

## Income Success Rate

Meet Carla. She's 61 and enjoys her job as a budget analyst. Just the same, she's looking forward to retiring at 65. She's seeking **income certainty** come retirement. How can she help ensure her money will last?



### Carla's Original Retirement Income Plan

- › She intends to withdraw **4%** of her **\$500,000** in retirement assets to produce **\$20,000** a year.
- › She hopes to take withdrawals for **30** years if possible.
- › She has those assets invested in a **60/40** stock/bond mix.

### Carla Considers Her Income Success Rate

Using the chart below, showing results based on a series of Morningstar simulations, Carla sees she has a 64.8% chance her income *may* last for 30 years. That leaves a **35.2%** chance it *may not* last that long.

4% INITIAL WITHDRAWAL				
Withdrawal Period:	20 Years	25 Years	30 Years	35 Years
Stock/Bond %	Success Rate %			
<b>40/60</b>	95.6	77.7	56.4	39.6
<b>60/40</b>	92	78.3	<b>64.8</b>	53.7
<b>80/20</b>	88.3	77.1	67.2	59.9

### Carla Wants More Certainty for Her Future

Probability and statistics are familiar topics for Carla. And she's not comfortable with a better than one in three chance her money *may not* last as long as she hopes. She wants to *guarantee* her money lasts a long time. A **fixed indexed annuity** (FIA) may help do just that. See Carla's new plan on side 2.

**Success Rate (%)**: This is the percentage of simulations resulting in a portfolio balance greater than \$0 at end of withdrawal period. Balance of portfolio not allocated to stock is allocated to bond. Stock component is the Russell 3000 Index, a market capitalization weighted equity index that seeks to be a benchmark of the entire U.S. stock market. Bond component is the Bloomberg Barclays US Aggregate Bond Index, a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Different indexes produce different results. Returns for portfolio stock and bond allocations based on Morningstar Investment Management's 2019 Capital Market Assumptions (CMA). Subtraction of 0.50% yearly investment management fee assumed. Actual fees and expenses vary by product and impact results. All returns are assumed in today's dollars, thereby maintaining the initial withdrawal amount (inflation adjusted) throughout the period. Success rates based on 5,000 market scenarios and various asset allocation strategies. Results are hypothetical estimates, not predictions. Source: Morningstar Investment Management LLC.

**Interpretation Example**: A 4% withdrawal rate, an allocation of 60% stocks and 40% bonds, and a 30-year withdrawal period shows a 64.8% chance withdrawals will last 30 years. This means that in 1,000 simulations, withdrawals lasted at least 30 years 648 times and ran out 352 times. What's an acceptable result varies per person. Results may indicate that adjustments (rate, period, allocation, etc.) in retirement plans should be considered.

## Carla's New Retirement Income Plan<sup>1</sup>

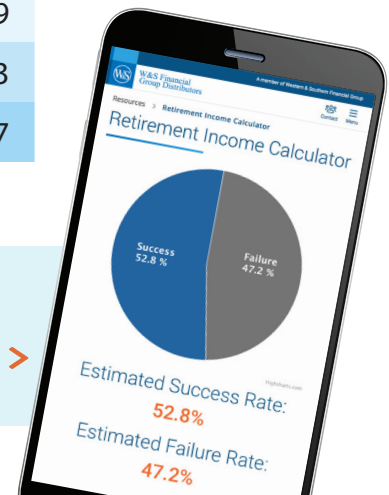
- She will place **\$200,000** in a FIA. She elects a Guaranteed Lifetime Withdrawal Benefit (GLWB) rider with it. Beginning at age 65, it will pay her **\$11,160** yearly for **life**.
- She plans to limit withdrawals from the other **\$300,000** to a more conservative **3%**, for **\$9,000** in year 1 income.
- She will leave her assets in a **60/40** stock/bond mix account for now.

## Carla's New Plan **Guarantees** Over Half Her Needs ... and Increases Her Income Success Rate

Carla's new plan jumps her estimated success rate for sustaining withdrawals to **90.6%**. Plus, the FIA portion has a **100%** success rate because she'll never run out of GLWB income ... not just for **30** years ... **but for the rest of her life!**

3% INITIAL WITHDRAWAL				
Withdrawal Period:	20 Years	25 Years	30 Years	35 Years
Stock/Bond %	Success Rate %			
<b>40/60</b>	100	98.2	92.8	83.9
<b>60/40</b>	99.3	96	<b>90.6</b>	84.3
<b>80/20</b>	97.4	93.1	88	82.7

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<sup>1</sup> Based on quote produced 8/9/21. For example only.

**About the Morningstar Analysis:** This tool uses an analytical method simulating random returns of uncertain variables to obtain a range of possible outcomes. It involves generating thousands of scenarios, each simulating the growth of assets over a specified period of time, taking into account a variety of factors. Such probabilistic simulation does not analyze specific security holdings, but instead analyzes the identified asset classes. The simulation generated is not a guarantee or projection of future results but rather a tool to identify a range of potential outcomes. The simulation is hypothetical in nature and for illustrative purposes only. Underlying each scenario presented in this analysis are certain capital market assumptions (e.g., rates of return, volatility as measured by standard deviation\*, correlation between asset classes\*\*) Rate of return is forward looking. Capital market assumptions regarding rates of return for various asset classes and the probability analysis applied to these returns are key to the underlying results. **Results may vary with each use and over time. This analysis is not a guarantee, prediction or projection of any particular result. Actual results will vary materially.** The analysis can be used to help evaluate how certain decisions or strategies may impact the ability to achieve goals. Users should allow a margin of error and view the results as reasonable estimates but should not rely on the apparent precision of the results. \*A measure of how far a data series moves above or below its average. \*\*A measure of the degree returns are related to or dependent upon each other. **Material Assumptions:** Projections assume a withdrawal in the first year of the stated percent of the original portfolio value. Withdrawal amounts (not percentages) are assumed to be linked to inflation to maintain consistent purchasing power in real terms. Initial withdrawal amount is the percentage of the initial value of the investments withdrawn on the first day of the first year. Assumed arithmetic nominal returns by period: stock 5.38% (years 1-10), 9.69% (years 11-20), 9.77% (years 21+); bond 2.23% (years 1-10), 3.15% (years 11-20), 4.54% (years 21+). Inflation of 2.20% assumed constant. Standard deviations of 15.86% (stock) and 4.32% (bond) assumed. Stock/bond correlation of 0.10 assumed. **Material Limitations:** Extreme market movements may occur more often than in the model. Actual long-term results for each asset class will differ from assumptions. Market crises can cause asset classes to perform similarly, lowering the accuracy of projected return assumptions and diminishing the benefits of diversification. Diversification may not protect against market risk. Actual returns may be more volatile than projected in the analysis. The model does not consider correlation among asset class returns. It does not reflect the average periods of bull and bear markets, which can be longer than those modeled. Inflation is assumed to be constant, so variations are not reflected in calculations. Taxes are not taken into account, nor are early withdrawal penalties. The analysis uses two asset classes. Other asset classes may provide different returns or outcomes than those used. There is no guarantee that actual future market returns will be consistent with these assumptions and limitations. The analysis models portfolios comprised of asset classes, not investment products. As a result, the actual experience of an investor in a given investment product may differ from the range generated by the simulation, even if the broad asset allocation of an investment product is similar to the one being modeled.

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