Working your book

Retirement income planning

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> By 2029, the retirement income market will grow to **$32 trillion.**

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Build your business with retirement income planning

Everyone approaches retirement with different expectations. Some clients 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. Clients 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 professional, you have a unique opportunity to help people through this vulnerable time. Sure, they need your financial guidance. But clients also might just need you to tell them that they'll make it through this and 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]

2022: 11,000 Americans reached age 65 every day

2055: 13,000 Americans reaching age 65 every day

2019: 55 million retirees

2055: 89 million retirees

2019: $17.5 trillion retirement income market

2029: $32 trillion retirement income market

[1] "The Fact Book on Retirement Income, Sixth Edition," LIMRA, 2022.

The ever-changing retirement landscape

For many of the people who are coming to you for help, their retirement is a new frontier—for them and you.

Many of the factors that past generations have relied upon are changing so new generations need your help in adapting 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.** At 65, the average man can expect to live another 18.2 years, while a 65-year-old woman can expect another 20.8 years.[3]
- **85% of the workforce** in private industry has no access to private pension coverage.[4]
- On average, Social Security only replaces **about 40% of a person's current income**.[5]
- For someone who worked all of their adult life at average earnings and retires at age 65 in 2022, Social Security benefits replace about **37% of past earnings**. Social Security's "replacement rate" fell as the program's full retirement age gradually rose from 65 in 2000 to 67 in 2022.[6]

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 spending their savings can be hard. They don't know how much they can spend and worry about running out. What they want is a plan.

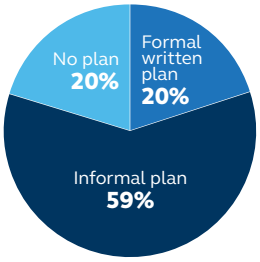
People need help taking the step from wanting a written retirement income plan and having one in place.

Having a formal written plan is strongly linked to confidence—47% of those with a formal written plan are very confident they are saving enough. Only 22% of those with an informal plan and 9% of those with no plan are very confident.[2]

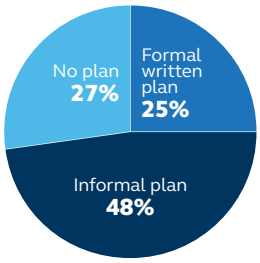
Did you know?

Households with a plan for managing income, assets, and expenses in retirement:

RETIREES[2]



NON-RETIRED WORKERS[2]



[2] LIMRA, Retirement Investors, Key Trends and Opportunities, January 2023
[3] "The Fact Book on Retirement Income, Sixth Edition," LIMRA, 2022.
[4] https://www.bls.gov/charts/employee-benefits/percent-access-participation-takeup-retirement-benefits.html
[5] https://www.aarp.org/retirement/social-security/questions-answers/income-replacement-rate.html, Dec. 2022
[6] https://www.cbpp.org/sites/default/files/atoms/files/8-8-16socsec.pdf

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. Clients need to think about what activities will fill the void left by the absence of work responsibilities and relationships.

Not everyone welcomes retirement. Here are a few thoughts from people recently retired or getting ready to:

"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."

Question your client

What will retirement look like for you (RF2158)

Ask clients to complete this worksheet to get them thinking about how they envision their retirement. Having a conversation with clients around these questions can help you establish their priorities, better matching their retirement income with their retirement plans.

Principal

What will retirement look like for you?

Take a minute to think about your retirement. What do you dream about? Is there anyone who's retirement you admire? Is that lifestyle possible for you? Thinking about how you want to live in retirement will help you set goals to make your vision a reality.

Common goals may include:

Meeting basic expenses | Living a desired lifestyle | Leaving an inheritance/ charitable donation

As you consider your retirement, answer these questions:

How will you know when you're ready to retire?

Who will depend on you in retirement?

How will retirement change your life?

What do you most want to accomplish?

Are there lifelong goals you'd like to achieve?

What do you MOST look forward to in retirement?

What happens when the paycheck ends?

Without a plan, retirees may either overspend or underspend in retirement. By helping them envision the kind of retirement they want, you can help them prepare financially. And the earlier you start, the more flexibility you have to make adjustments to the plan.

Get started

Don't wait until the last minute to start the conversation. Even if your client is five to ten 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?
- ◯ **Take 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.)

Among investors with formal written retirement plans:

- When the financial professional has created the written plan for the client, **the financial professional will tend to manage a higher proportion of assets** than if the written plan was not created with their assistance.[2]
- In addition, as investors stick with their financial professionals, they're **increasingly likely to entrust a higher percentage of assets to their financial professional's discretion**.[2]
- Therefore, financial professionals who are **more engaged with their clients and who engender loyalty from their clients should benefit from greater assets under management**.[2]

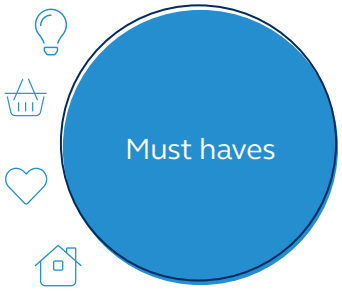
STEP 2: Determine expenses

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.

To start, provide your client with a copy of ***A guide to your retirement income needs*** (RF1958B). This worksheet 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.

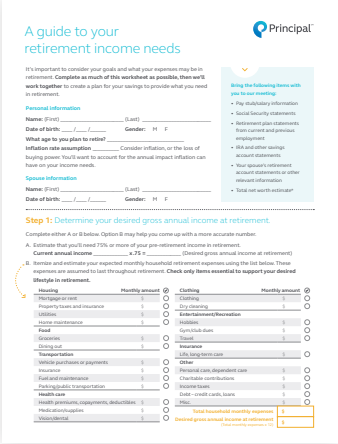


Utilities
Groceries
Known health care costs
Mortgage or rent

Travel
Consumer goods purchases
Entertainment
Spending on grandchildren

Take action

Order ***A guide to your retirement income needs*** (RF1958B). This worksheet can be used with clients to help them create a retirement budget as well as identify their assets and the sources of income available to them.



A guide to your retirement income needs

Principal

It's important to consider your goals and what your expenses may be in retirement. **Complete as much of this worksheet as possible, then we'll work together** to create a plan for your savings to provide what you need in retirement.

Personal information

Name: (First) _____ (Last) _____

Date of birth: ___/___/_____ **Gender:** M F

What age to you plan to retire? _____

Inflation rate assumption _____ Consider inflation, or the loss of buying power. You'll want to account for the annual impact inflation can have on your income needs.

Spouse information

Name: (First) _____ (Last) _____

Date of birth: ___/___/_____ **Gender:** M F

Bring the following items with you to our meeting:

- Pay stub/salary information
- Social Security statements
- Retirement plan statements from current and previous employment
- IRA and other savings account statements
- Your spouse's retirement account statements or other relevant information
- Total net worth estimate*

Step 1: Determine your desired gross annual income at retirement.

Complete either A or B below. Option B may help you come up with a more accurate number.

A. Estimate that you'll need 75% or more of your pre-retirement income in retirement.
Current annual income _____ x .75 = _____ (Desired gross annual income at retirement)

B. Itemize and estimate your expected monthly household retirement expenses using the list below. These expenses are assumed to last throughout retirement. **Check only items essential to support your desired lifestyle in retirement.**

Housing	Monthly amount	✓
Mortgage or rent	$	○
Property taxes and insurance	$	○
Utilities	$	○
Home maintenance	$	○
Food		
Groceries	$	○
Dining out	$	○
Transportation		
Vehicle purchases or payments	$	○
Insurance	$	○
Fuel and maintenance	$	○
Parking/public transportation	$	○
Health care		
Health premiums, copayments, deductibles	$	○
Medication/supplies	$	○
Vision/dental	$	○

Clothing	Monthly amount	✓
Clothing	$	○
Dry cleaning	$	○
Entertainment/Recreation		
Hobbies	$	○
Gym/club dues	$	○
Travel	$	○
Insurance		
Life, long-term care	$	○
Other		
Personal care, dependent care	$	○
Charitable contributions	$	○
Income taxes	$	○
Debt – credit cards, loans	$	○
Misc.	$	○
Total household monthly expenses	$	
Desired gross annual income at retirement (Total monthly expenses x 12)	$	

Take action

Order the ***Working your book: Social Security planning*** kit (RF1871) for tips on how to use Social Security as part of a retirement income plan. The kit includes materials you can use with clients to help explain their options and the possible impact of their choices.

STEP 3: Assess sources of guaranteed income

With an expense budget in place, it's time to figure out where the money's going to come from.

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

Over **eight in 10 of investors** feel that having guaranteed lifetime income provides peace of mind in retirement.[2]

Most of us can count on Social Security. **Seven in 10 retirees** say Social Security is a major source of income in retirement.[7] 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

[2] LIMRA, Retirement Investors, Key Trends and Opportunities, January 2023

[7] https://www.ebri.org/docs/default-source/ebri-issue-brief/ebri_ib_572_spendinginret-6oct22.pdf, EBRI Issue Brief No. 572, October 6, 2022

Pension plans

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

Annuities

Annuities are becoming more popular among retirees as the only guaranteed lifetime income they can fund on their own. They 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.

Did you know?

According to a recent Principal Retirement Security Survey, only 45% of workers are comfortable with the retirement planning process.[8]

Workers' level of knowledge with the following retirement planning tasks:

40% of workers feel knowledgeable about when and how to take Social Security income

27% of workers feel knowledgeable on how to create income in retirement

27% of workers feel knowledgeable on RMDs

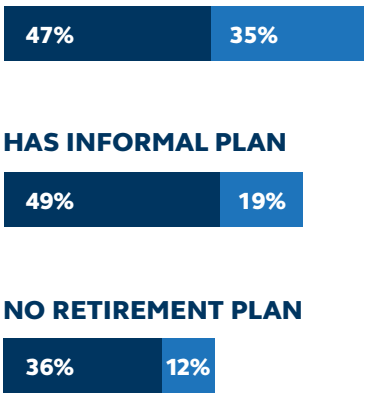
19% of workers feel knowledgeable on guaranteed income strategies

[8] Principal Retirement Security Survey, March 2022

Guarantees are based upon the claims-paying ability of the issuing insurance company.

Did you know?

Clients with a formal written plan are more confident they'll be able to live the lifestyle they want in retirement.[2]



STEP 4: Identify assets

Aside from the 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.

These other sources may include retirement plans, IRAs, personal savings, and other investments. They might also include rental property or income from a part-time job. Keep in mind that your clients may have some savings earmarked for things like charitable giving and inheritance. Don't include these 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 them to complete a risk tolerance questionnaire. Work with them to make sure their assets are properly diversified to align with their financial goals.

[2] LIMRA, Retirement Investors, Key Trends and Opportunities, January 2023

STEP 5: Create the plan

Once you've completed the previous steps, it's time to use all that information to create a retirement income plan.

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. 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 potential and liquidity.

> Discussing different product allocations can help your clients make the right retirement income decisions for them.

Did you know?

Clients level of preparedness for common retirement planning activities:[8]

PLANNING FOR INCOME IN RETIREMENT

PLANNING FOR HOW THEY WOULD SPEND MONEY IN RETIREMENT

RMDS

- Workers
- Retirees

[8] Principal Retirement Security Survey, March 2022

Guarantees are based upon the claims-paying ability of the issuing insurance company.

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. Try using our retirement income solutions handout (RF779) to help 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?

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 amount (or 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 their 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.

STEP 6: Monitor the plan

Your work isn't done once the plan is created. If your client experiences a major life event, or if their financial situation changes dramatically, you may need to help them make adjustments. Meet with clients annually to stay on top of updates.

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:

The answer to how much income retirees will need isn't simple. While some expenses go down, others—such as medical or long-term care costs—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.

How to get started

STEP 1

Contact your wholesaler to request your supply of marketing materials or order online at **advisors.principal.com.**

- ◯ Pre-approach materials
  - Postcard (RFC3367)
  - Email (RF2158A)
- ◯ Approach materials
  - Email (RF2158C)
- ◯ What will retirement look like for you? (RF2158)
- ◯ A guide to your retirement income needs (RF1958B)
- ◯ Understanding the 5 key retirement risks (RF1294)
- ◯ Retirement income solutions handout (RF779)

STEP 2

Connect with prospective or existing clients.

- ◯ Send the pre-approach postcard (RFC3367)
- ◯ Follow up with pre-approach email (RF2158A)

STEP 3

Remind client of upcoming meeting and what to bring.

- ◯ Send approach email (RF2158C)
  - If you want your client to complete worksheets ahead of time, include What will retirement look like for you? (RF2158) and A guide to your retirement income needs (RF1958B)
  - If you need a more detailed budget, send the Household budget worksheet (RF1515)

STEP 4

During initial client meetings, discuss any completed goal or budget worksheets, along with client statements.

STEP 5

Develop the plan and schedule a plan presentation meeting.

- ◯ Use the Retirement income solutions handout (RF779) and Understanding the 5 key retirement risks (RF1294) to support your recommendations
- ◯ Discuss next steps
- ◯ Schedule any necessary follow up meetings

STEP 6

Send a thank-you note; confirm what was decided at the meeting and any action steps.

STEP 7

Meet annually to confirm the plan is still on track.

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

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

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