

Look before you leap

Knowing your risks is the start of a great retirement strategy.





Enjoy the retirement
you've always envisioned.

Retirement. You've worked hard to get here.
Now it's time to start doing all those things
you've been dreaming about.

Until you get sick.
Or the car breaks down.
Or the market drops.

Unexpected things are going to happen. We call them "retirement income risks." And while you can't prevent them, you can take steps to prepare. Let's take a look at how you can address these risks to help create enough income to cover your needs.

Risk 1

Inflation

As prices go up, your money buys you less and less.
Over 20 or 30 years, this can really add up.

See how inflation affects purchasing power:

Current amount	Number of years	Future amount needed to buy the same goods/services
\$50,000	10	\$60,949
\$50,000	20	\$74,297
\$50,000	25	\$82,030
\$50,000	30	\$90,568

For illustrative purposes only. Assumes 2% inflation rate.

The price of
beef is now nearly
3X the price in 1996.¹



1996

\$1.40/lb.



Now

\$3.81/lb.

What you can do:

- **Remember that Social Security includes a cost-of-living adjustment (COLA).** It's typically not too big, but it can help.
- **Contribute more to your retirement savings** so you have a bigger cushion to offset rising prices.
- **Contribute to a health savings account**, if you're still working and enroll in a high deductible health plan.
- **Spread retirement savings** across different types of investments to help balance risk with potential growth.
- **Purchase financial products that give you guaranteed income** plus a cost-of-living adjustment.

¹ United States Department of Labor; Bureau of Labor Statistics. Based on 12-month average.

Asset allocation and diversification do not ensure a profit or protect against a loss. Guarantees are based upon the claims paying ability of the issuing insurance company.

Risk 2

A longer life

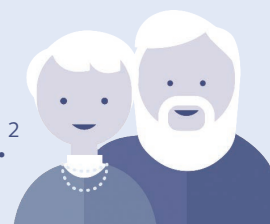
Doesn't seem like a risk, does it? Life expectancies in the U.S. are longer than ever before, which is great news. What's tricky is saving enough for a longer retirement—and making sure you don't outlive your savings.

What you can do:

- **Max out your contributions** to a 401(k) or 403(b) plan or IRA while you're still working. Consider making extra catch-up contributions if you're eligible (check with your employer).
- **Buy an annuity or similar product** that gives you guaranteed income for life.
- **Get long-term care insurance** to help you manage medical costs later in life.
- **Work with a financial professional** to figure out how much and how often you can withdraw from savings in retirement.

For a 65-year-old couple retiring today, there's a

1 in 4 chance that one of them will live to age 98.²



Risk 3

Rising health care costs

Health care costs will likely take up more of your budget after you retire. Especially since health-related costs are increasing faster than inflation.³

Medicare helps, but it probably won't be enough on its own. While it generally covers about 60% of health care costs, it doesn't cover copays or insurance deductibles. It also excludes vision, dental, and long-term care.

What you can do:

- **Start a health care savings account** if you're still working. (Keep in mind that once you sign up for Medicare, you can no longer contribute to an HSA.)
- **See if your employer offers an early retiree insurance program.**⁴ Or consider extending your coverage using Consolidated Omnibus Budget Reconciliation Act (COBRA) (although this may cost extra and usually has a time limit.)
- **Join your spouse's employer-provided health care plan** if he or she is still employed. Veterans may qualify for coverage through the Veterans Benefits Administration.
- **Purchase individual insurance.**⁴ Compare options at [healthcare.gov](https://www.healthcare.gov).

A 65-year-old
retired couple ...

Faces health care costs
3X higher than costs
for working people.⁵

May need **\$363,946** to
cover health expenses
through retirement.⁶

² LIMRA Secure Retirement Institute's 2018 Retirement Income Reference Book.

³ United States Department of Labor; Bureau of Labor Statistics. CPI—Medical Care increased more than CPI—All Items 8 of the last 10 years (2009-2019).

⁴ You can consider these options if you are younger than 65 and not yet eligible for Medicare.

⁵ LIMRA Secure Retirement Institute's 2018 Retirement Income Reference Book.

⁶ HealthView Services 2018 Retirement Health Care Costs Data Report.

Guarantees are based upon the claims paying ability of the issuing insurance company.

Risk 4

Changes in the market

Ups and downs in the market can significantly affect your retirement savings invested in the market. And, as you get closer to retirement, your investments may have less time to recover.



What you can do:

- **Double-check your mix of investments.** Investments are organized into groups called “asset classes” that have different levels of risk. Many financial professionals suggest you should invest more in lower-risk asset classes as you near retirement, while still keeping some potential for growth.
- **Be careful how often and how much you take from savings.** When you retire, you’ll go from saving money for retirement to pulling from your savings to pay for living expenses. Taking out a smaller amount will help you conserve.
- **Think about adding guaranteed income.** Products like annuities provide fixed, guaranteed income all through retirement. This gives you a guaranteed base of income to meet basic needs.

Risk 5

Public policy changes

Will new taxes or tax increases reduce your retirement income?

While you can’t know for sure what our government will do in the future, you can keep yourself in the know about public policy so you’re prepared.

Will Medicare continue in its current form?

Currently, Social Security replaces about **40% of pre-retirement earnings**.⁷ Beginning in 2020, the Social Security Administration will pay more in benefits than it collects in taxes.⁸

What’s the future of Social Security?

What’s it all mean? Start planning today.

It’s important to plan ahead for the unexpected, and you don’t have to do it alone. Your financial professional can help you plan for your future.

Don’t have a financial professional? We can help.

Call **800-547-7754** or visit principal.com to get started.

⁷ Social Security Administration website, Retirement Planner: “Learn About Social Security Programs.”

⁸ 2019 Social Security Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds.



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Asset allocation and diversification do not ensure a profit or protect against a loss.