CHECK OFF THE BASICS

A GUIDE TO PLANNING FOR ESSENTIAL EXPENSES IN RETIREMENT

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Alliance for Lifetime Income

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The Alliance is a nonprofit organization dedicated to educating Americans about the retirement income crisis and how annuities can help eliminate the risk of running out of money in retirement. Find more information about annuities and securing your retirement income at **protectedincome.org.**

Alliance for Lifetime Income

FIRST STEPS TO CREATING A PLAN FOR RETIREMENT INCOME

We're living longer and healthier and trying new things. All of that takes planning, though. Here's how to begin.

FINDING THE RETIREMENT YOU LOVE STARTS WITH A RETIREMENT INCOME PLAN

Retirement is changing. For many people, it's less about winding down their activities and taking a long vacation, and more about reinventing themselves for what's likely to be an extended next act.

We're living longer and healthier, and finding that there's plenty to do even if we're no longer working 9 to 5. Many find that this is the time of their lives when they finally have the freedom to live the life they want.

That freedom depends on many things, though — especially having the money we'll need. Unlike previous generations, most of us don't have protected lifetime income through a pension to supplement our Social Security benefits, and that increases the chances of running out of money in retirement.

Thankfully, there are solutions. Using a portion of your savings to purchase an annuity, you can you Check Off the Basics and cover your essential monthly expenses, like a mortgage, utilities, groceries and transportation. That can help you live retirement the way you want.

This guide helps you take the first steps in figuring out your essential expenses and income in retirement, and how protected lifetime income from an annuity can help fill any gaps.

AMERICANS ARE CONCERNED ABOUT OUTLIVING THEIR MONEY

An analysis of Americans preparing for retirement finds that they are worried about their income lasting throughout their lifetime. The results are part of a landmark Protected Lifetime Income Index Study, a major ongoing research program sponsored by the Alliance. Among the key findings are:

80%

80 percent of non-retired Americans are at least somewhat anxious that their savings may not provide enough to live on in retirement.

60%

60 percent of those polled do not expect their income to last their lifetime.

31%

31 percent of Americans have a source of protected lifetime income, such as a pension, in addition to Social Security.

65%

65 percent of those who do have protected income expect their money to last their lifetime.

80%

80 percent of Americans do not have a specific financial plan they follow to save for retirement.

CREATE A PLAN FOR LIVING THE RETIREMENT YOU WANT

Traditional retirement planning has always been about looking for ways to accumulate savings without a real understanding of whether what we've saved will be enough.

There are lots of reasons for that: We don't know how long we'll live, so we don't know how long our money needs to last. We also don't know what inflation will do to our costs over time or how a down market would affect our savings and investments.

One way to begin addressing that uncertainty is to simplify the issue: What do you expect your essential monthly expenses to be in retirement, and what kind of monthly income will you have? Doing that will start to give you a more realistic view of whether the money you've saved will last. (See the sample worksheet on page 13 for an example, and find a blank one on page 14 for your own calculations).

DETERMINE YOUR EXPENSES

Start with your essential monthly expenses and Check off the Basics, things like your mortgage or rent, utilities, groceries, car payment and medical copays.

Then take a look at your planned income: Your Social Security benefits, pension income (if you have one) and your savings and investments.

This should begin to give you an idea of whether your expected income will cover your expected expenses in retirement. If it doesn't, then you may need to make some changes, such as increasing your savings, finding a better way of converting savings to income, reducing your planned expenses, or pushing back your retirement date.

AN ANNUITY CAN HELP COVER BASICS

You may also consider adding protected income from an annuity, which can be combined with Social Security or a pension to help generate income that covers your essential monthly expenses. That gives you the freedom to use your savings for "extras" like travel, spoiling the grandkids, or doing whatever you've wanted to do in retirement.

Once you've pulled together all the numbers, sit down with a financial professional to discuss your options and make sure you're on track for the retirement you want.

LONGEVITY OF PEOPLE WHO REACH AGE 65

TO AGE	MEN	WOMEN
70	88%	92%
75	74%	82%
80	56%	69%
85	36%	51%
90	17%	31%
95	6%	13%
100	1%	4%

WHAT IS CHECK OFF THE BASICS?

Check Off the Basics is a simple retirement planning approach that focuses on covering the various essential expenses people often need to cover in retirement, including things like a mortgage, utilities, groceries and transportation. And you decide what's essential. You might not have a mortgage in retirement, for example, but you might have rent, condominium fees or home maintenance costs.

Your basic expenses could also include: medical expenses, car loans or leases, gas or other travel expenses, insurance premiums or credit card payments. For some people, these expenses could also include things like a club membership, weekly round of golf or a monthly visit to family or friends, so it's really up to you and what you consider essential.

WHAT ARE THE BENEFITS OF THE CHECK OFF THE BASICS APPROACH?

Check Off the Basics differs from the traditional approach to retirement planning, which focused on simply saving a lump sum of money for retirement. With Check Off the Basics, you first determine your essential monthly expenses in retirement, then create a plan to ensure those basic expenses are covered. With these costs taken care of, you can focus on pursuing your passions. This approach is a great starting point for retirement income planning and helps break down the overall process into easier-to-understand steps. You'll feel more secure and less stressed knowing you'll be able to cover your essential expenses.

HOW CAN AN ANNUITY HELP?

An annuity provides protected income throughout your lifetime, typically through monthly payments you can always count on. With those basic expenses covered, income from your other retirement savings and investments can be used for all of the other things you want to do in retirement. Remember, annuities, pensions and Social Security are the only sources of protected lifetime income.

APPROXIMATELY HOW MUCH WILL I NEED TO SAVE FOR RETIREMENT TO SECURE MY ESSENTIAL EXPENSES?

It's impossible to know how much to save unless you know how much you'll need in retirement. Use the Check Off the Basics approach by focusing first on ongoing essential expenses you expect to have in retirement. That's how much you need. Now work with a financial professional to develop a plan to match those expenses with sources of protected income, like Social Security, a pension or an annuity.

HOW CAN I DETERMINE HOW MUCH RETIREMENT INCOME I'LL NEED?

You can start by writing down how much you spend currently for these expenses. Then consider whether these costs will go up or down in the future. Your financial professional can help here. The Check Off the Basics approach is the first step in creating a retirement income plan. Calculate your essential expenses and sources of protected lifetime income in more detail by using the Retirement Income Security Evaluation (RISE) Score.™

WHERE WILL YOUR RETIREMENT INCOME COME FROM?

Thinking about retirement income can be a challenge: You don't want to use your resources too quickly and run out of money, but you also don't want to scrimp and save and reduce your lifestyle if it's not necessary. So how do you find the balance? Begin by gathering a little bit of information.

WHAT ARE YOUR INCOME SOURCES?

Your retirement income will come from a variety of sources, such as Social Security, your savings and investments or a pension, if you have one. Some sources are more secure but may have a lower growth potential. The most secure sources provide lifetime income you can never outlive. Others with potentially higher growth potential can be riskier. Your mission is to find the balance that works for you and use all of the tools at your disposal to secure your financial future.

SOCIAL SECURITY

Based on your earnings, it's meant to supplement pensions/savings, etc., and replaces about 40 percent of your income, at best. To see an estimate of your monthly payment, go to ssa.gov/planners/retire/ and click on "Retirement Estimator."

STRENGTHS

- Mostly inflation-proof, since benefits are inflation-adjusted each year.
- You can start taking benefits at age 62, but the longer you wait, the higher your monthly benefit will be, up to age 70.

CHALLENGES

- Does not fully replace the close to 70 percent of your income you may need in retirement.
- If a couple get joint benefits and one spouse dies, the lower benefit is eliminated for the surviving spouse.

PENSION(S)

Pensions provide monthly protected retirement income, often from long-term employment or military service. Few companies (only 17 percent) still offer them today.

STRENGTHS

- They can provide steady income each month. Public pension plans are often inflation-adjusted.
- Used with Social Security, they can get you closer to meeting the income you need.

CHALLENGES

- Many pensions today are underfunded and face financial stress.
- Most private pensions do not keep up with inflation.

ANNUITIES

Can be purchased at any time, before, during or after retirement. Income payments begin when you elect to start taking them.

STRENGTHS

- Can provide protected income for life, and can help cover essential monthly expenses.
- Doesn't run out, no matter your age (subject to the claims-paying ability of the insurance company).
- Many annuities offer access to a portion of funds early on.

CHALLENGES

- Less liquid than a savings account or other investments.
- Some annuities may have higher fees or costs than other financial products; ask your financial professional.
- Annuities are sophisticated tools with many options for personalization. Work with a financial professional to tailor a solution that fits your specific needs.

MARKET INVESTMENTS ***(Stocks, Bonds, Mutual Funds)***

Investments include bonds, mutual funds, single stock investments and more. They offer greater potential returns but more risk than savings accounts and CDs.

STRENGTHS

- Over the long run, market investments offer the greatest opportunity for growth and higher returns.
- They can continue to grow, even when you're no longer adding money.
- Historically, these investments stay ahead of inflation over the long run.

CHALLENGES

- Markets can be quite volatile.
- These investments can carry a relatively high risk; they can lose money.
- These risks can mean high stress for those close to retiring or retired.

SAVINGS ACCOUNTS

You decide where your money goes, and it usually earns interest and dividends. Also true for CDs and money market funds.

STRENGTHS

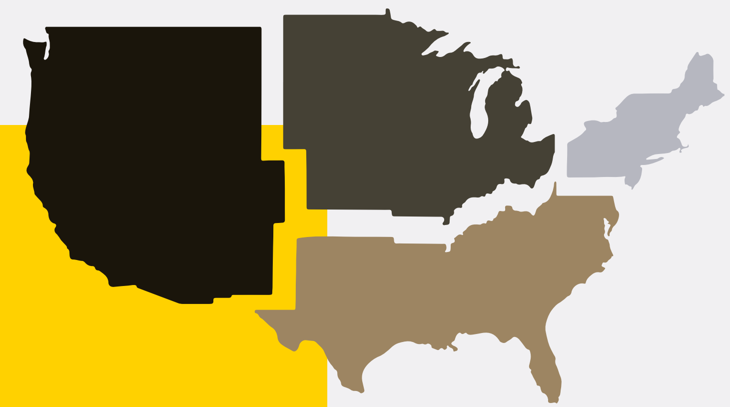
- Typically, very safe funds and investments.
- Typically easy to establish and invest in, as is the case for CDs and money market funds.

CHALLENGES

- Typically offer lower interest rates than other funds.
- Low interest rates can mean these investments may not be able to keep up with inflation.

WHAT WILL YOU SPEND?

Average monthly expenses for households with residents 65 and older.



U.S. AVERAGE

After-Tax Income:

$3,795

Expenses:

$4,180

Housing: **$775**
Utilities: **$308**
Food (home): **$326**
Food (out of home): **$213**
Medical: **$557**
Clothing (and services): **$100**
Transportation: **$616**
Entertainment: **$233**

WEST

After-Tax Income: **$4,277**
Expenses: **$4,930**

Housing: **$940**
Utilities: **$317**
Food (home): **$353**
Food (out of home): **$249**
Medical: **$595**
Clothing (and services): **$113**
Transportation: **$664**
Entertainment: **$283**

NORTHEAST

After-Tax Income: **$4,085**
Expenses: **$4,319**

Housing: **$990**
Utilities: **$321**
Food (home): **$369**
Food (out of home): **$234**
Medical: **$554**
Clothing (and services): **$130**
Transportation: **$533**
Entertainment: **$209**

MIDWEST

After-Tax Income: **$3,657**
Expenses: **$3,965**

Housing: **$703**
Utilities: **$295**
Food (home): **$304**
Food (out of home): **$193**
Medical: **$571**
Clothing (and services): **$94**
Transportation: **$602**
Entertainment: **$257**

SOUTH

After-Tax Income: **$3,468**
Expenses: **$3,832**

Housing: **$617**
Utilities: **$303**
Food (home): **$304**
Food (out of home): **$195**
Medical: **$528**
Clothing (and services): **$82**
Transportation: **$639**
Entertainment: **$205**

All numbers monthly. Based on consumer spending analysis by the US Bureau of Labor Statistics.

RETIREMENT INCOME & EXPENSES

Sample Worksheet

This sample worksheet shows what you need to consider when calculating retirement income and expenses. It includes sample figures for both income and expenses. There's a blank worksheet on the next page for you to complete.

Monthly Income Sources	Monthly Income		Essential Expenses	Monthly Expenses
A. Social Security	$2,100		**A. Housing** Includes mortgage/rent, association dues, taxes, insurance, repairs and maintenance	$550
B. Pension(s)	$850		**B. Utilities & monthly bills** Includes gas, water, electricity, phone, cable, internet, subscriptions and memberships	$300
C. Annuities	$500		**C. Groceries**	$325
D. Savings accounts Such as CDs, money market funds	$200		**D. Medical expenses** Includes medications, out-of-pocket expenses, dental and vision care, etc.	$775
E. Investments Includes 401(k)s, IRAs, mutual funds, stock market funds, bonds, etc.	$800		**E. Loans/debt/alimony**	$400
F. Income From a part-time job or your own business	$500		**F. Transportation** Includes car payments, insurance, fuel and maintenance/repairs	$500
G. Other income From rental properties, inheritance, etc.	$600		**G. Taxes**	$300
			H. Charitable Gifts	$50
			I. Other Anything else that you feel is part of your monthly essentials	$200
Total income from all sources	**$5,550**		**Total essential expenses**	**$3,400**
Total income you can count on for life	**$3,450**			

MY RETIREMENT PLAN WORKSHEET

Monthly Income Sources	Monthly Income		Essential Expenses	Monthly Expenses
A. Social Security			**A. Housing** Includes mortgage/rent, association dues, taxes, insurance, repairs and maintenance	
B. Pension(s)			**B. Utilities & monthly bills** Includes gas, water, electricity, phone, cable, internet, subscriptions and memberships	
C. Annuities			**C. Groceries**	
D. Savings accounts Such as CDs, money market funds			**D. Medical expenses** Includes medications, out-of-pocket expenses, dental and vision care, etc.	
E. Investments Includes 401(k)s, IRAs, mutual funds, stock market funds, bonds, etc.			**E. Loans/debt/alimony**	
F. Income From a part-time job or your own business			**F. Transportation** Includes car payments, insurance, fuel and maintenance/repairs	
G. Other income From rental properties, inheritance, etc.			**G. Taxes**	
			H. Charitable Gifts	
			I. Other Anything else that you feel is part of your monthly essentials	
Total income from all sources			**Total essential expenses**	
Total income you can count on for life				

If you have a gap in protected income, talk to your financial professional about whether an annuity is right for you.

THE ANNUITY SOLUTION

Add an annuity to help cover your essential monthly expenses so you can have the freedom to live the retirement you want.

ANNUITIES 101

CHECK OFF THE BASICS

Once you have calculated your essential monthly expenses and retirement income, you'll be able to see if there's a gap between the two. An annuity could help cover some of your monthly expenses so you can feel more financially secure. Then you can devote the rest of your savings to the "fun" stuff you've been looking forward to.

An annuity is simply a contract between you and an insurance company where you contribute money upfront, then receive payments over a period of time. You can receive those payments a variety of ways, including an income stream that lasts your whole life. There are three main reasons that people decide to include annuities as part of their protected income:

1. ANNUITIES ARE TAX-DEFERRED

Like other investments, there are no taxes on an annuity until you begin taking income payments. But unlike with other tax-deferred accounts, there is typically no annual contribution limit for an annuity. That's especially helpful to people close to retirement age who need to catch up on their retirement investments.

2. NO RISK OF LOSING VALUE

If you select a fixed-rate annuity, the insurance company agrees to pay you a predetermined — or "fixed" — return over a specific period of time. So, even if markets decline, your annuity income remains rock steady.

3. INCOME FOR LIFE

One of the most daunting questions people ask about retirement is "Will I have enough money to last throughout life?" Fortunately, annuities can provide protected income every month for as long as you live, even if that amount exceeds what you invested in the annuity.

The extent to which Protected Lifetime Income is guaranteed will depend upon the claims-paying ability of the insurer that issues the annuity.

IS AN ANNUITY RIGHT FOR ME?

Annuities aren't right for everyone. They can be a valuable part of a diversified portfolio, especially if you want to lock in protected lifetime income to help cover your essential monthly necessities. But how can you tell? Well, an annuity might be a good choice ....

If you find that Social Security won't be enough to cover your essential expenses.

If you expect to live a long time and could potentially outlive your savings.

If you want to reduce risk and protect part of your portfolio.

HOW IT WORKS

You can purchase an annuity with various sources, such as:

- a 401(k) plan
- an IRA
- a savings account
- an inheritance
- the sale of a home

The payments you receive may be based on the type of annuity and the amount you invest, for example:

- your age
- your gender
- the income option you select
- the value of the annuity when you start taking income

ANNUITIES CAN MEET A VARIETY OF NEEDS

Annuities come in a variety of types, and there are many different ways to structure them depending on your needs. There are three primary categories of annuities. Here is a quick overview of each type.

Keep in mind that, like all investment and savings products, there are fees and costs associated with owning an annuity, and they're not right for every person or situation. Annuities offer protected lifetime income, but that guarantee is dependent upon the insurance company's financial strength. Be sure to talk to your financial professional before making any decisions.

HOW YOU RECEIVE INCOME FROM AN ANNUITY

When you purchase your annuity, you can also choose when you want to start receiving the income. You can receive payments on a schedule, such as monthly, quarterly or annual payments. You can also purchase an immediate annuity with a lump sum and begin receiving payments within a year of purchase. For retirees, it's a great way to secure an additional income stream along with Social Security and, if you have one, a pension. If you're on the younger side, you could choose to purchase a deferred annuity, which grows tax-deferred and delays payments for later, after you've retired. Deferred annuities can have greater potential for growth, so payments could be larger down the road after they start.

HOW ANNUITIES CAN BENEFIT YOUR FAMILY AFTER YOUR DEATH

Similar to an IRA or 401(k), the value of an annuity will transfer to your heirs after your death, if you have not begun taking income payments. However, you can also add enhanced death benefits to an annuity, though there may be additional costs. Various index and variable annuities are available with either standard or enhanced death benefit options.

1. FIXED ANNUITIES

Fixed annuities pay a designated rate of return. They're designed for people who want to set aside money and draw a fixed amount of income. They provide a high level of predictability along with flexible payment choices, including the option for lifetime income.

- Guaranteed rate for a specific time period.
- Protected from market downturns.
- You may not have to pay taxes on any interest earned until you withdraw money.
- You may have access to your funds at any time, although there may be charges and a tax penalty for early withdrawals.

2. INDEX ANNUITIES

Index annuities have a rate of return that's tied to a market index, like the S&P 500. They're designed for people who want to take advantage of gains in the stock market with some level of protection against losses. When the index increases, you get a portion of that gain based on what's specified in your annuity contract. If the index declines, you won't get a return, but the principal of your annuity won't be affected, either.

- You do not need to pay taxes on any income earned until money is withdrawn.
- Death benefit features may be available.
- There may be charges and a tax penalty for early withdrawals.

3. VARIABLE ANNUITIES

With variable annuities, the earnings are tied to other assets, similar to a mutual fund, and you benefit from any growth or increase. They are designed for people who want to take advantage of both income protection and growth in their retirement savings. People must be willing to take more risk with their money in exchange for the potential for higher earnings.

- The annuity's value can move up or down depending on the performance of the underlying funds selected (and you could lose some or all of your principal).
- You can purchase features that protect your principal if the market goes down.
- You have the potential to benefit from market increases.
- You may not have to pay taxes on any interest or earnings until you withdraw money.
- There may be charges and a tax penalty for early withdrawals.

WEEDING OUT THE MYTHS ABOUT ANNUITIES

Growing a robust, thriving retirement plan is full of challenges, especially when myths first appear to be facts. You may want to dispose of these myths about annuities. (And be sure to ask your financial professional if you should consider investing in annuities.)

Myth 1 *They're too expensive*	**Myth 2** *They have hidden fees*	**Myth 3** *They have high commissions*	**Myth 4** *I can't touch that money*	**Myth 5** *They're too confusing*
Facts:	**Facts:**	**Facts:**	**Facts:**	**Facts:**
Some annuities have no direct costs, and many have low costs.	Federal and state rules require fees be made transparent.	Ask your financial professional how they are compensated.	Nearly all annuities allow you to withdraw some amount during the first few years.	It's easy to tailor one for your specific needs.
Others have costs linked to additional options you choose.	They're listed on the plan's prospectus and plan statements.	Commissions are typically paid by the insurer, not you.	Ask your financial professional about this.	Focus on just those features that apply to your situation.
Costs may vary by type of annuity you select.				Work with your financial professional to understand the details.
Fees aren't always bad. Compare the unique benefits annuities offer vs. other investments.	Ask your financial professional to provide you with a personalized illustration. It lists both fees and benefits.	You'll want to weigh fees, commissions and benefits against those of other investments.	Plans may allow you to withdraw up to 10% of the invested amount or earnings annually without penalty.	Shopping for an annuity is like shopping for a refrigerator: You can opt for the basics or upgrade with additional features.

ADDITIONAL RESOURCES

SOCIAL SECURITY RETIREMENT BENEFIT ESTIMATOR

Social Security Administration
- ssa.gov/benefits/retirement/estimator.html

MEASURE YOUR RETIREMENT INCOME SECURITY

Calculate your Retirement Income Security Evaluation Score (RISE Score™)
- protectedincome.org/retirement-tools/rise-calculator

AARP Retirement Calculator
- aarp.org/work/retirement-planning/retirement_calculator.html

Kiplinger Retirement Savings Calculator
- kiplinger.com/tool/retirement/T047-S001-retirement-savings-calculator-how-much-money-do-i/index.php

LIFE INSURANCE RATINGS AGENCIES

AM Best Company
- ambest.com

Insure.com
- insure.com

Moody's Investors
- moodys.com

S&P Global Insurer Financial Strength Rating
- spglobal.com/ratings/en/products-benefits/products/financial-strength-rating

Weiss Ratings
- weissratings.com

SELECT A FINANCIAL ADVISOR/PROFESSIONAL

American Institute of Certified Public Accountants
- aicpa.org/forthepublic/financial-planning-resources.html

BrokerCheck by FINRA
- brokercheck.finra.org

Financial Planning Association
- plannersearch.org

National Association of Insurance and Financial Advisors
- advisorsyoucantrust.org/find-an-advisor

Questions to ask a potential financial professional
- protectedincome.org/annuities/10-questions-to-ask-a-potential-financial-advisor-article

GENERAL ANNUITY INFORMATION

Alliance for Lifetime Income
- protectedincome.org

CNN's Ultimate Guide to Retirement/Annuities
- money.cnn.com/retirement/guide/Annuities/?iid=EL