WELLS FARGO ADVISORS

Implement

Designing your retirement

A guide to creating and managing income throughout your retirement years

INVESTMENT & INSURANCE PRODUCTS:

NOT FDIC INSURED	NO BANK GUARANTEE	MAY LOSE VALUE

Together we'll go far

In IMPLEMENT, the topics that will be covered are:

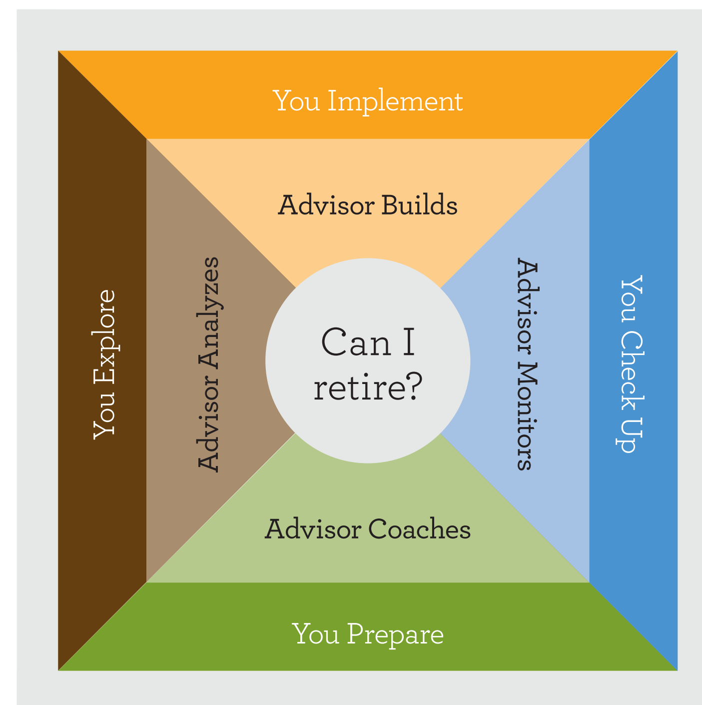
- Key dates that affect your planning .... pages 6 – 8
- Creating income to cover retirement living expenses .... pages 9 – 10
- Choices for creating income throughout retirement .... pages 11 – 15
- Withdrawal strategy .... pages 16 – 23
- Withdrawal rate and asset allocation .... pages 24 – 28
- Your next steps checklist .... page 29

When the time comes to start generating an income in retirement from all of your available resources, it's important to have a clear withdrawal strategy in place to help maximize the income potential of each source. This strategy should consider which accounts and income sources to tap — and when. It must take into account tax efficiency and your current tax situation. And, it should ensure that all the specific rules of each account type are implemented correctly.

Because the rules for taking withdrawals from retirement accounts — Traditional IRAs, Roth IRAs, 401(k)s, for example — are complex, distributions from these accounts must be handled properly to avoid penalties. Also, if you wish to pass any remaining assets to your beneficiaries, the accounts will need to be set up appropriately and beneficiary information kept current.

At this point in the retirement income planning process, you've most likely completed the *Envision*® profile for retirement income and addressed your retirement goals and lifestyle. Your Financial Advisor at Wells Fargo Advisors will now take the lead in building your detailed withdrawal strategy, focusing on two key objectives:

1. To provide the income you need for your first few years in retirement.
2. To keep a long-term view to ensure that the balance of your portfolio is working hard to meet your future retirement income needs.



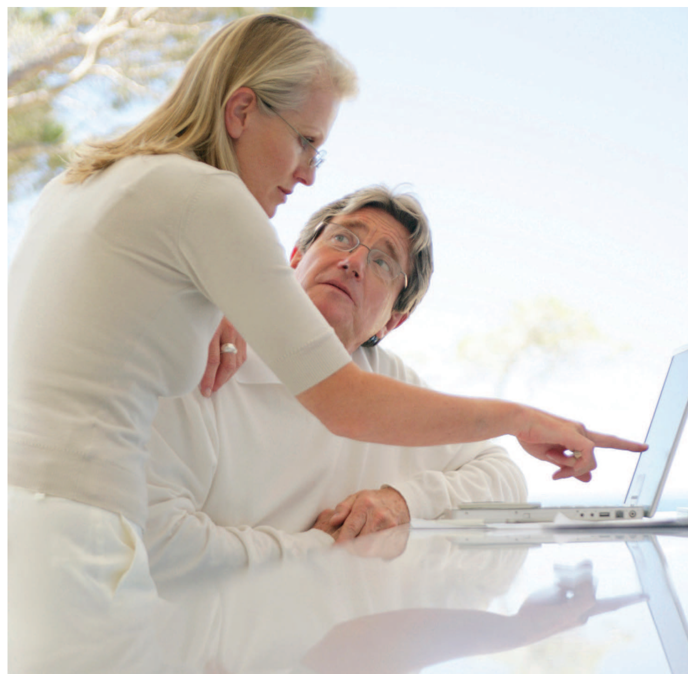
In the IMPLEMENT stage, the keys to creating a successful stream of retirement income include:

- Tapping your available income sources at the optimal time to provide your income foundation.
- Strategically withdrawing money from specific accounts to meet immediate income needs and provide longer-term growth opportunities in a tax-efficient manner.
- Tactically investing in a product mix and asset allocation that is most appropriate to meet your financial needs throughout retirement.

A successful approach to retirement income planning is centered around these core beliefs. They are the focus of everything we do to help meet your planning and investing needs for retirement income.

- Retirement income planning is an **ongoing journey** that requires your time and active involvement for success.
- The most effective planning process begins with **understanding your unique life goals, preferences, and tolerance for risk**.
- Your Financial Advisor should serve as **your personal guide**, backed by a knowledgeable team with the tools, technology, range of financial products, and qualified specialists you need to move forward to meet your retirement goals.
- Our unique *Envision* planning process will **deliver a robust report** that is flexible enough to adapt to your changing needs throughout retirement.
- You and your Financial Advisor should **evaluate your plan at least annually or whenever there are key changes** in your life, your portfolio, or the financial markets to help ensure its ongoing success.

Your Financial Advisor at Wells Fargo Advisors is prepared to help you with the information, support, and answers you require as you navigate into and live in retirement.



Consider key dates and timing to maximize your income strategy

Not all sources of retirement income need to be tapped at the same time, and the order in which you withdraw that income depends on many factors. Your Financial Advisor will help you decide which assets to withdraw — and when. To do that, he or she will look at the various "trigger dates" and timelines that may apply to your situation. Below are some of the key dates commonly used in retirement income planning. You may have other dates that are important to you — payoff date for your mortgage, retirement date, debt repayment, or a major purchase, for example. Share the timing of those events with your Financial Advisor as well.

Age 55: Early retirement provision
If you have been participating in a workplace plan such as a 401(k) or have a company pension plan, age 55 may be important. For many retirement plans, there is a provision that allows you penalty-free access to your savings if you are age 55 or older — and have left your employer. You will need to check with your employer to see if this provision is included and available for you.

Age 59½: Early withdrawal penalty waived
Age 59½ is a key milestone for many retirement accounts. For IRAs and most annuities you can begin to tap into your money at this age without incurring a 10% early withdrawal IRS penalty. You will need to check the specific documents for each account you own, as the withdrawal options are usually different for each account.

Age 62: Early Social Security
Sixty-two is the earliest age for receiving Social Security retirement payments.[1] (A surviving spouse may apply at age 60.) While tapping your Social Security dollars may be tempting, remember that the earlier you begin taking this money, the lower your monthly payment will be — and often by a significant amount. And, if you continue to work and collect a paycheck, your Social Security benefit will be subject to an earnings limit. Waiting to begin collecting may be more beneficial in the long run. For more details, ask your Financial Advisor at Wells Fargo Advisors for a copy of the *Social Security and Your Retirement* report.

Age 65: Medicare eligibility
Regardless of when you choose to begin collecting Social Security, once you reach age 65, you are Medicare-eligible. Well before your 65th birthday, you should become familiar with Medicare. Ask your Financial Advisor for the *Medicare — Understanding the program's complexities* report to help you get started. Further, you will want to consider that the best time to purchase a companion "Medigap" policy is during your Medigap open enrollment period: a 6-month period that begins on the first day of the month when you meet two requirements — reach age 65 or older AND are enrolled in Medicare Part B. (Generally, if you apply for your Medigap policy during open enrollment, the insurance company cannot use medical underwriting.)[2] Doing your homework well in advance of turning 65 can help you be prepared for making the decisions that work best for you.

[1] For complete details, visit www.SSA.gov
[2] For complete details, visit www.Medicare.gov

Consider key dates and timing to maximize your income strategy (Continued)

Age 65 – 67: Full retirement age for Social Security benefits
The age at which you can receive the *full* amount of your Social Security payment depends on your birth year. (See Exhibit 1 to find your full retirement age.) You do not have to begin collecting at this age, and can choose to wait until age 70 to take these benefits if that works better for your retirement plan.

Age 70½: Required Minimum Distributions (RMDs)
Although you've taken advantage of tax-deferred earnings over the years with your personal and company retirement accounts, the IRS eventually wants you to pay tax on those earnings. That's why once you reach age 70½, you must begin withdrawing assets from these retirement accounts. Also, at age 70½ you are no longer eligible to make Traditional IRA contributions. (You can still make Roth IRA contributions if you meet eligibility.) Your Financial Advisor at Wells Fargo Advisors can help you navigate the complex rules related to RMDs and help ensure that you are making the correct amount of withdrawals at the correct time.

Age 85, 89, or 90: Maximum age allowed to purchase many immediate annuities
While an immediate payout annuity can be a good source of guaranteed income, there are certain upper age limits to consider when purchasing one. Check the maximum age limit at each insurance company when shopping for an immediate annuity. Well before reaching late retirement years, talk to your Financial Advisor about the strategies and products that will help you meet your and your spouse's or partner's income needs later in retirement.

Exhibit 1
Age for collecting full Social Security retirement benefits

Year of birth	Full retirement age
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943 – 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and after	67

Source: ssa.gov

With so many timing considerations and withdrawal rules to navigate as you begin to create your retirement income, it's important to stay on top of these key tasks:

- ☑ Organize your employer retirement plan accounts and consolidate them when possible for maximum efficiency
- ☑ Review your beneficiary designations on every retirement account — from pension plans to 401(k)s to 403(b)s to Traditional IRAs to Roth IRAs, etc.
- ☑ Make sure your Financial Advisor has a complete record of your beneficiaries and joint account owners, and knows to whom you've given power of attorney
- ☑ Update any legal documents and inform your Financial Advisor of special situations that might affect your income plan or that of your surviving family members
- ☑ Pay special attention to preparing your documents if you have a more complex family situation — second marriages, children and step children, death, divorce, or a dependent adult child

Tips

For information on Medicare and Medigap supplemental policies go to **www.medicare.gov** at least 6 months before turning age 65.

Check the Social Security Web site at **www.ssa.gov** for information on Social Security eligibility and payment calculations well in advance of your retirement.

Wells Fargo Advisors has two excellent reports available to help you navigate the myriad of options and decisions you will need to make around your Social Security and Medicare benefits.

Ask your Financial Advisor for your copy of:

- **Social Security and Your Retirement**
- **Medicare — Understanding the program's complexities**

You can also meet with your Wells Fargo Advisors Financial Advisor for a complimentary analysis of the Social Security benefit scenarios available to you.

Creating income to cover your retirement living expenses

A key discussion topic between you and your Financial Advisor at Wells Fargo Advisors will be your retirement living expenses. The expenses will be broken into two categories (see exhibit 2). "Essential expenses" are those that you must be able to cover each and every month, regardless of market activity or personal pursuits. "Non-essential expenses" are those that you are willing and able to forego when the going gets tough and you need to scale back on your spending for a time.

As a general rule of thumb, many retirees find that 60% – 70% of their total retirement annual expenses are essential, and 30% – 40% are non-essential. Your actual budget may show a different mix, but these ranges serve as a benchmark.

Exhibit 2

Different retirement living expenses require different income streams and levels of assurance

Essential living expenses	Non-essential living expenses
(60 – 70% of total annual expenses)	(30% – 40% of total annual expenses)
• Basic food and shelter	• Extensive travel
• Housing, including maintenance, repairs, and utilities	• Hobbies
• Healthcare costs	• Memberships
• Transportation	• Entertainment
• Taxes	• Collections
First, build retirement income to cover these expenses	Second, provide options for how much and how often your non-essential goals may be funded
• Create a 12 – 36 month "reserve" of income in a cash type account. • Implement a guarantee or growth strategy that will continually fuel your income needs throughout your retirement years.	• Create an investment account or strategy that will allow you to pursue and pay for your non-essential expenses in years that it is reasonable to do so.

If you've already completed a detailed budget, you've most likely estimated these costs. (If you have not yet completed a budget, now would be a good time to do so.) Your Financial Advisor will look across all of your assets and income sources and combine those that are necessary to create a steady, reliable income stream throughout retirement. He or she will help ensure that you can meet essential expenses, then help you determine how much you will have for non-essential spending.

As with most financial situations, there are many ways to meet your essential expenses. Exhibit 3 shows a range of possible income sources and accounts that your Financial Advisor will consider.

The main goal is to assess how much of your essential expenses should be covered with guaranteed sources of income, and how much can be covered with your assets and investments. Plus, you'll need to build in enough flexibility to handle unexpected opportunities or emergencies that will arise throughout your retirement years. Equally important is to continue to invest a portion of your portfolio to provide the income you'll need in future years and that may grow to help overcome inflation, longevity, and market volatility risks.

Exhibit 3
Where will your retirement income come from?

Common Income Sources	Social Security: available for each individual; may begin payments from age 62 on. Employer Pension Plan: may be an option for you. Income Annuities: insurance products that guarantee a specific amount of income each month.[3]	Your foundation income stream that will first cover essential retirement expenses.
Retirement accounts	Employer-sponsored retirement savings plan: 401(k), 403(b), 457, SIMPLE, etc. IRAs: any Traditional or Roth IRAs you have been saving for retirement.	The balance of your essential income will be "purchased" from a combination of the assets and investments you have. You will want to ensure that you will have enough income to last your lifetime.
Other investment accounts	Investment Portfolio: based on suitability and your risk tolerance. Managed Portfolio: single "wrap account" professionally managed by investment experts. Deferred annuity:[3] fixed or variable investments designed to help save for retirement and may be converted to another source of guaranteed income in the future.	Flexible expenses will be paid for from certain accounts that you own — keeping in mind that your withdrawal rate will need to be reasonable.

[3] Guaranteed income payouts are backed by the claims paying ability of the underlying insurance company. Make sure you check the financial strength ratings and other factors before purchasing an annuity.

Withdrawal methods: choices for creating income through retirement

Previous generations of retirees were able to implement relatively simple retirement income methods because most of their retirement income came from employer pension plans and Social Security. They often focused their investment strategy on those securities that produced dividends. Typically, retirees found they could live off these dividends without touching the underlying principal. Today, dividends may be a component of an overall investment strategy, but most of us will find that we need to use more of our personal investments to create a good portion of our retirement income.

How you go about developing a strategy for tapping into a portion of your personal assets for short-term needs while effectively managing the rest for long-term growth and future income is part art and part science. Which withdrawal methods you select will depend on your personal situation. Your Financial Advisor at Wells Fargo Advisors can help you determine which withdrawal methods — or combination of methods — might work best for you. Keep in mind that you may find one method works well today, but several years into retirement, another method may work better.

The withdrawal methods outlined in Exhibits 4.1 to 4.4 are some of the most commonly used for income planning. Talking to your Financial Advisor about these options will help you implement the method most appropriate to generate your income stream.

Exhibit 4.1

Where will your retirement income come from?

Income only

This is the old standby withdrawal method where a retiree plans to live off interest and dividends generated by their portfolio and not touch their principal. This continues to be a good option if you meet any of the following criteria:

- **You have a substantial portfolio and a very low income need from this portfolio.**
- **You have spending flexibility and can restrict your spending to the income generated each year.**
- **You have other sources of income that meet most of your income needs.**
- **Your top priority is to leave a legacy and you're willing to trade off retirement lifestyle to achieve it.**

For many retirees, this may not be a viable strategy. Given today's smaller overall portfolios, and limited employer pension plans, an income-only plan may not deliver enough money to meet your essential expense needs — or your lifestyle in retirement.

Example Portfolios

Value of portfolio:	$500,000	$1,000,000
Income if 3% interest:	$15,000	$30,000
Income if 5% interest:	$25,000	$50,000

Exhibit 4.2

Where will your retirement income come from?

Total return

Using this withdrawal method, your portfolio is invested to meet your target asset allocation and rebalanced periodically to stay within that allocation. Periodically, a certain percentage is withdrawn to provide a number of months of income. Your Financial Advisor will handle the distribution of assets and the cash amount is deposited in an account that you may use to pay your monthly bills. This strategy works best if:

- **You have a relatively substantial portfolio.**
- **You are comfortable with the volatility of the market.**
- **You can adjust your spending each year depending on market conditions and the value of your portfolio.**

A systematic withdrawal plan (SWP) is typically used by retirees who want their assets to remain as flexible as possible and who can sleep at night even when the value of their portfolio drops. It also may be used for the discretionary portion of a retirement income plan, but tends to be less effective for assuring income for essential expenses.

Example:

In Year 1 of retirement, a retiree's portfolio of $750,000 with a 4% SWP produces $30,000 of income, which covers the balance of his essential income need (after Social Security and pension). The remaining portfolio value of $720,000 is invested in a balanced asset mix. But during Year 2, the market experiences an 8% downturn, reducing the value of the portfolio to $662,400. Because the retiree's essential expenses didn't drop with the market decline, the subsequent $30,900 withdrawal (the prior year's withdrawal of $30,000 adjusted 3% for inflation) effectively becomes a 4.7% withdrawal rate ($30,900/$662,400) which may not be sustainable long term. A meeting with his Financial Advisor provided some alternatives, which may have included withdrawing more that year, purchasing an income annuity to provide more guaranteed income* or using other assets that would have been for flexible expenses to cover essential expenses.

*Guaranteed income payouts are backed by the claims paying ability of the underlying insurance company. Make sure you check the financial strength ratings and other factors before purchasing an annuity.

Exhibit 4.3

Where will your retirement income come from?

Income floor

With an income floor strategy, you establish a minimum amount or "floor" of income that supports your essential or more basic retirement spending. Income flooring is about generating enough ongoing income to cover essential needs, as opposed to trying to also accommodate discretionary spending or aspirational goals. When using this strategy, income is generally provided by lifetime income sources, such as Social Security, pensions, and annuities. Once the floor is established, the risk level of the remaining portfolio is managed in accordance with other retirement objectives to ensure more income is available in the future years to counter the erosion of purchasing power due to inflation.

1. **Guaranteed income sources and cash pool to cover all essential expenses.**
2. **Flexible investments to cover lifestyle expenses.**
3. **Growth investments to fuel future cash needs.**

This withdrawal method works best if:

- **You need to know that your essential expenses will be covered regardless of market ups and downs.**
- **You want to take advantage of the market upside for your discretionary expenses . . . and are willing to cut back when the market goes down.**

Example:

With an income floor approach, you use a portion of your portfolio to create a stream of income that meets 100% of your essential expenses throughout retirement by purchasing an annuity with income guarantees or pursuing a conservative asset allocation. The balance of the portfolio is then used to cover non-essential lifestyle expenses and growth opportunities. This portion is typically invested in more growth-oriented vehicles to try to take advantage of any market upside.

*Guaranteed income payouts are backed by the claims paying ability of the underlying insurance company. Make sure you check the financial strength ratings and other factors before purchasing an annuity.

Exhibit 4.4

Where will your retirement income come from?

Bucket strategies

This method groups assets into categories or "buckets" designed for a specific purpose. Your overall portfolio is split into separate investment pools with different investment goals, strategies, or timelines. Ideally, you would analyze the balances of each bucket at a regular frequency. If a target balance isn't met, then redistribution will occur. Of course, with strong market performance, a bucket may continue to fulfill its objective and redistribution might not be necessary.

This withdrawal method works best if:

- **You want the comfort of knowing that you will not need to sell securities in a down market to cover current expenses**
- **You want to take advantage of the market upside for your longer-term expenses and the potential to keep up with inflation**

Example:

You can segment your portfolio by anticipating income needs for specific timeframes, such as short-, intermediate-, and long-term needs as follows:

1. Cash and short-term investments to cover near term spending (years 1 – 5)

2. Fixed-income investments to cover mid-term spending (years 6 – 15)

3. Balanced stock/bond portfolio to cover long-term spending (years 15+)

Creating a sustainable income stream from a large pool of assets can be a daunting task. Designating a smaller portion of your savings to be used for income in the short term may help you feel more in control. Maintaining greater investment discipline with your longer-term assets may translate into improved success.

Which assets to tap when? Building a withdrawal strategy

Once you've done some thinking about your withdrawal methods and have a good idea of the types of accounts and investments you'll be tapping to create an income stream, how do you know which accounts and assets to use first? Between the number of accounts you own and those owned by your spouse or partner, it can be tricky to decide how to most effectively tap your assets.

If you're like most retirees, you may have between five and ten accounts at various locations with different tax requirements. This can include accounts with former employers, at banks and investment companies, or with your Financial Advisor. These diverse accounts must all work together to help ensure that you meet your essential expenses throughout retirement — and still have something each month to enjoy your retirement lifestyle.

Simplify retirement income planning — To help you maximize the potential of your retirement assets, your Financial Advisor will need to understand your entire financial picture. That's why he or she may recommend that you consolidate your accounts. There will likely be some paperwork required to move these assets, but it's well worth the effort to simplify your financial life and get a single view of how each account contributes to your monthly income and when each account will be tapped.

Your Financial Advisor at Wells Fargo Advisors will build your withdrawal strategy based on the following considerations:

- Your age and your spouse's or partner's age.
- When you want to begin collecting Social Security and how much replacement income that will cover.
- If you have a pension, when it's best to begin taking payouts, whether they will be single or joint payouts, and how much income this portion represents.
- Your tax bracket in retirement.
- The technical requirements for each account type you own — including tax rules and when you can access the money without penalties.
- Any specific financial requirements for your situation.

As you work with your Financial Advisor to develop your retirement income stream, you'll need to make many decisions — and each decision you make, in turn, will influence your future choices. That's why having in-depth discussions with your Financial Advisor is so critical to the process. For example, you may be wrestling with the decision to continue working or to stop working and begin collecting Social Security early. Or, you may be trying to determine whether a systematic withdrawal plan (SWP) or an income annuity makes you feel more confident about generating the income you need from your retirement portfolio.

Exhibit 5.1 and 5.2 illustrate examples of the decisions facing two hypothetical retirees, and show how the choices they make can affect other decisions about their retirement and brokerage accounts and their income assets.

Exhibit 5.1

Where will your retirement income come from?

Example 1 Peter and Elizabeth	Option A Elizabeth continues to work until age 65	Option B Elizabeth works until age 62 and takes early retirement
Peter is 65 and Elizabeth is 61. Peter has decided to retire as he has a pension plan available to him. Elizabeth needs to decide whether to work until she reaches age 65 or to retire at 62 when her Social Security first becomes available. **Together, they have a variety of savings and investment accounts: a bank account, several IRAs, and a joint investment account. They will need a retirement income of $4,500 per month.** **They are meeting with their Financial Advisor to discuss Elizabeth's options and the impact on their other sources of income depending on her decision.**	• Peter receives a monthly payout from his pension plan, which gives the couple a foundation for income. • If Elizabeth still works, a large portion of their monthly income need would be met with her wages... • ...and Peter can wait until his full retirement age before taking Social Security. • They can use their joint investment account during the first 5 years to cover any income shortfall... • ...which allows them to delay tapping their IRAs until reaching age 70½, when required minimum distributions begin.	• Peter receives a monthly payout from his pension plan, which gives the couple a foundation for income. • If Elizabeth works for only one more year, they need to decide 1) when each of them will begin Social Security payments and 2) how much more income they will have to produce from their assets to meet any income shortfall. • Can Peter wait until his full retirement age before taking Social Security? • Will they need to use their joint investment account for essential expenses? • Will they need to tap their IRAs before age 70½, when required minimum distributions begin?

Exhibit 5.2

Where will your retirement income come from?

Example 1 Sally	Option A Sally sets up a Systematic Withdrawal (SWP) to create income	Option B Sally uses a portion of her assets to purchase an income annuity
Sally is 68 and newly retired from her part-time job. She is already collecting Social Security and has a small pension. These provide a solid base of income for her essential expenses, but Sally would like to replace the income that she had been earning at her part-time job. She has other accounts and assets: a 403(b) at her former employer; a Roth IRA; and a brokerage account that holds her equity and fixed income investments plus several CDs. Sally will be meeting with her Financial Advisor to discuss how her assets can generate more income for her for the long term.	• First, Sally rolls her 403(b) to a Rollover IRA with her Financial Advisor to simplify the income process and ensure that her investments are optimized and monitored. • She then meets her income need with a SWP on the brokerage account using a reasonable withdrawal rate. • In future years, she can use the CDs for income when they mature, in place of the brokerage account withdrawal. • She keeps her Rollover IRA working tax deferred until minimum required distributions at age 70½. • Her Roth IRA is earmarked for her legacy plan or as an emergency backup.	• If Sally decides to use a portion of her brokerage account assets to purchase a single premium income annuity to provide guaranteed[4] lifetime income ... • ... she can then roll over the 403(b) to a Rollover IRA and keep those assets working tax deferred until minimum required distributions at age 70½. • She can also consider converting a portion of her Rollover to her Roth IRA for additional tax-free withdrawals[5]. • She still has the option of tapping her brokerage account for additional income needs over time.

The above example is provided for informational purposes only. Please keep in mind rolling over assets to an IRA is just one of multiple options available for your retirement plan. Each option has different advantages, disadvantages, investment options, and fees and expenses which should be understood and carefully considered. Investing and maintaining assets in an IRA will generally involve higher costs than those associated with employer-sponsored retirement plans. We recommend you consult with your current plan administrator and a professional tax advisor before making any decisions regarding your retirement assets.

[4] Subject to the claims paying ability of the underlying insurance company.

[5] Certain eligibility requirements must be met for tax-free withdrawals. Talk to your Financial Advisor at Wells Fargo Advisors about the details.

Four considerations for your withdrawal strategy

Throughout your discussions about withdrawal options, your Financial Advisor will continue to be mindful of four key considerations, which are essential for the successful implementation of any retirement income strategy:

1. **Tax efficiency:** maximizing your payouts while keeping your tax liability as low as possible.
2. **Safe withdrawal rate:** managing how much you can safely take out of your overall portfolio without jeopardizing its future.
3. **Product selection and asset allocation:** re-positioning your portfolio to create lifetime income.
4. **Protection:** ensuring that your income will be there throughout your lifetime.

Your Financial Advisor at Wells Fargo Advisors is well-versed on each of these topics and will factor them into the recommendations that he or she makes for implementing your withdrawal strategy and building your income plan. The next few pages provide general information that may be helpful to read before your next meeting with your Financial Advisor.

Tax efficiency

When your assets are being converted to income, you'll want to do so in the most tax-efficient way. Depending on the different accounts you have to choose from, and the underlying investments in each of them, assessing the effect of different withdrawal strategies on your tax liability is a key consideration. Working with both your Financial Advisor and your tax advisor is essential to assure that you meet all of the rules and obligations for every type of account, as Wells Fargo Advisors is not a tax advisor.

Generally, your Financial Advisor will use the following guidelines to determine the sequence of assets to tap for retirement income, based on the tax implications:

- Taxable investment accounts often produce income that is taxed annually. Withdrawing from these accounts before others can potentially lessen current taxes. If you are selling assets held long term (more than 12 months), you may benefit from relatively low long-term capital gains tax rates.
- Keep tax-deferred accounts invested as long as possible — until the age where RMDs must begin, if that is an option.
- Income annuity payments may help spread your tax liability over time, as only a portion is taxed as income while the remainder is considered return of principal. Funds in an annuity remain tax deferred until withdrawn.
- Keep tax-free Roth IRA accounts intact as long as possible too. This can supplement traditional retirement distributions without increasing tax brackets in retirement. (If you can afford the taxes associated with it, also consider converting a portion of your Traditional IRA assets to Roth IRAs.)
- Hold municipal bonds to maturity and use any interest payments to help fuel the income need.
- Look across all accounts for efficient generation of income. It's not necessary to withdraw from only one account if there are specific investments in several accounts that can be used to produce tax-efficient income.
- Offset investment capital gains with losses as you sell securities to generate cash for your retirement living expenses.

Since tax payments will have to come from the very assets you are trying to preserve for future income, you and your advisors will want to be aware of the tax consequences triggered by various withdrawal strategies.

Converting to a Roth IRA

Traditional IRA owners can convert IRA assets to a Roth IRA if they so choose regardless of the owner's modified adjusted gross income. Any former employer plan assets that you have may also be eligible to convert to a Roth IRA. You may choose to convert the entire amount at once, or consider partial conversions over several years to manage the tax liability.

A Roth IRA conversion is not suitable for all investors. Discuss this option with both your Financial Advisor and your tax advisor.

Consider the general tax situation for the types of accounts and investments you may own. Based on a combination of the technical rules and the tax rules, each different account is taxed differently — sometimes on an annual basis, sometimes only when you take money out of the account, and sometimes not at all. Exhibit 6 gives you a brief overview of some of the tax considerations your Financial Advisor and your tax advisor will take into account when deciding from which account to sell assets for your income stream.

Exhibit 6

Tax Considerations in different account types

Common Income Sources	• Social Security — generally subject to income tax if you have earned and unearned income that exceeds the IRS thresholds[6]. • Employer Pension Plan — generally included in regular income and ordinary income taxes are due on the distribution amount. • Income Annuities[7] — generally, payments are subject to ordinary income tax if purchased with tax-deferred assets; partial taxation if purchased with non-qualified (after-tax) assets.
Retirement accounts	• Employer-sponsored retirement savings plans (401(k), 403(b), 457, SIMPLE, etc.) — since the contributions in these plans reduced your income and earnings have grown tax deferred, all distributions are generally taxed at ordinary income tax rates. • Traditional IRAs — generally, all deductible contributions and earnings are taxable; any non-deductible contributions are excluded from taxes using a specific IRS tax formula. • Roth IRAs and Roth 401(k)s — these accounts are funded with after-tax dollars; as long as eligibility has been met, withdrawals are generally tax-free.
Other investment accounts	• Investment Portfolio — taxes will depend on the underlying investments; for example, mutual funds declare short- and long-term capital gain distributions on an annual basis, which are subject to tax at different rates. If you sell a security, long- or short-term capital gains taxes are owed on the gains. Other types of income such as non-qualified dividends and interest are taxed as ordinary income. Qualified dividends are taxed at long-term capital gains rates. • Managed Portfolio — sale of assets are taxed appropriately at long- or short-term capital gains rates. • Deferred annuities — once the contract ends and you decide to withdraw assets, all earnings are subject to taxation. Depending on your contract, you may have an automatic reinvestment at a new rate or you may elect to do a 1035 exchange to another annuity to continue the tax-deferred feature.

[6] Refer to IRS Form 1040 and the Instructions for complete details

[7] Guaranteed income payouts are backed by the claims paying ability of the underlying insurance company. Make sure you check the financial strength ratings and other factors before purchasing an annuity.

Withdrawal rate

Before taking the desired income amount from specific accounts, it's important to double check the "withdrawal rate" — the percentage of your overall portfolio that will be cashed out to meet your income needs each year.

- The general guideline is to begin your draw down at about 4% or less when you reach age 65.
- This will help ensure that your assets last throughout your lifetime (and most likely your spouse's or partner's lifetime).
- If you retire before age 65, you'll likely need to start with a smaller percentage.
- When you reach age 70, 75, 80, and beyond, you may be able to take out a higher percentage of your portfolio.

One of the key drivers to extending your portfolio is the composition of the underlying investments. Throughout retirement, you may want to consider having a portion of your accounts invested for growth — to help protect against inflation and to help generate more assets after you draw down a portion of them for income. Your Financial Advisor at Wells Fargo Advisors will recommend underlying investments that can help achieve some additional growth during retirement.

The chart in Exhibit 7 suggests how both concepts work together. The table shows the chances of an investment portfolio lasting for 30 years if invested in the indicated percentage of stocks and bonds. Let's look at two examples:

1. If you have a $500,000 portfolio and expect to need $30,000 for income, that calculates to a 6% withdrawal rate. As you can see from the table, your chances are quite low (45%) to highly unlikely (1%) that you will have enough assets to last for a 30-year retirement at this withdrawal rate.
2. If you have a $1,000,000 portfolio and need $40,000 (a 4% withdrawal rate), the odds improve to more than 77% likelihood that your assets will last.

It's important to note that asset allocation* can make a big difference in the likelihood of a portfolio lasting — having some stocks is helpful in a portfolio, but all stock or all bonds may not provide you with the confidence that your assets will last during the draw-down years.

Exhibit 7

Percentage in table indicates probability for 30-year time period

Withdrawal	Stock / Bond Mix %				
Rate	100/0	75/25	50/50	25/75	0/100
3%	90	95	98	99	98
4%	77	80	84	82	55
5%	60	59	53	31	8
6%	45	38	23	4	1
7%	31	21	8	0	0
8%	20	11	2	0	0

More Likely — Less Likely

Your Financial Advisor will discuss the details of your portfolio and the withdrawal rate options with you. In turn, you need to be prepared to answer a few questions:

- "Am I comfortable with the suggested withdrawal rate and confident that I will not run out of money during retirement?"
- "Would I be comfortable and confident that I will not run out of money if I knew that all of my essential expenses would be covered regardless of how my investment portfolio is doing?"
- "What am I willing to trade off to improve my withdrawal rate success in retirement?"

Refer to page 30 for additional information.

*Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns.

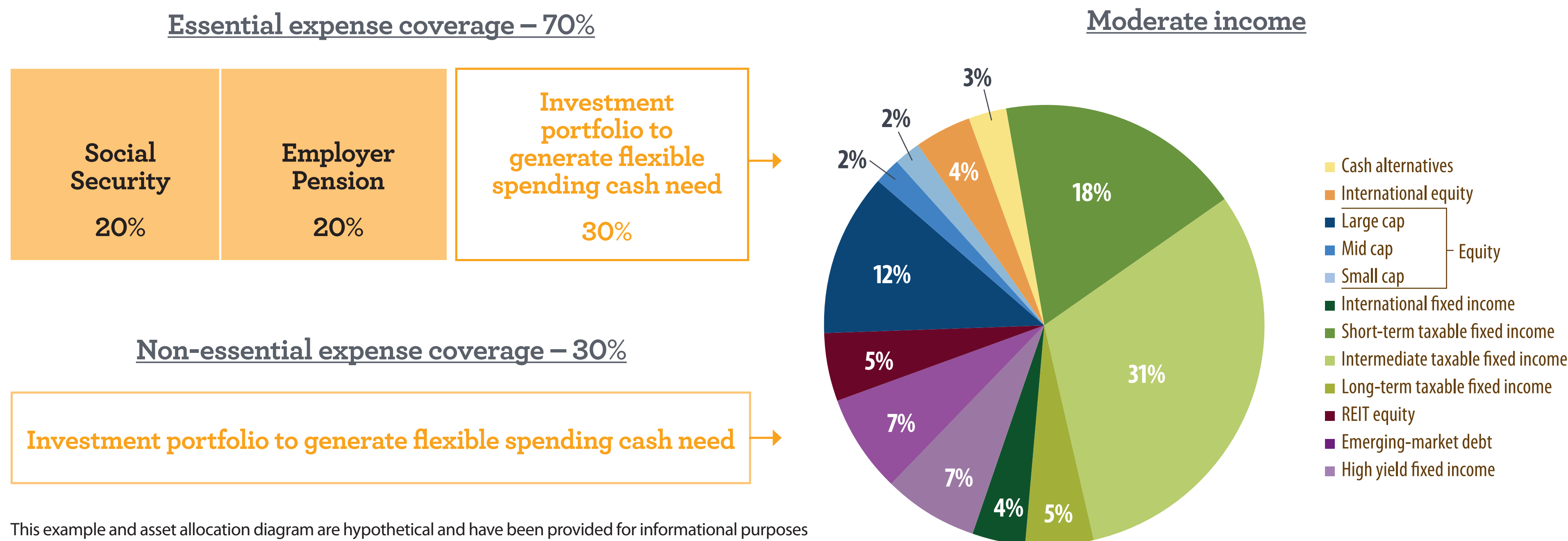
Asset allocation and product selection

As we reviewed previously, your retirement income will most likely be constructed from a variety of sources. And each source may include several types of accounts with underlying financial products and investments which must be selected and managed according to your personal goals and risk profile. Further, you may have different product and investment strategies for creating your essential retirement income needs and your non-essential income needs.

Exhibits 8 and 9 each show a sample product and investment portfolio that could be used to create a retirement income stream for life. There are many options to constructing a portfolio for income, and the allocation of assets to purchase a variety of products is a key component to building your customized retirement income stream.

Exhibit 8

Sample 1 — Income Portfolios and Product choices to create retirement income



This example and asset allocation diagram are hypothetical and have been provided for informational purposes only. It is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Asset allocations vary as individuals need to make their own decisions based on their specific investment objectives, financial circumstances, and tolerance for risk. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. Investing involves risk including the possible loss of principal.

Exhibit 9

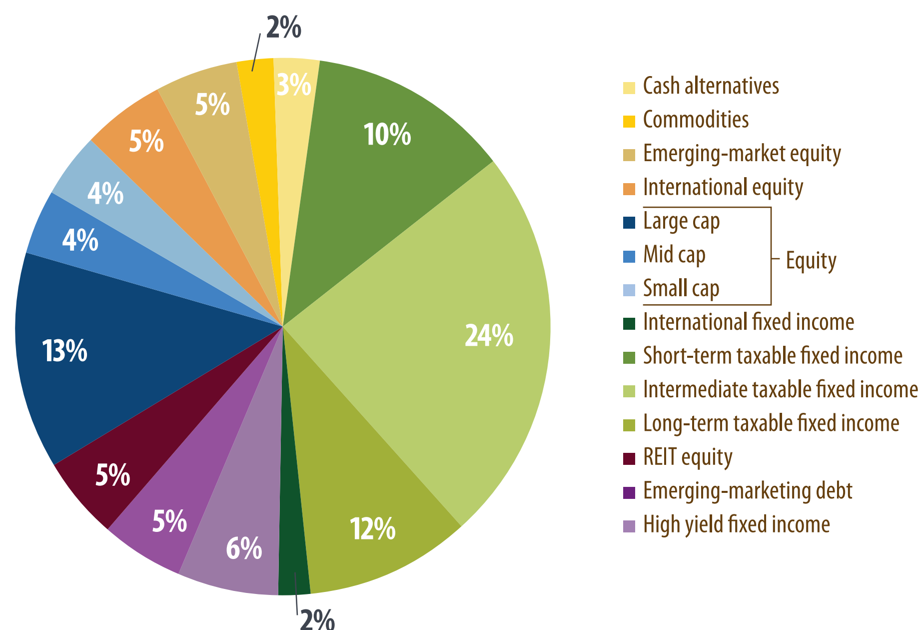
Sample 2 — Income Portfolios and Product choices to create retirement income

Essential expense coverage – 65%

Non-essential expense coverage – 35%

Investment portfolio to generate flexible spending cash need

Conservative growth and income



This example and asset allocation diagram are hypothetical and have been provided for informational purposes only. It is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Asset allocations vary as individuals need to make their own decisions based on their specific investment objectives, financial circumstances, and tolerance for risk. Asset allocation cannot eliminate the risk of fluctuating prices and uncertain returns. Investing involves risk including the possible loss of principal.

Your Financial Advisor at Wells Fargo Advisors can help implement your retirement income withdrawal strategy by considering the types of products that can generate the income you need with the right timing to fund your cash account each year in retirement. He or she can analyze and allocate your assets to help make sure that you have the appropriate investment vehicles for each source — investments that reflect your risk profile while seeking to deliver optimized results.

Protection of income

A good retirement income strategy ensures that the money you need will be there when you need it. Just as in your working years, having a dependable "income" every month can help you achieve the lifestyle you desire. Still, moving from relying on an employer to provide your income to creating income from your personal means is a very large step. Your Financial Advisor can help you make sure your income stream will be protected and available when you need it.

There are several avenues you and your Financial Advisor can take to assure that your income is protected. As with so many retirement income planning options, there are no right or wrong choices — simply the ones that will work best for you. And, you can make changes throughout your retirement.

Cash reserve — Rather than managing week to week, or two or three months at a time, some retirees find it helpful to have 12 to 36 months of "cash in the bank." This gives you an income pool of total liquidity and provides flexibility for your Financial Advisor to determine when might be a better time to sell portions of your portfolio to fund the next year's income.

Annuities for income — Products that offer a guaranteed stream of income as long as you live are annuities.[8] Those who prefer to supplement their Social Security and pension payments with another guaranteed source of income typically choose income annuities. This alternative can provide protection of income for you and your spouse or partner.

Annuities with living benefits — There are a number of annuity products with features and benefits that can help protect your retirement assets. From Guaranteed Minimum Withdrawal Benefit (GMWB) to Guaranteed Minimum Income Benefit (GMIB), your Financial Advisor can discuss the pros and cons of each option and help you decide if one of these products might help you feel more confident that your assets will be protected in down markets.[9]

Life insurance — For some retirees, having a substantial life insurance policy for their beneficiaries remains important. A cash payout to your spouse or partner can help ensure that he or she has needed assets to continue living the lifestyle you both chose, and can provide a pool of assets for unexpected expenditures later in retirement.

[8] Guaranteed income payouts are backed by the claims paying ability of the underlying insurance company. Make sure you check the financial strength ratings and other factors before purchasing an annuity.

[9] Variable annuities are long-term investments suitable for retirement funding and are subject to market fluctuations and investment risk. Please be advised that depending on the performance of the investment option selected, the contract value at the time of annuitization could be such that the investor would incur a higher expense with the rider option, such as the GMWB or GMIB, without receiving any additional benefit.

In summary

Implementing a successful strategy that generates income for your lifetime requires thorough analysis and careful consideration of many complex factors. Your Financial Advisor at Wells Fargo Advisors is prepared to build a withdrawal plan and strategy that best meets your needs. Key considerations for building that strategy include:

- Assessing all sources you will have available for income.
- Determining a withdrawal strategy that will work for you.
- Putting together a strategy that looks at which accounts to draw from first.
- Realigning your portfolio to address investment products and allocations for both growth and income.

Working with your Financial Advisor to make sure that you have the cash you need to cover your essential expenses allows you to pursue the activities you want in retirement without worrying if you will have enough to pay your bills.

Your next steps checklist

It's time to get a good handle on what it will take to design and implement a successful retirement income strategy. Consider these steps:

- ❒ Know your trigger dates and when sources of income will become available for you
- ❒ Determine your essential expenses so you know how much income you must have for retirement needs — are these in the 60% – 70% expense range?
- ❒ Think about your lifestyle requirements for retirement and the flexible expenses that you will need to cover in retirement — are these in the 30% – 40% expense range?
- ❒ Meet with your Financial Advisor for a complimentary analysis of the Social Security benefit scenarios available to you
- ❒ Review all of your various accounts with your Financial Advisor to help ensure your assets are optimized for lifetime income
- ❒ Read through the background information on withdrawal strategies and ask your Financial Advisor questions about how these strategies can be applied to your accounts
- ❒ Set up an account to receive automatic deposits from Social Security, your pension, immediate annuity payments, and your annual cash contribution from your withdrawal plan — your Financial Advisor can help you set up the right type of account to accomplish this
- ❒ Establish bill paying from the account to automatically meet your due dates for essential expenses
- ❒ Meet with your Financial Advisor at Wells Fargo Advisors to review your withdrawal plan and strategy

With strong analytical tools at hand, and the support of dedicated specialists, your Financial Advisor has everything at his or her finger tips to help you achieve your retirement.

Talk to your Financial Advisor at Wells Fargo Advisors about the *Envision* process today.

Important information about Exhibit 7.

Securities are grouped in classes based on shared characteristics, such as maturity for bonds and size of the corporation for stocks. The mix of classes best suited for an investor will depend on his or her individual investment goals and tolerance for risk. It is generally understood that as an investor takes more risk, he or she can see a higher rate of return over time.

The Representative indices displayed in the table are indicative of the data used in these calculations. Representative indices are intended to demonstrate publicly available benchmarks to help investors understand the nature of the securities within each asset class. The primary data used in calculating performance statistics is provided by the Center for Research in Securities Pricing (CRSP). [CRSP®, Center for Research in Securities Prices. Graduate School of Business, The University of Chicago. Used with Permission. All rights reserved. crsp.uchicago.edu.] Each CRSP benchmark index has at least 60 years of performance history. In addition, our analysis of historical returns was adjusted to account for the effects of inflation.

Capital Market Assumptions

Capital Market Assumptions for all asset classes assume a broadly diversified portfolio generally representative of the risks and opportunities of the asset class. To the extent that the investor's portfolio is not as diversified as the assumptions made for the asset class, the return and risk potential for the portfolio may vary significantly from the assumed Capital Market Assumptions.

The Capital Market Assumptions used within this illustration are based on a building-block approach of risk premiums and Sharpe Ratio Equivalency. The returns for each asset class reflect the premium above the short-term risk-free rate of return that investors are likely to demand in order to compensate for the risk of holding those assets. Sharpe ratio equivalency provides a consistent comparison or long-term risk premium across various asset classes for a 10-15 year time horizon or a period, covering more than one economic cycle. These long-term assumptions may differ greatly from the short-term performance and volatility experienced by your actual investment holdings. There are no assurances that the estimates will be achieved. They have been provided as a guide to help you with your investment planning.

Representative index is provided to clients as an example of a public index that generally reflects the associated asset class. Capital Market Assumptions are not based on the Representative Index. You cannot invest directly in an index.

Asset Class Downside Risk Average Annual Return Representative Index
Large Cap Blend -16.5% 8.0% S&P 500
Intermediate Taxable -5.0% 4.1% BarCap US Govt/Credit
Fixed Income Interm. TR USD (% Total Return)

This chart is for illustrative purposes only. Investors incur expenses when investing (i.e., commissions, advisory fees, and mutual fund expenses). Figures do not reflect the effects of taxes or transaction costs.

Equity investments refer to buying stocks of United States companies. The market capitalization of companies is used to group large, medium (Mid) and small companies. The investment return to the owner of stock (shareholder) is in the form of dividends and/or capital appreciation. The market capitalization of companies is used to group large, medium (Mid), and small companies. Shareholders share in both the upside potential and the downside risk.

Bonds are promissory notes of a United States corporation or federal government entity (taxable bonds) or a state or local government entity (tax-exempt or municipal bonds). Bonds usually make a series of interest payments followed by a return of principal at maturity. If sold prior to maturity, the price that can be obtained for a bond may be more or less than face value, depending on interest rates at the time the bond is sold and the remaining term of the bond. Short-term bonds have maturities ranging from one to six years; intermediate bonds have effective maturities between seven and twelve years; and long-term bonds have maturities of twelve years or longer.

Wells Fargo Advisors is not a legal or tax advisor. However, its Financial Advisors will be glad to work with you, your accountant, tax advisor, and/or lawyer to help you meet your financial goals.

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