SAVING FOR A 30-YEAR RETIREMENT

The year in which an investor retires can make a difference in how long their money will last. Market performance, inflation rates, and declining Social Security benefits are only some factors to consider when planning for a 30-year retirement.
Investors are retiring at age 65. They want their money to last until age 95 or older. The investor has $1 million set aside to provide income during their retirement.

The chart below indicates what age the investor’s money would have lasted until if they had started their retirement in any year since 1926. For example, retiring in 1974 would have allowed only 13 years of withdrawals. But retiring in 1975, just one year later, would have allowed for 30-plus years of withdrawals. When withdrawing income, market performance may make a difference, particularly when a decline is experienced early in retirement.

Past performance is no guarantee of future results. Sources: Morningstar, Legg Mason. The equity allocation is represented by Ibbotson Associates Stocks, Bond, Bills and Inflation (SBBII) U.S. Large Stocks Index since 1926. The fixed income allocation is represented by the Ibbotson Associates Stocks, Bond, Bills and Inflation (SBBII) Investment Grade Fixed Income securities Index since 1926. The historical inflation is represented by Ibbotson Associates Stocks, Bond, Bills and Inflation (SBBII) U.S. Inflation Index. The indexes shown are unmanaged and are not available to investors to invest in. Unmanaged index returns do not reflect any fees, expenses or sales charges.

† The above example is hypothetical, based upon historical data, and provided for illustrative purposes only. The example does not represent any Legg Mason product or service. Individual investor results would have differed from those illustrated above. The hypothetical is constructed by multiplying the total returns of the respective proxies by 80% equities, 20% fixed income and withdrawing the inflation annually. The 7.5% yearly withdrawals reflect assumed 2.5% annual fees in addition to a 5% withdrawal. Withdrawals of taxable amounts are subject to ordinary income tax and, if taken prior to age 59 1/2, an additional 10% federal tax may apply.

† Source: Social Security Administration; updated January 2018 (www.ssa.gov/planners/lifeexpectancy.htm).
THE CHALLENGES OF RETIREMENT

Withdrawal rates have a dramatic impact on how long a portfolio can last.

The higher the withdrawal rate, the faster an investor will run out of money. Therefore, retirees who anticipate long payout periods may want to consider assuming lower withdrawal rates.

### Withdrawing less will make funds last longer

In this example, a 65-year-old retiree withdrawing 10% from their retirement funds depletes their funds in nine years, at age 74. But a retiree withdrawing 5% makes their funds last 12 additional years, until age 86.

© 2017 Morningstar. All Rights Reserved. The portfolio allocation (%) is made of 50% stocks, 40% bonds, 10% cash. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Stocks are represented by the Ibbotson® Large Company Stock Index. Bonds are represented by the five-year U.S. government bond, Treasury bills by the 30-day U.S. Treasury bill, inflation by the Consumer Price Index, and mutual fund expenses are from Morningstar. The data assume reinvestment of income and do not account for taxes or transaction costs. The portfolio assumes withdrawals by a person beginning at age 65. Past performance is no guarantee of future results.

### Inflation reduces your purchasing power

A dollar today will likely be worth less at retirement because of inflation. Since everyday items get more expensive over time, one would need to plan for future price increases when saving for retirement.

The effect of inflation on everyday costs ($)

| Year | College (Private)
| Priv | (Public)
| Priv | PCE
| Priv | Pair of movie tickets
| Priv | CPI
| Priv | New car
| Priv | Gallon of milk
| Priv | New home
<table>
<thead>
<tr>
<th>Priv</th>
<th>Inflation average (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>16,630</td>
</tr>
<tr>
<td>2017</td>
<td>46,950</td>
</tr>
<tr>
<td>2042</td>
<td>87,532</td>
</tr>
<tr>
<td></td>
<td>1.54</td>
</tr>
<tr>
<td></td>
<td>42,525</td>
</tr>
<tr>
<td></td>
<td>3.58</td>
</tr>
<tr>
<td></td>
<td>4.82</td>
</tr>
<tr>
<td></td>
<td>5.64</td>
</tr>
</tbody>
</table>

* The calculation methodology was based on dividing the difference of the individual years totals by the previous year’s amount. After the percentage difference was calculated, an average of the historical percentage changes (inflation average) was used to calculate forecasted years.
* Box Office Mojo. Adjusting for Ticket Price Inflation 2018 (boxofficemojo.com/about/adjuster.html).

### Social Security benefits are not enough

While Social Security benefits account for 44% of the average retiree’s monthly income, the current average monthly Social Security benefit payment is just $1,288.10 and this amount may decline in the future as the ratio of workers paying into the system to retirees collecting benefits continues to fall.

Social Security: Ratio of covered workers to beneficiaries

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio of covered workers to beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>3.7</td>
</tr>
<tr>
<td>1980</td>
<td>3.2</td>
</tr>
<tr>
<td>1990</td>
<td>3.4</td>
</tr>
<tr>
<td>2000</td>
<td>3.4</td>
</tr>
<tr>
<td>2010</td>
<td>2.7</td>
</tr>
<tr>
<td>2020</td>
<td>2.3</td>
</tr>
<tr>
<td>2030</td>
<td>2.1</td>
</tr>
<tr>
<td>2040</td>
<td>2.1</td>
</tr>
</tbody>
</table>

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