Preparing for Your Journey

The process for creating a retirement strategy has three major components:

What’s Your Vision?
This process begins with your vision of retirement, which includes when you want to retire and your desired retirement lifestyle. We’ll focus on where you are today – your income, expenses, assets and debt – and where you want to be. We can then help you develop a strategy designed to achieve your goals.

How Much to Retire? It’s All about Desired Income
Start by estimating how much income is necessary to lead your desired retirement lifestyle. Your financial advisor can adjust this estimate for inflation and include outside sources of income to determine how much you need to retire. The Rule of 25 can also provide a quick estimate.

You're in Control: The Power of Three
Three key variables will directly influence your ability to achieve your goals:
• **Time** (how long you save)
• **Money** (how much you save)
• **Return** (how much your investments earn)

You control both money and time, and your asset allocation helps determine your return potential. Your financial advisor can run different scenarios to show you how small changes in these variables, such as saving a bit more, can make a big difference over the long term.

### The Power of Three

<table>
<thead>
<tr>
<th>Saving $450 per month for 30 years, returning 6% per year</th>
<th>Time</th>
<th>Money</th>
<th>Return</th>
<th>All Three</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving an extra 5 years</td>
<td></td>
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<tr>
<td>Saving $100 more per month</td>
<td></td>
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<tr>
<td>Earning a 1% higher return</td>
<td></td>
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<tr>
<td>Extra 5 years; $100 more per month; 7% return</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ending Portfolio Value</th>
<th>$450,000</th>
<th>$640,000</th>
<th>$550,000</th>
<th>$550,000</th>
<th>$990,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential Annual Income</td>
<td>$18,000</td>
<td>$25,600</td>
<td>$22,000</td>
<td>$22,000</td>
<td>$39,600</td>
</tr>
</tbody>
</table>

The Rule of 25
Implicit in how much you need to save is how much you can withdraw from your portfolio each year. We generally recommend an initial portfolio withdrawal rate of 4% for people retiring in their mid-60s.* Using this as a guide, you can get a quick estimate for how much you should save:

Inflation-adjusted income needed from portfolio

\[
\text{Required portfolio value} = \text{X 25}
\]

**Potential Annual Income**

For example, if you’ll initially need $40,000 in pretax income from your portfolio, you’ll need a portfolio worth $1 million. If your number sounds large, don’t be discouraged. Stick to your strategy – your investments and time are working for you.

Progress may feel slow at first. But focus on the 7% line on the Page 4 chart. The line curves sharply as you get closer to your goal. This is due to compounding – your returns start to build off one another, speeding your progress. So while your goal may feel far away, stay disciplined – you may be closer than you think.

*This assumes an increase in withdrawals each year for inflation.

Source: Edward Jones. This hypothetical example is for illustrative purposes only and does not reflect the performance of a specific investment. Income based on a 4% initial withdrawal rate. Portfolio value rounded to the nearest $5,000.

Balancing Goals
Everyone has competing priorities when it comes to saving. You may be balancing your current expenses (like a mortgage or child care costs) with saving for the future – or you may be looking to prioritize what you’re saving for (like retirement and a child’s college education). But don’t put off saving for important long-term goals at the expense of shorter-term objectives – your financial advisor can work with you to balance these priorities and adjust your strategy to better position you toward achieving what’s important to you.

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Prepare for the Unexpected

You Can’t Predict, but You Can Still Prepare

Life can be unpredictable, and you’ll likely face unforeseen challenges along the way. While we work to address these in your “Plan for the Expected,” the unexpected can occur. To prepare, you can either “incorporate” a risk into your investment strategy or “insure” against it.

The Role of Insurance

While you are still working, your ability to earn income into the future is incredibly valuable. Life insurance can help you protect this “asset” by helping to ensure your family will have the financial resources they need should you pass away at an early age. We recommend having enough to cover your family’s expenses should you pass away – to replace your lost income and pay expenses such as college or a mortgage. For most people, term life insurance may be the most appropriate and cost-effective solution to do this, as it typically costs about 1%-2% of your annual salary. Your financial advisor can walk you through your options and help you decide what will work for you and your family.

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Position Your Portfolio for Both Risk and Your Goals

While you don’t control your investment return, you do control your return potential. Generally, the greater the percentage of stocks you own, the more your return potential increases – but so does the risk of market fluctuations.

But risk has many definitions. Some investors may hold more in cash and short-term investments in an effort to avoid short-term market declines and be “conservative.” But this approach may be risky as well – it reduces your return and growth potential. As shown below, the difference between a 7% and 3% return is not just 4%; it could be nearly $600,000. The biggest risk you face is not reaching your goals, and it is difficult to reach long-term goals with only short-term investments.

Start with a Solid Foundation

The foundation of a solid investment strategy is based on the investment principles of quality, diversification and a long-term focus. Our goal is to help you adhere to these principles in building a portfolio with the investments, insurance and banking solutions necessary to help achieve your goals and address the risks discussed earlier.

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Keep Emotions in Check

Market declines themselves usually don’t keep people from achieving their goals – their emotional reaction to the decline does. By understanding your level of comfort with risk, you can better control your emotions and stick to your long-term strategy during the inevitable bumps along the way.

Building Your Portfolio

Growth in the Early Years – In general, if you’re many years away from retiring, more of your investments should be geared toward those that provide the opportunity for growth, such as stocks and/or stock mutual funds. You generally have more time to weather short-term declines and pursue higher long-term returns.

It’s still important, however, to own bonds, which can help smooth out changes in your portfolio’s value over time.

Transitioning to Balance – As you near retirement, it’s harder to weather potential larger market declines. Your portfolio should begin becoming more balanced between stocks and bonds in the years before you retire. We’ll help you position your investments to provide for the first few years of your retirement income needs, balanced with the growth needed to help provide income years later. Remember, if you are behind in your strategy, be aggressive with saving, not investing.

Source: Edward Jones. This hypothetical example is for illustrative purposes only and does not reflect the performance of a specific investment. Assumes saving $550 per month, rounded to the nearest $5,000.

The Role of Social Security

While there may be adjustments to put the program on more solid footing, Social Security will likely continue to play a key role in retirement. Since when you claim Social Security can affect both your and your spouse’s lifetime payment, it’s critical to work with your financial advisor to determine what makes sense for your situation. While the Social Security Administration estimates that Social Security provides about 40% of your pre-retirement income in retirement, remember that you’ll still be responsible for funding the majority of your spending in retirement. So a comprehensive savings and investment strategy is essential.
**Early and Mid-career Investors**

**Take Advantage of Your Biggest Asset: Time**

Early on, your financial assets may be modest. However, you’re wealthier than you might think – you have time. Many people save for near-term goals first and delay saving for retirement since it may be 30 years away. We believe this is a big mistake.

Consider the Benefits of Waiting

Delaying retirement a few years could dramatically improve your retirement lifestyle. Not only could it provide time to save more and earn a return on your investments, but it could also increase your Social Security benefits. This could provide you with more income in retirement.

**The Potential Benefits of Waiting**

<table>
<thead>
<tr>
<th>Portfolio Value</th>
<th>Age 62</th>
<th>Age 64</th>
<th>Age 67(^1)</th>
<th>Age 70</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirement Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial Withdrawal from Investments (4%)</td>
<td>$26,000</td>
<td>$30,800</td>
<td>$39,600</td>
<td>$50,000</td>
</tr>
<tr>
<td>Social Security(^2)</td>
<td>$16,500</td>
<td>$18,900</td>
<td>$23,600</td>
<td>$29,300</td>
</tr>
<tr>
<td>First-year Pretax “Income”</td>
<td>$42,500</td>
<td>$49,700</td>
<td>$63,200</td>
<td>$79,300</td>
</tr>
<tr>
<td>Percentage Increase in Pretax Income over Age 62</td>
<td>n/a</td>
<td>17%</td>
<td>49%</td>
<td>87%</td>
</tr>
</tbody>
</table>

Source: Edward Jones.

1 Assumes Full Retirement Age (FRA) is 67 (for individuals born after 1959).

Assumes a $1,250 contribution to 401(k)/IRA at end of every month until retirement, plus a 6.5% average annual return; income rounded to the nearest $100, portfolio values to the nearest $5,000.

2 Based on a formula from www.ssa.gov. Assumes $60,000 salary.

**A Longer Retirement Means Saving More**

Advances in medicine and healthier lifestyles will allow Americans to live longer and better than ever in retirement. While that’s certainly good news, it also means your investments may need to last 25 to 30 years or more. Consider this: At age 65, American men can, on average, expect about 17 more years of life and women almost 20 years. This means that half of the population can expect to live beyond these averages, with almost one man in five and one woman in three expected to reach age 90.*

*Key Findings and Issues: Longevity, Society of Actuaries, June 2012
Keep Retirement from Being Taxing
Since taxes can significantly impact your portfolio’s value, we recommend investing in tax-advantaged accounts as well as diversifying accounts by tax treatment – including both traditional and Roth accounts – as this can provide more flexibility in retirement. Where you focus your contributions may change based on your life stage and tax situation, so it’s important to discuss your strategy with your financial advisor and tax professional.

Tax-deferred/tax-free growth is a major benefit when saving for retirement. Every dollar saved in taxes is one more you have to spend in retirement. By allowing your portfolio to grow without the impact of taxes, you can be in a much better position to achieve your goals.

Understanding Your Options
There are two main types of tax-advantaged retirement savings accounts: traditional and Roth. The key differences reside in how and when taxes are paid, with each serving an important role.

<table>
<thead>
<tr>
<th>Roth or Traditional?</th>
<th>Roth Retirement Plans</th>
<th>Traditional Retirement Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Features</strong></td>
<td>• Contributions are not tax-deductible.</td>
<td>• Contributions may be tax-deductible.</td>
</tr>
<tr>
<td></td>
<td>• Distributions are tax-free when withdrawn.</td>
<td>• Distributions are taxed as ordinary income.</td>
</tr>
<tr>
<td><strong>Tends to be more beneficial if:</strong></td>
<td>• You expect tax rates to be higher in retirement than today (or at the time of contribution).</td>
<td>• You expect tax rates to be lower in retirement than today (or at the time of contribution).</td>
</tr>
<tr>
<td></td>
<td>• You are able to forgo the tax deduction today for the prospect of tax-free income in retirement.</td>
<td>• You are in a high tax bracket today and would prefer the immediate tax savings of a deduction or pretax contribution.</td>
</tr>
</tbody>
</table>

1 Earnings distributions from a Roth IRA may be subject to taxes and a 10% penalty if the account is less than five years old and the owner is under age 59½. Contributions to a Roth IRA are subject to income limitations.

2 Withdrawals from a traditional IRA prior to age 59½ may be subject to a 10% penalty and applicable ordinary income tax.

Review and Rebalance
The review may be the most important part of the process, as inevitably there will be some surprises along the way. We’ll need to review your strategy regularly, including:

• Any life events or changes to your retirement goals
• Your investment mix to help ensure it still aligns with your goals and tolerance for risk
• Actual investment performance versus expected performance
• Any insurance, beneficiary designations and legal documents to help ensure they’re up-to-date

We may need to make some adjustments to stay on track. It’s also important to rebalance your investments periodically back to your stated objectives so you aren’t taking too much, or too little, risk necessary to achieve your goals.

Let’s take the time to outline your vision for retirement. Together, we can turn your vision of retirement into a strategy to achieve your retirement goals.