SIX SURPRISES ABOUT PLANNING FOR RETIREMENT INCOME

FRANKLIN TEMPLETON INVESTMENTS

Franklin Templeton Investments 2018 Retirement Income Strategies and Expectations (RISE) Survey[1] uncovered six findings that may surprise you.

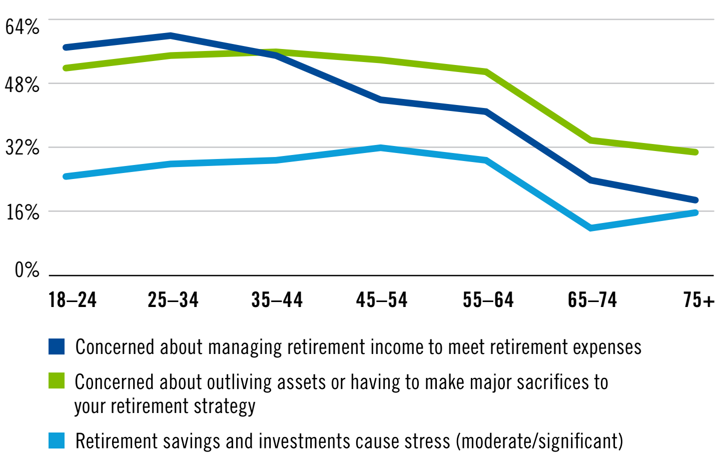
1. STRESS STARTS EARLIER

Retirement may be a period of relaxation. However, thinking about your financial plan for retirement may not. When it comes to retirement finances, managing income, considering investments, and concerns about longevity, the 2018 RISE Survey found that stress occurs much earlier in life than many would suspect.

75 percent of respondents who are 11–15 years from retirement reported feeling stressed when thinking about their retirement savings and investments. For those aged 45–54, 44% said they were concerned about managing their retirement income to meet their expenses.

What drives stress and anxiety about retirement income? Is it the realization that one is closer to the start of retirement than the beginning of their career? Perhaps it is driven by a lack of understanding regarding the essential components of a retirement income strategy, which can be a sure-fire recipe for anxiety.

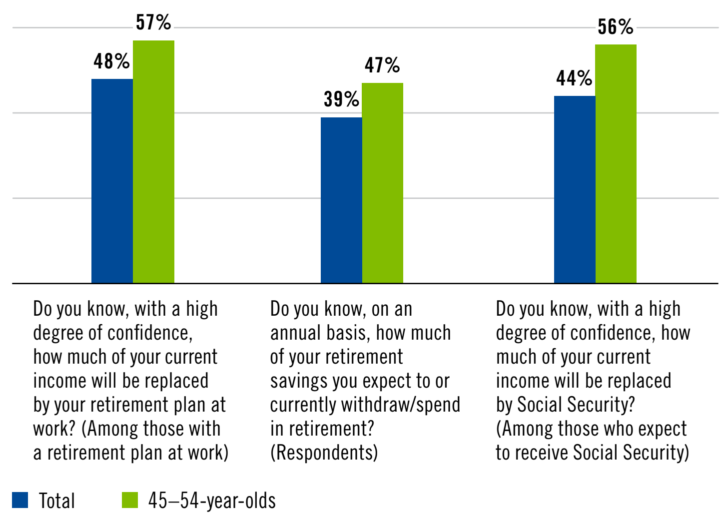
CONCERNS AND STRESS PEAK BEFORE RETIREMENT BEGINS



As the graphic below illustrates, those aged 45–54 are more likely to indicate that they "don't know" the answers to key retirement questions regarding Social Security and income replacement.

PERCENTAGE OF PEOPLE WHO ANSWERED "DON'T KNOW" TO THESE RISE 2017 QUESTIONS[2]

No wonder that 45–54-year-olds are stressed. They simply "don't know" the answers.



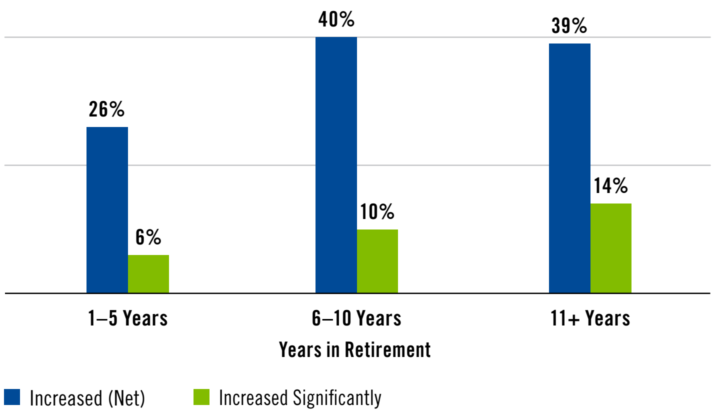
As with any life change, the hard work and preparation come well before the big day. Working with a financial advisor and developing a written retirement income plan can help eliminate uncertainties. 93 percent of those who developed a written retirement plan were "confident" and/or "happy" with it.

2. INFLATION CONCERNS SPIKE LATER IN RETIREMENT

Good News. As life expectancy increases, many can expect to live 30 years or more in retirement. Bad News. As life expectancy increases, many can expect 30 years or more of rising retirement expenses.

Although inflation is not usually an issue on the first day of retirement, the impact of inflation can snowball as retirement continues. A 65-year-old who starts retirement drawing $60,000 per year from their portfolio will need $67,530 by year five to maintain the same standard of living based on a 3% annual inflation rate. By year 15, they'll need nearly $91,000 and by year 25 they'll need about $122,000. Should the retiree be lucky enough to live to 100, their portfolio will need to generate $164,000 a year, nearly tripling the $60,000 they withdrew when they left the workforce.[3]

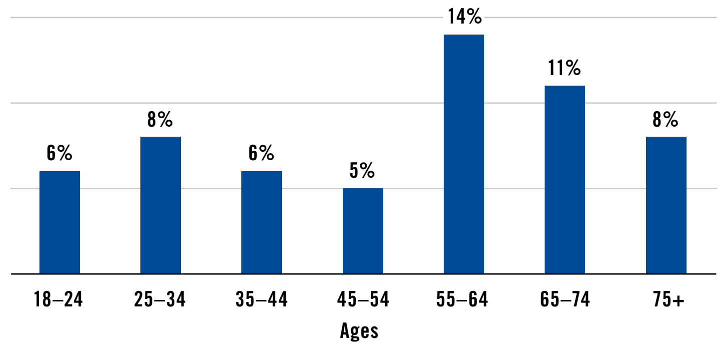
HOW HAVE EXPENSES CHANGED DURING RETIREMENT?



The 2018 RISE Survey findings reflect the longer-term impact of inflation. More than 70% of those in the first five years of retirement indicated that their expenses had remained the same (35%) or decreased (39%). However, those numbers change as retirement continues. For those 11 years or more into retirement, 39% said expenses had increased with 14% indicating that expenses had increased significantly.

For those retired, running out of money is the #2 concern.

RISE 2017 INFLATION CONCERNS SPIKE LATER IN LIFE[2]



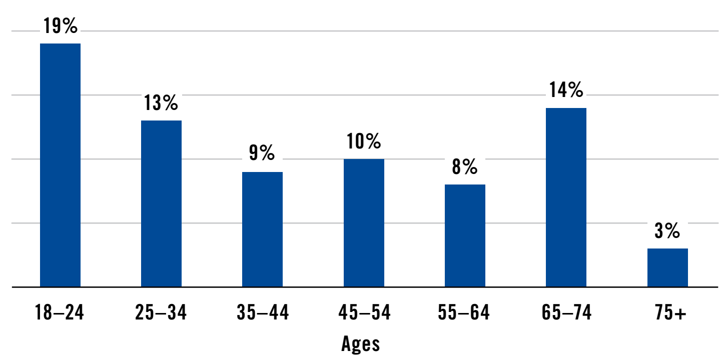
Is there a solution to address the long-term impact of inflation? Perhaps the best advice comes from those who are currently addressing this issue. 17 percent of retirees 75 and older advise those not yet retired to "consider more growth-oriented investments".

3. BOREDOM IN RETIREMENT IS A COMMON CONCERN (UNTIL YOU RETIRE)

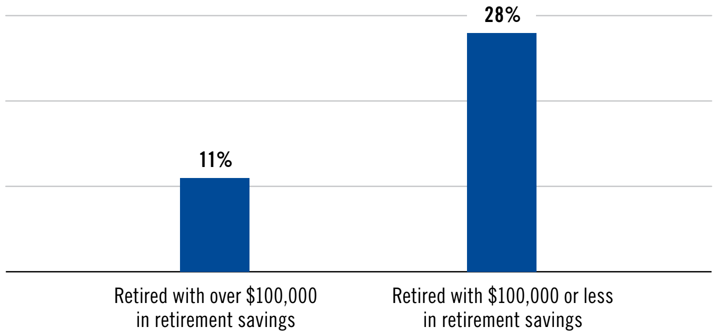
The 2018 RISE Survey found that "boredom" in retirement was among the top three concerns for people under the age of 35—behind only "running out of money" and "health/medical issues". Over time, concern about boredom declines, with only 3% of those 75 and older saying it is a top concern.

Once people reached retirement, is the decline in concern over boredom the result of people being more active than previously envisioned or do other concerns, such as medical and health issues, take precedence? Perhaps, it is a combination of both.

BOREDOM IS A CONCERN FOR THE YOUNG



4. RUNNING OUT OF MONEY IS A TOP CONCERN



Running out of money is directly correlated to the lack of retirement savings. Retirees with $100,000 or less in retirement savings are more than twice as likely to say that their top concern is running out of money than those with over $100,000 in retirement savings.

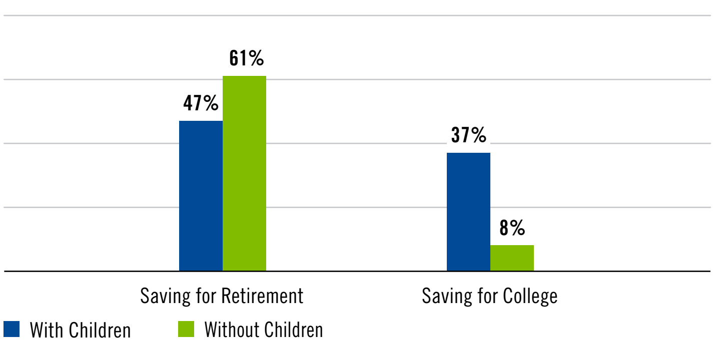
These findings should serve as a reminder for younger investors. If being bored in retirement is a concern, younger people should consider maximizing retirement savings as early as possible.

5. COLLEGE SAVINGS IS A RETIREMENT ISSUE

For those with children, financing education is expected to have a significant impact on retirement.

For many, saving for college is a primary investment goal that will likely siphon potential retirement savings, increasing the likelihood that they will not have saved enough for retirement. However, the reallocation of their savings is only one part of the overall impact on retirement.

CHILDREN MATTER[4]

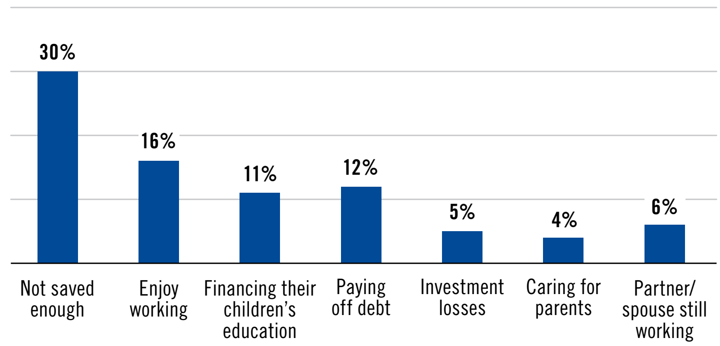


The fact that people are having children later in life also means that future retirees could be footing college bills right before, or even during, retirement.

Pre-retirees with children under age 18 are nearly four times as likely as those without to say "financing their children's education" would be the most likely cause of a retirement delay. Others might anticipate that they may need to withdraw from their retirement account to help fund their child's college tuition.

WHAT WOULD MOST LIKELY DELAY YOUR RETIREMENT?

Results based on those with children



All the above indicate that, for those with children, financing college in many cases will be a consideration when developing a retirement income strategy.

Saving for both a child's education and your own retirement can be difficult. Unlike college, there are no "student loans" for retirement.

6. WORKING PAST 65 ISN'T ALWAYS ABOUT MONEY

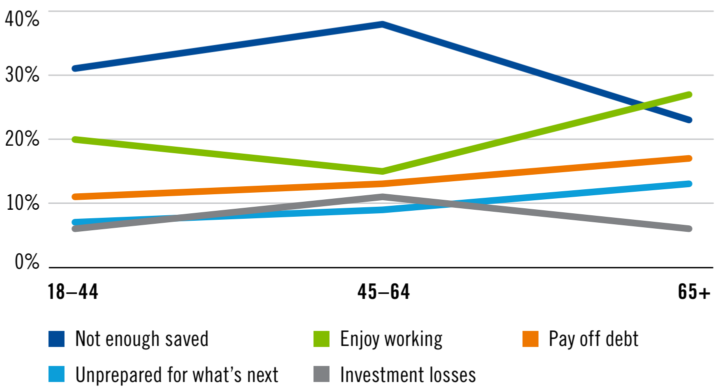
When people think about retirement, they often think of age 65, 66, or 67. However, retirement is less about a specific age. Over the years, the RISE Survey found that approximately one quarter of those retired were forced into retirement earlier than anticipated due to circumstances beyond their control (e.g., health issues, downsizing).

While some are forced into an early and unexpected retirement, others continued to work past 65. By itself, this is not a particularly surprising finding. The surprising finding was why they worked past 65.

Given the lack of retirement savings by pre-retirees, one might assume that "not enough saved" would have been the primary reason. While true for those younger than 65, for those 65 and older, the #1 reason (27 percent) for not retiring was that they enjoy working.

WHY WORK PAST 65?

(Among pre-retirees)



PLAN FOR SURPRISES

No matter what your stage of retirement, there may be surprises that can catch you off-guard. Having enough confidence in your income sources when you stop working ultimately comes down to knowledge and planning. Work with a financial advisor to create a custom, written plan to fit your retirement needs and prepare for the challenges. You can be successful.

THREE STEPS TO RETIREMENT CONFIDENCE

Here are a few simple steps you can take to help you find answers and prepare for what's next:

1 | Know Your Situation.
Define your individual goals and concerns.

2 | Work with a Financial Advisor.
Professional advice can make a difference.

3 | Write Your Plan Down.
Having a plan in your head may not be enough.

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All financial decisions and investments involve risks, including possible loss of principal.

1. The Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,002 adults comprising 1,002 men and 1,000 women 18 years of age or older. The survey was administered between January 17 and 25, 2018, by ORC International's Online CARAVAN®, which is not affiliated with Franklin Templeton Investments. Data is weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigns a weighting factor to the data based on current population statistics from the U.S. Census Bureau.
2. The Franklin Templeton Retirement Income Strategies and Expectations (RISE) survey was conducted online among a sample of 2,013 adults comprising 1,009 men and 1,004 women 18 years of age or older. The survey was administered between January 5 and 18, 2017, by ORC International's Online CARAVAN®, which is not affiliated with Franklin Templeton Investments. Data is weighted to gender, age, geographic region, education and race. The custom-designed weighting program assigns a weighting factor to the data based on current population statistics from the U.S. Census Bureau.
3. Source: Calculations are based on data from United States Life Tables, 2014. NVSR Volume 66, Number 4. Published on August 14, 2017. https://www.cdc.gov/nchs/products/life_tables.htm. Table 2. Life Table for Males: United States, 2014 & Table 3. Life Table for Females: United States, 2014.
4. The 2015 Franklin Templeton College Savings Trends survey was conducted online among a sample of 1,009 adults comprising 487 men and 522 women 18 years of age or older. The survey was administered between April 30 and May 3, 2015, by ORC International's Online CARAVAN®.

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