can help them create the retirement income they need.

Now's the time to discuss products. What investment products are appropriate for their situation? Show them how mixing guaranteed and non-guaranteed income sources can help create income security balanced with continued growth and liquidity. Discussing different product allocations can help your clients make the right retirement income decisions that work for them.

Planning leads to sales[12]

At ages
60, 62 & 65

38%	Retirement income plans are done
39%	VA GLWB buyers
38%	DIA buyers
28%	SPIA

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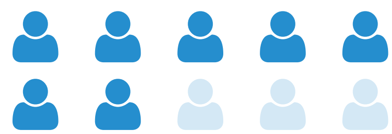
Did you know?



7 out of 10 consumers buy additional insurance or investment products as part of their formal income plan.[13]

As a financial professional, offering retirement income planning pays for itself.

[12] *The Benefits of Retirement Planning,* LIMRA Secure Retirement Institute, 2016, *Variable Annuity Guaranteed Living Benefit Utilization – 2014 Experience*, LIMRA Secure retirement Institute, 2016, Income Annuity Buyer Study (TBP), LIMRA Secure Retirement Institute, 2016.

[13] *Dear Advisor,* LIMRA Secure Retirement Institute, 2017.

Withdrawal strategies for creating retirement income

Here are three common strategies for spending in retirement. The one that works for your client will depend on their goals and risk tolerance.

1 Systematic withdrawal

This strategy is designed to withdraw a safe percentage of money each year to cover both needs and wants. Your client's overall portfolio balance is multiplied by the safe withdrawal percentage to determine the annual withdrawal considered safe enough to help reduce their chance of outliving savings.

2 Flooring strategy

This strategy addresses needs and wants separately. Guaranteed income (e.g., Social Security, pensions, annuities) is used to pay for "must haves," and other investments are used to cover "want to haves." The flooring strategy ensures that your client's essential expenses can be paid no matter how long they live.

3 Bucket strategy

This strategy breaks up retirement into distinct time periods. Each time period is assigned a bucket, and each bucket represents an amount of money with a time frame for its use. So the assets your client needs for income when they first retire are invested differently than assets they need for future income. Money can transfer between the buckets as needed.

Take action

What seems obvious to you might not be to your client. Make sure they understand the products and strategies you're recommending and why you're recommending them. Discuss topics like:

- What's guaranteed income?
- What products can protect against market risk?
- What are the advantages and disadvantages of different sources of income?
- How can I combine my financial resources to create a retirement income plan?

Step 6: Monitor the plan

Your work isn't done once the plan's created. If your client experiences a major life event, or if their financial situation changes dramatically, you may need to make adjustments. Meet annually to stay on track.

Follow-up meetings should focus on:

- **Life changes since last meeting**
- **Plan priorities**
- **If withdrawals are meeting needs and remain within the plan's guidelines**
- **Any adjustments needed due to fluctuations in the market**
- **Additional action steps that may be necessary to continue or alter movement toward retirement goals**

Keep in mind

Knowing how much income retirees will need isn't a simple answer. While some expenses go down, others—such as medical or long-term care needs—may go up. As you're working with clients, reinforce that for the most part spending needs even out—it's just what they're spending on that changes.

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Did you know?

7 out of 10 households feel very prepared and more secure with a retirement income plan in place.[14]

[14] *Dear Advisor*, LIMRA Secure Retirement Institute, 2017.

Principal Life Insurance Company, Des Moines, Iowa 50392-0001, principal.com

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