

TP331

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Retiring Retirement[®]

The Era of Longevity Planning

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Today's Discussion



Retiring Retirement: The Rationale

- Longevity
- Health
- Wealth
- Wisdom



Retiring Retirement: The Rationale



What is Retirement?



re·tire·ment. (ri-tahyuh r-muh nt)

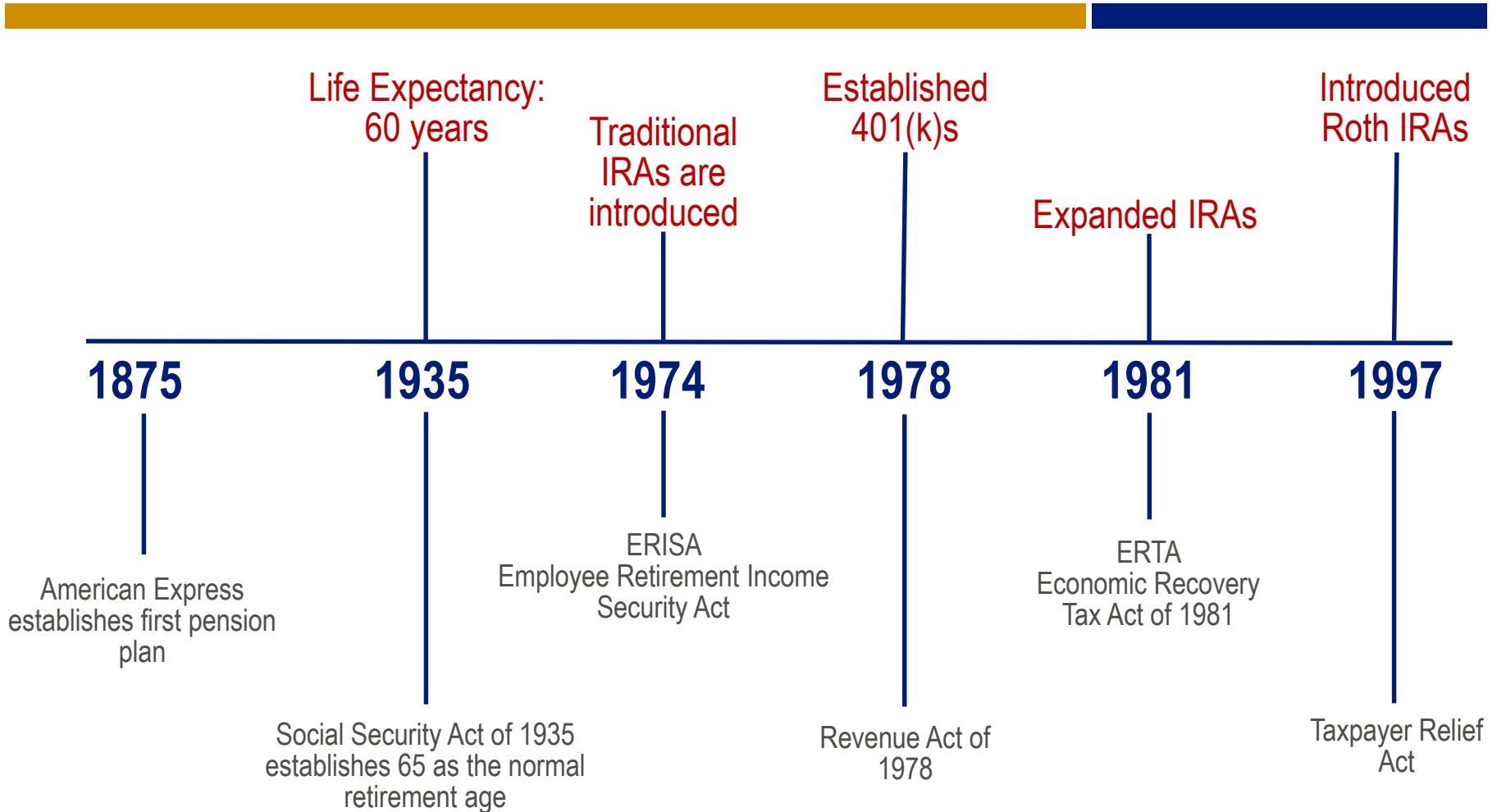
- The act of retiring.
- The state of being retired.
- Withdrawal from one's occupation, business, or office.
- Withdrawal into privacy or seclusion.
- A place of privacy or seclusion; a retreat.
See Synonyms at [solitude](#).

Why Retirement Worked



- A reason to talk to prospects and clients
- Decisions were time sensitive
- Related tax benefits

A 10-Second History of Retirement



Why it Won't Work as Well in the Future



- Been there/Done that
- 1970s/1980s early retirement trend ended in the 1990s.
- Since 2000, the number of 50-64 year-olds in the labor market has increased, not decreased.
- Economic uncertainty
- Employer and governmental entitlements are shrinking.
- Life expectancy after “pensionable” age has increased.
- Companies are begging to create incentives for older workers to stay rather than retire.

So, Let's Retire Retirement



Retirement is:

- An event.
- Just one of many life transitions.
- A small piece in a much larger puzzle.

Three quarters of Baby Boomers plan to continue working during their so-called 'retirement years'. Which may mean the word 'retirement' is on its way out.

Ina Jaffe
NPR 7-8-2014

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What is the Greatest Invention of the 20th Century?

Would it be:



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Longevity



Do You Know Someone Who's:

80?

90?

100??

What is Longevity?

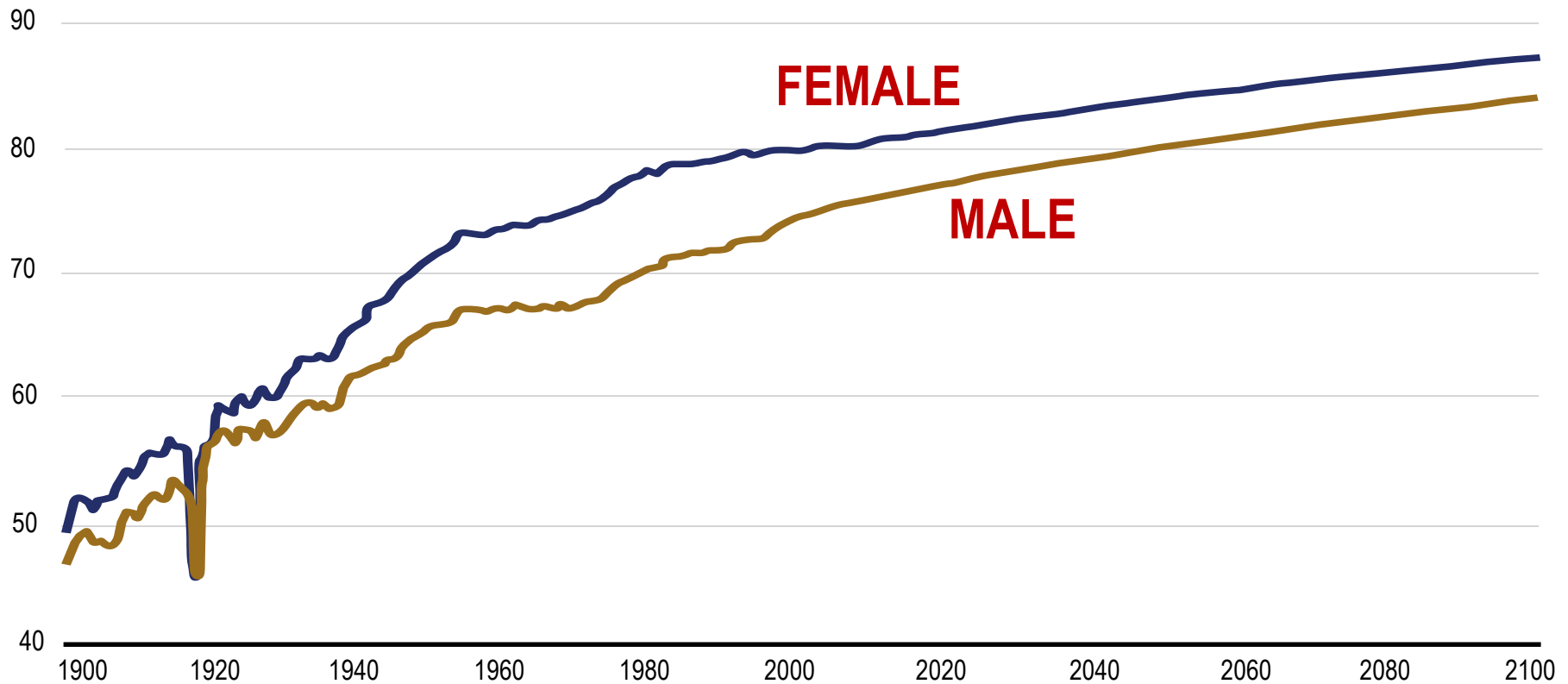


Lon·gev·i·ty

- Noun \län-'je-və-tē, lōn-\: long life: the fact of living for many years
- Length of life
- The length of time that something or someone lasts or continues

Longevity

Life Expectancy at Age 0 (By Sex and Calendar Year)



Source: Life Tables for the United States Social Security Area 1900-2100. A life table is a concise way of showing the probabilities of a member of a particular population living to or dying at a particular age.

The Longevity Economy



Economic Benefits Related to Americans 50+

- 100+ million in the U.S. and the only homogeneous growth market.¹
- Disposable income in 2010 = \$3.6 trillion.²
- Responsible for at least \$7.1 trillion in annual economic activity. Expected to increase to \$13.5 trillion (real terms) by 2032.³
- People in their 50s and 60s start companies at twice the rate of people in their 20s.⁴
- Represents 70% of all charitable donations; \$100 billion annually.³

¹National Venture Capital Association in their 2013 Venture Capital Review, the Longevity Economy is an "Emerging Market in Plain Sight".

²Bureau of Labor Statistics, in 2010 disposable income for 50+ Americans was \$3.6 trillion

³The Longevity Economy: Generating Economic Growth and New Opportunities for Business, Oxford Economics, 2013

⁴The Principal, 2013 Milken Global Economy

*Economic growth comes at the intersection
of demography and innovation.*

Paul Irving
President, Milken Institute

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Health



Top Financial Priorities of UHNW Clients

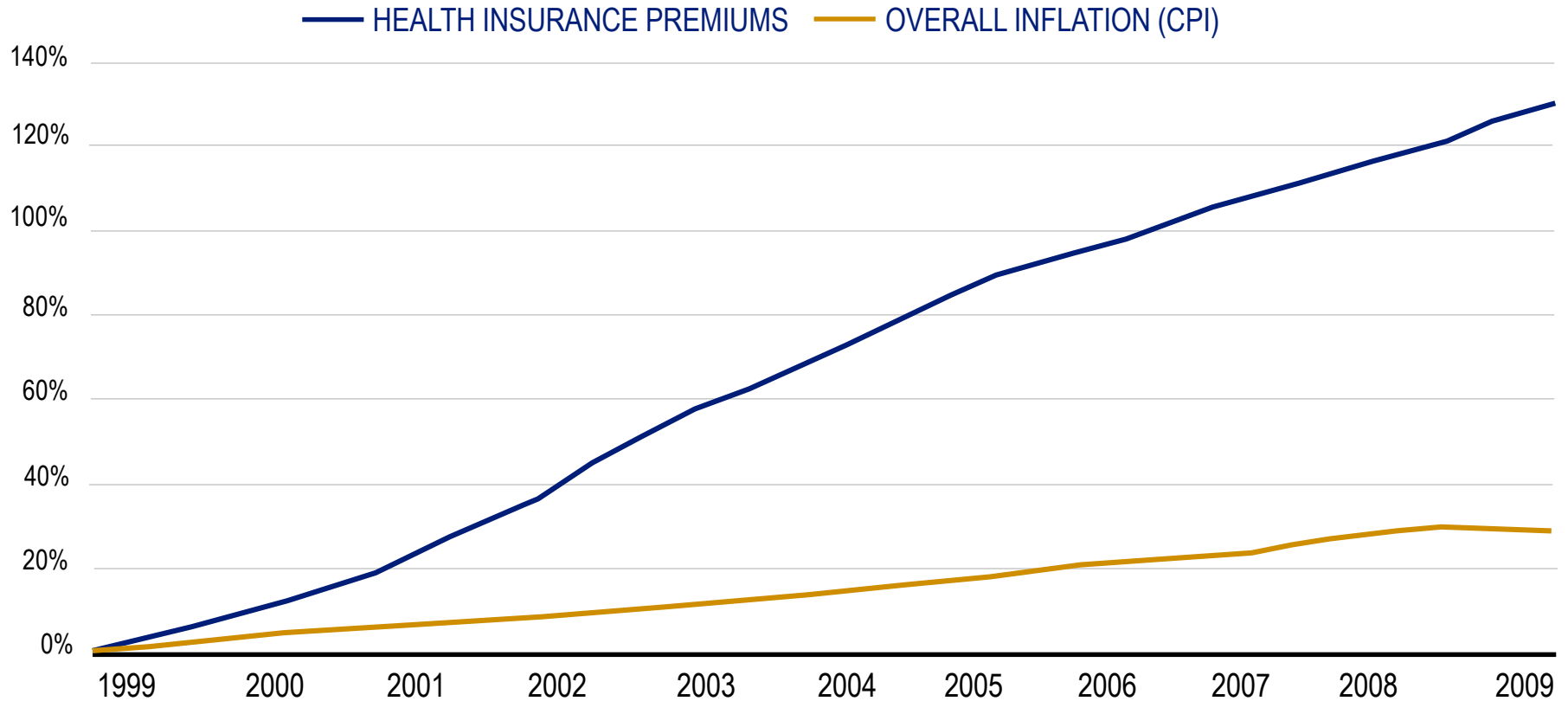


- Health of my spouse
- Financial security of children and grandchildren
- My own health
- Family health catastrophe
- Responsibility for dying parents

Source: Wealth X World/UBS Ultra High Net Worth Report 2013

Increasing Health Care Costs

Health Care Costs Outpace Inflation



Sources: Kaiser HRET Survey of Employer-Sponsored Health Benefits, 1999 – 2009. Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of National Inflation (April to April), 1999 – 2009. Bureau of Labor Statistics, Seasonally Adjusted Data from the Current Employment Statistics Survey, 1999 - 2009 (April to April).

The Big Three



- Dementia/Alzheimer's Disease
- Arthritis
- Obesity

Source: longevity3.stanford.edu/wp-content/uploads/2013/01/New-Realities-of-an-Older-America.pdf

Alzheimer's



- 7.8 million Americans by 2030
- 13.5 million by 2050
- Costs projected to exceed \$2 trillion per year by 2050
- Postponing the onset by 5 years
 - Reduce the number of patients by 43%
 - Save more than \$440 billion in caregiver costs

Source: 2012 Alzheimer's Association's Annual Report

Health: How You Can Help Your Clients Today



- Become well versed in the issues.
- Get client paperwork in order.
- Involve individuals who have a vested interest.
- Have the “health and long-term care” talk.

*Life expectancy would grow
by leaps and bounds if green
vegetables smelled like bacon.*

Doug Larson

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Wealth



Wealth: Focus Upon



- *Real, Real Returns*
- Dividend-Paying Investments
- Longevity-Oriented Portfolios
- Spending Policies



Real, Real Returns



Nominal returns

- *Inflation*
 - *Taxes*
 - *Investment expenses*
-

Real, real returns



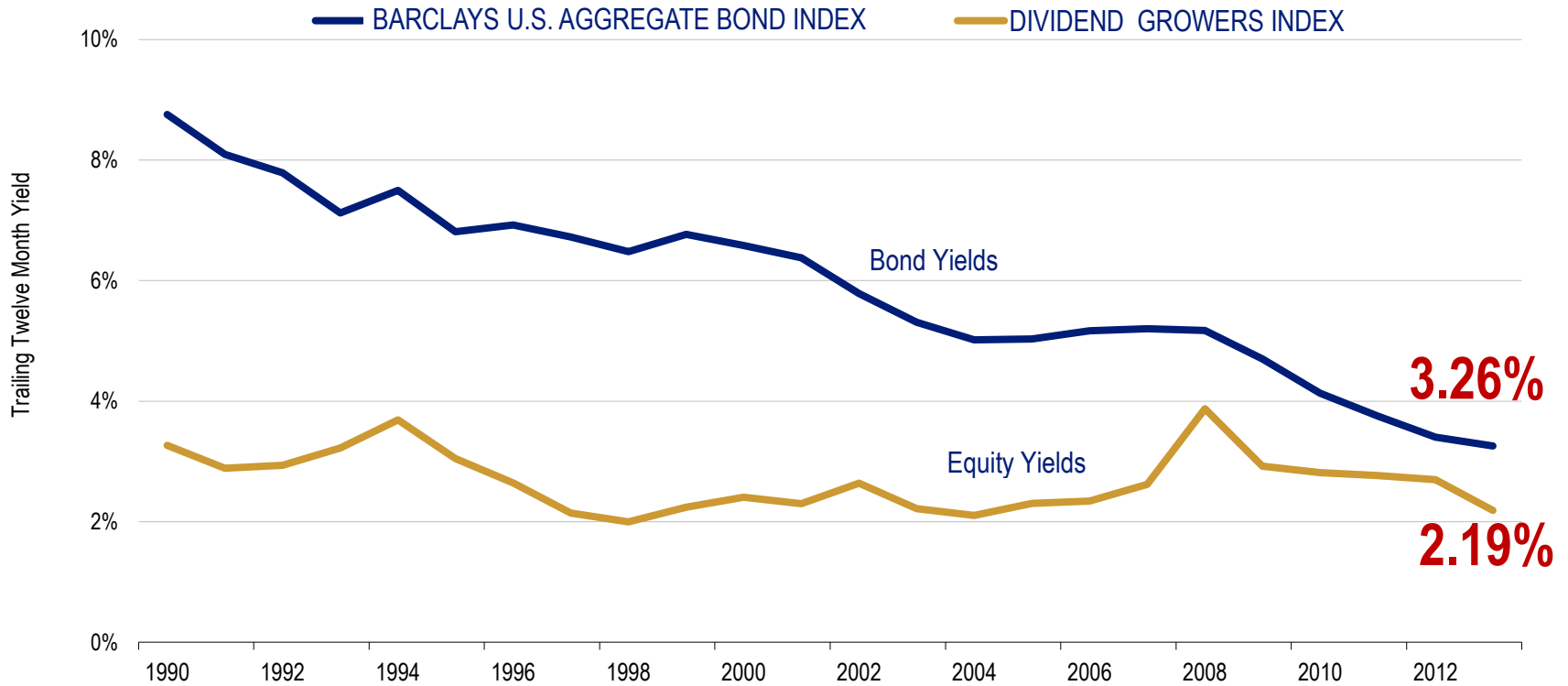
The Role of Dividend Paying Investments



Value of Dividends

Bond Yields Versus Equity Yields

Dividends Not Reinvested



Past performance does not guarantee future results.

Assumed a \$1 million hypothetical investment of the Dividend Growers Portfolio as represented by the S&P 500 Dividend Aristocrats Index and the \$1 million hypothetical investment of the Bond Portfolio as represented by Barclays U.S. Aggregate Bond Index.

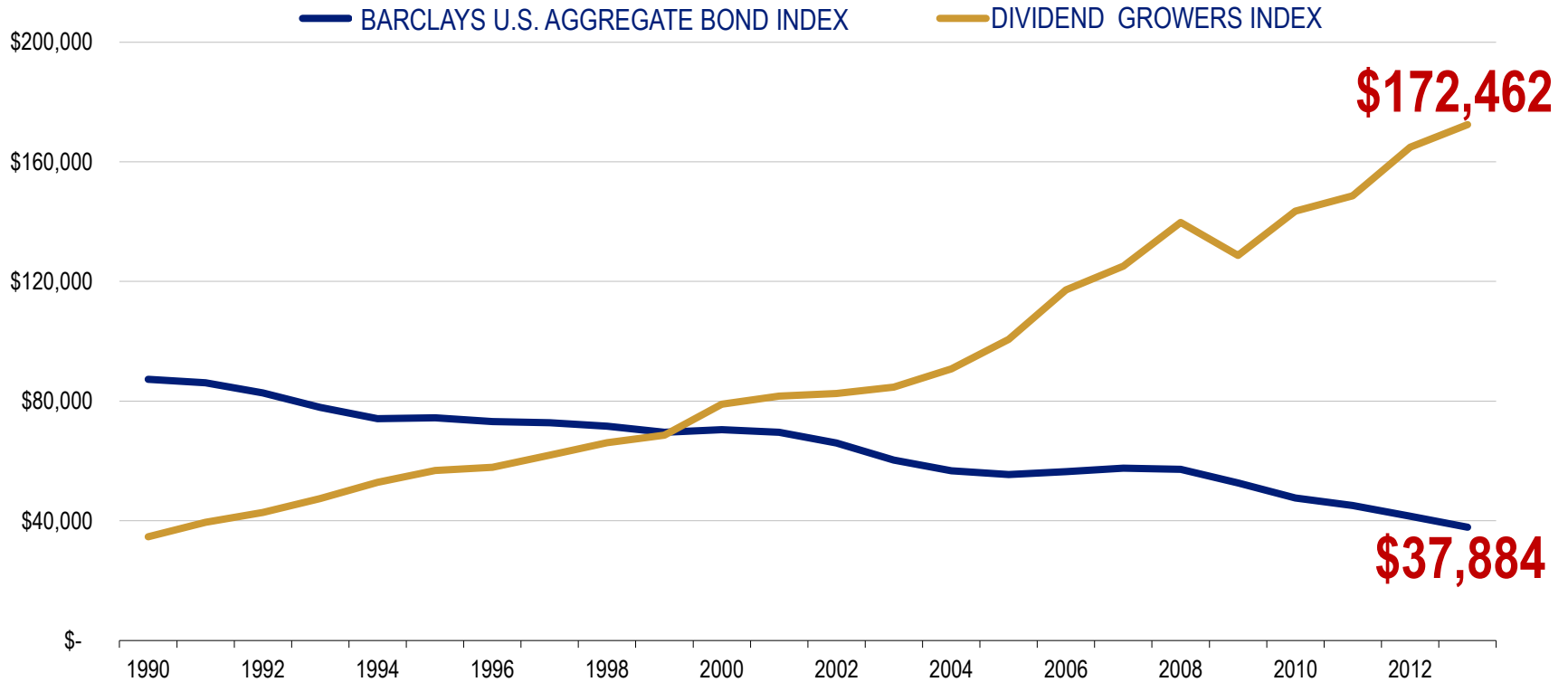
Investors may not make direct investments into any index.

Index performance shown is for illustration purposes and is not representative of an actual investment.

Dividend and interest income are not guaranteed.

Value of Dividends

Annual Bond Income Versus Annual Equity Income Annual Income from a Hypothetical \$1 Million Investment



Past performance does not guarantee future results.

Assumed hypothetical investment of the Dividend Growers Portfolio as represented by the S&P 500 Dividend Aristocrats Index and the hypothetical investment of the Bond Portfolio as represented by Barclays U.S. Aggregate Bond Index.

Investors may not make direct investments into any index.

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Dividend and interest income are not guaranteed.

Source: Standard & Poor's and Barclays.

Value of Dividends

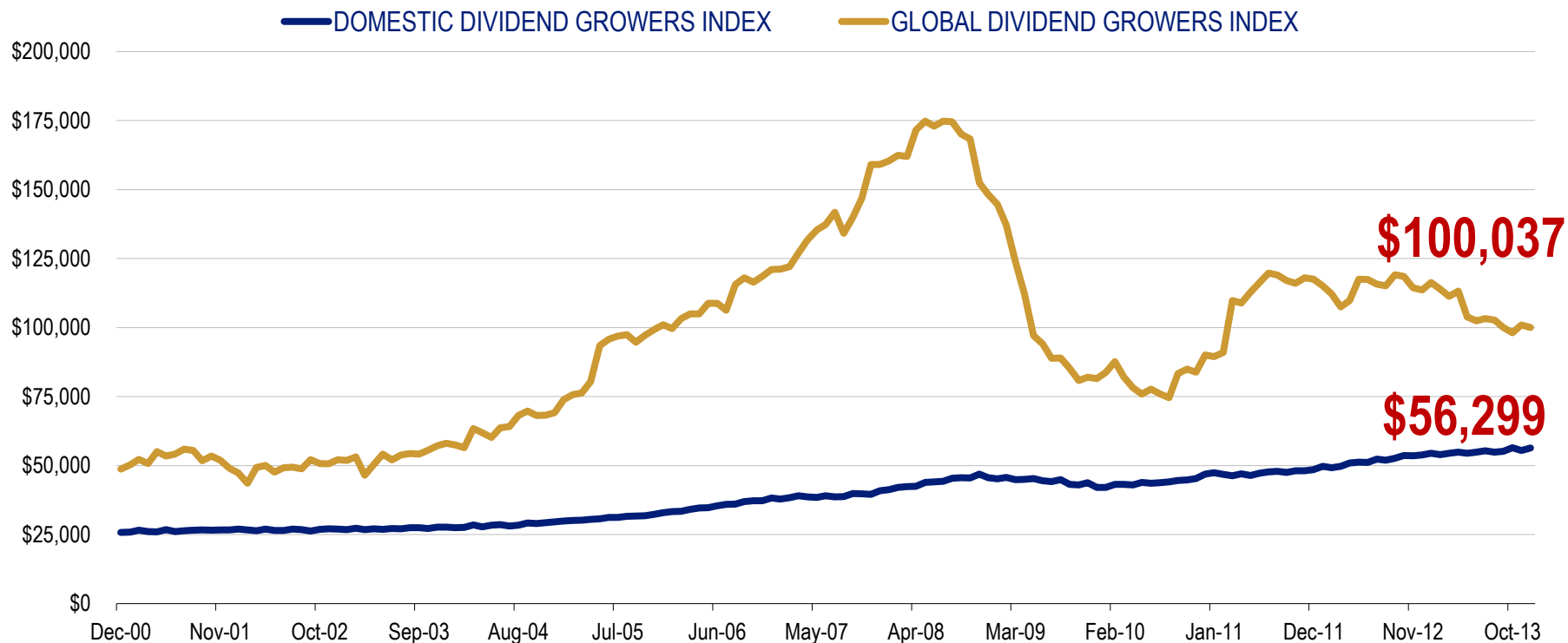
PERIOD	DIVIDEND ARISTOCRATS INDEX	S&P 500 INDEX
1990-1994	11.13%	8.70%
1995-1999	19.48%	28.54%
2000-2004	9.74%	-2.29%
2005-2009	3.32%	0.41%
2010-2014	18.27%	15.44%
1990-2015	11.77%	9.28%

Past performance does not guarantee future results. Through December 31, 2015. Reflects reinvestment of dividends.

Source: Thornburg Investment Management

Global Dividend

Global Dividend Growers May Provide an Opportunity to Obtain Additional Growth of Income Annual Income on Two Hypothetical \$1 Million Investments



Past performance does not guarantee future results.

Assumed that the hypothetical Dividend Growers Portfolio represented by the S&P 500 Dividend Aristocrats Index and the hypothetical Global Dividend Growers Portfolio represented by the S&P Global Dividend Opportunities Index.

You cannot invest directly into an index.

Index performance shown is for illustration purposes and is not representative of an actual investment.

International investing involves special risks, including currency fluctuations, government regulation, political developments, and differences in liquidity.

Source: Standard & Poor's



Building Longevity-Oriented Investment Portfolios



Longevity-Oriented Investment Portfolios: The Fundamentals

- Goal: to generate a steady sustainable income stream
- Components:
 - Cash Flow Reserve provides the structure for converting savings into monthly spending
 - Opportunities to increase income over time
 - Investment Portfolio that balances quality, high current income and growth

Following this strategy does not assure or guarantee sustainability of a retirement portfolio or better performance nor do they protect against investment losses.

Design a High-Quality Longevity-Oriented Investment Portfolio

Hypothetical Portfolio

CASH FLOW RESERVE

Municipal Money Market	5%
Limited-term Municipal Bond	5%

INVESTMENT PORTFOLIO

Intermediate-term Municipal Bond	25%
Dividend Growers Portfolio (Domestic)	15%
Global Dividend Growers Portfolio	50%

Total	100%
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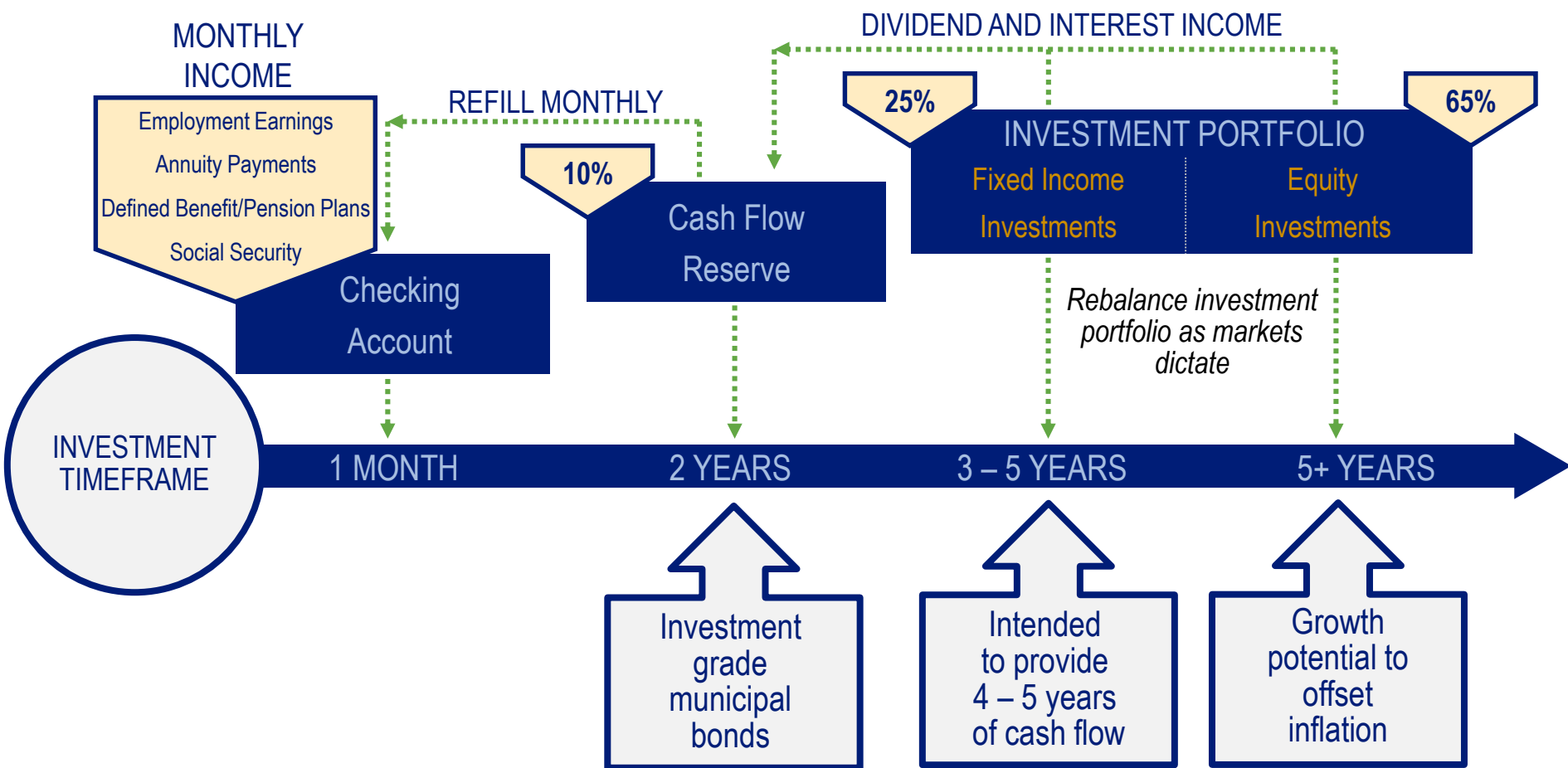
Diversification does not guarantee against loss of principal.

For illustration purposes and is not representative of an actual investment.

Dividends are not guaranteed.

International investing involves special risks, including currency fluctuations, government regulation, political developments, and differences in liquidity.

Hypothetical Investment Allocation



Following these strategies does not assure or guarantee sustainability of a retirement portfolio or better performance, nor does it protect against investment losses. Dividend and interest income are not guaranteed.
Source: Thornburg Investment Management



Spending Policies

Employ a Spending Policy



- Two choices:
 - Lifestyle Spending Policy
 - Endowment Spending Policy

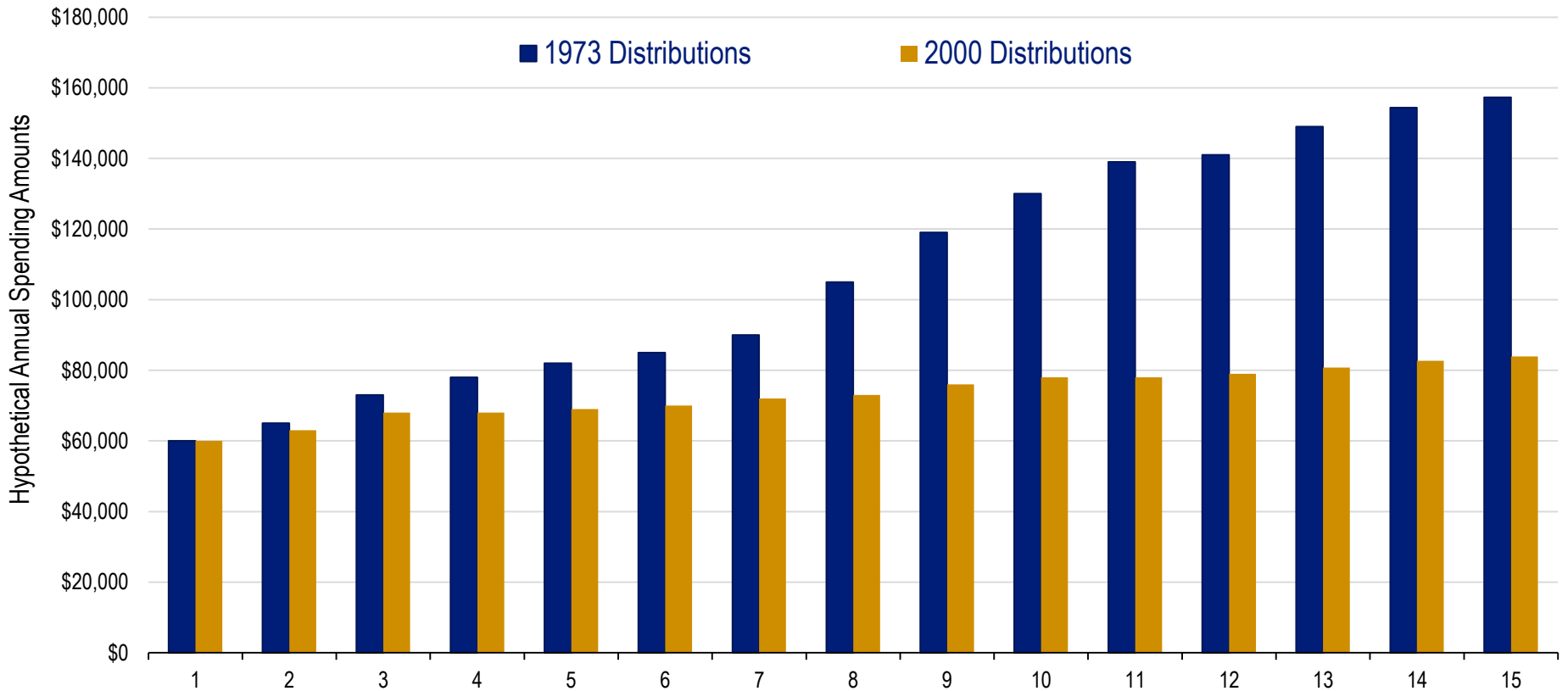
Lifestyle Spending Policy



- A spending policy that specifies the amount of money that will be regularly withdrawn from retirement savings to cover living expenses.
- Typically increased by a cost of living adjustment (CPI).

Lifestyle Spending Policy

Hypothetical Annual Spending Amounts



For illustration purposes only. Does not represent any particular investment.

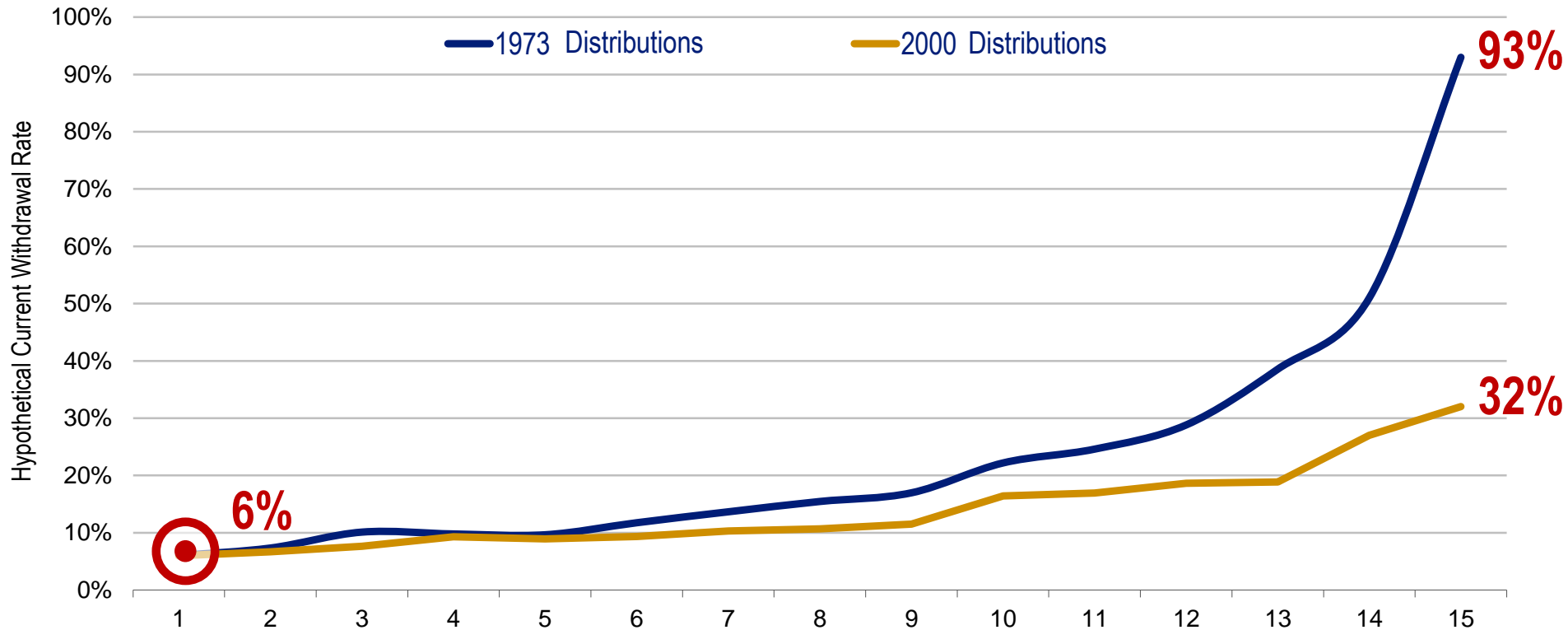
Assumes \$1 million investment; 60% S&P 500 Index, 40% Barclays Intermediate Term Government Bond Index rebalanced annually, actual CPI for period, lifestyle spending policy.

Source: Thornburg Investment Management

Lifestyle Spending Policy

Hypothetical Current Withdrawal Rates

1973 vs 2000



For illustration purposes only. Does not represent any particular investment.

Assumes a \$1 million investment; 60% S&P 500, 40% Barclays ITGB rebalanced annually, actual CPI for period, lifestyle spending policy.

Source: Thornburg Investment Management

Endowment Spending Policy



- A blended approach to a spending policy that combines prior year's spending levels with the performance of the current portfolio.
- Utilizes a 90/10 smoothing rule in which 90% is determined by prior year's spending and 10% is determined by value of the current portfolio.
- Requires “belt tightening” during major bear markets.
- Works especially well during periods of high inflation.
- Set a sustainable spending rate employing a smoothing rule that gradually adjusts the spending amount as a reflection of changes in the portfolio market value.

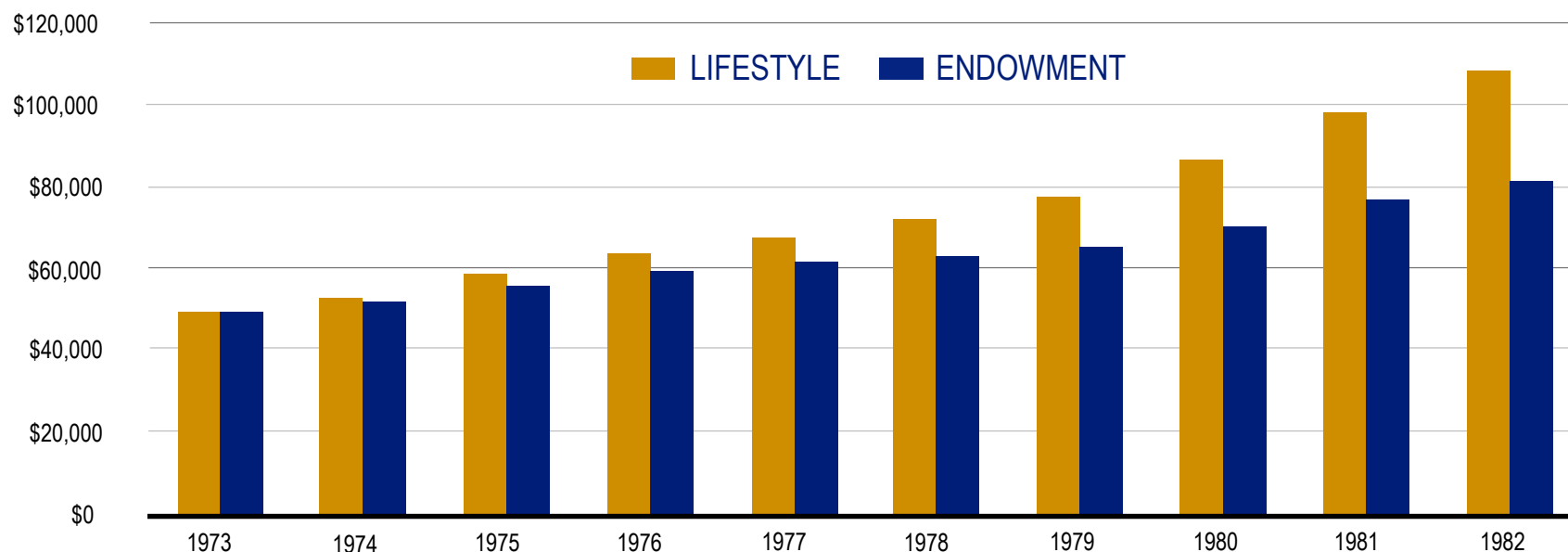
Endowment Spending Policy Illustrated

	1973	1974	1975	1976
Beginning hypothetical Portfolio Value (PV)	\$1,000,000	\$869,752	\$699,568	\$788,898
Spending amount	\$50,000	\$52,408	\$56,239	\$59,524
Current spending rate (amount/PV)	5.0%	6.0%	8.0%	7.5%
Spending amount calculation:				
90% of Prior year's spending		\$45,000	\$47,168	\$50,615
10% of PV x 5% spending rate		<u>4,349</u>	<u>3,498</u>	<u>3,944</u>
Subtotal before Cost of Living Adjustment (COLA)		\$49,349	\$50,665	\$54,559
Prior year CPI increase		6.2%	11.0%	9.1%
Annual COLA		<u>\$3,060</u>	<u>\$5,573</u>	<u>\$4,965</u>
Spending amount		\$52,408	\$56,239	\$59,524
Increase / (decrease) from prior year		4.8%	7.3%	5.8%

Source: Thornburg Investment Management

Endowment Versus Lifestyle Spending Policies

Hypothetical Spending Amounts based on January 1, 1973 Distribution



Past performance does not guarantee future results.

Assuming a hypothetical retirement portfolio of 60% equities as represented by the S&P 500 Index, and 40% in intermediate-term government bonds as represented by Barclays Intermediate-term Government Bond Index.

For lifestyle spending policy, year one spending was set at \$50,000 and grown annually at inflation per actual CPI changes for the period.

For endowment policy, spending was \$50,000 in year one and increased using the 90/10 endowment calculation.

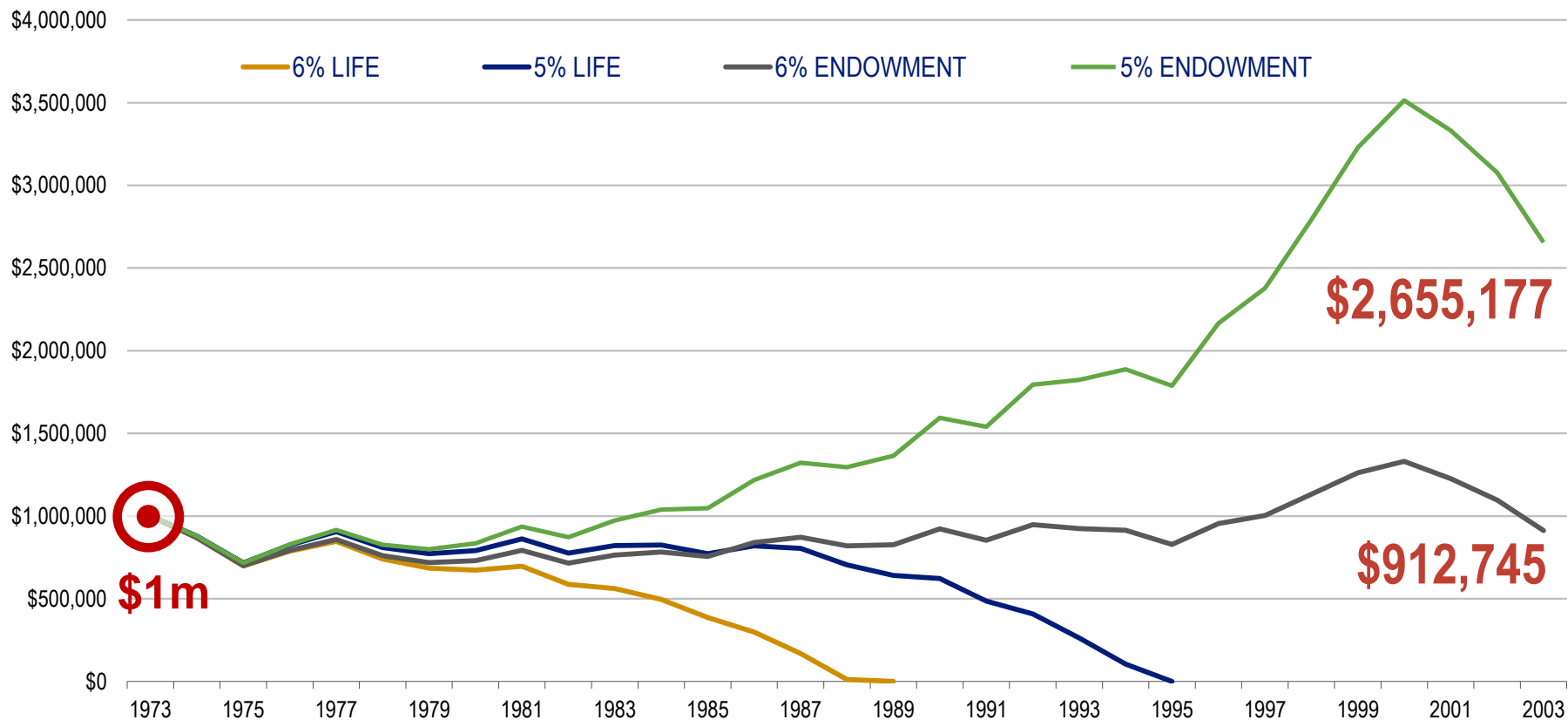
Index performance shown is for illustration purposes and is not representative of an actual investment.

Sources: Standard and Poor's, Barclays, Bureau of Labor Statistics; calculated by Thornburg.

Spending Rates & Policies Compared: A 30-yr Retirement

Lifestyle vs. Endowment Spending Policies...did it help?

Account Values for January 1, 1973 Distributions



Past performance does not guarantee future results.

Assumes an initial hypothetical investment of \$1 million. Per Bengen's model; 63% S&P 500; 37% Barclays ITGB; Actual Inflation (CPI)
For illustration purposes only. Does not represent any particular investment.
Source: Thornburg Investment Management

Wealth “To Dos”

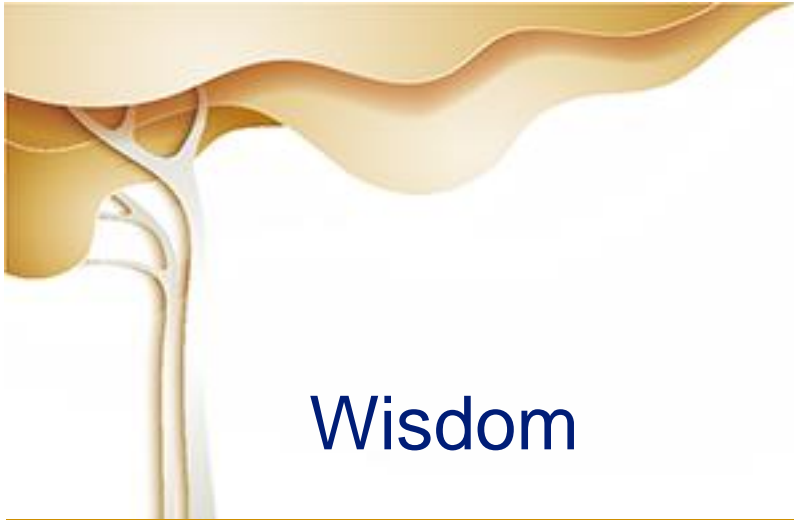


- Pay attention to *real* real returns
- Include dividend paying investments
- Build longevity-oriented portfolios
- Employ an endowment spending policy

*To acquire wealth is difficult,
to preserve it more difficult,
but to spend it wisely,
most difficult of all.*

Edward Day

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Wisdom



Living a Happy and Rewarding Second Half

**SHARE
WHAT
YOU'VE
LEARNED**

**CONSIDER
A LIFESTYLE
COMMUNITY**

**CONTINUE
LIFELONG INTERESTS
AND INITIATE NEW HOBBIES**

**STAY
ACTIVE**

LIVE

The great thing about getting older is that you don't lose all the ages you've been.

Madeline L'Engle

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