

# Principles for a successful retirement

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Using Insights to achieve better client outcomes



## TAKE CONTROL OF YOUR RETIREMENT

ACHIEVING YOUR RETIREMENT GOALS TAKES DISCIPLINED SAVING, SPENDING AND INVESTING – ALL OF WHICH CAN FEEL OVERWHELMING, ESPECIALLY AS THE RETIREMENT LANDSCAPE CONTINUES TO CHANGE. IT'S TIMES LIKE THESE WHEN A FINANCIAL ADVISOR CAN HELP YOU FOCUS ON WHAT MATTERS MOST TO YOUR FINANCIAL FUTURE. THIS BOOKLET CAN HELP TOO. IT USES SLIDES FROM OUR AWARD-WINNING *GUIDE TO RETIREMENT* TO PRESENT SEVEN ESSENTIAL RETIREMENT PLANNING PRINCIPLES. TOGETHER WITH GUIDANCE FROM YOUR ADVISOR, IT CAN GIVE YOU THE CONTROL AND CONFIDENCE TO MAKE MORE INFORMED DECISIONS AND TAKE POSITIVE STEPS TOWARD A SUCCESSFUL RETIREMENT.

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# PRINCIPLES FOR A SUCCESSFUL RETIREMENT

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- 1 CREATE THE PLAN YOU NEED FOR THE RETIREMENT YOU WANT
  - 2 PLAN FOR A LONG LIFE
  - 3 MAKE AN INFORMED DECISION ABOUT SOCIAL SECURITY
  - 4 KNOW WHAT TO EXPECT WITH HEALTH CARE COSTS
  - 5 USE TIME TO YOUR ADVANTAGE
  - 6 MINIMIZE TAXES TO MAXIMIZE YOUR RETIREMENT
  - 7 DON'T SPEND TOO MUCH OR INVEST TOO CONSERVATIVELY
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# 1

## CREATE THE PLAN YOU NEED FOR THE RETIREMENT YOU WANT

### Define your goal and craft a plan

Deciding when and with what lifestyle you want to retire is half the battle. Once you know where you're heading, a comprehensive retirement plan is like any good GPS. It helps you get and stay on track to your destination—even as your life, the markets and economy change.

### Get started—know your checkpoint

A retirement plan doesn't have to be daunting—it's important to just get started. The retirement savings checkpoint tells you how much you should have invested today to be on pace toward maintaining your current lifestyle through 30 years of retirement. To see your checkpoint, simply find the box on the chart where your current age and annual household income intersect. Then multiply that number by your income.

**Example:** A 40-year-old earning \$100,000 should have \$260,000 in retirement savings (\$100,000 x 2.6). If you're below your checkpoint today or have a very different vision for your retirement tomorrow, work with a financial advisor to adjust your plan. Be sure to review and update it annually.

Current Age	\$30,000	\$50,000	\$75,000	\$100,000	\$150,000	\$200,000	\$250,000	\$300,000
	Checkpoint (x current household income)							
30	-	0.4	1.1	1.3	1.8	2.1	2.3	2.4
35	0.3	0.8	1.6	1.9	2.4	2.8	3.1	3.2
40	0.6	1.2	2.2	2.6	3.2	3.7	4.1	4.2
45	1.0	1.8	3.0	3.4	4.2	4.8	5.3	5.5
50	1.5	2.5	3.9	4.5	5.4	6.2	6.7	7.0
55	2.1	3.3	5.1	5.7	6.9	7.9	8.5	8.8
60	2.9	4.3	6.5	7.3	8.8	9.9	10.7	11.1
65	3.9	5.6	8.4	9.4	11.3	12.7	13.7	14.2

### MODEL ASSUMPTIONS

Pre-retirement investment return: 6.5%

Post-retirement investment return: 5.0%

Retirement age: 65

Years in retirement: 30

Inflation rate: 2.25%

Confidence level represented: 80%

Assumed annual contribution rate: 5%

#### How to use:

- Go to the intersection of your current age and your closest household income.
- Multiply your household income by the checkpoint shown to get the total amount your household should have invested today, assuming you continue to save 5% going forward.
- Example: For a 40-year-old with a household income of \$100,000: \$100,000 x 2.6 = \$260,000.

This chart is for illustrative purposes only and must not be relied upon to make investment decisions. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary long-term capital market assumptions (10-15 years). Household income replacement rates are derived from an inflation-adjusted analysis of: Consumer Expenditure Survey (BLS) data (2011-2014); Social Security benefits using modified scaled earnings in 2016 for a single wage earner at age 65 and a spousal benefit at age 62 reduced by Medicare Part B premiums; and 2016 OASDI and FICA taxes. Households earning \$30,000 will need to replace at least 16% of their pre-retirement income; \$50,000 23%; \$75,000 34%; \$100,000 38%; \$150,000 45%; \$200,000 51%; \$250,000 55%; \$300,000 57%. The income replacement needs may be lower for households in which both spouses are working and the second spouse's individual benefits are greater than their spousal benefit. Single household income replacement needs may vary as spending is typically less than a two-spouse household; however, the loss of the Social Security spousal benefit may offset the spending reduction. Consult with a Financial Advisor for a more personalized assessment. 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 allocation preferences. 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.

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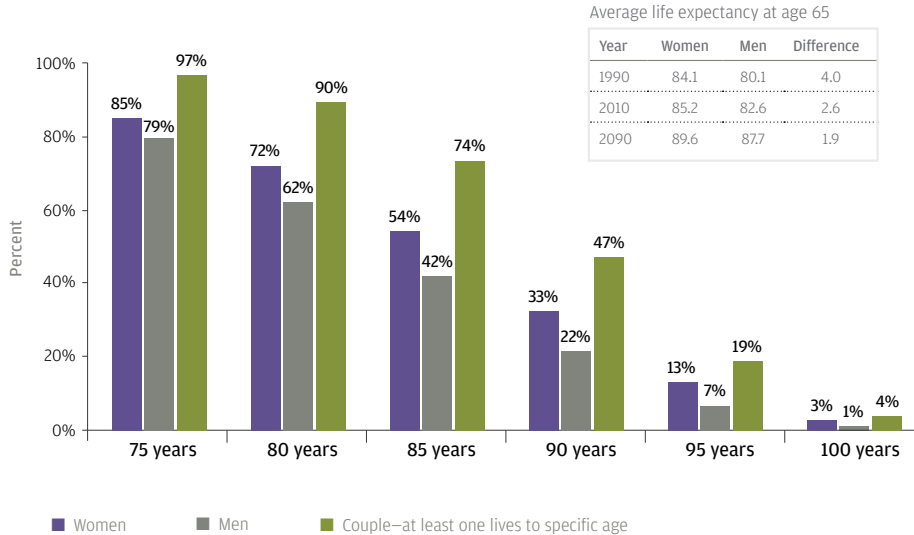
## PLAN FOR A LONG LIFE

### **The longer you live, the longer your investments must last**

At least one member of a 65-year-old couple now has a 90% chance of living to 80 or beyond, a nearly 50/50 chance of reaching 90 and a one-in-five chance of turning 95 or older. Living longer affects key retirement decisions such as how to make the most of your time, how to invest, when to claim Social Security and whether you might need long-term care.

If you're in good health at 65 and have a family history of longevity, your retirement plan should conservatively account for 30 or more years of living expenses. That means your investments need to continue growing long after you stop working to keep pace with inflation and reduce the risk of outliving your money.

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



Average life expectancy at age 65

Year	Women	Men	Difference
1990	84.1	80.1	4.0
2010	85.2	82.6	2.6
2090	89.6	87.7	1.9

### COUNT ON LONGEVITY

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

Chart: Social Security Administration, Period Life Table, 2011 (published in 2015), J.P. Morgan Asset Management.  
 Table: Social Security Administration 2015 OASDI Trustees Report.

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## MAKE AN INFORMED DECISION ABOUT SOCIAL SECURITY

### **Social Security pays you more for waiting**

Social Security benefits are permanently reduced by as much as 25% when started before full retirement age (currently 66) and are permanently increased by as much as 32% when started after. Should you take smaller amounts sooner? Or wait for larger amounts later and rely on your portfolio in the meantime? If your goal is to maximize your cumulative benefit, the answer depends on how long you live. You would receive more in total at age 75 by claiming at 66 rather than 62, and at age 80 when choosing between 66 and 70.

### **The odds of receiving more by waiting are in your favor**

Because of the relatively high probability of living to 75 and 80, delaying Social Security often pays off in the long run—especially if your portfolio gives you that flexibility.



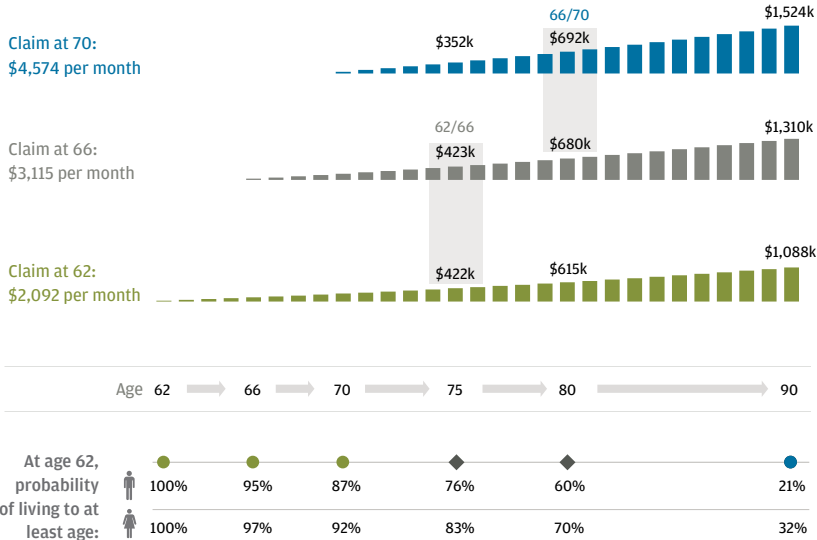
## Cumulative benefit by claim age

■ Breakeven age

Claim at 70:  
\$4,574 per month

Claim at 66:  
\$3,115 per month

Claim at 62:  
\$2,092 per month



### 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.

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

Assumes maximum benefits are received for individuals born in 1954 and turning 62 and 1 month, 66 and 70 and assumes the benefit will increase each year based on the Social Security Administration 2015 Trustee's Report "intermediate" estimates (starting with a benefit increase of 3.1% in 2017 and 2.7% thereafter). Monthly amounts without the cost of living adjustments (not shown on the chart) are: \$2,092 at age 62; \$2,788 at age 66; and \$3,680 at age 70. Breakeven age for choosing between claiming at 62 and 70 is age 78. Life expectancy per Social Security Administration and J.P. Morgan analysis.

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## KNOW WHAT TO EXPECT WITH HEALTH CARE COSTS

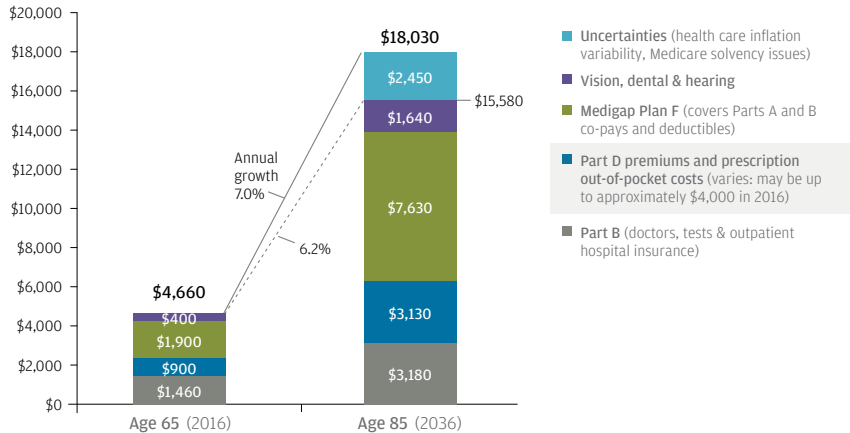
### Plan on rapidly rising expenses

Medical expenses tend to rise sharply throughout retirement as we grow older and require more care at higher prices. Out-of-pocket costs for an average 65-year-old retiree on traditional Medicare are projected to more than triple from around \$4,600 this year to \$18,000 by age 85.

These costs are averages *per person* and do not include most long-term care. Costs may be much higher if you have expensive prescriptions. And you'll pay more in Medicare premiums if your income is higher.

Include health care costs as a separate expense in your retirement plan and assume 7% annual inflation to be conservative. Be sure to assess your long-term care alternatives when you are healthy, or as early as age 50, when the most options are available to you.

## Estimated median health care costs per person



### A GROWING CONCERN

Given the variability of health care costs, it may be prudent to assume an inflation rate of 7.0%, which means that you may need growth as well as current income from your portfolio in retirement.

### 2016 additional premium per person for Modified Adjusted Gross Incomes (MAGI) of:

FILING SINGLE	MARRIED FILING JOINTLY	ADDITIONAL PREMIUM	TOTAL MEDIAN COSTS
> \$85,000 - \$107,000	> \$170,000 - \$214,000	\$737	\$5,397
> 107,000 - \$160,000	> \$214,000 - \$320,000	\$1,855	\$6,515
> \$160,000 - \$214,000	> \$320,000 - \$428,000	\$2,972	\$7,632
> \$214,000	> \$428,000	\$4,091	\$8,751

Notes: In most states, older individuals have higher Medigap premiums. Exceptions: AR, CT, MA, ME, MN, NY, VT and WA have the same Medigap premiums for all ages. Most Medigap policies in AZ, FL, ID and MO will have the same premium for all those who first purchased Medigap at the same age of first purchase. Analysis includes Medigap Plan F (the most comprehensive plan). Parts B and D premiums are calculated from federal tax returns 2 years prior; individuals may file for an exception if they reduce or stop work. Age 85 estimated total median cost in 2016 is \$7,490 (includes more prescription expense and higher Medigap premiums based on age). Modified Adjusted Gross Income (MAGI) is calculated by taking Adjusted Gross Income (AGI) and adding back certain deductions such as foreign earned income, tax-exempt interest, taxable IRA contributions and Social Security payments.

Source: Employee Benefit Research Institute (EBRI) data as of December 31, 2015; SelectQuote data as of December 31, 2015; J.P. Morgan analysis.

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## USE TIME TO YOUR ADVANTAGE

### Save and invest based on your time horizon

All goals are not created equal, so investing for them as one may not be the best plan. Instead, decide how much of your savings to put toward college, retirement and other goals based on your priorities. Next, create an investment strategy that allows you to take on more risk for goals with longer time frames. To keep your strategy on track, be sure to have a short-term fund that can cover emergencies without having to sell your investments during down markets.

### Good things come to those who wait

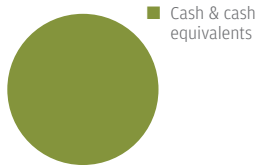
While markets can always have a bad day, week, month or even year, history suggests investors are less likely to suffer losses over longer periods.

This chart illustrates the concept. While one-year stock returns have varied widely since 1950 (+47% to -39%), a blend of stocks and bonds has not suffered a negative return over any five-year rolling period in the past 65 years.

Important disclaimer: Investors should not necessarily expect the same rates of return in the future as we have seen in the past, particularly from bonds, which are starting with very low yields today.

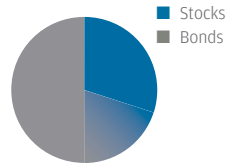
### Short-term needs

3-6 months, e.g. emergencies



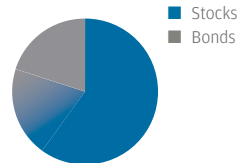
### Medium-term goals

5-10 years, e.g. college, home



### Long-term goals

15+ years, e.g. retirement

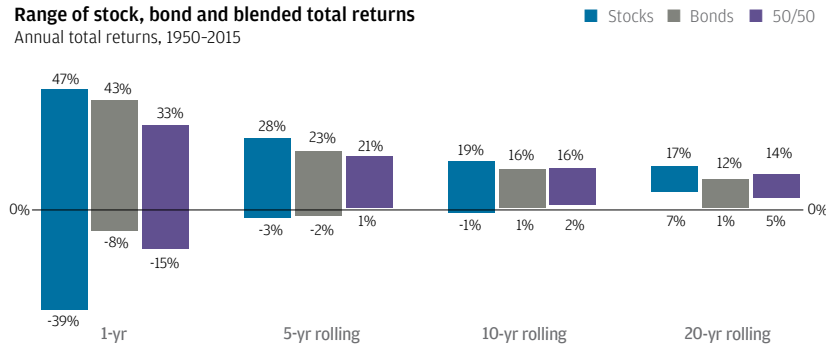


### DIVIDE AND CONQUER

Aligning your investment strategy by goal can help you take different levels of risk based on varying time horizons and make sure you are saving enough to accomplish all of your goals—not just the ones that occur first.

### Range of stock, bond and blended total returns

Annual total returns, 1950-2015



Source (top chart): J.P. Morgan Asset Management.

Source (bottom chart): Barclays Capital, FactSet, Federal Reserve, Robert Shiller, Stategas/lbbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2015. Stocks represent the S&P 500 and Bonds represent Stategas/lbbotson for periods from 1950 to 1980 and Barclays Aggregate after index inception in 1980.

Note: Portfolio allocations are hypothetical and are for illustrative purposes only. They were created to illustrate different risk/return profiles and are not meant to represent actual asset allocation.

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### MINIMIZE TAXES TO MAXIMIZE YOUR RETIREMENT

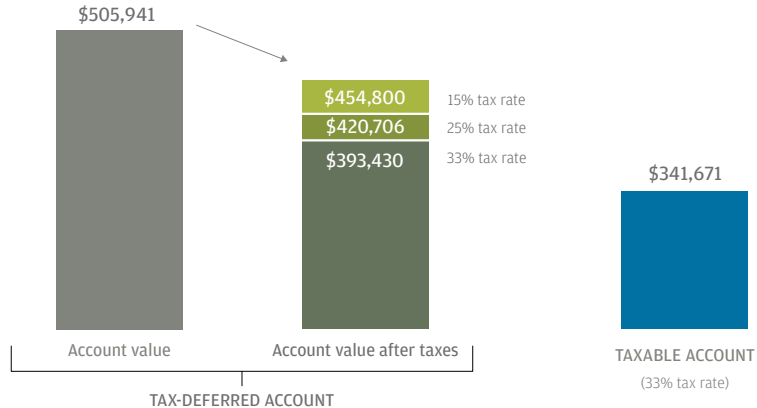
#### Three ways to pay less in taxes and keep more for retirement

Making the most of your retirement means keeping more of your investment returns over time.

1. Optimize savings vehicles by opening tax-advantaged accounts (401(k)s, IRAs, HSAs) and consider diversifying across pre-tax/deductible and Roth options if available to you.
2. Maximize your after-tax return by holding your highest-taxed investments (those generating ordinary income or short-term gains) in tax-advantaged accounts, after funding your emergency reserves.
3. Work with your accountant and advisor to actively manage your tax picture throughout retirement. Your bracket will determine how much of your tax-deferred account balance you're able to keep after paying taxes. Higher incomes can also affect your Medicare premiums and taxability of Social Security benefits. Consider proactive Roth conversions in years when your tax rate is low. Look to offset gains with losses when rebalancing your portfolio or making withdrawals.

## Taxable vs. tax-deferred investing over a 30-year timeframe

Saving



### ASSET LOCATION

Tax-advantaged accounts can shelter income-producing investments from current income taxation and may result in a higher after-tax return and greater long-term growth than taxable accounts.

Source: J.P. Morgan Asset Management. Assumes \$5,500 after-tax contributions at the beginning of each year for 30 years and 6.5% annual investment return that is assumed to be subject to ordinary income taxes (capital gains and qualified dividends are not considered in this analysis). Tax-deferred account balance is taken as lump sum and taxed at the 15%, 25% and 33% federal tax rate, respectively, at time of withdrawal. Taxable account contributions are after tax and assume a 33% federal tax rate during accumulation. This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of fees or expenses. This chart is shown for illustrative purposes only. Past performance is no guarantee of future results.

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## DON'T SPEND TOO MUCH OR INVEST TOO CONSERVATIVELY

### **Be flexible with your retirement income**

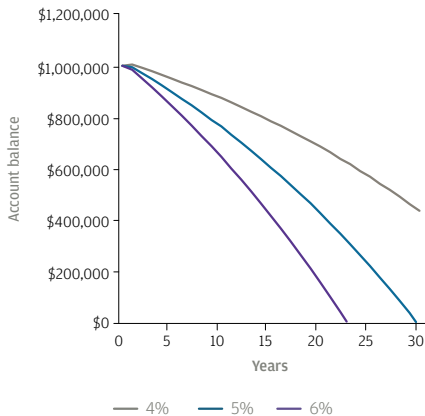
How you invest and how much you can consistently spend in retirement are interdependent. Investing too conservatively puts a portfolio at risk of running out of money at a 4% initial withdrawal rate. Withdrawing 5% or 6% may not be sustainable even with more aggressive portfolios, especially if markets fall during early retirement years.

Instead of holding a static mix of investments or withdrawing a set amount each year, consider a more flexible approach that allows you and your advisor to adjust as circumstances change. This can better reflect how your spending will shift as you age, factoring in the likelihood that you will tend to spend less during down markets and more when your investments recover and enable you to adjust your portfolio as markets and your time horizon evolve.



## Years of sustainable withdrawals for a portfolio for typical markets (50<sup>th</sup> percentile)

Projected outcomes for 40/60 portfolio at various initial withdrawal rates



Projected outcomes for various portfolios at 4% initial withdrawal rate



### 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. Consider a dynamic approach that adjusts over time to more effectively use your retirement savings.

Spending

50th percentile means that 50% of the time you'll have better outcomes. Based on the high percentage of outcomes that tend to be clustered near the median, this may be considered the most likely potential outcome.

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 US Large Cap for equity, Global Aggregate Hedged for fixed income and US Cash for cash, with compound returns projected to be 7.00%, 3.25% and 2.25%, respectively. J.P. Morgan's model is based on J.P. Morgan Asset Management's (JPMAM) proprietary Long-Term Capital Markets 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. 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.



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