


Principles for Successful Retirement



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Vivid
Wealth





Seven principles for a successful retirement

- ☐ Create the plan you need for the retirement you want
- ☐ Use time to your advantage
- ☐ Plan for a long life
- ☐ Make an informed decision about Social Security
- ☐ Know what to expect with health care costs
- ☐ Minimize your taxes to maximize your retirement
- ☐ Don't spend too much or invest too conservatively



Retirement savings checkpoints

Household Income >\$100k
Annual Savings Rate: 10%

MODEL ASSUMPTIONS

Annual gross savings rate:
10%*

Pre-retirement investment
return: **6.0%**

Post-retirement investment
return: **5.0%**

Inflation rate: **2.0%**

Retirement age –

- Primary earner: **65**
- Spouse: **62**

Years in retirement: **30**

*10% is approximately twice the
U.S. average annual savings rate

	\$100,000	125,000	\$150,000	\$175,000	\$200,000	\$250,000	\$300,000
Current age	Checkpoint (x current household income)						
25	0.2	0.3	0.5	0.7	0.8	1.0	1.2
30	0.7	0.9	1.2	1.4	1.5	1.8	2.0
35	1.4	1.6	1.9	2.2	2.4	2.7	2.9
40	2.2	2.5	2.9	3.2	3.4	3.8	4.1
45	3.2	3.6	4.0	4.4	4.7	5.2	5.4
50	4.4	4.8	5.4	5.9	6.2	6.8	7.1
55	5.9	6.4	7.1	7.7	8.1	8.7	9.2
60	7.7	8.3	9.1	9.8	10.3	11.1	11.7
65	10.1	10.8	11.8	12.7	13.3	14.3	14.9

How to use:

- This analysis assumes you would like to maintain an equivalent lifestyle in retirement.
- Household income is assumed to be gross income (before taxes and savings).
- Go to the intersection of your current age and your closest current household income.
- Multiply your salary by the checkpoint shown. This is the amount you should have saved today, assuming you continue contributions of 10% going forward.
- Example: For a 40-year-old with a household income of \$100,000: \$100,000 x 2.2 = \$220,000.

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) and an 80% confidence level. Household income replacement rates are derived from an inflation-adjusted analysis of: Consumer Expenditure Survey (BLS) data (2013-2016); Social Security benefits using modified scaled earnings in 2019 for a single wage earner at age 65 and a spousal benefit at age 62 reduced by Medicare Part B premiums. For more details, see slide 15.

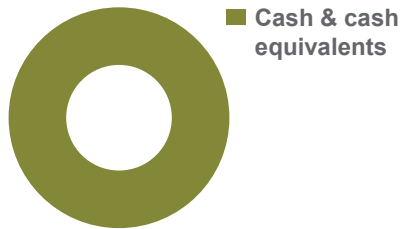
Consult with a financial professional for a more personalized assessment. Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic 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.



Goals-based wealth management

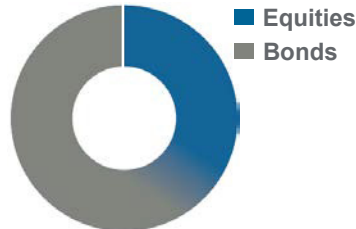
Short-term goals

Includes emergency reserve
fund of total spending needs
for 3-6 months



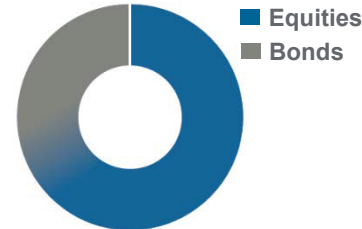
Medium-term goals

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



Long-term goals

15+ years, e.g. retirement

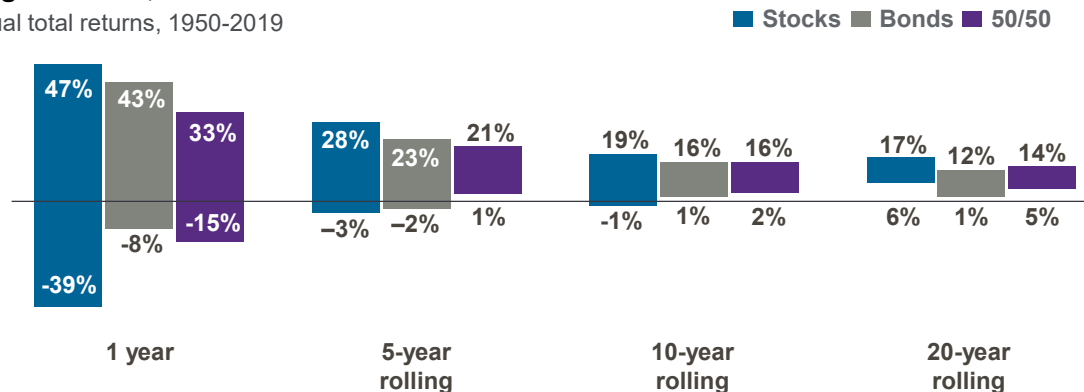


DIVIDE AND CONQUER

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, 1950-2019



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

Source (bottom chart): Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2019. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter.

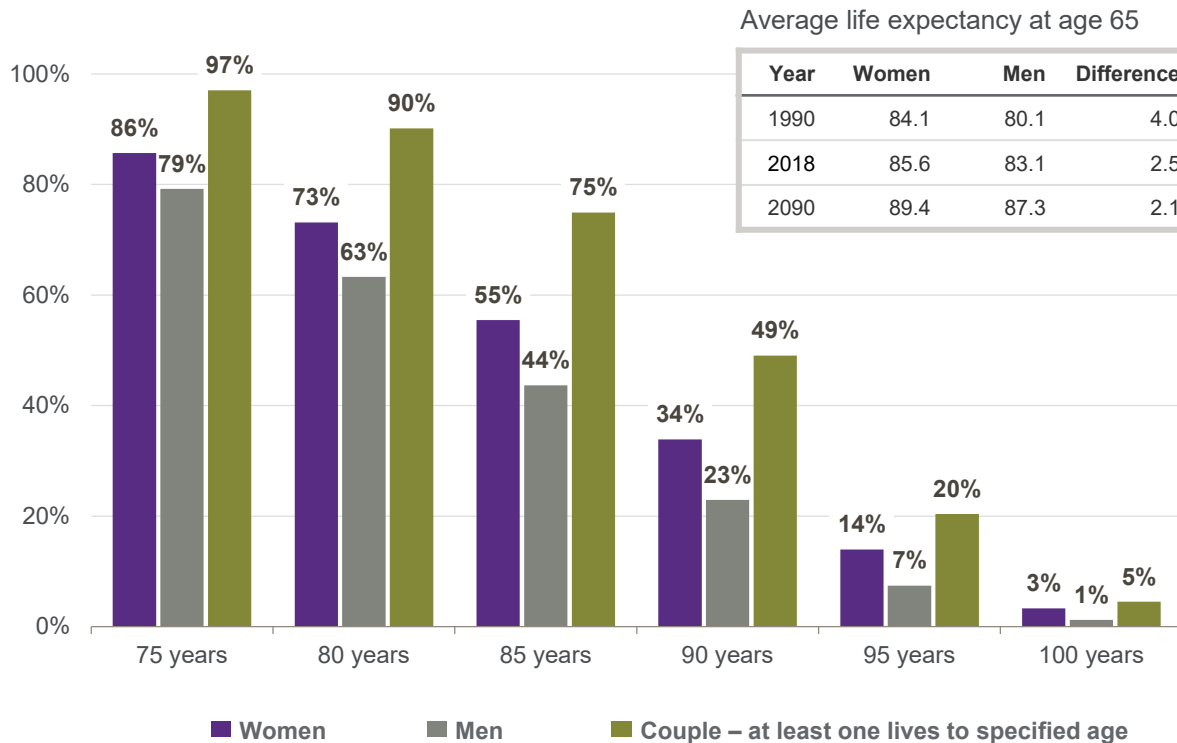
Note: Portfolio allocations are hypothetical and are for illustrative purposes only. They were created to illustrate different risk/return profiles and are not meant to represent actual asset allocation.



Life expectancy probabilities

I

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.

Chart: Social Security Administration, Period Life Table, 2016 (published in 2019), J.P. Morgan Asset Management.

Table: Social Security Administration 2019 OASDI Trustees Report.

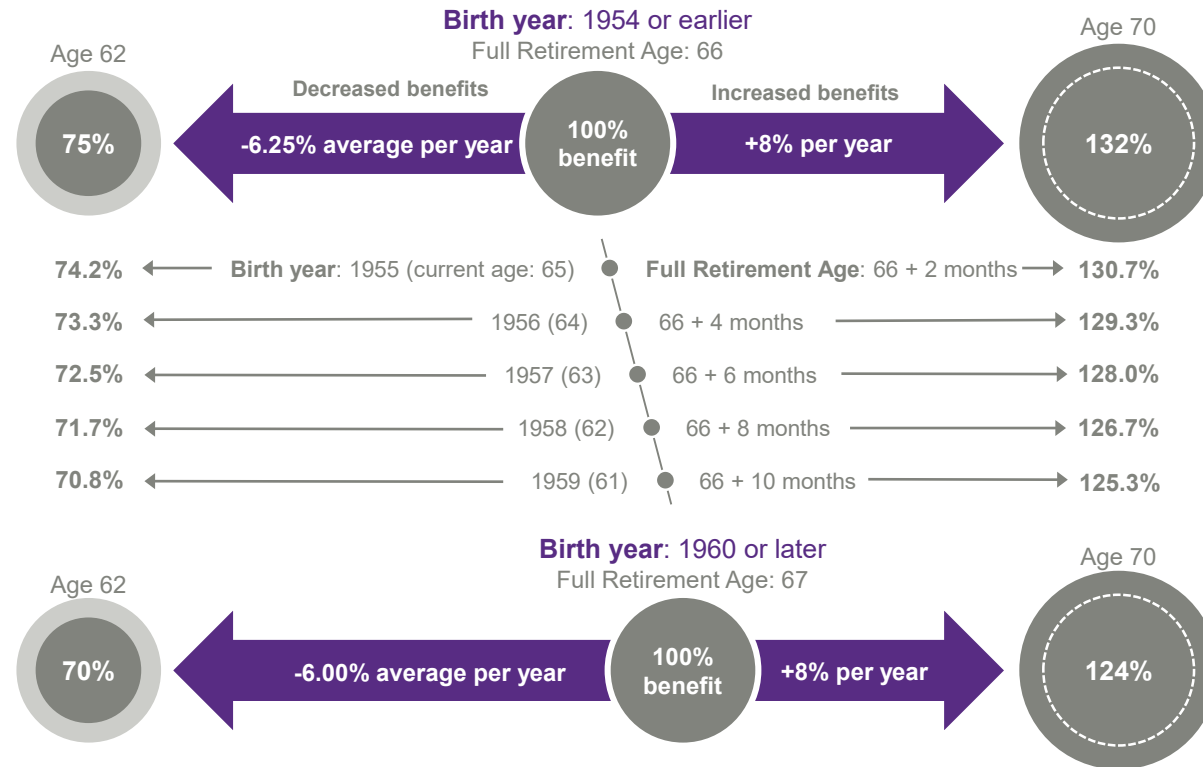
Probability at least one member of a same-sex female couple lives to age 90 is 56% and a same-sex male couple is 41%.



Social Security timing tradeoffs

Benefits differ by birth year and claim age

Full Retirement Age = 100% benefit



Cost of living increase for benefits received in 2020

1.6%

Average cost of living adjustment (1985-2020)

2.6%

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.

For illustrative purposes only. The Social Security Amendments Act of 1983 increased FRA from 65 to 67 over a 40-year period. The first phase of transition increased FRA from 65 to 66 for individuals turning 62 between 2000 and 2005. After an 11-year hiatus, the transition from 66 to 67 (2017-2022) will complete the move. This material should be regarded as educational information on Social Security and is not intended to provide specific advice. If you have questions regarding your particular situation, you should contact the Social Security Administration and/or your legal or tax professionals.

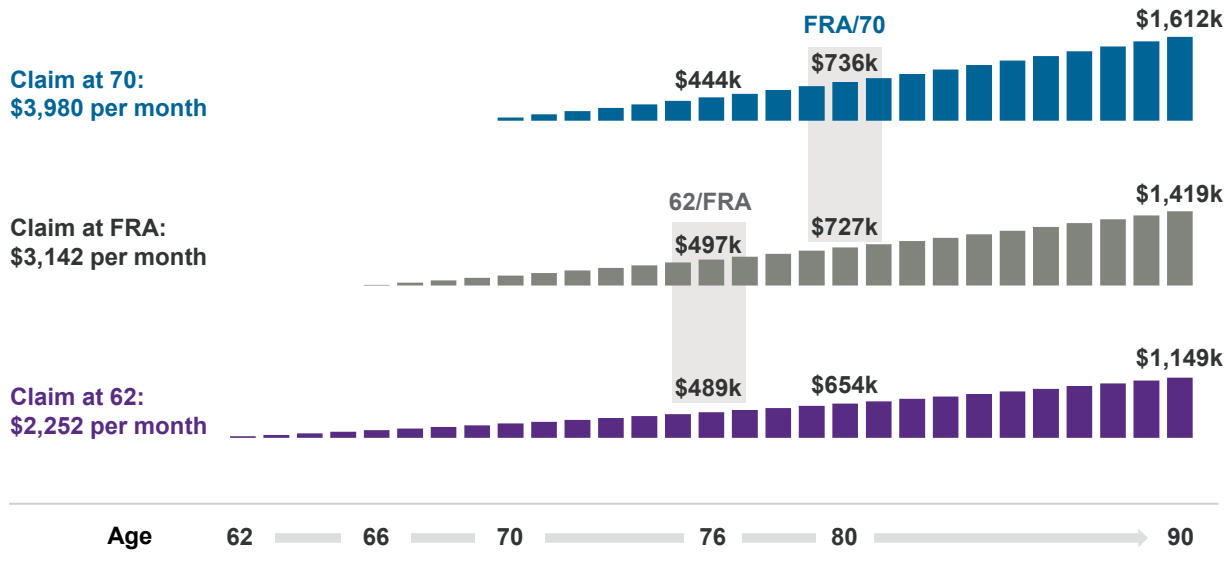
Source: Social Security Administration, J.P. Morgan Asset Management.



Maximizing Social Security benefits – maximum earner

Cumulative individual maximum benefit by claim age

Full Retirement Age (FRA) = Age 66 & 8 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.

At age 62, probability of living to at least age:	62	66	70	76	80	90
100%	100%	94%	87%	73%	61%	22%
100%	100%	97%	92%	81%	71%	33%
100%	100%	99%	99%	95%	89%	48%

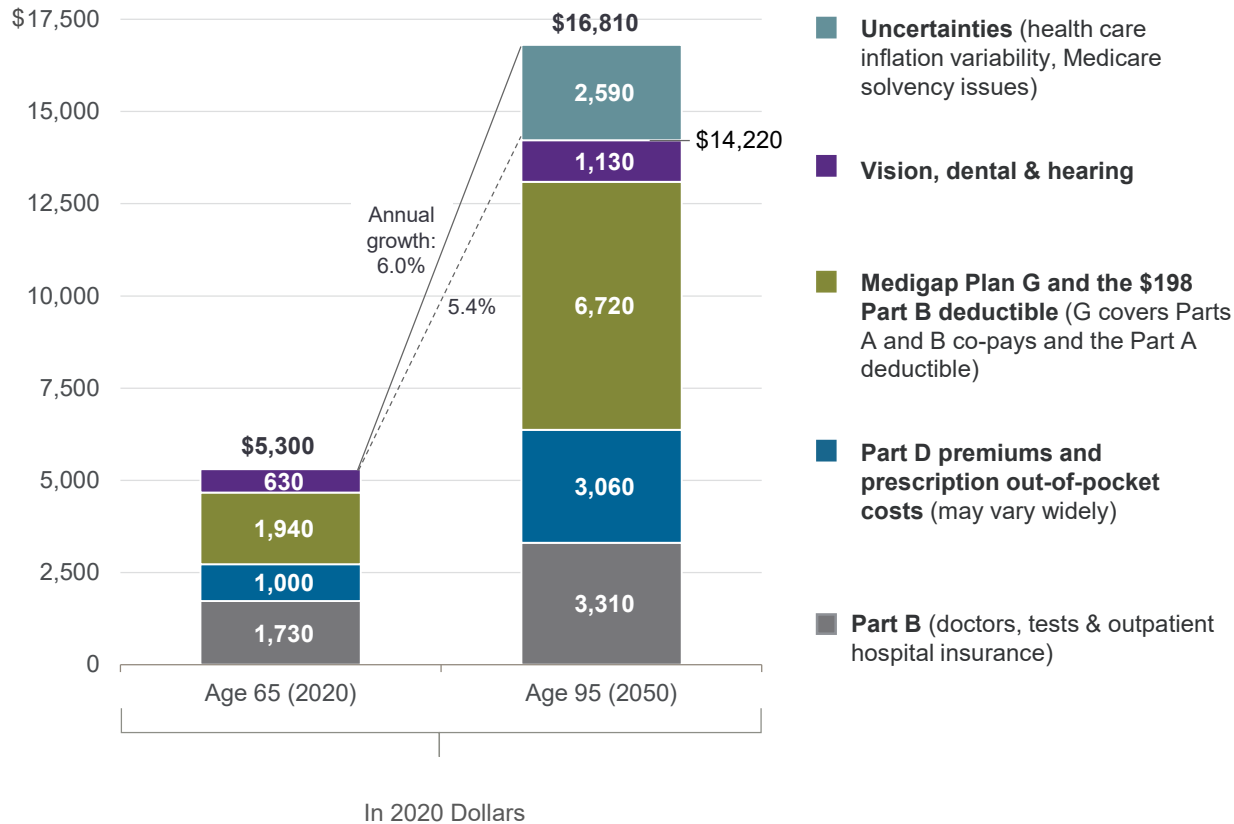
Source: Social Security Administration, J.P. Morgan Asset Management.

*Couple assumes at least one lives to the specified age or beyond. Breakeven assumes the same individual, born in 1958, earns the maximum wage base each year, retires at the end of age 61 and claims at 62 & 1 month, 66 & 8 months and 70, respectively. Benefits are assumed to increase each year based on the Social Security Administration 2019 Trustee's Report "intermediate" estimates (annual benefit increase of 2.6%). Monthly amounts with the cost of living adjustments (not shown on the chart) are: \$2,252 at age 62; \$3,485 at FRA; and \$4,891 at age 70. Exact breakeven ages are 76 & 5 months and 80 & 5 months.



Rising annual health care costs in retirement

Original Medicare costs in retirement (in 2020 dollars) Annual amount per person



Notes: Future value age 95 estimated total median cost is \$30,440. Today's dollar calculation used a 2% discount rate to account for overall inflation. Medigap premiums increase due to age, in addition to annual inflation, except for the following states: AR, CT, MA, ME, MN, NY, VT, WA. In addition, most policies sold in these states may not increase due to age: AZ, FL, GA, ID, NH and MO. If Plan G is not available, analysis includes the most comprehensive plan available.

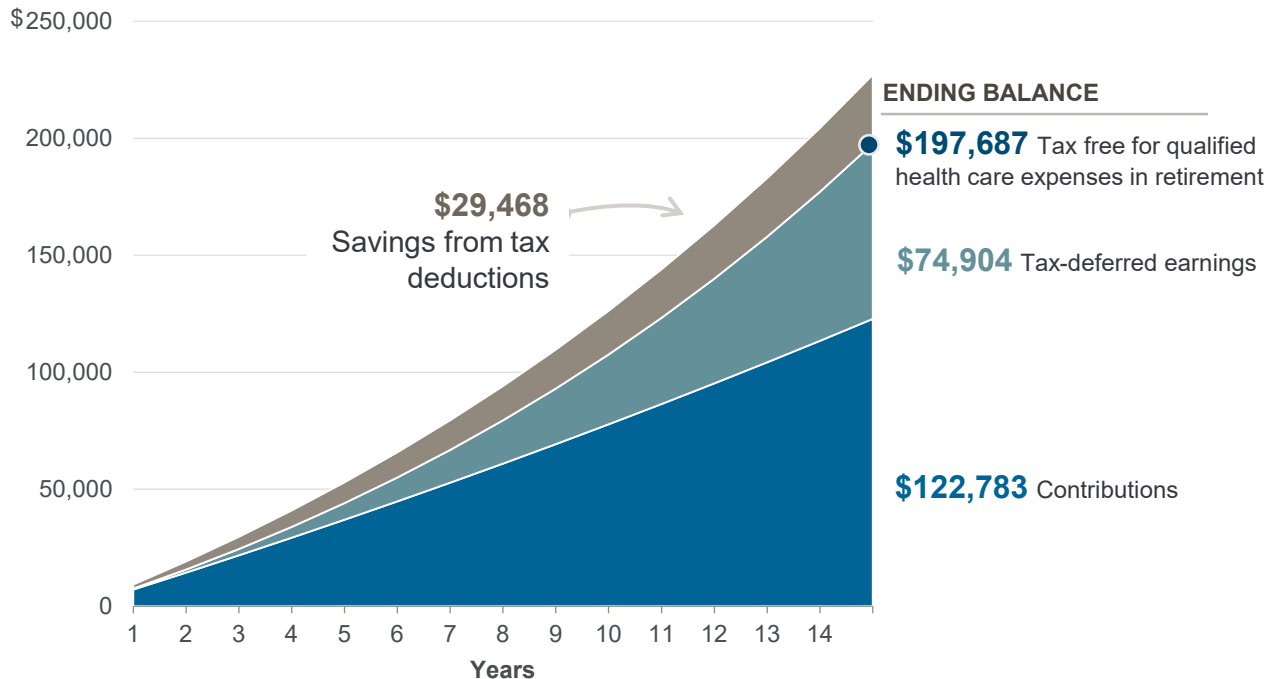
Source: Employee Benefit Research Institute (EBRI) as of January 25, 2020; SelectQuote as of January 25, 2020; Milliman as of January 25, 2020; CMS website as of January 25, 2020; Consumer Expenditure Survey as of January 25, 2020; Healthinsurance.org as of February 3, 2020; J.P. Morgan analysis.



Maximizing an HSA for health care expenses in retirement

Health Savings Account (HSA) savings are triple tax advantaged¹

Maximum annual family contributions, 6% return and 24% marginal tax rate



MAKE THE MOST OF IT

If you are enrolled in a qualified high-deductible health plan and are eligible to contribute to a Health Savings Account, be sure to open and fund your HSA.

Investing your HSA contributions for the long term and paying for current health care expenses out of income or short-term savings can provide significant tax-free funds for health care expenses in retirement.

¹Must have a qualifying high-deductible health plan to make contributions. Funds in the HSA may be withdrawn tax free for qualified medical expenses unless a credit or deduction for medical expenses is claimed. After age 65 funds also may be withdrawn at ordinary income tax rates without penalty for any reason. Some health insurance premiums may be qualified expenses such as COBRA coverage, coverage while receiving state or Federal unemployment compensation, Medicare Part B and D premiums and qualified long-term care insurance premiums up to certain limits, but excludes Medigap / Medicare supplement policies and most long-term care policies that include annuity income or life insurance. See IRS Publications 969 and 502. This is not intended to be individual tax advice; consult your tax professional.

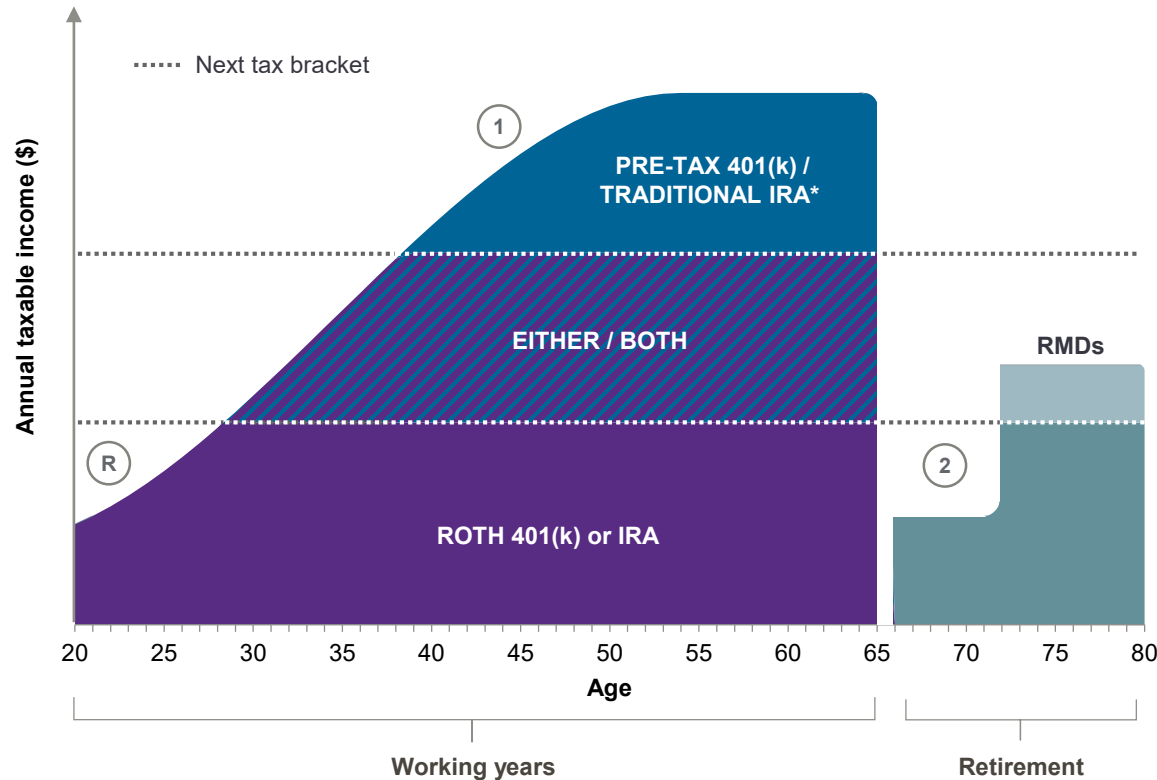
The above example is for illustrative purposes only and not indicative of any investment. Does not include account fees. Present value of illustrated HSA after 15 years is \$146,885. Estimated savings from tax deductions at a 37% marginal rate are \$45,430. Assumes cash or income used for health care expenses is not withdrawn from an account with a tax liability. The example assumes the HSA is fully invested; if \$2,000 was held in a cash account, the illustrated cumulative HSA account value would be \$192,894. 2020 family contribution limit is \$7,100 adjusted for inflation of 2.0% for 30 years. Individual 2020 contribution limit is \$3,550. \$197,687 is projected to be enough to fund about 13 years of projected average qualified Medicare-related health care expenses for a couple.



Evaluate a Roth at different life stages

Changes in lifetime taxable income

Hypothetical wage curve



TAX DIVERSIFICATION

Managing taxes over a lifetime requires a balance of your current and future tax pictures. Make income tax diversification a priority to have more flexibility and control in retirement.

Rule: Contributing to a Roth early in your career and shifting as your income increases.

1. Roth 401(k) contributions in peak earning years if wealth is concentrated in tax-deferred accounts.
2. Proactive Roth conversions in lower income retirement years if RMDs are likely to push you into a higher bracket.

*If eligible to make a deductible contribution (based on your MAGI). The illustration reflects savings options into Traditional and Roth IRA accounts, as well as into pre-tax and Roth 401(k) accounts. RMD = Required Minimum Distributions, which are typically due no later than April 1 following the year the owner turns 72 and are calculated every year based on the year-end retirement account value and the owner/plan participant's life expectancy using the IRS Uniform or Joint Life Expectancy Table. Employer contributions are typically pre-tax and are subject to tax upon distribution.

The above example is for illustrative purposes only.

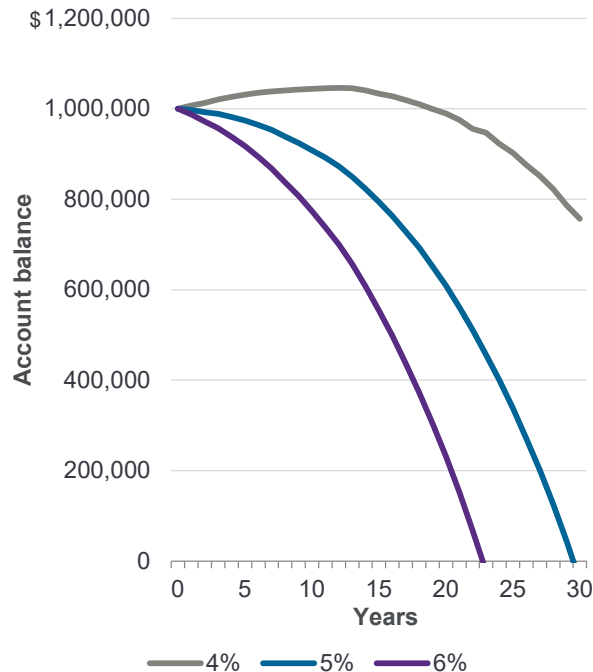
Source: J.P. Morgan Asset Management.



Effects of withdrawal rates and portfolio allocations

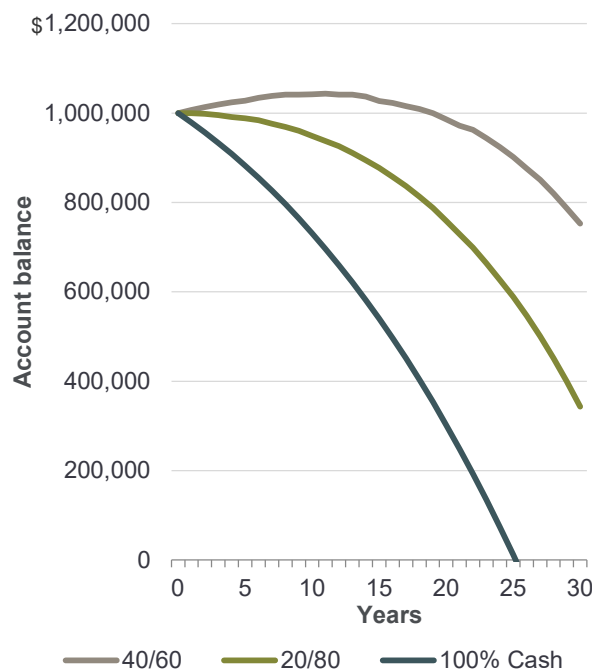
40/60 portfolio at various initial withdrawal rates

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.

Ending value of the 4% initial withdrawal rate and 40/60 portfolio value is \$752,999 (\$415,709 in today's dollars) and the 20/80 portfolio value is \$343,022 (\$189,373 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 6.5%, 3.1% and 1.9%, 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.



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