Living a Smart Retirement

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Financial Advisor
The five questions from last session....

1. What is one of the biggest threats to my retirement?
2. When should I begin Social Security?
3. How much can I spend in retirement?
4. How should I invest during retirement?
5. Am I on track?
Welcome and introduction

1. Challenges
2. Where you stand today
3. Getting to where you want to be
4. Picturing your retirement
5. Your dreams and goals
6. Bringing it all together
Retirement
Step 1: Challenges

- Approximately 70% of Americans now turning 65 will need long-term care during retirement.\(^1\)
- It is estimated a couple will need as much as $368,000 to cover health care in retirement.\(^2\)
- 38% of working Americans are unsure how much they’ve saved for retirement.\(^3\)

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2. EBRI December 2017, Vol. 38, No. 10. 90% chance of having enough savings to cover health care costs for retirees with drug expenses at the 90th percentile who have Medigap Plan F to supplement Medicare Parts A, B, and D. For a man, the cost could be as much as $177,000 and for a woman, $198,000.
3. 2018 Wells Fargo Retirement Study
Step 1: Challenges

- **38%** of workers say living to age 85 would be a “financial hardship”.
  
- **42%** of workers expect to live between age 85 and beyond.

- Only **45%** of working Americans say they have a detailed financial plan – less than all other generations.

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1. 2018 Wells Fargo Retirement Study
Step 1: Challenges

- Experiencing poor investment performance
- Living far longer than you imagined
- Dealing with increased inflation
- Facing health concerns and possible medical costs
- Paying taxes
- Supporting parents and/or children
- Encountering the unexpected
The inflation factor

<table>
<thead>
<tr>
<th>Item</th>
<th>1990</th>
<th>2017</th>
<th>% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loaf of bread(^1)</td>
<td>$0.68</td>
<td>$1.33</td>
<td>96%</td>
</tr>
<tr>
<td>Electricity (per 500 KWH)(^1)</td>
<td>$41.87</td>
<td>$68.88</td>
<td>65%</td>
</tr>
<tr>
<td>Gallon of gas (unleaded)(^1)</td>
<td>$1.02</td>
<td>$2.41</td>
<td>136%</td>
</tr>
<tr>
<td>Movie ticket(^2)</td>
<td>$4.22</td>
<td>$8.97</td>
<td>113%</td>
</tr>
</tbody>
</table>

Sources:
1 BureauofLaborStatistics.com
2 The National Association of Theater Owners
## Food for thought

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meal for two for a month (age 51-70)</td>
<td>$585.70</td>
</tr>
<tr>
<td>Over one year</td>
<td>$7,028.40</td>
</tr>
<tr>
<td>During retirement (30 years)</td>
<td>$210,852.00</td>
</tr>
<tr>
<td>Inflated at 2.5%</td>
<td>$316,279.90</td>
</tr>
</tbody>
</table>

Source: US Department of Agriculture
Official USDA Food Plans: Cost of Food at home, U.S. Average, April 2017
Moderate cost plan for family of 2 (Man and Woman)
This information is hypothetical and is provided for illustrative purposes only.
Step 2: Where you stand today

- What are your assets and liabilities?
- What are your sources of retirement income?
- What is your benefits situation?
- How much insurance do you have?
- Is there any likelihood of an inheritance?
- Do you have potential company benefits?
- Does your family know where your key documents are?
- What do you want your legacy to be?
Two phases of investing

Principal

Income
Phase one investing

Anticipated growth in principal

+ Reinvested income

= Total return
Three kinds of income

Interest → Bonds or CDs

Lifetime → Social Security, etc.

Dividend → Stocks

Please note we are outlining these different income sources for illustrative purposes only. Each one has unique characteristics that would need to be reviewed with your advisor before developing any strategy.

Dividends are not guaranteed and are subject to change or elimination.
Step 3: Getting to where you want to be

- Your need for income vs. growth
- Types of risk
- Need to rebalance
- Asset allocation

Conservative Growth & Income

Growth and income portfolios emphasize a blend of current income and capital appreciation and usually have some exposure to more volatile growth assets. Conservative Growth and Income investors generally assume a lower amount of risk, but may still experience losses or have lower expected returns.

The hypothetical portfolio allocation is for illustrative purposes only. Your needs and risk tolerances will vary, and your individualized portfolio should be designed with that in mind.
## Annual returns for key indexes (2003-2017)

### Ranked in order of performance (best to worst)

<table>
<thead>
<tr>
<th>PERFORMANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Highest</strong></td>
</tr>
<tr>
<td><strong>Lowest</strong></td>
</tr>
</tbody>
</table>

### Sources:
Wells Fargo Investment Institute and Morningstar Direct. As of 12/31/2017. Hypothetical and past performance do not guarantee future results. An index is unmanaged and not available for direct investment. Please see pages 2-3 for definitions of the Indexes, descriptions of the asset class risks, and the composition of the Hypothetical Moderate Growth & Income Portfolio and hypothetical 60%/40% Portfolio. The data assume the reinvestment of all income and dividends and do not account for taxes and transaction costs. The average is the 15-year compounded (geometric) annual growth rate. Information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. Average is calculated as geometric mean. Average is calculated as 15 years from 2003-2017.
Asset allocation models

Emphasis on long-term growth

- Cash Alternatives: 7%
- Fixed Income: 7%
- Equities: 84%
- Real Assets: 2%

See disclosure slide at the end of this presentation for important risk information.

This is a sample illustration only. An investor’s allocation will vary based on investment objectives and risk tolerance.
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Asset allocation models

Emphasis on conservation of income

See disclosure slide at the end of this presentation for important risk information.

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Long-term care can be very costly

Average median costs of care in 2016 and total out-of-pocket for a three-year period

<table>
<thead>
<tr>
<th>Type of care</th>
<th>Average rates</th>
<th>Total expense over 3 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home health care aide</td>
<td>$21/hr</td>
<td>$98,280(^1)</td>
</tr>
<tr>
<td>Adult day care</td>
<td>$79/day</td>
<td>$61,620(^2)</td>
</tr>
<tr>
<td>Assisted living facility (private)</td>
<td>$47,064/yr</td>
<td>$141,192</td>
</tr>
<tr>
<td>Semi-private nursing home room</td>
<td>$91,615/yr</td>
<td>$274,845</td>
</tr>
<tr>
<td>Private nursing home room</td>
<td>$102,930/yr</td>
<td>$308,790</td>
</tr>
</tbody>
</table>

\(^1\) Assumes six hours per day, five days per week
\(^2\) Assumes 260 days per year

Insurance products are offered through non-bank insurance agency affiliates of Wells Fargo & Company and are underwritten by unaffiliated insurance companies.

Source: John Hancock Cost of Care Survey, 2016.
Asset Class Risks and Disclosures

**Asset Class Risks**

Asset allocation is an investment method used to help manage risk. It does not ensure a profit or protect against a loss.

**Commodities:** The commodities markets are considered speculative, carry substantial risks, and have experienced periods of extreme volatility. Commodities may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or other factors affecting a particular industry or commodity.

**Equity Securities:** Stocks are subject to market risk, which means their value may fluctuate in response to general economic and market conditions, the prospects of individual companies, and industry sectors.

**Fixed Income:** Investments in fixed-income securities are subject to market, interest rate, credit/default, liquidity, inflation and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond’s price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. High yield fixed income securities (junk bonds) are considered speculative, involve greater risk of default, and tend to be more volatile than investment grade fixed income securities. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity. U.S. government securities are backed by the full faith and credit of the federal government as to payment of principal and interest if held to maturity and are subject to interest rate risk.

**Foreign/Emerging Markets:** Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

**Hedge Funds:** Hedge Funds are available only to persons who are “accredited investors” or ‘qualified purchasers’ within the meaning of U.S. securities laws. Hedge funds trade in diverse complex strategies that are affected in different ways and at different times by changing market conditions. Strategies may, at times, be out of market favor for considerable periods with adverse consequences for the investor.

**Real Estate:** Investing in real estate investment trusts (REITs) has special risks, including possible illiquidity of the underlying properties, credit risk, interest rate fluctuations, and the impact of varied economic conditions.

**Small/Mid-Cap:** The prices of small/mid-company stocks are generally more volatile than large-company stocks. They often involve higher risks because of smaller and mid-sized companies may lack the management expertise, financial resources, product diversification, and competitive strengths to endure adverse economic conditions.
Asset Class Definitions

- **Hypothetical 60%/40% Portfolio**: Composed of 60% S&P 500 Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index.
- **Hypothetical Moderate Growth & Income Portfolio (4 Asset Groups without Private Capital)**: 3% Bloomberg Barclays U.S. Treasury Bill 1-3 Months, 11% Bloomberg Barclays U.S. Aggregate (6-12), 6% Bloomberg Barclays U.S. Corporate High Yield Index, 3% JPM GBI Global Ex-U.S. TR USD Index, 3% JPM EMBI Global TR USD Index, 2% S&P 500 Index, 3% Russell Mid Cap TR USD Index, 3% Russell 2000 Index, 3% MSCI EAFE GR USD Index, 5% MSCI EM GR USD, 5% FTSE EPRA NAREIT Developed TR USD Index, 3% Bloomberg Commodities Index, 3% HFRI Relative Value Arbitrage Index, 6% HFRI Macro Index, 4% HFRI Event Driven Index, 2% HFRI Equity Hedge Index.

The compositions of the Hypothetical Moderate Growth & Income Portfolio and the Hypothetical 60%/40% Portfolio are for illustrative purposes only. Hypothetical results do not represent actual trading and the results achieved do not represent the performance of any individual investor. In addition, hypothetical results do not reflect the impact of any fees, expenses, or taxes applicable to an actual investment. The indices reflect the historical performance of the represented assets and assume the reinvestment of dividends and other distributions. Hypothetical and past performance are no guarantee of future results.

- **HFRI Relative Value Arbitrage Index**: tracks funds that attempt to take advantage of relative pricing discrepancies between instruments, including equities, debt, options, and futures. Managers may use mathematical, technical, or analysis to determine misvaluations. Securities may be mispriced relative to the underlying security, related security, groups of securities, or the overall market.
- **HFRI Macro Index**: tracks managers that trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, currency, and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches, and long- and short-term holding periods.
- **HFRI Event Driven Index**: is also known as "corporate life cycle" investing. This involves investing in opportunities created by significant transactional events, such as spin-offs, mergers and acquisitions, bankruptcy reorganizations, recapitalizations, and share buybacks. The portfolio of some event-driven managers may shift in majority weighting between risk arbitrage and distressed securities, while others may take a broader scope. Instruments include long and short common and preferred stocks, as well as debt securities and options. Leverage may be used by some managers. Fund managers may hedge against market risk by purchasing S&P put options or put option spreads.
- **HFRI Equity Hedge (Total) Index**: is a fund-weighted index of select hedge funds focusing on equity hedge strategies. Equity Hedge investing consists of a core holding of long equities hedged at all times with short sales of stocks and/or stock index options.

- **Cash Alternatives**: Bloomberg Barclays U.S. Treasury Bills (1-3M) Index is representative of money markets.
- **Commodities**: Bloomberg Commodity Index is a broad diversified index of commodity futures on 20 physical commodities, subdivided into energy, U.S. agriculture, livestock, precious metals, and industrial metals sectors. Commodity weights are derived in a manner that attempts to fairly represent the importance of a diversified group of commodities to the world economy.

- **Emerging-Market Equities**: MSCI Emerging Markets Index (EM GR) is a free float-adjusted market capitalization Index designed to measure equity market performance of emerging markets.
- **Developed Market Ex-U.S. Fixed Income**: JP Morgan Global Ex-U.S. (All BDT Roll Adjusted) Index is a total return, market capitalization weighted index, rebalanced monthly, consisting of the following countries: Australia, Germany, Japan, Korea, Switzerland, Taiwan, and United Kingdom.

- **Emerging-Market Fixed Income**: JPM EMBI Global Index is a U.S. dollar-denominated, investable, market cap-weighted index representing a broad universe of emerging market sovereign and quasi-sovereign debt. While products in the asset class have become more diverse, focusing on both local currency and corporate issuance, there is currently no widely accepted aggregate index reflecting the broader opportunity set available, although the asset class is evolving. By using the same index provider as the one used in the developed-market bonds asset class, there is consistent categorization of countries among developed international bonds (ex-U.S.) and emerging market bonds.

- **High-Yield Tradable Fixed Income**: Bloomberg Barclays U.S. Corporate High-Yield Bond Index covers the U.S. dollar-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody’s, S&P, and/or Fitch is BB/B+ or below. Included issues must have at least one year until final maturity.

- **Inflation-CPI**: IA SBI's Inflation Index is a custom unmanaged index designed to track the U.S. inflation rate.
- **Developed Market Ex-U.S. Equities**: MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization Index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.


- **U.S. Large-Cap Equities**: S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market-value-weighted Index with each stock's weight in the index proportionate to its market value.

- **U.S. Mid-Cap Equities**: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

- **U.S. Small-Cap Equities**: Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

- **Public Real Estate**: FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs in developed countries worldwide.

- **Hedge Fund Indices**: HFR Fund Weighted Composite Index (a fund-weighted equal-weighted) Index designed to measure the total returns (net of fees) of the approximately 2,000 hedge funds that compose the Index. Constituent funds must have at least $50 million under management or a track record greater than 12 months.

The HFR indices are based on information self-reported by hedge fund managers that decide, on their own, at any time, whether or not they want to provide, or continue to provide, information to HFR Asset Management, L.L.C. (HFR). Results for funds that go out of business are included in the Index until the date that they cease operations. Therefore, these indices may not be complete or accurate representations of the hedge fund universe and may be biased in several ways.

CPI (consumer price index) measures the price of a fixed basket of goods and services purchased by an average consumer.
Step 4: Picturing your retirement

The goal of the Envision® process is to let you live the one life you have in the best way you can, without undue financial sacrifice or overexposure to risk.
The *Envision* planning process helps investors stay on track

Here’s what *Envision* plan holders think:

- **97%** agree their plan is personally tailored to meet their unique financial goals

- **95%** agree having an *Envision* plan helps them feel better prepared for retirement

- **91%** agree their plan helps them talk to their Financial Advisor about significant life events

Source: Results are based on a survey conducted online by Versta Research from July-August 2016 among 762 investors with Financial Advisor relationships. Results are not representative of other client experiences or indicative of future success or performance. The Envision process is a brokerage service provided by Wells Fargo Advisors.
The Envision process

1. Define major life goals
2. Set ideal and acceptable goals
3. Prioritize goals
4. Stress test goals
5. Recommend plan
6. Implement allocation
7. Monitor progress
8. Revisit goals or priorities
Step 5: Your dreams and goals

- Dreams and Major Purchases
- Retirement Age
- Estate and Legacy
- Retirement Income
- Risk Tolerance
- Increasing Medical Costs
The profile meeting

<table>
<thead>
<tr>
<th>Ideal</th>
<th>Acceptable</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Your dream outcome.</td>
<td>▪ Not the worst-case scenario</td>
</tr>
<tr>
<td>▪ What you would like to achieve in a perfect world?</td>
<td>▪ Reflects what you would feel comfortable with.</td>
</tr>
</tbody>
</table>
The Target Zone

**Below Target**
Low level of confidence or unlikely to achieve goals
Plan Result: 0-74

**Target Zone**
Reasonable level of confidence that goals can be met or exceeded
Plan Result: 75-90

**Above Target**
High level of confidence, more risk than necessary or leaving more assets than desired
Plan Result: 91-100