WEALTH MANAGEMENT

Morgan Stanley

Preparing for Retirement: What You Need to Know

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A Quick Video to get Things Started:

- http://www.morganstanley.com/articles/goals-based-wealth/

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Why Save?

To build an emergency fund for unexpected expenses
(e.g., car repair, emergency medical care, sudden job loss)

To help achieve your short-term goals
(e.g., travel, personal, luxury items)

To help achieve your long-term goals
(e.g., retirement, down-payment on a house, funding education expenses)

Top Saving Tip: Chase…what does this mean to you?

Reduce stress from your current and future financial situation by saving **early, automatically** and **often.**

Saving Strategies

Pay yourself first

Trim spending by changing your habits

Take advantage of tax benefits

Save now versus later

Build an emergency fund

Save for short-term goals

Save for retirement or other longer-term goals

Pay Yourself First

- Pay yourself first **before** you begin to pay optional expenses and make discretionary purchases
- Treat your savings like any other expense and give it **priority over optional expenses**
- Making **automatic, periodic deposits** to savings accounts and to your employer's retirement plans are examples of ways to pay yourself first

Action – Consider setting up an automatic monthly deposit into a savings or investment account.

Trim Spending By Changing Your Habits

Consider how much you can save annually by cutting out common habits.

Habit: Latte from a popular café

One-time costs: $4.50, **Monthly costs:** $90[1]

Potential annual savings on premium coffees: **$1,080**

Alternative: Bring your own, reduce intake

Habit: Going out to lunch

One-time costs: $10.00, **Monthly costs:** $100[2]

Potential annual savings on eating lunch out: **$1,200**

Alternative: Pack a lunch, reduce frequency

(1) Assumes a daily workday purchase from a popular café (20 coffees per month).
(2) Assumes going out lunch 10 times per month.

Take Advantage Of Tax Benefits

You can potentially save money on taxes with:

- Flexible spending account
- Health savings account
- Commuter account/commuter benefits program
- Employer retirement plan (e.g., 401(k) or 403(b) plan)
- Individual retirement account (e.g., Traditional IRA)
- Education savings account*

Tip – These types of savings accounts allow you to set aside money for specific needs AND may provide a tax saving.

Definition of tax deduction – the amount subtracted from an individual's adjusted gross income to reduce the amount of taxable income (Source: Investopedia)

*The earnings portion of any withdrawals not used for qualified expenses are subject to ordinary income tax and a 10% federal tax penalty.

Save Now Versus Later

If you haven't started saving already, it's never too late. However, the earlier you start saving, the better off you may be.

John, the Late saver: starts saving at age 40 and stops at age 65

$87,500 (amount saved)

$ $

$255,000 (account balance at 65)

Jane, the Early saver: starts saving at age 25 and stops at age 50

$87,500 (amount saved)

$ $ $ $ $ $ $ $

$811,000 (account balance at 65)

Compound Interest

While both saved $87,500 over 25 years, the **early saver** has **$556,000 more** at retirement

Assumptions: both save $3,500/year for 25 years with 8% average return on investment.

Build An Emergency Fund

40% of full time employees earning $100,000 or more doubt they would be able to meet their basic expenses if they were out of work for an extended period of time.[1]

Medical costs?

Home repair?

Car costs?

Loss of income?

Life is unpredictable

Savings act as an **important buffer** to limit the impact of unexpected life costs.

Action – Create an emergency fund covering 6 months of expenses and contribute to it regularly.

[1]*Source:* Employee Financial Wellness Survey, *PwC*, 2014.

Save For Short-Term Goals

- Identify your short-term **savings goal(s)** (e.g., car, vacation, deposit for a house)
- Set a realistic **goal amount ($)** and **target date** to achieve the goal
- Determine how much you will need to **save each month** to meet your goal
- Consider different **saving strategies**
- **Stay focused**

Savings goal	How much do you need?	How much have you saved?	Timeline	Savings required per month	Possible Saving strategies
Taking a vacation	$10,000	$0	3 years	$278	• Auto deposit a portion of pay into a saving or investment account • Postpone other intermediary trips • Trim your spending on non-essentials

Tip – To achieve your saving goals, be proactive about calculating how much you will need to set aside each month and how much you can actually afford.

Save For Long-Term Goals

Your income needs will most likely change in retirement.

You may need **less** for:

- Home mortgage
- Savings for retirement
- College tuition
- Commuting expenses

You may need **more** for:

- Medical costs
- Long-term care
- Travel
- Leaving something for others

Tip – As a general rule of thumb, plan to replace 70% to 80% of your pre-retirement income during retirement.

Preparing for Retirement

- Envision the Next Chapter
- Understand the Risks
- Develop a Plan

Envisioning the Next Chapter

How You Want to Spend Your Retirement Years

Your Idea of Retirement

- What does retirement mean to you?
- Picture collecting your last paycheck. How old will you be? What will you spend it on?
- What are your feelings about possibly working in retirement?
- Do you feel healthy? Are there any reasons you would not assume normal life expectancy?
- Have you thought about long-term care arrangements and how you will pay for it?
- Are your parents currently alive? Do you expect you will need to help them out?
- Are there charities you would like to support?
- How would you like family and friends to remember you?

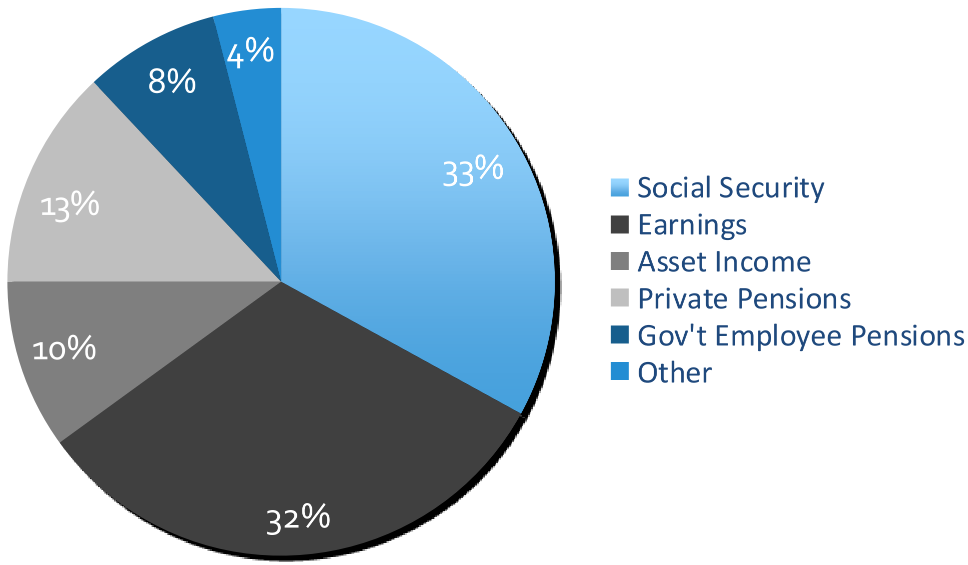
Target a Retirement Date – But Stay Flexible

Delaying can have a big impact

- Higher Social Security benefits
- Ability to keep making retirement plan contributions
- Continued growth potential for existing savings
- Shortens the time retirement savings must last

Where Will Your Retirement Income Come From?

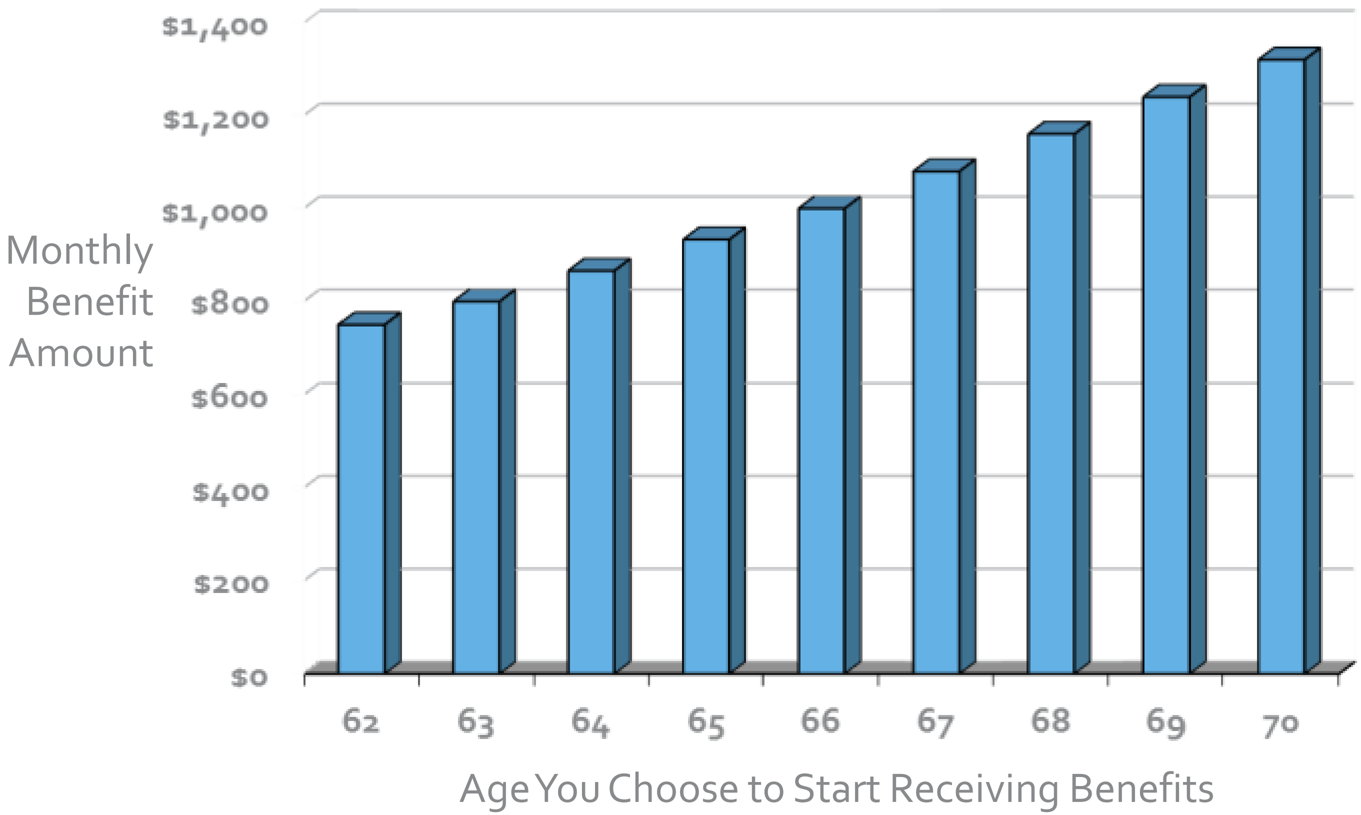
- Social Security
- Pension
- Working in retirement
- Rental income
- Inheritance
- Retirement plan distributions
- Investment income
  - Interest
  - Dividends
  - Appreciation
  - Principal



Source: Fast Facts & Figures about Social Security, 2016

It Can Pay to Delay Social Security

Your monthly Social Security benefits can vary substantially depending on when you elect to start receiving benefits. The chart assumes a benefit of $1,000 at a full retirement age of 66.



Data: *When to Start Receiving Retirement Benefits*, www.ssa.gov/pubs/EN-05-10147.pdf

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What Will You Be Paying For?

Budget Worksheet

		Essential	Discretionary
Housing	Mortgage/Rent/Condominium Fees		
	Property Taxes		
	Utilities		
	Homeowner's Insurance		
	Household Maintenance		
Food	At Home (Groceries)		
	Dining Out		
Transportation	Vehicle Purchases or Lease Payments		
	Auto Insurance & Taxes		
	Fuel and Maintenance		
	Public Transportation		
Health Care and Insurance	Co-pays, Deductibles, Medical Services		
	Medicare / Medigap Premiums		
	Drugs and Medical Supplies		
	Dental, Hearing, Vision		
	Life Insurance		
	Long-term Care Insurance		
	Disability Insurance		
Personal Care	Clothing		
	Products and Services (haircuts and dry cleaning)		
Other	Gifts/Charitable Contributions		
	Entertainment/Recreation		
	Travel/Hobbies		
	Family Care (Parents and Children)		
	Income Taxes		
Total Estimated Retirement Expenses			

What Assets Will Be Available To Fund Your Retirement?

Net Worth Worksheet

Financial Assets

- Cash
- Taxable Fixed Income
- Tax-free Fixed Income
- Stocks
- Other

Total $ _______

Retirement Assets

- 401(k)
- Pension Plans
- IRAs
- Insurance Policies
- Other

Total $_______

Personal Assets

- Homes
- Vehicles
- Jewelry
- Other Property

Total $ _______

Liabilities

- Mortgages
- Credit Card
- Other Loans

Total $ _______

Total Assets - Liabilities = Net Worth

How Will Your Spending Change Over Time?

Will your spending stay the same for 30 years or more?

Break your expected spending into three phases

- **The active phase (First 8 – 12 years)**
  - Spontaneous desires requiring cash flow (uneven needs for income)
  - Relatively healthy period
- **The deceleration phase (Next 8 – 12 years)**
  - Spending may level out, usually lower income needs
  - Becoming less active
  - Creating family memories
- **The maintenance phase (Last 8 – 12 years)**
  - Generally steady cash flow needs
  - Income needs may rise as health care costs increase
  - Possible long-term care expenses

Understanding the Risks

Challenges to achieving a successful retirement

Potential Pitfalls

- Longevity Risk – Planning for a longer-than-expected life
- Inflation Risk – Preserving purchasing power over time
- Market Risk – Timing of a bear market
- Asset Allocation Risk – Managing a portfolio with multiple objectives
- Spending Risk – Funding your lifestyle without depleting your portfolio
- Health Care Costs – Catastrophic illness or long-term care
- Family Responsibilities – Aging parents and "boomerang" children
- Decline in Guaranteed Income – Uncertainty of traditional retirement income sources

Longevity Risk (Risk of Outliving Your Money)

- Life expectancy numbers are an average, meaning some people will die prior to their life expectancy and some will live beyond it.

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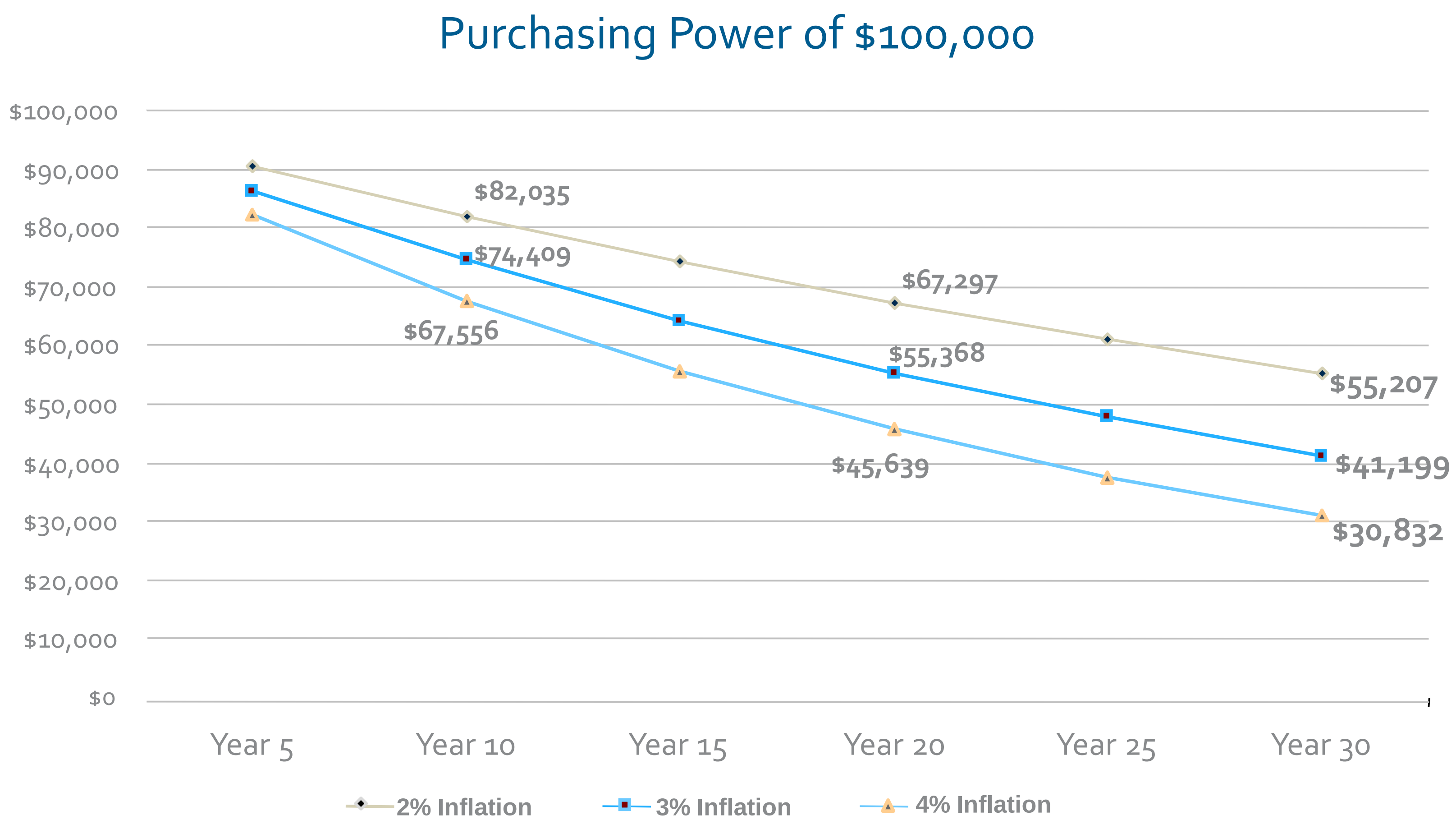
Inflation Risk



For illustrative purposes only.

Market Risk (Risk of Bad Timing)

Market risk or the risk of bad timing is important, as once we begin to draw on our savings the timing of returns may have a significant effect on our portfolio.

Portfolio A

	Portfolio Value (start at $1 million)	Return
Year 1	$736,960	-21.60%
Year 2	$552,195	-18.14%
Year 3	$525,747	7.89%
Year 4	$515,995	12.60%
Year 5	$406,617	-8.79%
Year 6	$386,630	15.89%
Year 7	$334,574	7.68%
Year 8	$270,750	5.92%
Year 9	$201,576	6.86%
Year 10	$127,633	9.86%
Year 11	$44,455	14.52%
Year 12	$0	19.93%
Year 13	$0	16.70%
Year 14	$0	14.41%
Year 15	$0	20.54%

Average annual return = 6.12%

Portfolio B

	Portfolio Value (start at $1 million)	Return
Year 1	$1,133,076	20.54%
Year 2	$1,224,960	14.41%
Year 3	$1,353,795	16.70%
Year 4	$1,542,664	19.93%
Year 5	$1,686,275	14.52%
Year 6	$1,772,345	9.86%
Year 7	$1,812,800	6.86%
Year 8	$1,836,488	5.92%
Year 9	$1,889,110	7.68%
Year 10	$2,090,321	15.89%
Year 11	$1,825,574	-8.79%
Year 12	$1,951,591	12.60%
Year 13	$2,001,930	7.89%
Year 14	$1,556,998	-18.14%
Year 15	$1,139,228	-21.60%

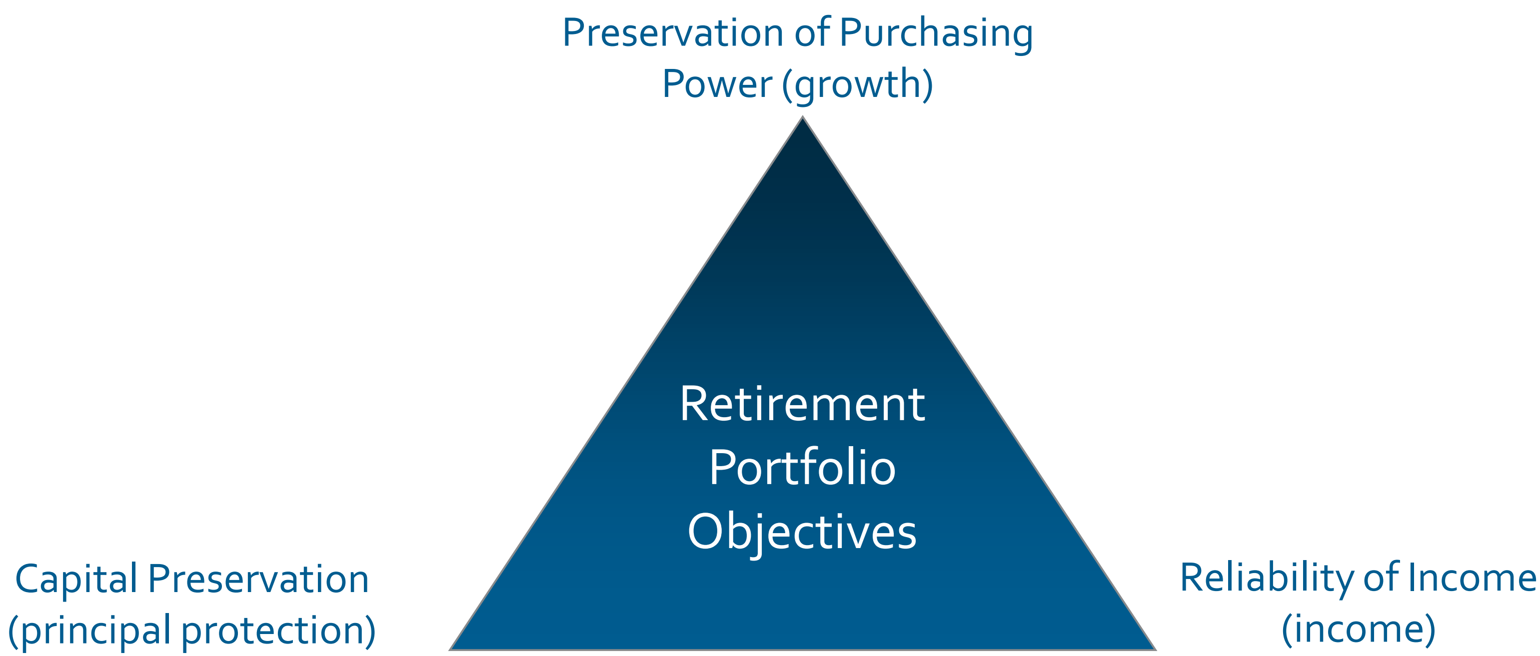
Average annual return = 6.12%

HYPOTHETICAL ILLUSTRATION. Not Representative of Any Specific Investment.

Data: Morgan Stanley. For illustrative purposes only. Assumes annual withdrawal of 6% (indexed for inflation at 4% per year). Assumes withdrawals are taken on first of every year. Portfolio value as of December 31st. Past performance is no guarantee of future results. Actual results may vary. Neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. These strategies do not guarantee a profit or protect against loss and may not be suitable for all investors.

Asset Allocation Risk

- Too much stock can expose portfolio to bear market risk and loss of capital and income
- Too much cash and fixed income can expose portfolio to inflation risk and limit upside potential



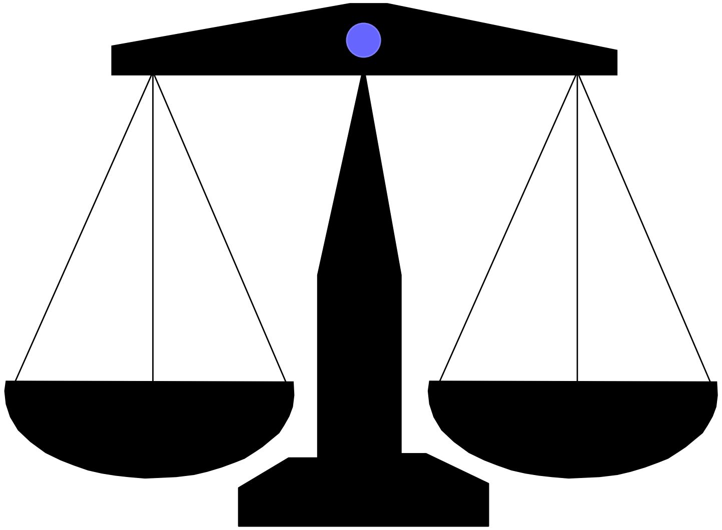
Spending Risk

Excessive withdrawals can exhaust a portfolio too soon

On the other hand, being too conservative may cause you to unnecessarily sacrifice a higher standard of living in retirement

Withdrawal rate should be based on:

- Life expectancy
- Asset allocation
- Retirement date
- Portfolio value



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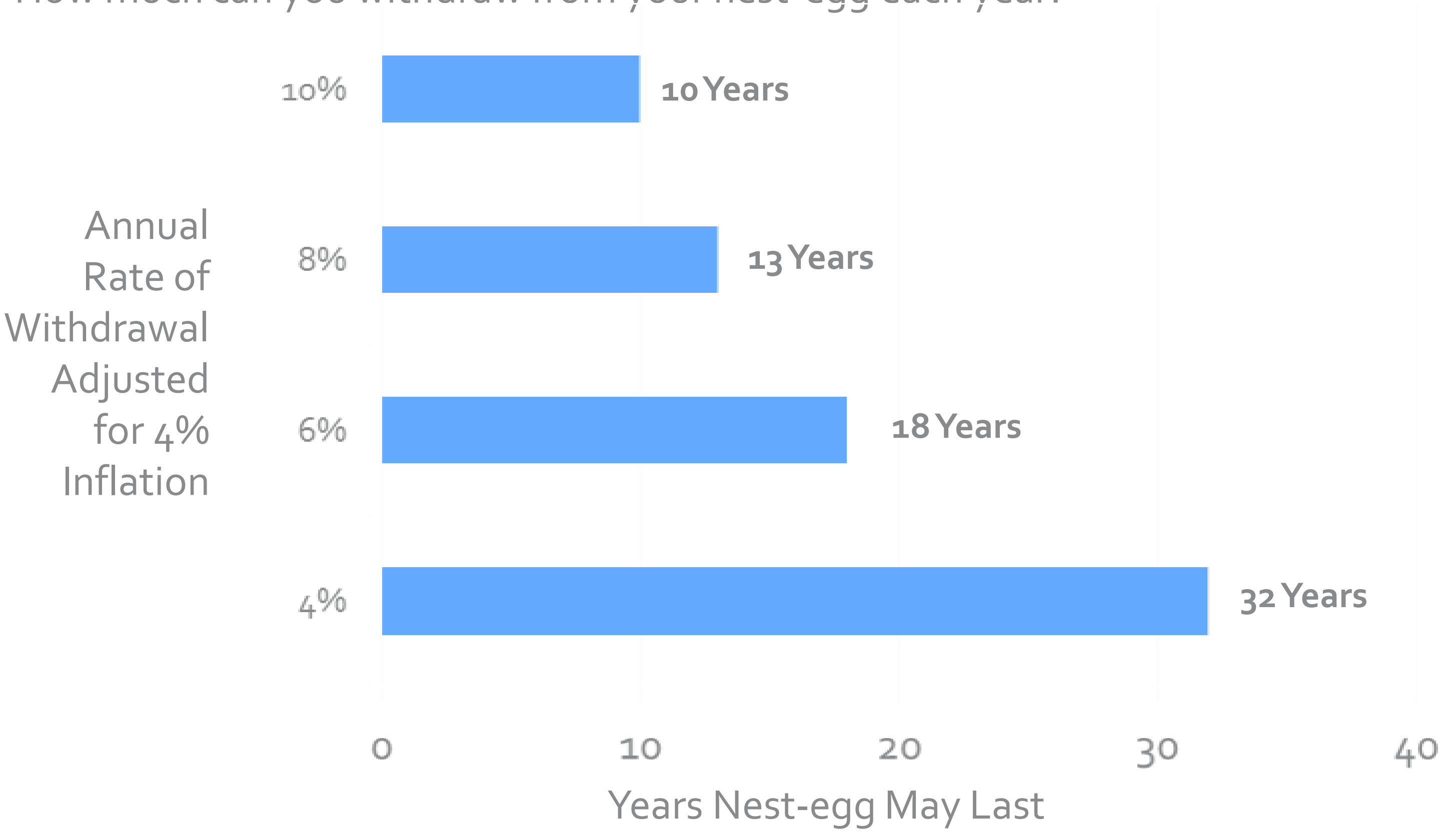
Retirement Planning: Withdrawal Rates

How much can you withdraw from your nest-egg each year?



Source: Morgan Stanley. Hypothetical illustration of withdrawing varying percentages annually from a retirement account. Assumes a 6% annualized rate of growth in the account, a 4% rate of inflation applied to the withdrawal amounts and a distribution of the entire needed amount in the final year. Past performance is no guarantee of future results. Actual results may vary. Neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. These strategies do not guarantee a profit or protect against loss and may not be suitable for all investors.

Health Care Costs

- Retiree medical costs rising faster than general inflation
- Declining retiree medical coverage by employers
- Possible shortfall ahead for Medicare and Medicaid
- 70% of Americans turning age 65 can expect to use some form of long-term care during their lives[1]

[1] Data: U.S. Department of Health and Human Services - http://longtermcare.gov/the-basics/who-needs-care/ (accessed January 6, 2017)

Family Responsibilities - "The Sandwich Generation"

Responsibilities for children <u>and</u> parents can be a burden

Uncertainty of Traditional Retirement Income Sources

Pension plans in decline

Fate of Social Security uncertain

- The "normal" retirement age for Social Security has risen from 65 for those born in 1937 and before, to 67 if you were born in 1960 or later.[1]

[1] Source: Social Security Administration Website - http://www.ssa.gov/retire2/retirechart.htm (accessed January 6, 2017)

It's Never Too Late to Develop a Retirement Strategy

- Envision: the kind of lifestyle you enjoy, what you want to accomplish, what worries you, what you're passionate about
- Prepare: a written retirement strategy that addresses your retirement income and cash flow needs, investments, borrowing, asset protection and other areas of your financial life
- Implement: your retirement strategy with an objective approach, paying special attention to how the various parts of your strategy affect, enhance and integrate with each other

Retirement Planning: Income Replacement

How much will you need to support yourself (and any dependents) through the rest of your life?

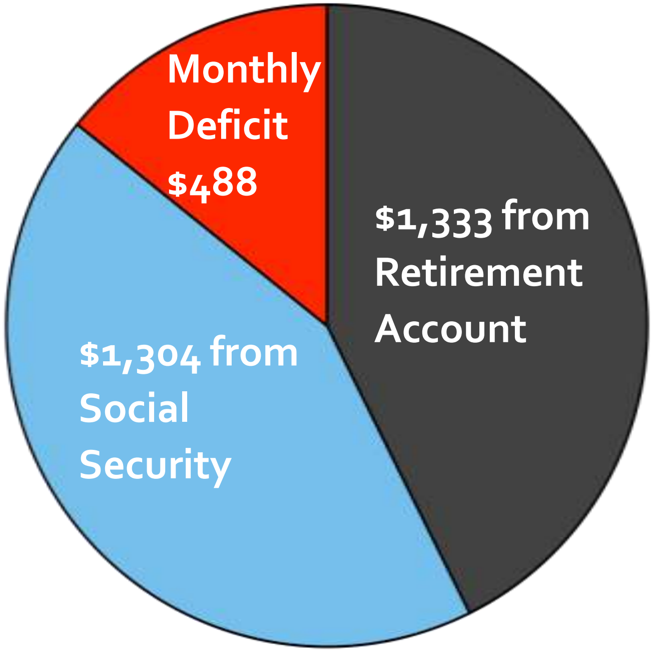
For example:

- Will a nest-egg of $400,000 generate enough income each year at a 4% withdrawal rate?
- 4% of $400,000 is $16,000 distributed in the first year.
- Would this amount (adjusted annually to keep up with inflation), combined with Social Security and any other sources of income be enough to replace about 75% of your current income?

Retirement Planning: Sustaining Your Lifestyle

How much money do you need to fund 75% of your current lifestyle? Assume a pre-retirement annual income of $50,000 and a retirement nest-egg of $400,000.

- 75% of $50,000 = $37,500 or $3,125 monthly
- Distribute 4% from retirement account annually = $1,333 monthly (first year)
- Social Security = $1,304 monthly (retiring at age 66)
- Monthly deficit = $488



Source: Morgan Stanley. Hypothetical illustration of sources of income in retirement. Social Security Benefits estimated from Social Security Quick Calculator at Social Security website; calculated using $50,000 current earnings, age 66 in 2016 at retirement, using "Today's Dollars". Neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. These strategies do not guarantee a profit or protect against loss and may not be suitable for all investors.

Takeaway Questions

You may be wondering:

- Am I on track with my investments to reach my goals?
- Which savings options make sense for me?
- If I'm already maxing out my 401(k), what other options do I have for retirement?
- What should I do with that 401(k) I have from my last job?
- How can I save for college expenses?
- How can I balance saving for all my different goals (retirement, college costs, caring for a parent etc.)

Action – When you're making truly important decisions about saving and financial planning, you want advice you can trust. So let's have that conversation. Contact Morgan Stanley.

Next Steps – Pre-retirement Checklist

- Establish a retirement income plan
- Create a cushion for financial emergencies and bear markets
- Talk to your employer about your post-retirement benefits
- Check on your Social Security benefits
- Update and execute all beneficiary forms, estate documents and powers of attorney
- Budget for health care and long-term care needs
- Consider reducing debt
- Review life insurance policies

Your Financial Advisor Team:

Your Personal Advisors should provide:

- Access to intellectual strength and global resources
- Unbiased advice
- They include your: Financial Advisor, CPA, Attorney
- They will help you design financial solutions that address your specific needs and goals

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