American Century Investments®

Retirement Income

Shape Your Future

Realities for Today's Retirees

34%

of workers are not confident they will be able to cover medical bills in retirement.

83%

of retirees believe they will have to make spending cuts due to inflation.

20%

are very confident they will have enough money to live comfortably in retirement.

Source: 2024 Retirement Confidence Survey, Employee Benefits Research Institute, January 2024

New Retirement Reality

Retirement today is not what it used to be. People are living longer and experiencing healthier, more active lives. While that's great news, it also poses challenges for how you will manage the retirement savings you've worked hard to accumulate.

Planning is crucial, not impossible

No matter how you picture retirement, living in it will be very different from working toward it. You'll move from depending on a steady paycheck to converting your savings into income for the rest of your life.

Developing a transition plan will help you shape your own retirement reality rather than letting circumstances shape your future. Develop your plan in four steps.

Picture it

One of the most important, but often overlooked, steps in preparing for retirement is to visualize what you want it to look like and to prioritize your life goals.

Start by asking yourself questions about:

- **Logistics** – Where will I live? What's my retirement date?
- **Lifestyle** – Will I travel, volunteer or get a part-time job?
- **Legacy** – What will I leave to family, friends or philanthropic projects?

Pick your priorities

Now take your vision a step further and create a list of priorities.

Our Retirement Goals
Stay in our house throughout retirement
Leave a bequest to the kids/grandkids
Visit each of our three kids at least once a year
Help fund the grandkids' education
Visit China and India
His: Volunteer at the hospital
Hers: Start a consulting business

Establishing a clear picture of your retirement can help you:

- More accurately assess your needs
- Create a more realistic budget
- Decide which goals to defer or eliminate if you don't have the money

A general rule of thumb is that you'll need to save between

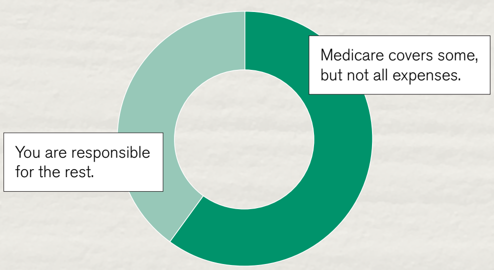
70% and 80%

of your income to maintain your current standard of living in retirement.

Note that on average, retirement beneficiaries receive 40% of their pre-retirement income from Social Security.

Source: Retirement Ready Fact Sheet for Workers Ages 61-69, January 2023.

Health care expenses can be hazardous to your wealth



Medicare does not cover all health care expenses. You are responsible for:

- Premiums
- Deductibles
- Co-Pays
- Co-Insurance

Some items are not covered, including dental, vision, hearing, podiatry and routine exams.

For illustrative purposes only. Does not represent actual percentage of out of pocket costs. Actual costs depend on the Medicare plan you choose, your coverage and the services you use.

Source: Medicare Made Easy, medicaremadeclear.com, United Healthcare, May 2021.

Pay for It

With your priorities in hand, it's time to build a realistic budget.

1. Estimate your annual expenses

Start with your current annual expenses and adjust each one either up or down based on your retirement needs. Also add new ones as needed.

Decreasing Costs	Increasing Costs
Work-related expenses	Health care
Retirement savings	Leisure travel
Taxes	Entertainment

Now separate expenses into essential and discretionary. Note expenses that would only be one-time costs.

Essential	Discretionary
Food, housing, utilities	Entertainment, gifts
Healthcare, insurance, taxes	Travel, dining out

Be prepared for health care costs

An average 65-year-old couple can expect to pay:

$780,000

on health care in retirement. This number represents hospital, doctor visits, medical tests, prescription drugs, supplemental Medicare premiums, dental, hearing and vision costs.

- Explore supplemental health care coverage, like Medigap.
- Purchase long-term care insurance while you are healthy.
- Budget for health care premiums and costs not covered, like dental, vision and hearing.

Source: Healthcare Planning: Putting Prescription Drug Price Caps Into Context, August 2023.

2. Estimate your annual income

Be sure to include all potential sources such as:

- **Lifetime income -** Social security benefits, pensions and annuities
- **Savings/investments -** 401(k)s, IRAs, mutual funds, CDs, stocks/bonds, and returns from these investments
- **Earnings -** Full- or part-time job
- **Other assets -** Real estate and equity in a home or business

3. Check reality–are you on track to retire?

With your estimated annual income and expenses in hand, use this formula to get a preliminary, ballpark assessment of your retirement fitness.*

$$\frac{\text{Expected Annual Income}}{\text{Expected Annual Expenses}} = \text{Retirement Funding Fitness Ratio}$$

≥ 1.1	.75 to 1.0	< .75
Good possibility you will have enough to cover expected expenses, plus some unexpected ones	You may need to make income or expense adjustments	Your retirement is possibly underfunded

Source: American Century Investments, 2024.

**This is intended as directional only and not to represent a true retirement readiness assessment. A full assessment requires a complete analysis of your financial situation.*

If you didn't get a green light, there are ways to improve your readiness:

- Delay retirement and save more
- Reduce future expenses
- Defer Social Security payments to maximize your benefits
- Evaluate how much risk you can take with your investments. More aggressive investments may help you grow your savings, but also come with more risk.

Total Income Example

Savings/Investments	
401(k)	$450,000
IRA	$60,000
Mutual Funds	$103,000
Stocks	$23,000
Bonds	$46,000
Total	**$682,000**

Annual Income From Investments	
$682,000 x 4%	**$27,280**

Annual Income	
Social Security	**$35,000**
Pension	**$10,000**

Annual Earnings	
Part-time job	**$12,000**

Total Annual Income **$84,280**

Plan it

Once you have a target budget, it's important to know the key risks you will likely face and how to incorporate protection strategies in your plan.

1. Outliving your money

The biggest risk that retirees can face is running out of money. This is known as longevity risk.

Plan to Live Longer Than You Think

Probability of Today's 65-Year-Old Living to Various Ages

65 Year-Old Female		65 Year-Old Male	
Age	Probability	Age	Probability
80	81%	80	73%
85	66%	85	55%
90	45%	90	34%
95	23%	95	15%

Source: Actuaries Longevity Illustrator, 2024 Society of Actuaries and American Academy of Actuaries. *All calculations are based on the information you provide and the 2019 Social Security Administration mortality table, with future mortality improvement projected using the Society of Actuaries' MP-2021 scale.*

Help make your money last

You can manage longevity risk through careful planning.

- Choose a realistic time frame for how long your retirement money needs to last. If you retire at age 65, plan for 30 to 35 years.
- Maintain an adequate amount of stock investments. This can potentially help your savings continue to grow; however, it does come with additional risk.
- Pick a sustainable withdrawal rate, between 3-5%.

2. Losing purchasing power

The dollar losing value over time, known as inflation risk, can have a devastating impact on your retirement security. This can be true even when inflation is relatively low.

Help maintain your buying power

- Add inflation-hedging investments to your portfolio.
- Maintain enough stock investments so your savings potentially can keep growing.
- Maximize Social Security payments, which automatically adjust for inflation.

Investment return and principal value of security investments will fluctuate. The value at the time of redemption may be more or less than the original cost. Past performance is no guarantee of future results.

63%

of Americans worry more about running out of money than death with concerns about inflation, Social Security and taxes.

Source: 2024 Annual Retirement Study, Allianz Life Insurance Company, March 2024.

3. Declining market

Market declines, especially early in retirement, can undermine your portfolio.

Diminish volatility impact

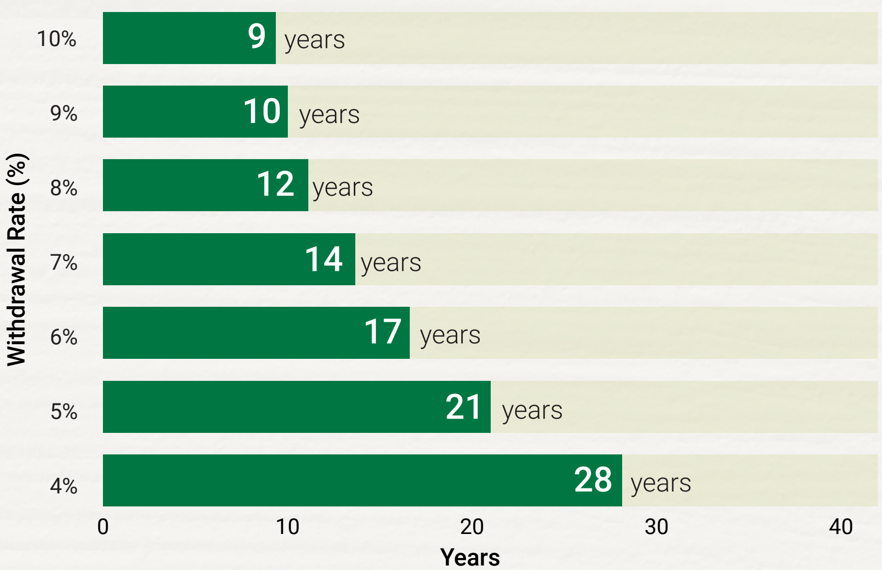
- Balance market highs and lows by having a mix of investment types. You want investments that react differently when market conditions change.
- Align how much of each kind of investment, known as asset allocation, with how much risk you're willing to take. It may help you be less likely to panic in a downturn.
- Maintain lower-risk investments to cover your first three to five years of retirement.

4. Overspending

Spending in retirement refers to the withdrawal rate you choose from your savings. Taking too much can deplete your savings too fast.

Lower Withdrawal Rates Could Make Your Money Last Longer

(Hypothetical Examples)



These hypothetical situations contain assumptions that are intended for illustrative purposes only and are not representative of the performance of any security. There is no assurance similar results can be achieved, and this information should not be relied upon as a specific recommendation to buy or sell securities. Assumes a portfolio with 50% equity, 45% bond, 5% cash equivalents over 30 years at a 90% confidence level, with the following average monthly capital market returns: Stocks: 7.09%, 16.0% standard deviation; Bonds: 4.30%, 4.56% standard deviation; Cash Equivalents: 2.50%, 1.77% standard deviation. The correlation between Stock and Bond returns is 0.12. Inflation rate is assumed to be 2.5% annually and is included in each of the withdrawal rates depicted above.

Standard deviation defines how widely returns vary from the average over a period of time.

Source: American Century Investments, May 2024.

Market volatility is a significant risk for retirees:

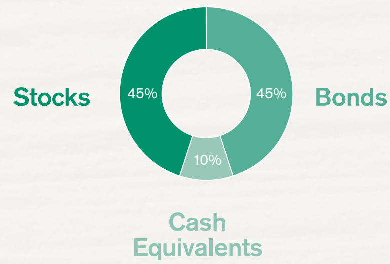
- Generally your savings will be the largest at retirement, before any withdrawals have begun. A market decline early on could have a greater dollar impact.
- Withdrawals intensify the impact of market declines because they represent funds that can no longer grow when the market does rebound.

Tips to minimize its effects:

- Temporarily reduce your withdrawal rate so more of your investments have a chance to rebound.
- Avoid selling stocks. Take your withdrawals from cash equivalents, then bonds, and lastly stocks, and only if you have to.

Select the right income strategy

There are numerous philosophies in the marketplace for building a retirement portfolio for income. Three are listed here as thought-starters. Ultimately, your strategy depends on your individual needs.

	Interest Only	Total Return
Income Strategy	 Live off only the interest your investments make and don't touch the principal.	 Create a broadly diversified portfolio that aligns with your risk tolerance.
Portfolio Goals	• Choose low risk investments to fund your retirement income. • You should not touch the principal so it can continue to supply the income you need.	• Seeks risk-adjusted, total return that you can convert into annual income. • Resembles a pre-retirement portfolio.
Benefits	• The principal can potentially stay intact if you choose low-volatility investments. • Has the potential to produce a higher initial yield than other approaches.	• Easy to implement and monitor. • May help avoid excessive yield focus. • Time-tested and well researched. • Flexible and puts you in control.
Cautions	• The income you receive can vary and the principal can fluctuate too. • Requires you to understand the underlying securities and factors that affect the income they pay out. ▪ May not keep up with inflation.	• While diversification may help, you are still susceptible to some level of market swings. • Success may depend on factors you can't control—like a market swing right before, or early in, your retirement.
Best for Retirees Who	• Have a well-funded retirement. ▪ Have excess money for emergency expenses. ▪ Have a diversified bond strategy or bond laddering.	• Are well funded. • Can tolerate more risk. • Want to control their assets.

Diversification cannot protect against loss in a down market.

Buckets/Time Segmentation

1-5 Yrs. **6-15 Yrs.** **16-30 Yrs.**

Divide your portfolio into two to six buckets, each with its own allocation/ income goal.

- Each bucket has its own degree of liquidity and risk; shorter term buckets are less risky.
- Draw monthly income from short-term buckets.
- Long-term buckets replenish short-term ones.

- Enables you to match income timing with risk.
- Can help risk-adverse clients maintain stock exposure during down markets.
- Easy to measure results and make adjustments.

- Can be complex to manage multiple accounts.
- Moving money across buckets may incur taxes.

- Are anxious about risk.
- Have precise short- and long-term goals.
- Have more constrained retirement funding.

A diversified portfolio is essential in retirement

Diversification means spreading your money across different types of investments which are expected to perform a certain way under particular economic conditions. A few stocks and a few bonds won't cut it in retirement.

We believe that

35% to 55%

may be an appropriate amount of equities for a 30-plus year retirement span.*

Not having enough equities may exacerbate longevity and inflation risks and actually hurt, not help, in retirement.

*Assumes a 4-5% withdrawal rate over 30 years of retirement.
Source: American Century Investments, 2024.

Avoid the yield trap

With interest rates at historic lows, it may be tempting to invest in stocks and bonds with the highest yields in their categories. The problem is that often those yields are unsustainable and come at the expense of significant capital risk.

Position it

Your retirement portfolio will be just as important as your pre-retirement portfolio. Your goal is to build a portfolio that gives you the best chance of success while minimizing risk.

The investments you choose are critical, but they are not a cure-all. They cannot fix insufficient savings or chronic overspending. Below are some key principles to consider.

Match spending to risk

Align investment risk to cover the types of expenses you have.

Use low-risk/low-volatility investments for essential expenses, especially in the first three to five years.

Low-Risk Investments

- Short-term government
- Intermediate-term government
- Corporate bonds

Use stocks for discretionary expenses, to address longevity and inflation risks, and fund legacy wishes.

Stock Investments

- Growth
- Value
- International

Choose the right asset allocation

Having the appropriate mix of stocks, bonds and cash may improve your odds of retirement success.

You may want more stock exposure when:

- Your retirement time frame is longer
- Inflation is higher
- Your withdrawal rate is higher
- You have a higher risk tolerance

You can have lower stock exposure when:

- You have a lower tolerance for risk
- Your retirement is well funded and conservative investments will sustain your retirement income

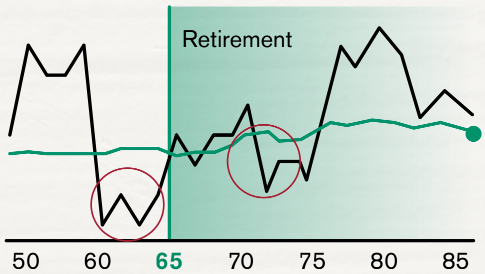
Enhance diversification

Spreading your money across different asset types has historically been successful for managing volatility.

Diversification may also help increase the probability that your money will last.

For illustrative purposes only. Does not represent an actual portfolio or returns.

Diversification may help lower risk if volatility occurs right before or after you retire



Diversification cannot protect against loss in a down market.

This information is for educational purposes only and is not intended as investment advice.

Portfolio Review – Don't leave your retirement to chance.

Preparing your portfolio for retirement takes careful planning.

Revisit

While a long-term view of your investments for retirement is recommended, once your plan is in place, it a good idea to review it from time to time.

In addition to market volatility, your time horizons change and your tolerance for risk too. Changes in the market and life events are unavoidable. Our investment professionals recommend revisiting at least annually.

We believe having a plan gives you a better chance of success and an opportunity to shape your own retirement reality.

Start planning now

Contact us or your financial professional to get started.

Retirement Income Checklist

- ✓ Visualize your retirement and goals
- ✓ Estimate expenses, health care costs and income
- ✓ Make a plan - take into account:
  - living longer than you think
  - losing purchasing power
  - market volatility
  - how much you should withdraw
- ✓ Build a portfolio - determine how much risk you can handle and diversification strategies
- ✓ Revisit - at least annually, make sure your time horizon and risk tolerance haven't changed

---

American Century Investments®

Focused on your retirement

Put our commitment to quality and consistency to work for your retirement portfolio. The very nature of our investment management processes make us uniquely qualified to help you build a retirement portfolio to potentially last a lifetime.

Bringing New Meaning to Healthy Returns

Twenty years ago, our founder had an audacious idea. Use profits from his investment firm to end diseases that touch everyone. Like cancer. And Alzheimer's.

That's why over 40% of our profits go to the Stowers Institute for Medical Research, a world-class biomedical research organization dedicated to defeating life-threatening diseases.

Investing with us means investing in a healthier world for everyone.

American Century Investments®

Non-FDIC Insured ▪ May Lose Value ▪ No Bank Guarantee

American Century Investment Services, Inc., Distributor

P.O. Box 419385 | Kansas City, MO 64141-6385