

# Big Questions for a Better Retirement



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At Janus Henderson, we seek to benefit clients through the connections we make. This includes the flow of ideas between investment teams, the insights we offer to inform clients and our engagement with companies to make a positive difference.

This is central to what active management stands for and to the outperformance we seek to deliver to clients.

**We're invested in connecting.**

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# INVESTED IN CONNECTING

1

## **Active because active matters**

We selectively invest in what we believe are the most compelling opportunities. Our investment teams are free to form their own views and seek to actively position portfolios to connect clients with their financial goals.

2

## **Global strength to deliver local solutions**

We offer true global reach with a presence in all major markets, combined with the responsiveness, tailored solutions and personal touch you would expect from a local partner.

3

## **Empowering clients with *Knowledge Shared***

We connect our clients with insights and knowledge that empower them to make better investment and business decisions.





# Agenda

## Five questions to consider

- 1 When is the right time to retire?

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- 2 How do I make my money last?

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- 3 What do I need to know about Social Security?

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- 4 How do I plan for health care in retirement?

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- 5 How do I start my plan?

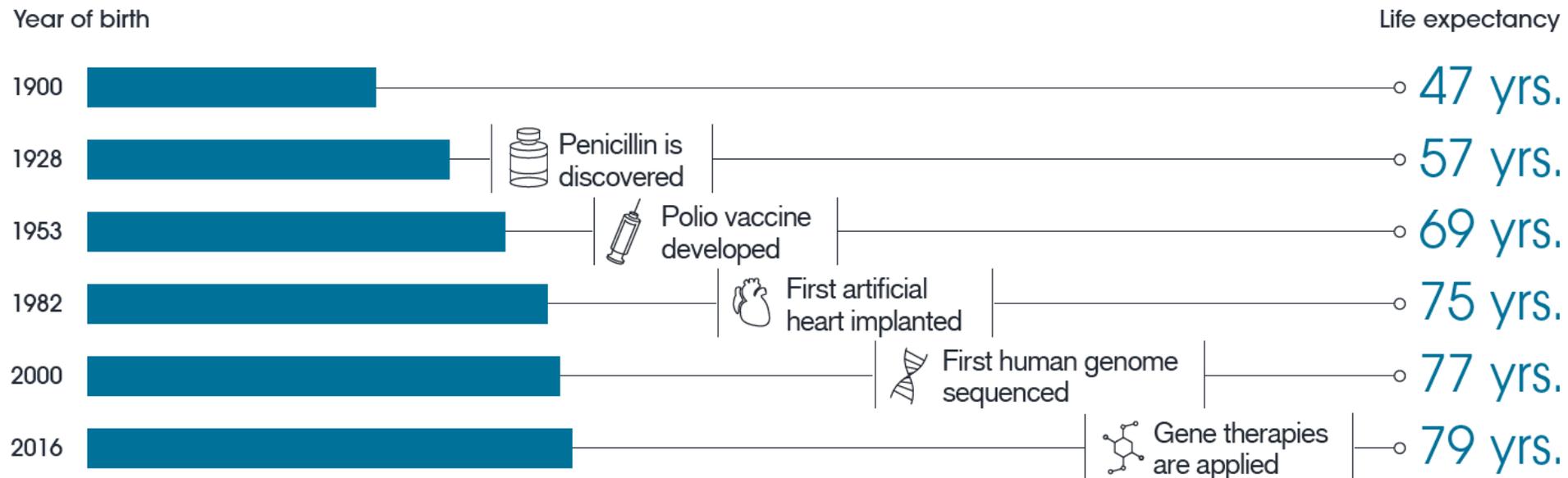
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When is the right time to retire?

# When is the right time to retire?

## Health care evolution fuels longer lives

- Continued health care advances translate to longer life expectancies
  - A woman who is 65 today can expect to live, on average, until age 85.8
  - A man who is 65 today can expect to live, on average, until age 83.2



Source: cdc.gov

# When is the right time to retire?

## Several factors to consider

**Health:** Longer lives mean more expenses

- The costs for out-of-pocket health care in retirement could reach \$300,000<sup>1</sup>

**Age:** When is the best time to access retirement assets?

- Age will dictate access to certain benefits and income sources in retirement

**Time:** How do you want to allocate your time?

- Another important consideration before retirement is deciding what to do if leaving the workforce

**Money:** Understand income and expenses as you near retirement

- It's important to understand minimum expenses and how much money will be needed to cover those costs

<sup>1</sup> "How to plan for rising health care costs." Fidelity Retiree Health Care Cost Estimate, Fidelity Viewpoints. August 29, 2022.

# When is the right time to retire?

## Access to retirement benefits by age

### Access to retirement benefits by age

Access most 401(k) plan assets without IRS penalty <sup>1</sup>	Age 55
Access most tax-deferred retirement savings without IRS penalty	Age 59 ½
Apply for minimum Social Security benefits	Age 62
Eligible for Medicare and Medicaid benefits	Age 65
Claim unreduced Social Security benefits (depending on year of birth)	Age 65-70
Collect maximum Social Security benefits	Age 70
Beginning age for required minimum distribution (RMD)*	Age 73

<sup>1</sup> With separation from service

\*RMD age will increase to 75 in 2033

How do I make my money last?

# How do I make my money last?

## Maximize your highest earnings years

The IRS allows catch-up contributions to retirement accounts if over age 50

Type of retirement plan	Catch-up amount allowed	Maximum contribution limit (includes catch-up)
401(k), 403(k), SARSEP, governmental 457(b)*	\$7,500	\$30,000
SIMPLE IRA	\$3,500	\$19,000
Traditional IRA	\$1,000	\$7,500

\* Note: In 2025, for individuals who are age 60 to 63, catch-up contribution increases to the greater of \$10,000 or 50% more than the regular catch-up contribution limit (taxable years after December 31, 2024). Catch-up contributions are now indexed for inflation.

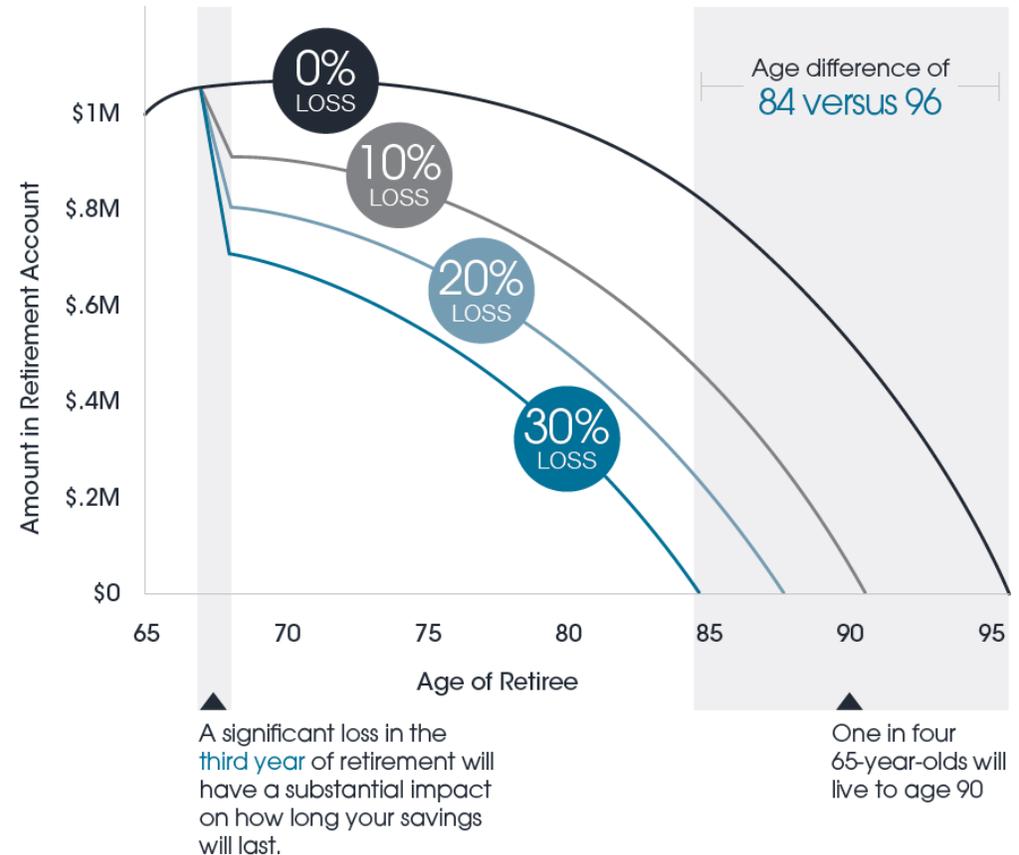
# How do I make my money last?

Don't underestimate the impact of large drawdowns

Hypothetical example:

## Age when investor could run out of wealth

*If a large drawdown occurs in the first three years of retirement*

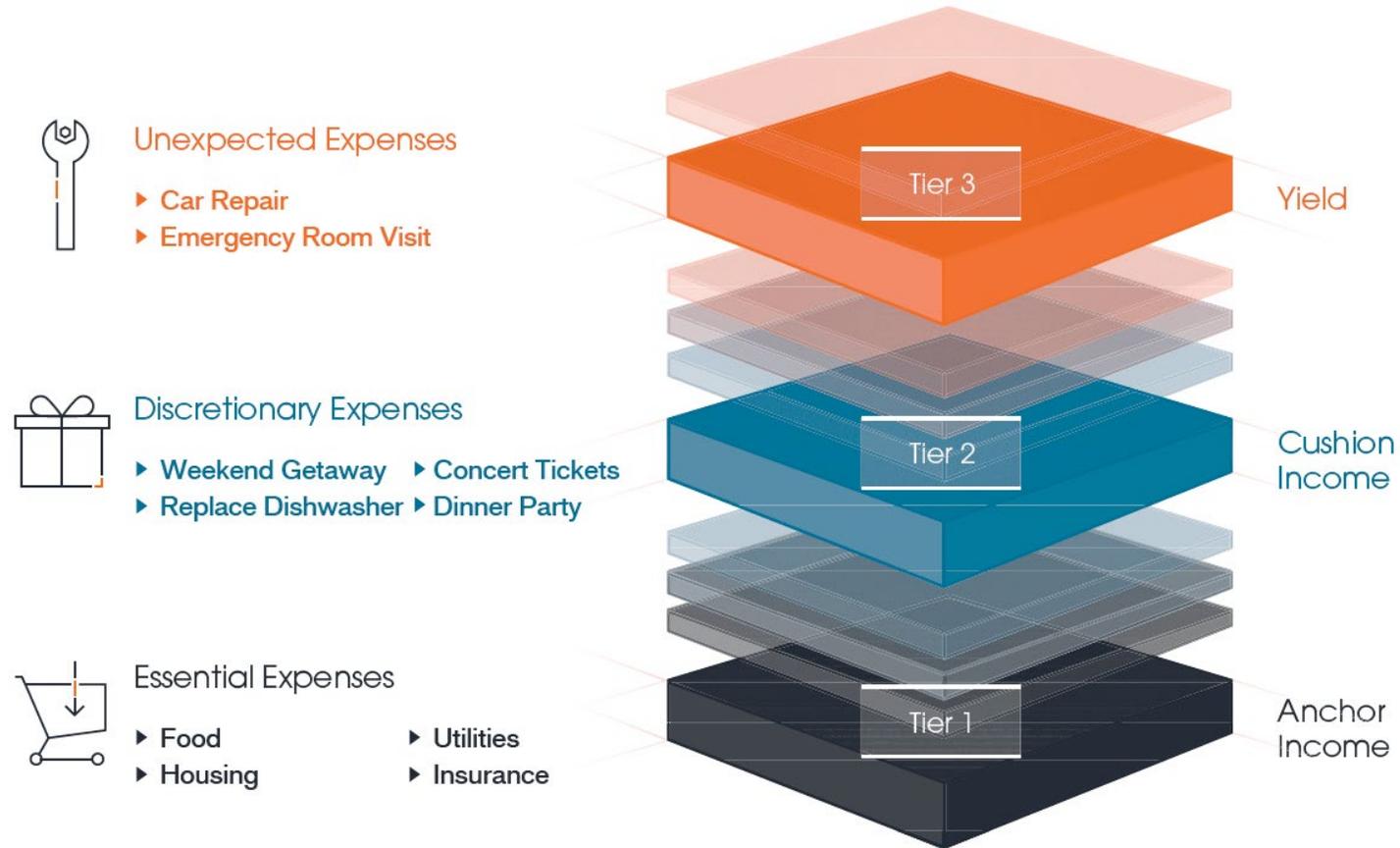


Hypothetical Example: Assume a \$1M beginning balance at retirement (age 65), a modest 5% return annually with the exception of a significant downturn in the third year of retirement (-30%, -20% and -10%), and a \$45K withdrawal adjusted 3% each year for inflation.

# How do I make my money last?

## Spending discipline

### The Three Tiers of Retirement Income

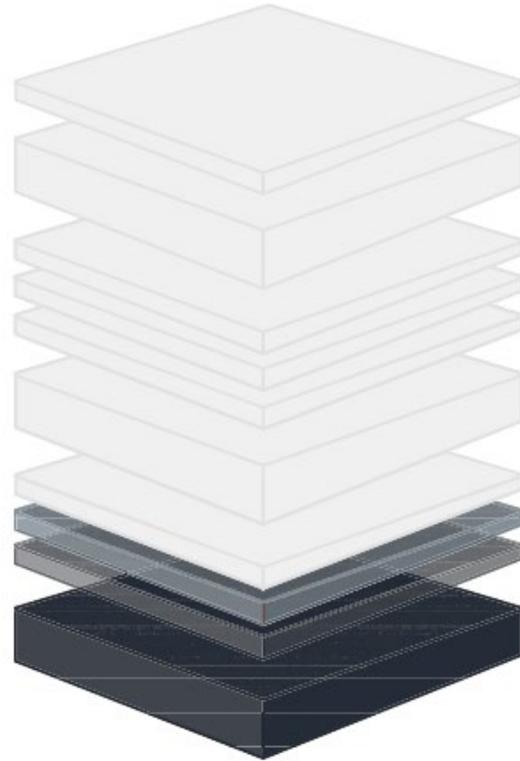


# How do I make my money last?

## Tier 1: Anchor income

### Examples:

- Social Security
- Pensions
- Royalties
- Annuities



### Tier 1: Anchor Income

#### *Essential Expenses*

May be used to meet essential needs in retirement; can generally be relied on regardless of market or economic conditions.

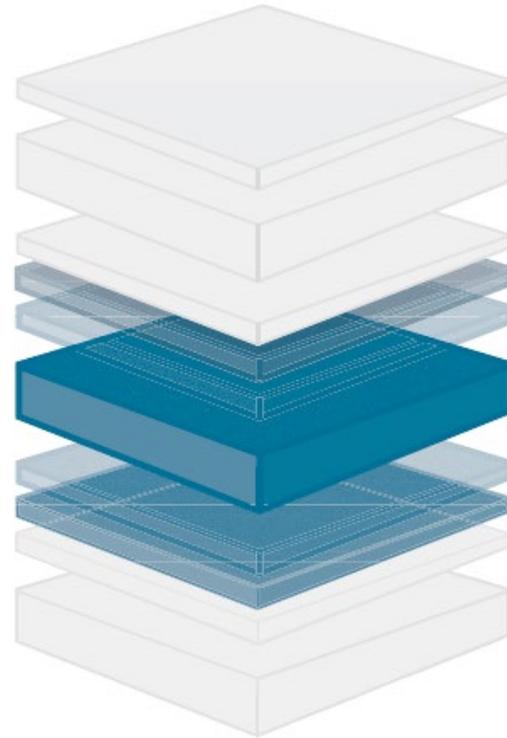
Many retirees may find peace of mind when their anchor income sources are equal to their essential household expenses. If there is a shortfall, it may be wise to use a portion of their existing portfolio to purchase an investment product that will provide the necessary additional monthly income.

# How do I make my money last?

## Tier 2: Cushion income

### Examples:

- Bank deposits
- Short-term or low-duration bond mutual funds or ETFs
- Money markets



### **Tier 2: Cushion Income** *Discretionary Expenses*

Income that can be used to pay unexpected expenses, to cover a shortfall in essential expenses or for discretionary expenses.

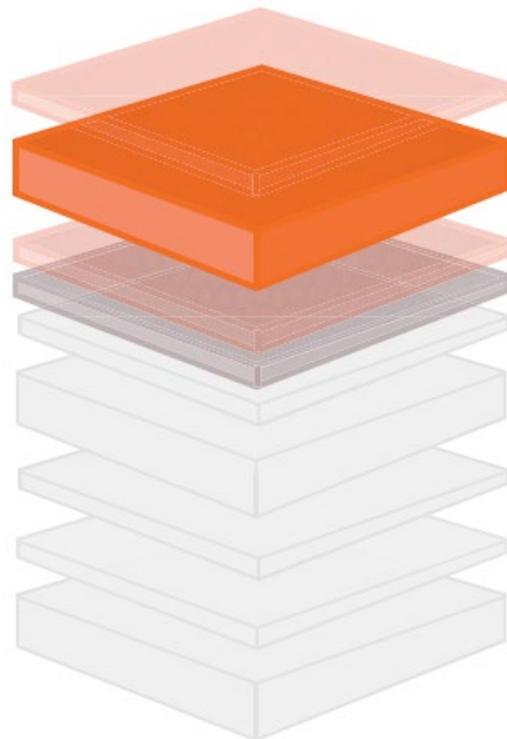
Cushion income may help avoid the need to sell stock investments that have gone down in value. If effective, a pool of cash is readily available for withdrawals and can be augmented or replenished from the yield portion of the portfolio.

# How do I make my money last?

## Tier 3: Yield

### Examples:

- Government and corporate bonds of various maturities and credit qualities
- High-dividend-paying stocks
- Fixed income-based mutual funds or ETFs



### Tier 3: Yield

#### *Unexpected Expenses*

Additional income generated from higher-risk investments that can provide diversification from the stock or growth portion of a retirement portfolio; used to replenish cushion income as needed.

As these investments often pay interest and/or dividends, those payments may be reinvested or can be used to refill cushion income and augment anchor income. For some investors, income needs may require interest and dividends to help meet unexpected expenses.

# How do I make my money last?

## Be tax aware

- Your tax situation in retirement will be impacted by the account from which you withdraw
- Tip:** Qualified withdrawals from a Roth IRA may be tax free and can be used strategically to minimize taxes

### Hypothetical Example Shareholders: Fred and Linda

A retired couple with the following retirement accounts is looking to receive income of \$100,000 for the year. What accounts are tapped and in what order make a big difference in the taxes owed to the IRS.

- Total Investments: 401(k)s \$1M,
- Traditional IRAs \$200,000, Roth IRAs \$150,000

Income Source	Taxable Income	Tax Withdrawn
Social Security benefit	\$20,000	\$2,400
Pension benefit	\$20,000	\$2,400
401(k) withdrawn	\$37,400	\$4,488
<b>Total Income</b>	<b>\$77,400</b>	<b>\$9,288</b>

12% Income Tax

After taxes, Fred and Linda will bring home \$68,112. In order to hit their goal of \$100,000 in pre-tax income, Fred and Linda need to find an additional income of \$22,600. This is a key decision for Fred and Linda because additional income withdrawn will generally be taxed higher at the next tax bracket of 22%.

### Big Decision

Non-tax-efficient strategy of remaining \$22,600 withdrawn from 401(k) taxed at ordinary income rate

\$4,972 spend in taxes at 22%

▼\$14,260 overall tax spend

Tax-aware strategy of remaining \$22,600 withdrawn from a Roth IRA tax free

\$0 spend in taxes

▼\$9,288 overall tax spend

VS

The example provided is hypothetical and used for illustrative purposes only.

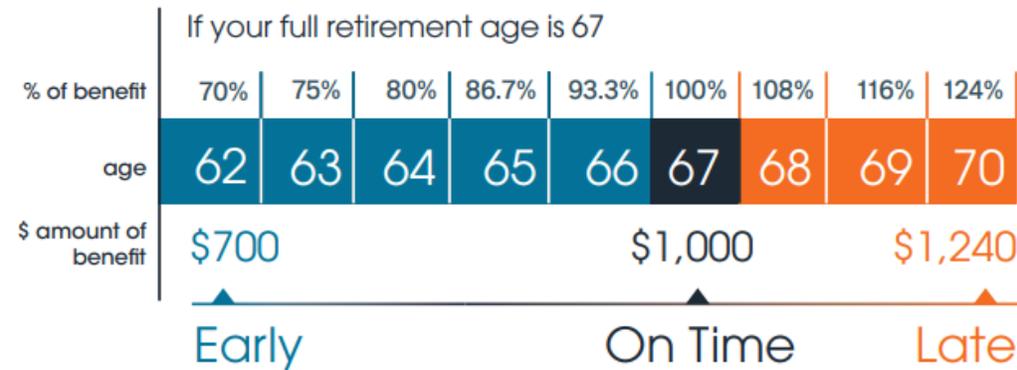
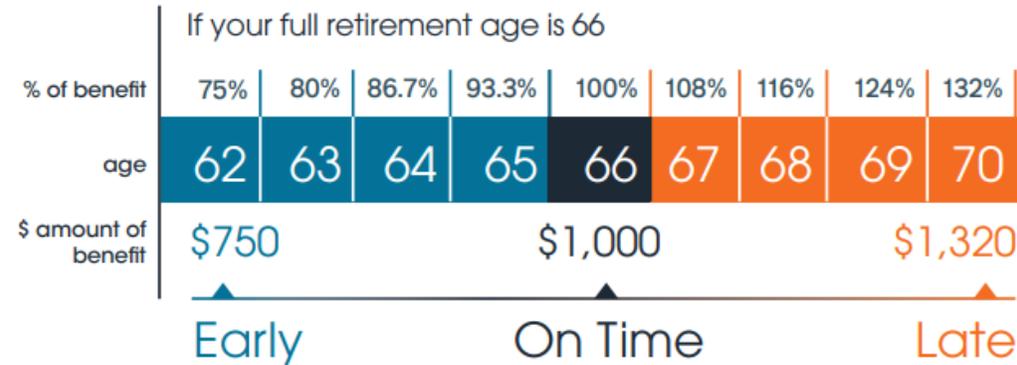
What do I need to know about Social Security?

# What do I need to know about Social Security?

## When to take Social Security benefits

Full Retirement Age	
Year of Birth	Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Hypothetical Example: How Much Social Security Can You Expect?  
(based on an expected benefit of \$1,000/month at full retirement age)



# What do I need to know about Social Security?

## Things to consider

### Spousal benefits:

- Half the primary worker's primary insurance amount (PIA) if started at full retirement age
  - Primary worker must have filed for benefits
  - Spouse must be at least 62 for reduced benefit or 66 for full benefit
  - No delayed credits on spousal benefits after 66

### Survivor benefits will depend on:

- The age at which the deceased spouse originally claimed his or her benefit (the “original benefit”)
  - If he or she claimed before full retirement age (FRA), survivor benefit will be limited to the higher of the deceased spouse’s benefit or 82.5% of their PIA
  - If he or she claimed after FRA, the survivor benefit will include delayed credits
- The age at which the widow/widower claims the survivor benefit (the “actual benefit”)
  - If he or she claims before their FRA, the survivor benefit will be a fraction of the original benefit (e.g., 71.5% of PIA if claimed at 60)
  - If he or she claims at FRA or later, the survivor benefit will equal 100% of the original benefit

How do I plan for health care in retirement?

# How do I plan for health care in retirement?

## Medicare basics

- Generally, you will qualify for Medicare at age 65 if you or your spouse have/has worked long enough to be eligible for Social Security retirement benefits
- If you are 65 and receiving Social Security benefits, you will be enrolled automatically; if you are not receiving benefits, you will need to apply

	Coverage	Premium	Deductible	Co-Pay
Part A	Hospital, skilled nursing facility, home health care and hospice care	Generally, none	\$1,600 per spell of illness	Begins after 60 hospital days
Part B	Physician and outpatient services	Begins at \$164.90/month	\$226/year	20% of Medicare-approved amounts
Part D	Prescription drugs	Depends on plan	\$505/year	Once you and your plan spend \$4,660 you'll pay no more than 25% of the drug cost up to \$7,400 after which you will pay 5% of drug cost.

Source: medicare.gov

# How do I plan for health care in retirement?

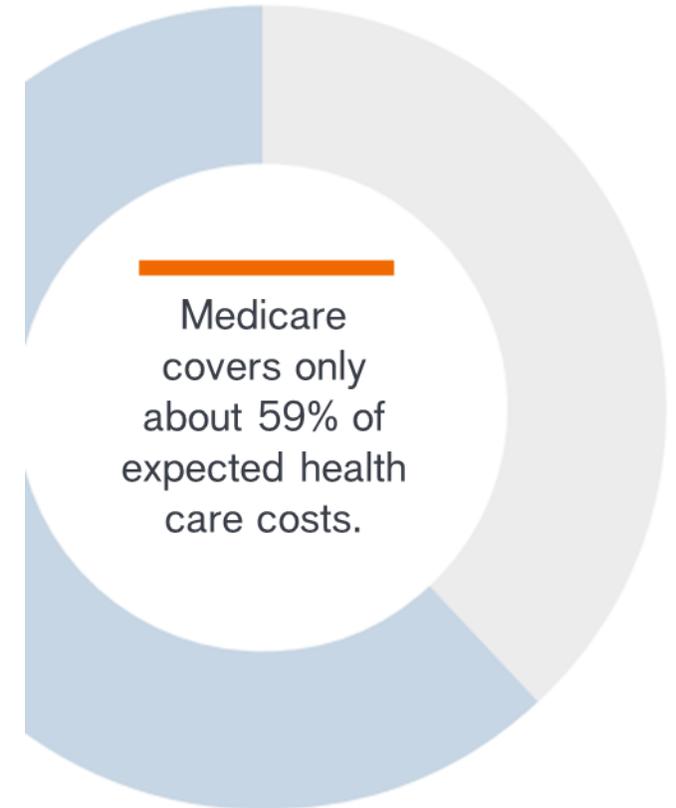
## Medicare gaps to be aware of

### Medicare Part A and Part B do not cover some routine procedures:

- Dental care: cleanings, fillings, and dentures
- Vision care: eye exams, contact lenses and eyeglasses
- Hearing exams and aids
- Custodial long-term care or general day-to-day care

### To help cover gaps in Medicare, consider:

- Purchasing Medigap insurance for gaps in coverage not covered by Medicare
- Purchasing custodial long-term care coverage



Source: Paul Fronstin, Ph.D., and Jack VenDerhei, Ph.D., Employee Benefit Research Institute (EBRI). "Projected Savings Medicare Beneficiaries Need for Health Expenses Spike in 2021: Some couples could need as much as \$360,000 in savings." January 20, 2022.

# Putting it all together



# Putting it all together

How do I start my plan?

- 1 Audit expenses
- 2 Review risk profile
- 3 Review asset location
- 4 Diversify assets, consolidate cash flows
- 5 Build your retirement team

## Important information

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