

# Retirement Income Planning: Tools and Strategies to Help Bolster Your Assets

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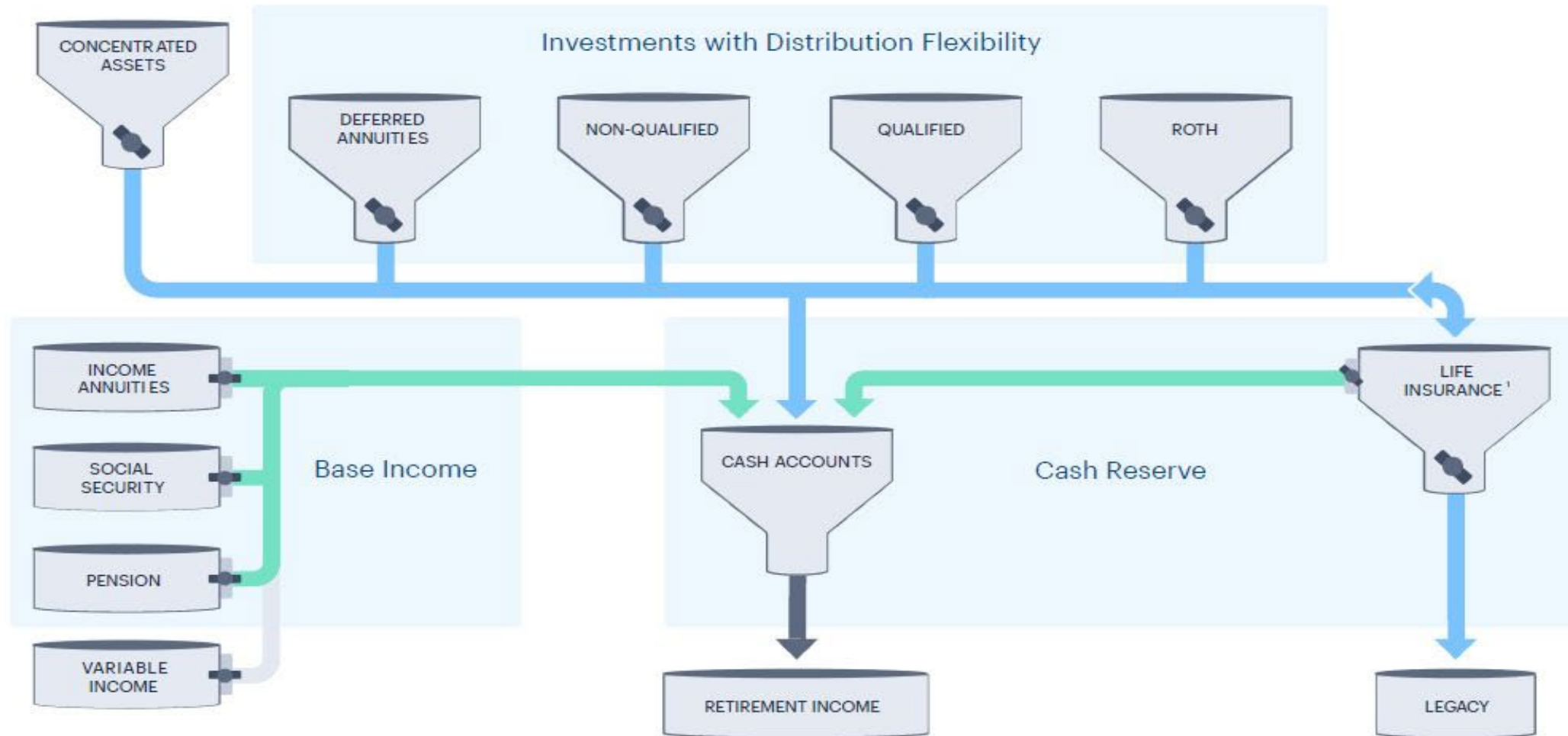
# Today's Agenda

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- The “Buckets” of Financial Planning
- Retirement Income Planning Strategies / Concepts
- Managing Retirement Risks
- Advanced Planning Ideas
- Current Retirement Environment – Market, Inflation, etc.
- Summary

# The “Buckets” of Financial Planning

## Retirement Planning Strategy



1. The primary purpose for life insurance is to provide a death benefit. Using accumulated value to supplement your retirement income may reduce death benefits and may affect other aspects of your plan.

# Social Security

# Social Security: When Should I Start Receiving It?

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Deferring Social Security until a later age:

Year of Birth	Full Retirement Age (FRA)	You will receive this percent increase if you retire at age:			
		67	68	69	70
<b>1943-1954</b>	66	8%	16%	24%	32%
1955	66 and 2 months	$6\frac{2}{3}\%$	$14\frac{2}{3}\%$	$22\frac{2}{3}\%$	$30\frac{2}{3}\%$
1956	66 and 4 months	$5\frac{1}{3}\%$	$13\frac{1}{3}\%$	$21\frac{1}{3}\%$	$29\frac{1}{3}\%$
1957	66 and 6 months	4%	12%	20%	28%
1958	66 and 8 months	$2\frac{2}{3}\%$	$10\frac{2}{3}\%$	$18\frac{2}{3}\%$	$26\frac{2}{3}\%$
1959	66 and 10 months	$1\frac{1}{3}\%$	$9\frac{1}{3}\%$	$17\frac{1}{3}\%$	$25\frac{1}{3}\%$
<b>1960 and later</b>	67	—	8%	16%	24%



## Social Security: When Should I Start Receiving It? Part 2

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Pulling Social Security earlier than your FRA:

Year of Birth	You will receive this percent of your PIA if you retire at age:				
	62	63	64	65	66
1957	72.5%	77.5%	83.3%	90.0%	96.6%
1958	71.6	76.6	82.2	88.8	95.5
1959	70.8	75.8	81.1	87.7	94.4
1960 and later	70.0	75.0	80.0	86.6	93.3

**Note:** Decimals are rounded down.

# Social Security: When Should I Start Receiving It? Part 3

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Consider the following things:

- Personal health
- Family health history / life expectancy
- What is your spouse's Social Security? Will they be bumped up to your Social Security payment if you pass first?
- Does the amount I am able to receive help me hit my income floor?
- Do you WANT to continue to work? Do you NEED to continue to work to make the rest of your retirement plan work?



# Annuities – Income & Deferred

# Types of Annuities

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**Immediate Income Annuity:** Annuitant pays a lump sum of money in return for a series of payments that start immediately. These are either paid for life or for a specific time period

**Deferred Annuity:** Annuitant invests money regularly over time in return of annuity payments at some point in the future. This is often how company pension plans are structured

**Qualified Annuity:** An annuity that is purchased with pre – tax dollars

**Non-Qualified Annuity:** An annuity that is purchased with after – tax dollars

**Variable Annuity:** Annuity performance and value is tied to market-based investments. Typically holds mutual funds that can invest in stocks, bonds, etc.

# Important Terms to Know Regarding Annuities

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**Annuitant:** the individual that is entitled to collect the regular payments of an annuity investment; this may be the contract holder or someone else, like a surviving spouse

**Refund:** An option to return annuity premiums to a beneficiary when the annuitant has died prior to receiving what they paid in premiums \* **I recommend always adding a refund option, there is no need to take the risk of not having a refund option** \*

**Credit Rating of Carrier:** Make sure you are working with a quality company. Credit rating companies include Moody's, Fitch, A.M. Best, and S&P Global

**Expenses:** Mortality & Expense, Admin, Investment (Variable only), Maintenance

**Sales Charge:** Front Load, Back Load, or No Load – if / when is there a fee taken out?

# Investments – Non-Qualified, Qualified, Roth

# Investment Options

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Non-Qualified: Sometimes called a brokerage account, this account is after tax money, and is subject to income tax each year (1099), and capital gains taxes on withdrawals

Qualified: Examples include, Pre-Tax 401(k), 403(b), or Traditional IRAs. Save on income taxes up front, grows tax-deferred, but then taxes are due at withdrawal

**\*subject to Required Minimum Distributions (RMDs)**

Roth: Examples include Post-Tax Roth 401(k), 403(b), or Roth IRAs. Money goes in after tax, but then grows tax free, and is pulled out tax free. Please note that there is an income limit for Roth IRAs. However, there is no income limit that bars you from funding Roth Employer plans and/or Roth Conversions

**\*not subject to RMDs**

**Summary: Qualified and Roth are going to be your two most tax-advantaged options**



# Life Insurance

# Life Insurance

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Term Life Insurance: A “cheaper” more cost-effective insurance that lasts for a certain length of time (term) or to a specific age **\*not part of the retirement buckets\***

Whole Life / Permanent / Cash Value Life Insurance: Life insurance that can last your entire lifetime but can be included in a retirement plan because most of these policies generate a cash value. Cash value can be accessed if desired via surrender or loan.

Whole life: Permanent life insurance where your premiums are fixed and guaranteed

Universal life: A form of permanent life insurance where the premiums are flexible

Variable: Same as annuities, variable means the performance is tied to investments

**Summary: Life insurance can be complicated, please work with a qualified financial professional and make sure you work with a high-quality insurance carrier at all times**

# Retirement Income Planning Strategies / Concepts

# Different Strategies to Successfully Develop Retirement Income

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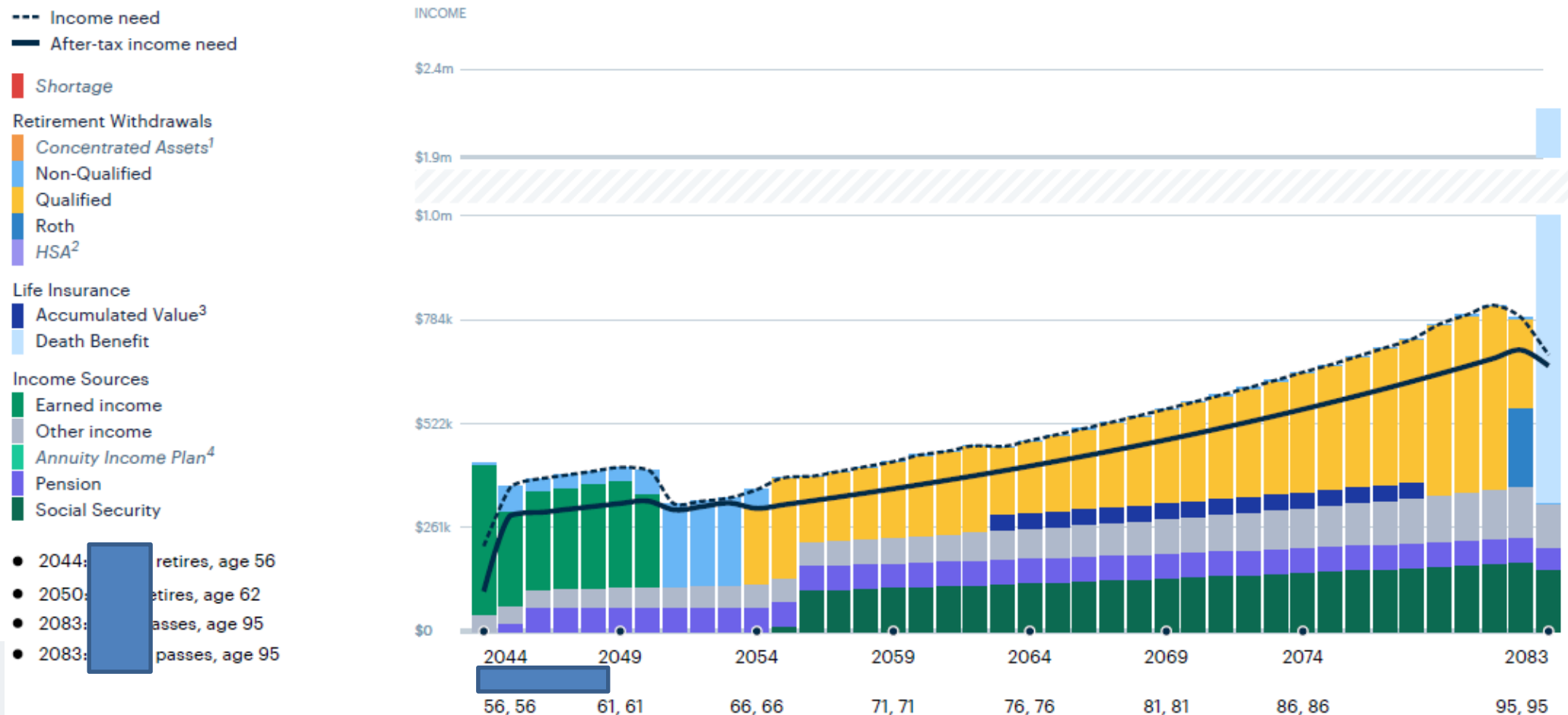
**Flooring:** Build a budget and know what your minimum monthly expenditures look like. Once you know, try and reach that minimum by building an income floor with your social security, pension, and then annuities. If you can reach your floor via fixed income, your plan works, even in the work market / economic environments

**4% Rule:** Not my favorite, but the old adage is that you can earn 4% safely, so the 4% rule says you can live off of 4% of your portfolio. This has fallen out of favor due to interest rates. Lower interest rates have pushed down returns on bonds over time

**Bucketing – Short Term Vs. Long Term:** For example, let's say you have \$1 Million from your 401(k). Obviously, not all of that money is going to be used up front. So, maybe you take 5 years worth of expenses (Let's say \$50k a year), so \$250,000 and place into a conservatively invested Traditional IRA. Then, the other \$750,000 can be placed in a more moderate/aggressive Traditional IRA to outpace inflation

# Different Strategies to Successfully Develop Retirement Income Cont.

**Summary:** There are many ways to devise a retirement income plan strategy. Please consult a financial professional to ensure your plan works. Advisors can run a Monte Carlo analysis where 500 simulation trials / stress tests of your plan are run.

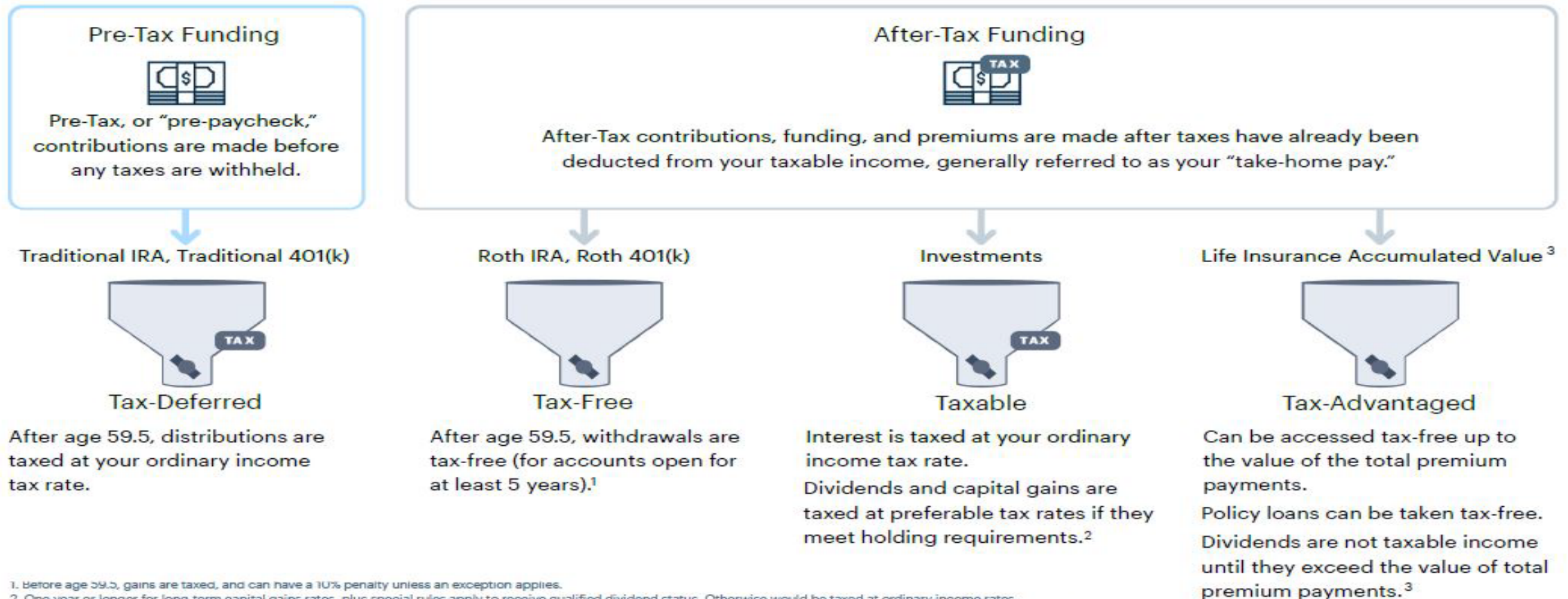




# Order of Operations for Distribution

## Retirement Planning Tax Considerations

There are many options for retirement savings. Diversifying your assets may provide you with more flexibility and tax efficiency in retirement.



1. Before age 59.5, gains are taxed, and can have a 10% penalty unless an exception applies.

2. One year or longer for long-term capital gains rates, plus special rules apply to receive qualified dividend status. Otherwise would be taxed at ordinary income rates.

3. If you plan on using permanent life insurance to fund some of your retirement, keep in mind: You need to own permanent life insurance for a number of years to accrue significant accumulated values; Much of the growth in accumulated values that you will need will depend on dividends, which are not guaranteed; Using accumulated value for loans or withdrawals may decrease the death benefit; If you withdraw too much accumulated value from a policy, you may cause the policy to lapse, which could trigger a taxable event. If the policy is a Modified Endowment Contract (“MEC”), any distributions are treated first as distributions of gain, subject to ordinary income tax and possibly subject to an additional 10% penalty tax if the owner is under age 59.5.

# Managing Retirement Risks

Here are the most common risks you may face in retirement along with ways you can start planning for them today.



### Outliving Your Savings

A couple age 65 has a 1 in 10 chance that one of them will live to 100.<sup>1</sup>

- Plan for a long retirement
- Increase guaranteed income streams
- Withdraw less from investments



### Market Volatility

Since 1945, the S&P 500 has averaged a correction (stock price decline) of at least 10% about once every 18 months.<sup>2</sup>

- Implement strategic asset allocation
- Reduce reliance on investments
- Establish a cash reserve



### Inflation and Taxes

An average inflation rate of 4% will cut your purchasing power in half in 18 years.

- Invest strategically for inflation
- Diversify asset types
- Consider the tax impact of investment withdrawals



### Health Care Costs

Medical spending is projected to grow at an average rate of 5–6% per year through 2025.<sup>3</sup>

- Plan ahead for health expenses
- Understand insurance and Medicare options
- Increase liquidity for unexpected costs and expenses



### Long-term Care

Approximately half of Americans turning age 65 today will need some type of LTC in their lives.<sup>4</sup>

- Understand funding options
- Consider long-term care protection
- Add flexibility with a hybrid product



### Leaving a Legacy

Spending down assets in retirement can diminish the financial legacy intended for family or charity.

- Define your legacy objectives
- Implement a funding strategy while balancing retirement spending
- Explore tax-advantaged transfers

1. Based on Society of Actuaries, 2012 Individual Annuity Mortality Tables, Basic.

2. S&P Capital IQ, "Outlook 2014: Good Years Often Follow Great Years" [us.spindices.com](http://us.spindices.com)

3. National Health Expenditure (NHE) Projections 2016–2025 Centers for Medicare. 4. U.S. DEPARTMENT OF THE TREASURY, Long-Term Care Insurance: Recommendations for Improvement of Regulation, "Report of the Federal Interagency Task Force on Long-Term Care Insurance," August 2020, p3

# Market Volatility



# Down Markets Matter

## Asset Class Annual Performance

It's impossible to predict the performance of a single asset class year over year. They all experience ups and downs. It's more strategic to diversify your portfolio to achieve consistent returns.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Compounded Return <sup>1</sup>	Risk <sup>2</sup>	High
Int'l Emerging 39.4%	Fixed Income 5.2%	Int'l Emerging 78.5%	Real Estate 28.1%	Real Estate 9.4%	Int'l Emerging 18.2%	U.S. Small Cap 41.3%	Real Estate 32.0%	Real Estate 4.5%	U.S. Small Cap 26.6%	Int'l Emerging 37.3%	Cash Alt. 1.9%	U.S. Large Cap 31.5%	U.S. Large Cap 18.4%	Real Estate 45.9%	U.S. Large Cap 10.7%	Real Estate 23.9%	
Commodities 16.2%	Cash Alt. 1.8%	U.S. Mid Cap 37.4%	U.S. Mid Cap 26.6%	Fixed Income 7.8%	U.S. Mid Cap 17.9%	U.S. Mid Cap 33.5%	U.S. Large Cap 13.7%	U.S. Large Cap 1.4%	U.S. Mid Cap 20.7%	Int'l Developed 25.0%	Fixed Income 0.01%	U.S. Mid Cap 26.2%	Int'l Emerging 18.3%	U.S. Large Cap 28.7%	U.S. Mid Cap 10.5%	Int'l Emerging 21.4%	
Int'l Developed 11.2%	Diversif'd Portfolio -23.6%	Int'l Developed 31.8%	U.S. Small Cap 26.3%	U.S. Large Cap 2.1%	Int'l Developed 17.3%	U.S. Large Cap 32.4%	U.S. Mid Cap 9.8%	Fixed Income 0.6%	U.S. Large Cap 12.0%	U.S. Large Cap 21.8%	Real Estate -4.2%	Real Estate 23.1%	U.S. Mid Cap 13.7%	Commodities 27.1%	U.S. Small Cap 10.2%	U.S. Small Cap 20.0%	
Diversif'd Portfolio 8.3%	U.S. Small Cap -31.1%	Real Estate 28.5%	Int'l Emerging 18.9%	U.S. Small Cap 1.0%	Real Estate 17.1%	Int'l Developed 22.8%	Fixed Income 6.0%	Cash Alt. 0.03%	Commodities 11.8%	U.S. Mid Cap 16.2%	U.S. Large Cap -4.4%	U.S. Small Cap 22.8%	U.S. Small Cap 11.3%	U.S. Small Cap 26.8%	Real Estate 6.3%	U.S. Mid Cap 18.4%	
U.S. Mid Cap 8.0%	Commodities -35.7%	U.S. Large Cap 26.5%	Commodities 16.8%	Diversif'd Portfolio 0.6%	U.S. Small Cap 16.3%	Diversif'd Portfolio 11.4%	U.S. Small Cap 5.8%	Int'l Developed -0.8%	Int'l Emerging 11.2%	U.S. Small Cap 13.2%	Diversif'd Portfolio -5.1%	Int'l Developed 22.0%	Diversif'd Portfolio 10.6%	U.S. Mid Cap 24.8%	Diversif'd Portfolio 6.3%	Int'l Developed 17.4%	
Fixed Income 7.0%	U.S. Mid Cap -36.2%	U.S. Small Cap 25.6%	U.S. Large Cap 15.1%	Cash Alt. 0.1%	U.S. Large Cap 16.0%	Real Estate 1.2%	Diversif'd Portfolio 5.6%	Diversif'd Portfolio -1.6%	Diversif'd Portfolio 7.6%	Diversif'd Portfolio 13.1%	U.S. Small Cap -8.5%	Int'l Emerging 18.4%	Int'l Developed 7.8%	Diversif'd Portfolio 12.2%	Int'l Emerging 4.5%	Commodities 16.5%	
U.S. Large Cap 5.5%	U.S. Large Cap -37.0%	Diversif'd Portfolio 22.2%	Diversif'd Portfolio 12.9%	U.S. Mid Cap -1.7%	Diversif'd Portfolio 11.0%	Cash Alt. 0.1%	Cash Alt. 0.03%	U.S. Small Cap -2.0%	Real Estate 6.7%	Real Estate 3.8%	U.S. Mid Cap -11.1%	Diversif'd Portfolio 18.1%	Fixed Income 7.5%	Int'l Developed 11.3%	Fixed Income 4.1%	U.S. Large Cap 15.3%	
Cash Alt. 4.7%	Real Estate -39.2%	Commodities 18.9%	Int'l Developed 7.8%	Int'l Developed -12.1%	Fixed Income 4.2%	Fixed Income -2.0%	Int'l Emerging -2.2%	U.S. Mid Cap -2.2%	Fixed Income 2.7%	Fixed Income 3.5%	Commodities -11.3%	Fixed Income 8.7%	Cash Alt. 0.6%	Cash Alt. 0.1%	Int'l Developed 3.6%	Diversif'd Portfolio 9.7%	
U.S. Small Cap -0.3%	Int'l Developed -43.4%	Fixed Income 5.9%	Fixed Income 6.5%	Commodities -13.3%	Cash Alt. 0.1%	Int'l Emerging -2.6%	Int'l Developed -4.9%	Int'l Emerging -14.9%	Int'l Developed 1.0%	Commodities 1.7%	Int'l Developed -13.8%	Commodities 7.7%	Commodities -3.1%	Fixed Income -1.5%	Cash Alt. 0.9%	Fixed Income 3.2%	
Real Estate -17.6%	Int'l Emerging -53.3%	Cash Alt. 0.2%	Cash Alt. 0.1%	Int'l Emerging -18.4%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Cash Alt. 0.3%	Cash Alt. 0.8%	Int'l Emerging -14.6%	Cash Alt. 2.3%	Real Estate -11.2%	Int'l Emerging -2.5%	Commodities -2.6%	Cash Alt. 0.4%	
																	Low

Source: 2022 Morningstar. This chart is for illustrative purposes only and not indicative of any investment. The data assumes reinvestment of all income and does not account for taxes or transactions costs. This chart is based upon past index performance and is not indicative of future results. Indexes are unmanaged and cannot be invested in directly. Diversification does not guarantee a profit or protect against a loss. Note that the diversified portfolio's assets were rebalanced monthly in order to maintain the designated allocations throughout the period.

1. Compounded returns are measured by the geometric mean of a given portfolio, which takes into account the sequence of returns over a given period of time and more accurately shows the portfolio's performance over that period of time, as compared to a simple average.

2. Risk is represented by Standard Deviation, which is the measure of total volatility in a portfolio. It shows how widely a portfolio's returns have varied around the average over a period of time. Standard deviations on this chart were calculated using monthly returns.



# Long Term Care / Health Care Costs

# Long Term Care and Health Care Costs – Ways to Plan Ahead

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HSA: Health Savings Accounts. If in a high deductible health insurance plan, consider funding HSAs. They are triple tax exempt and can be funded with \$3,650 a year per person currently

Long Term Care Insurance: Stand-alone coverage that solely covers long term care insurance. The younger you are, the easier it is to qualify, and the cheaper it is. Females cost more than males, most companies offer a spousal discount if both are getting coverage

“Hybrid” Option: Many companies know the value of having long term care coverage in a plan, so a lot of companies have created “hybrid” products that address multiple needs. For example, life insurance that allows 90% of death benefit to be used for long term care.

Self-Insure: Pay out of pocket, but this puts all of the risk on to you. Consider using insurance to offset the risk

# Leaving a Legacy

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SECURE Act: Passed in the end of 2019, eliminated the “Stretch IRA”

Great assets to leave family include:

- Life insurance – tax free benefit
- Roth IRA’s – tax free benefit, but needs to be withdrawn within 10 years
- Non-Qualified Accounts – receives a step up in cost basis
- Real Estate – receives a step up in basis

Great assets to leave to Charity:

- Traditional IRA’s
- 401(k)’s
- 403(b)’s

**\*ANNUITIES ARE NOT EFFICIENT LEGACY TOOLS**

# Advanced Planning Ideas



## Ideas Moving Forward

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**Cash:** If your balance sheet is heavy with qualified retirement plans / investments, we typically recommend trying to hold 2-3 years worth of cash on hand. This allows you to weather the worst of historic downturns our markets have seen in the past

**Roth Conversions:** We currently have the ability to move money from pre-tax accounts to Roth IRAs via conversions. The only trade-off is paying the taxes up front. However, if you have a large allocation of pre-tax \$, this could be a good move to consider

**Tax-Loss Harvesting:** In non-qualified accounts, we typically pay capital gains taxes. However, when the market is down, we can actually capture losses to either deduct from our income, or offset gains on other holdings. Must avoid a wash sale

**“Pension Max” Strategy:** If you have a pension, we highly recommend holding life insurance so that your pension / income stream is insured. Allows you to pull more from the pension

Current Retirement Environment – Market, Inflation, etc.

# Staying True To The Plan

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“Most investors look at past crashes as opportunities and current crashes as threats. Great investors see the opportunities in real time.” Ben Beshear

“Sitting still feels reckless in a fast-moving world, even in situations where it offers the best odds of long-term compounding. It’s like being told that you should play dead if a grizzly charges you. Running for your life just feels more practical.” Morgan Housel

# CLIMBING THE WALL OF WORRY

There will always be a reason not to invest and even more so a reason to sell. Despite pessimism, dire predictions and calls of "this time it's different," the stock market has always made new highs.

\$1,000 invested in 1970 would be worth \$233,300 today



S&P 500 data is from Mornignstar Direct. Events and stock market returns are from 1970. The annualized total return of the S&P 500 since 1970 is 11.05%. All investments carry some level of risk. Past performance is not indicative of future results.

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# FOCUS ON THE LONG TERM

Historical trends between 1926 and 2021 show the risk of stock market decline over time.

## 1-year returns have been positive

74% of the time

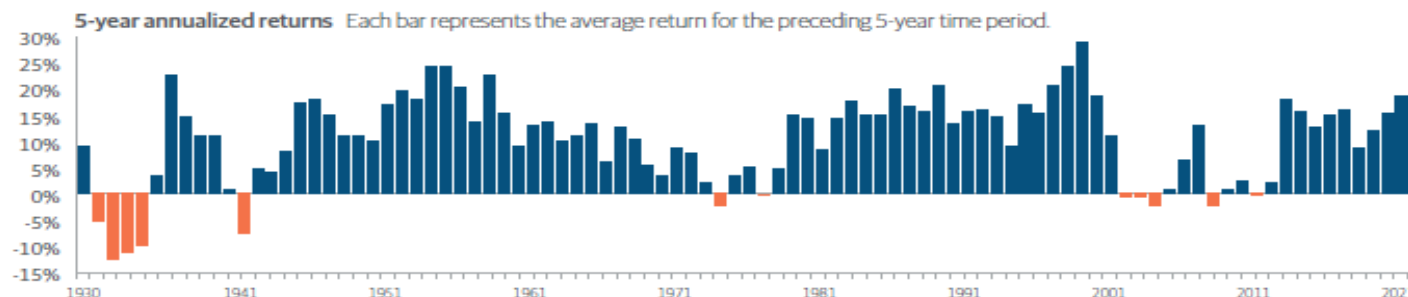
Short-term volatility can shake investors' nerves, but annual returns of stocks have been mostly positive.



## 5-year annualized returns have been positive

87% of the time

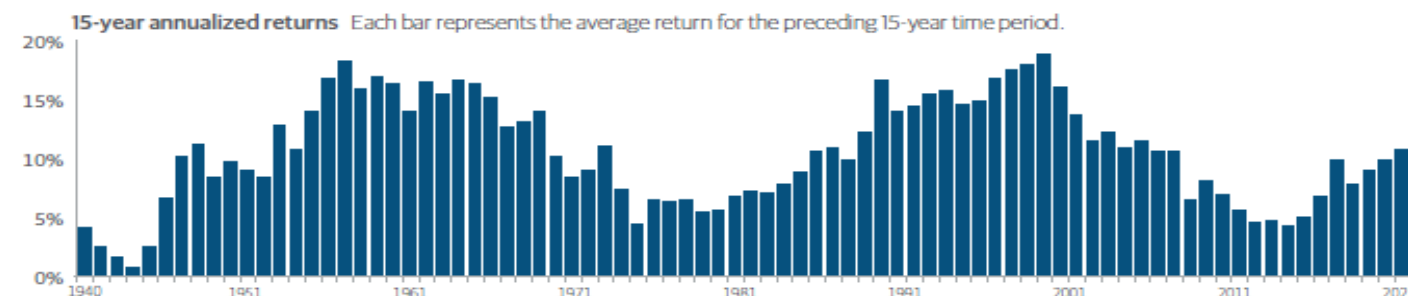
Markets get less volatile when you start looking at longer-term investments.



## 15-year annualized returns have been positive

100% of the time

While investing for the long-term cannot guarantee the elimination of losses, over 15-year rolling periods stocks have not had a period of negative returns.



\*Source: 2022 Morningstar Direct. Stocks are represented by the IASBBI US Large Stock TR Index. All returns are from 1926 to 2021.

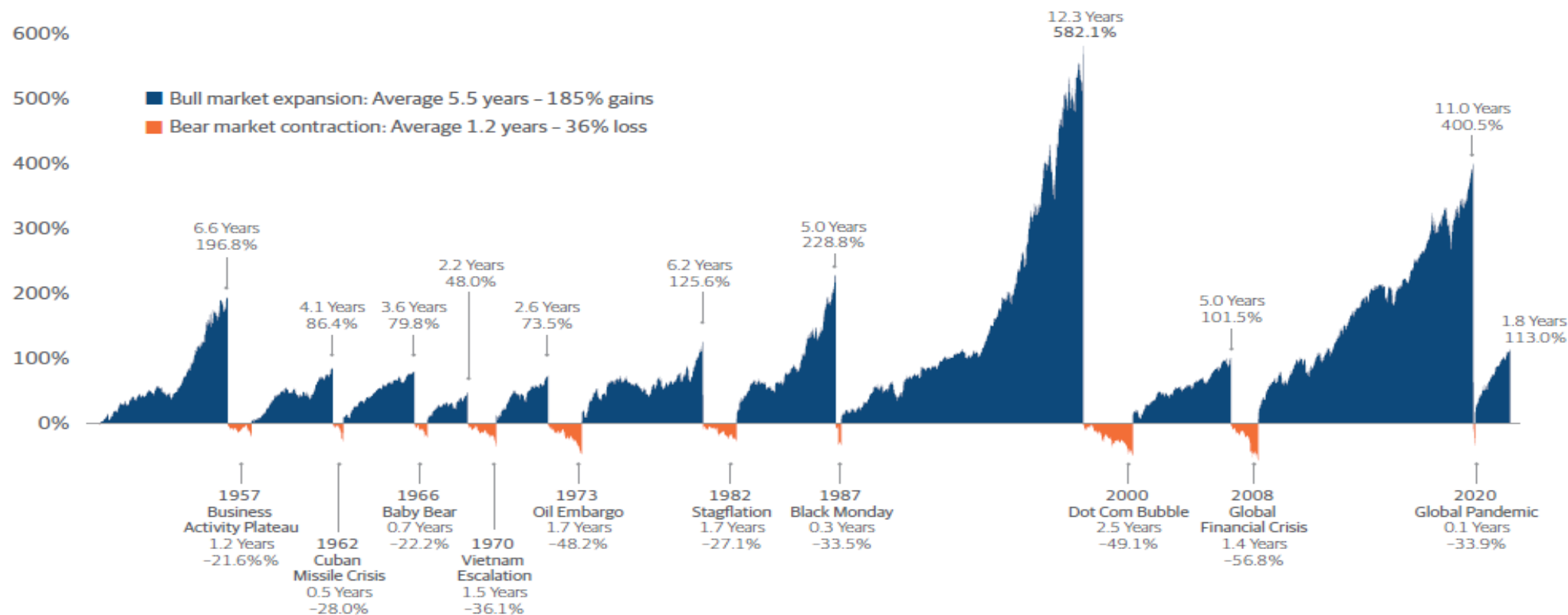
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# A HISTORICAL LOOK AT MARKET CYCLES

Staying invested during periods of downside volatility can be difficult. However history has shown that stock market expansions have been longer and larger compared to contractions rewarding investors who maintain a long-term investment horizon through market cycles.



Stocks are represented by the S&P 500 Index. All returns are price returns. Data from Morningstar Direct. Areas of expansion are defined as stock market performance from the low of a bear market to the high of the market preceding the next bear market. Areas of contraction are market performance from the prior market high to the market low in a bear market. A bear market is defined as a loss of 20% or greater from new highs.

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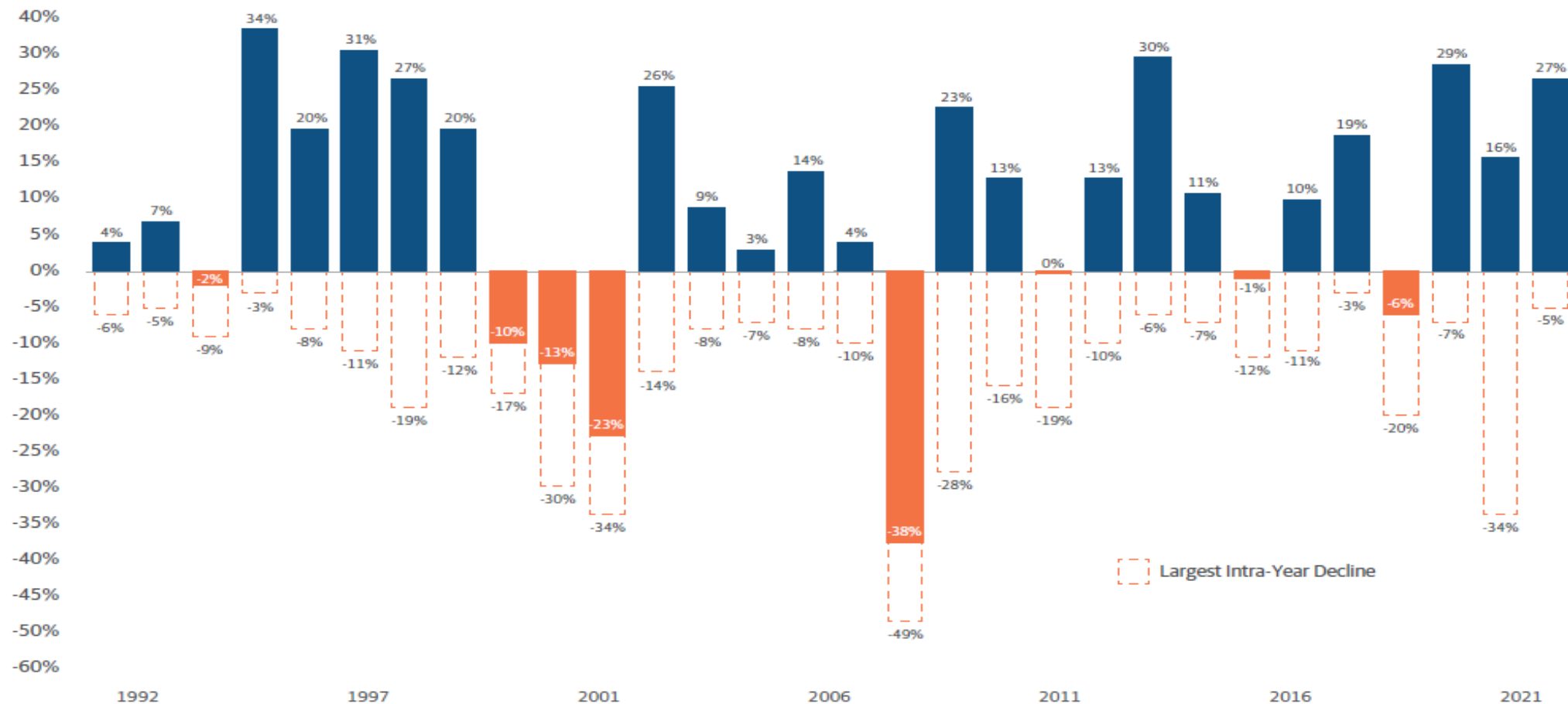
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# S&P 500 ANNUAL RETURNS AND DRAWDOWNS

Despite the S&P 500 declining on average 14.2% intra-year, the stock market has finished the year positive in 22 of 30 years.



2001 S&P 500 returns do not take into account the reinvestment of dividends. All data is from Morningstar Direct. Intra-year decline is defined as the largest peak to trough decline during the calendar year.

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# Summary

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Devise a budget and know what you need to spend in order to have a successful retirement

Meet with a financial planner in order to ensure plan works

When meeting with a financial planner have them run a Monte Carlo Analysis to see how your retirement plan looks against simulations

Ensure you have enough safe assets in your plan to weather down turns but enough growth to out pace inflation

Taxes change – we don't know what taxes will be like in 5 years from now let alone 25 years from now so, make sure to have different buckets to be able to pull from depending on the tax environment

# Summary

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You must have a plan for unexpected health and long term care expenses

If you want to leave a legacy – consider taxes now vs when they intended heir or charity receives the legacy

Develop your team! We recommend surrounding yourself with highly qualified professionals across all of the disciplines. Disciplines include:

- Financial advisor / wealth manager
- CPA / Accountant
- Estate planning attorney

Make sure your will is updated! We cannot stress this enough. It is probably the most important set of documents we can ever complete in our lifetime

Any Questions?

# Thank you!

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