Investor Education

When you retire can be just as important as how much you've saved

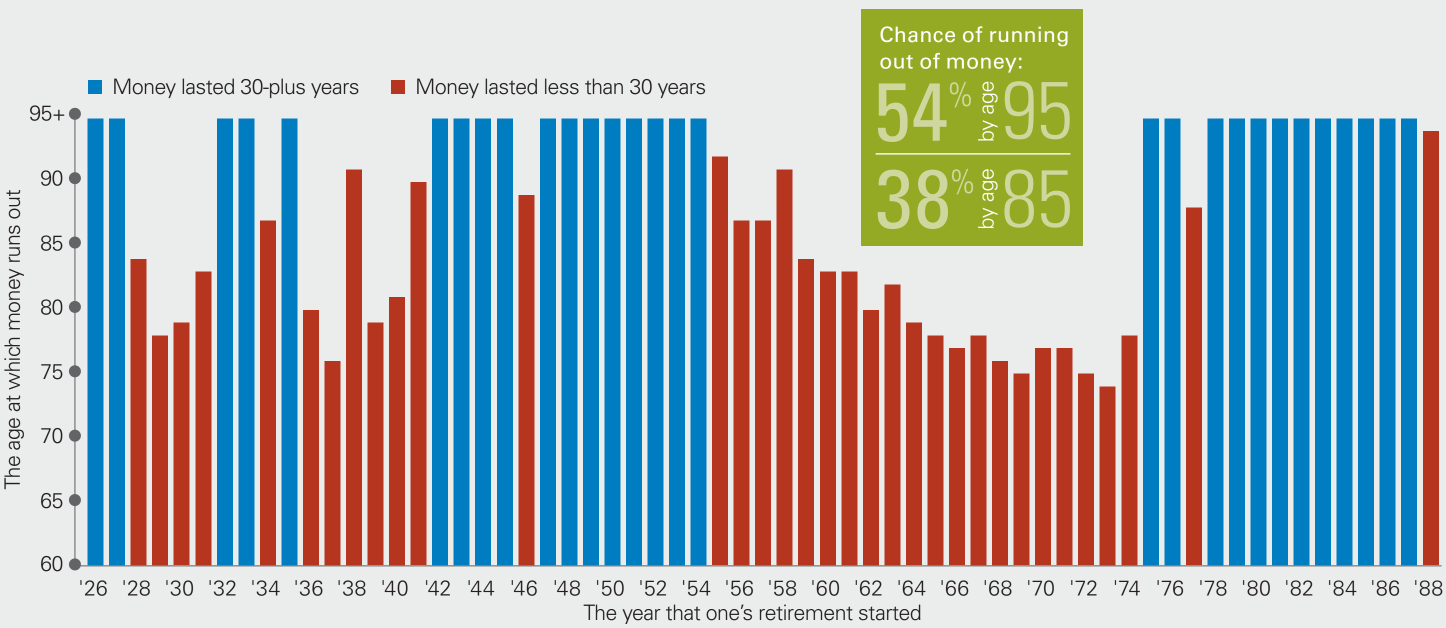
WHAT A DIFFERENCE A YEAR MAKES

The year in which an investor retires can have a huge impact on how long their money will last in retirement. In addition to market performance, there are other important factors to consider when planning for a retirement that could last 30 years or more.

Saving for a 30-year 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 can make a difference, particularly when a decline is experienced early in retirement.

65-year-old with a $1 million portfolio invested in 80% equities/20% fixed income, withdrawing 5% each year, indexed to actual historical inflation†



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 (SBBI) U.S. Large Stocks Index since 1926. The fixed income allocation is represented by the Ibbotson Associates Stocks, Bond, Bills and Inflation (SBBI) Investment Grade Fixed Income Securities Index since 1926. The historical inflation is represented by Ibbotson Associates Stocks, Bond, Bills and Inflation (SBBI) 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 example is constructed by multiplying the total returns of the respective proxies by 80% equities, 20% fixed income and withdrawing the inflation annually. In addition to the 5% withdrawal, a 2.5% yearly fee is also assessed for a total annual reduction of 7.5%. 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.

1 Source: Social Security Administration; updated January 2018 (www.ssa.gov/planners/lifeexpectancy.htm).

Diversification does not guarantee a profit or protect against loss.

The challenges of retirement

Plan on living longer in retirement

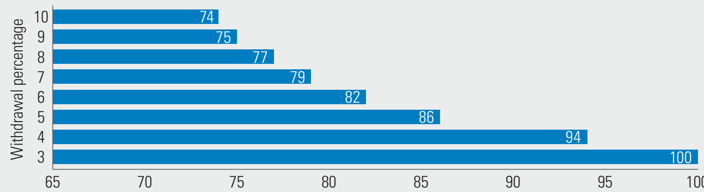
Preparing for a 30-year retirement isn't easy, given the uncertainty of today's markets. There are a number of important issues to consider to ensure your income lasts:

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.

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.

Age to which the portfolio may last, based on withdrawal rate



IMPORTANT: Projections generated by Morningstar regarding the likelihood of various investment outcomes using the Ibbotson Wealth Forecasting Engine are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Results may vary over time and with each simulation. This is for illustrative purposes only and is not indicative of any investment. An investment cannot be made directly in an index. © Precision Information, dba Financial Fitness Group. All Rights Reserved. Source: Morningstar.

Inflation reduces your purchasing power

As we know, everyday items can get more expensive over time. If past trends continue, a dollar today is likely to be worth less when you retire. Together with your financial professional, you can incorporate potential price increases into your retirement strategy.

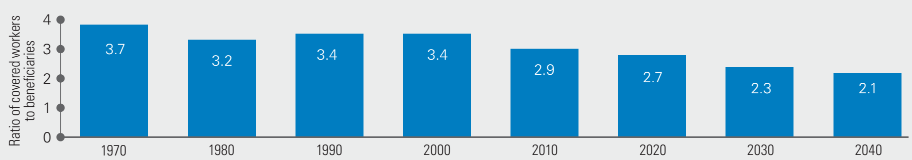
The effect of inflation on everyday costs ($)[2]

Year	College (Private)[3]	College (Public)[3]	New car[4]	Gallon of milk[5]	New home[6]
1975	16,630	1,780	4,951	1.54	42,525
2019	49,870	21,950	27,078	3.10	362,700
2039	93,634	41,212	50,841	5.82	680,991

Social Security benefits are not enough

While Social Security benefits account for 33% of the average income for the elderly, the average monthly Social Security benefit payment for retired workers is just $1,471[7] - 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



Source: The 2017 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds. Washington, D.C., July 13, 2017. 2020, 2030 and 2040 ratios projected by the Social Security Administration in 2017.

2 Projected prices were based on a 3.2% rate of inflation.
3 Trends in College Pricing, Average Tuition and Fees and Room and Board (Enrollment-Weighted) in Current Dollars, 1971–1972 to 2019–2020. The College Board, collegeboard.org.
4 U.S. Department of Commerce, Bureau of Economic Analysis: Auto and Truck Unit Sales, Production, Inventories, Expenditures, and Price (www.bea.gov).
5 U.S. Bureau of Labor Statistics. Consumer Price Index–Average Price Data, Milk, whole, fortified.
6 U.S. Census Bureau. Median and Average Sales Prices of New Homes Sold in United States (www.census.gov/construction/nrs/pdf/uspricemon.pdf).
7 Social Security Administration. Social Security Basic Facts, June 2019. (https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf).

What should I know before investing?

All investments involve risk, including possible loss of principal. Equity investments generally provide an opportunity for more capital appreciation than fixed income investments, but they are subject to greater market fluctuations. Fixed income securities may be subject to extension risk, which is the risk that the issuer will repay their obligations more slowly than the market anticipates in the event that market interest rates rise. Issuers also have the right to pay their payment obligations ahead of schedule in the event that market interest rates fall, subjecting securities to prepayment risk.

Need more information?

Speak with your Financial Professional about this and other investment strategies.

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