WELLS FARGO ADVISORS

Prepare

Designing your retirement

A guide to creating and managing income throughout your retirement years

Together we'll go far

INVESTMENT & INSURANCE PRODUCTS:

NOT FDIC INSURED	NO BANK GUARANTEE	MAY LOSE VALUE

In PREPARE, you will find the information you need to get ready for your initial retirement income meeting with your Financial Advisor at Wells Fargo Advisors.

The topics that will be covered are:

The move from working full time to thriving in retirement can be one of life's most exhilarating — and challenging — transitions. It requires a whole new way of thinking about your lifestyle and how to support it financially. There's new ground to cover as you shift your focus from saving your assets to spending them, and new risks to be addressed as you revise your investment strategy. It's not easy to know where to start.

Fortunately, your Financial Advisor at Wells Fargo Advisors is available to help you begin your journey into retirement. Using an investment planning process called *Envision*®, your Financial Advisor will help you create and implement a personal retirement income strategy, and offer ongoing support every step along the way.

You and your Financial Advisor will navigate the retirement income stages together — Prepare, Explore, Implement, and Check-up. You will complete the process at your own pace, working with your Financial Advisor. He or she will provide the analysis and planning assistance you need, based on your personal situation, and help you monitor your plan throughout your retirement. It's a relationship that can help you pursue the successful retirement you envision.

In PREPARE, we'll discuss key concepts that are important for you to understand before beginning the retirement income planning process. They are the foundation to successful retirement income planning.

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 proprietary, *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.

Before the numbers: think about your goals — and dreams

How do you envision your retirement? With hectic schedules and competing priorities, most people don't have the time to sit back and really think about what their lives might be like when they retire. Now is the time to think about what you — or you and your spouse or partner — want for this next phase of your life.

If you have already completed an *Envision* plan, you have taken the first step toward achieving your success in retirement by identifying your goals, your wishes, and your dreams. If you haven't yet started an *Envision* plan, you should spend some time thinking about your goals for living in retirement. At your first planning meeting, your Financial Advisor will ask you about your goals and help facilitate the discussion by using our proprietary "priority cards." These cards contain general topics that you will need to think about when setting your goals for the retirement phase of your life. Good news: there are no right or wrong goals. Your retirement will be uniquely your own.

To help you get started, here are a few questions you might ask yourself and your spouse/partner:

- What do I *want* to do once I reach retirement? Relax, travel, golf, pursue a passion, volunteer, work part-time? How is that the same as or different from what my spouse/partner wants?
- Where do I want to live as I get older? Do I want to keep my current house? Downsize in the same town? Move to another location?
- Am I looking forward to retirement or dreading it? Why?
- How will my days be different once I stop working or when my spouse/partner stops working?

Talking about and comparing your goals with your spouse/partner may be quite eye-opening. You will want to gain an understanding of each other's wishes for retirement and build the plan to accommodate both sets of goals. Because your personal goals for retirement are the foundation for a retirement income strategy, the better you can define your lifestyle needs, obligations, and concerns about retirement, the better you and your Financial Advisor can build a plan to meet those goals.

Tip

Don't be discouraged or frustrated if you are uncertain about what your retirement will look like. You can always change your plans along the way. Your Financial Advisor is available to have these types of conversations with you.

Your Financial Advisor at Wells Fargo Advisors will need to know what your goals are, at least broadly, to start the planning process. Be ready to discuss:

- Lifestyle desires and needs for retirement — and dreams.
- Your obligations for your family and your finances.
- Any concerns about what retirement will mean — and when you can retire.

And, ask your Financial Advisor to show you the Priority Cards to make sure you've thought about all the key retirement topics.

Laying the foundation

Before you can build a successful retirement income plan, it is important to get a basic understanding of some of the key risks and considerations that may impact your results. Your Financial Advisor will want to talk to you about each of these risks and considerations to understand how they will apply to your particular situation. They are not meant to concern you, but rather to allow you to lay a solid foundation together with your goals so that your customized retirement income strategy can be developed.

Consider your retirement timeline: It may be longer than you think

If you are like most Americans, when asked how long you think you will live, you will underestimate by five or more years. That's because there is a significant difference between "life expectancy," which is based on statistics, and "longevity," which is based on probabilities. The life expectancy for a 65-year old U.S. male is 83 years and for a 65-year old U.S. female is 86 years.[1] That's the statistical age to which at least *half* of the 65-year old population will live, which leaves the other 50% living even longer. But life expectancy is <u>not</u> the age you should use for planning your retirement. Your own ***longevity*** could be far greater.

In fact, if you reach age 65, you have a high probability of living for 25 or 30 more years — almost as many years as you spent working! Take a look at Exhibit 1 to see the likelihood of living well into your nineties.

Exhibit 1

Probability of a 65-year old living to[1]:

80 **63% chance**	**Male**	**90** **22% chance**
80 **73% chance**	**Female**	**90** **33% chance**
80 **90% chance of one survivor**	**Couple**	**90** **48% chance of one survivor**

Your Financial Advisor will use your target longevity age when designing your retirement income plan. She or he will want to ensure that your assets will be able to generate income for as long as you live.

This chart shows you the probabilities of living a long, long life. Once you reach age 65, there is a 22% or greater chance that you will live into your 90s.

While none of us can predict our ending date, it is important to understand that life expectancy is a poor planning horizon. If you're relatively healthy, you'll be better served by planning with a longer time horizon. On the flip side, if there are health issues that can affect your longevity, it's important to work with your Financial Advisor to plan accordingly. Also, keep in mind that if your spouse or partner is significantly younger, you could be looking at an even longer planning horizon.

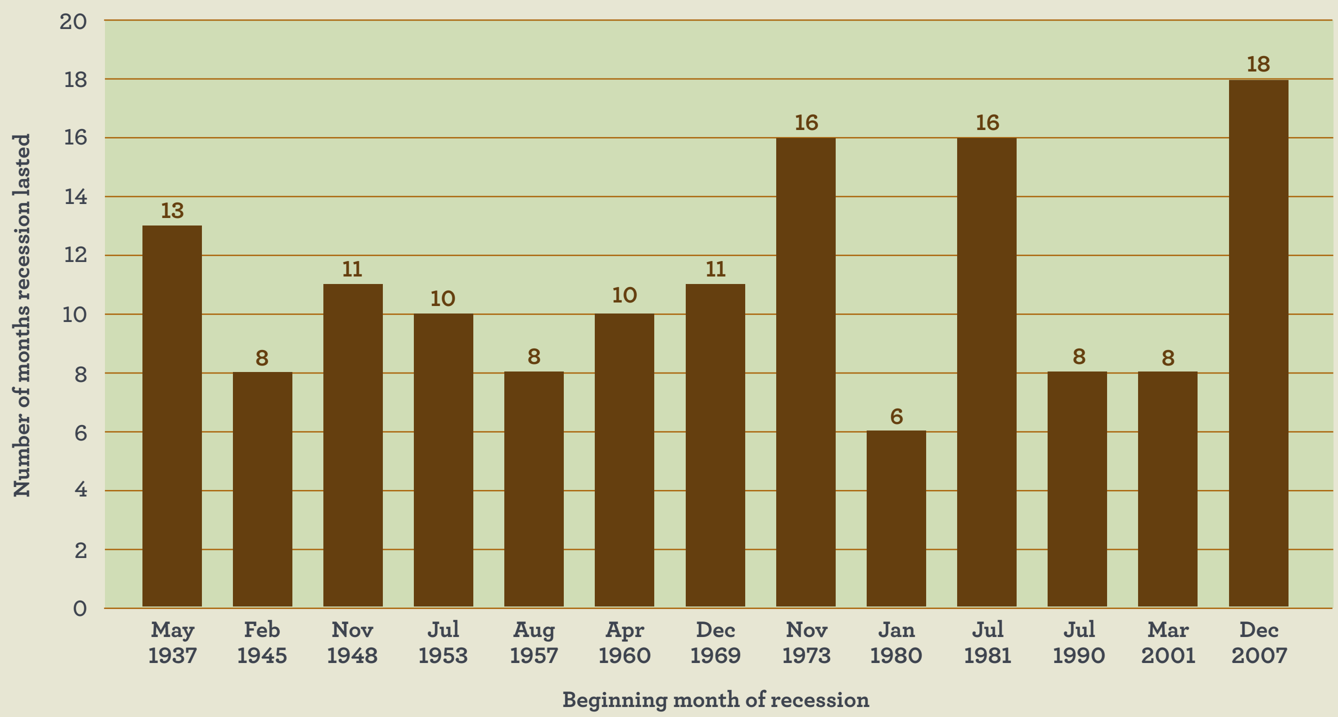
[1] Social Security Administration 2016 OASDI Trustees Report.

Understand how market swings can affect your plan

Throughout your accumulation years, the markets have risen and fallen with the economic cycles. In fact, since 1937, the U.S. has experienced 13 recessions. Most Americans approaching retirement age today have already managed through 40 years of economic cycles and six recessions (Exhibit 2).

Exhibit 2

U.S. recessions



Source: National Bureau of Economic Research, April 2012

But, it's also important to remember that after each contraction of the market, there have been periods of good to very good returns. Exhibit 3 shows an overview of the market increases after each of the recessions.

The reality is that there will be additional up and down cycles during your 25 or 30 years in retirement. So how you plan for these cycles and your ability to generate income each and every year throughout your retirement will be key. Based on market conditions, for example, you may need to withdraw less or tighten your budget for a few years to keep your plan on track.

For retirees who find themselves in the difficult position of having retired at the start of a recession, managing bruised and battered assets for their future can be very challenging. Without a detailed strategy for how they will generate income from their assets in every market condition, they may be feeling uncertain and uncomfortable about their future. They may have to alter lifestyle plans and adjust for some difficult times ahead. This "point in time" market risk is not predictable. Knowing that each of us will experience a variety of market cycles during retirement is one of the main reasons to start planning for your retirement income with your Financial Advisor at Wells Fargo Advisors as early as you can.

Tip

Develop a retirement income strategy well before you retire, then periodically monitor and rerun scenarios as the market goes up and down. You'll better understand the market impact on your portfolio before you actually retire.

Exhibit 3

Historical bull market rallies*

Market bottom	Percent loss	Bull return	Length of run
05/19/47	-28.6%	257.6%	122
10/22/57	-20.7%	86.4%	50
06/26/62	-28.0%	79.8%	44
10/07/66	-22.2%	48.0%	26
05/26/70	-36.1%	74.2%	31
10/03/74	-48.4%	125.6%	74
08/12/82	-27.1%	228.8%	60
12/04/87	-33.5%	582.1%	148
10/09/02	-49.1%	101.5%	60
03/09/09	-56.8%	256.0%	100

*Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management. Based on historic daily closing values for the S&P 500. The S&P 500 is an unmanaged index which includes 500 widely traded stocks. There are no fees associated with an index. It is not possible to invest directly in an index. Past performance is no indication of future results.

Your Financial Advisor will use the *Envision* process to help determine the amount of income you can safely take out of your assets each year in retirement — and in fluctuating market conditions. The *Envision* process integrates historic market data with future projections to run scenarios and estimates the likelihood that your assets will be able to cover your expenses throughout retirement.

Will your risk profile change?

Throughout your working years, you may have been comfortable taking on a fair amount of investment risk by keeping a larger percentage of your portfolio in stocks. That's usually a good strategy when you are younger because you have more time to reap the benefits of market upswings to balance any losses.

Now that you are nearing retirement, your willingness and comfort handling risk may be changing. You're now thinking about balancing the need for continued growth throughout retirement with a desire to protect your assets and generate income. (Remember, your planning horizon could be 25 years or longer.) You may be shifting your mindset regarding many levels of risk, and it is important to address any changes with your Financial Advisor.

The quick quiz below can help you determine if your capacity for risk has changed. Add up your score, compare it to how your spouse or partner thinks about these topics, and share the results with your Financial Advisor.

On a scale of 1 to 5, respond to the following statements. Choose "1" if you strongly agree and "5" if you strongly disagree.

	Your response					Spouse/Partner response				
	Strongly agree				Strongly disagree	Strongly agree				Strongly disagree
1. I am increasingly nervous about my investments and would like to discuss moving to more conservative investments.	1	2	3	4	5	1	2	3	4	5
2. When I reach retirement, I am planning to live on my interest and earnings only. I do not want to touch my principal balance.	1	2	3	4	5	1	2	3	4	5
3. I want to protect the assets that I do have even if it might mean living on less in retirement.	1	2	3	4	5	1	2	3	4	5
4. Having a guaranteed/predictable/dependable income stream in retirement is more important to me than being able to withdraw funds whenever I want.	1	2	3	4	5	1	2	3	4	5
5. My retirement income plan needs to show me how I will generate income for my essential expenses regardless of market and investment risks.	1	2	3	4	5	1	2	3	4	5

Once you have added up your score, see where you fall on the risk spectrum. Talk to your Financial Advisor about any changes to your personal risk profile and get his or her input for how you might make some changes to your portfolio to better align with your preferences.

5 – 10

- You are feeling that a more conservative approach to retirement income investing is the way to go.
- You tend to be concerned about having enough money to last throughout retirement.
- You are thoughtful about the need to preserve the assets you have today and protect your income stream throughout your retirement.

11 – 19

- You have some concerns about how long your assets may last, but are comfortable that your approach toward investing will meet your needs.
- You are looking for a balanced strategy and are open to new suggestions of investments that will help cushion your portfolio against downside risk, but still maximize market returns.

20 – 25

- You are comfortable with remaining invested in the equity market, at least at the beginning of retirement.
- You are confident that you will have enough money to support your lifestyle throughout retirement.
- Your focus is on planning for a long retirement, so you would like to make sure that you maintain some growth potential with your investments.

Your Financial Advisor will ask you about changes in your risk profile now that you are approaching retirement. He or she will take your comfort with risk and your desire for any guaranteed income into consideration when assessing the optimal product and investment mix that meets your needs.

Plan for inflation and taxes

Two of the top concerns reported by today's retirees are inflation and taxes. During your working years, inflation is usually offset by annual cost-of-living increases in your wages. But, during retirement, when a large portion of your income comes from your own assets, the effect of inflation and taxes comes to the forefront. As the cost of goods will continue to increase throughout retirement, your assets will need to produce more and more income each year just to keep pace.

One of the most significant areas where Americans see the impact of inflation is at the grocery store. Overall, the increase of core food prices jumped 4.9% in 2007 and another 5.9% in 2008[2], outpacing "average inflation" of 2.5%. This was the worst food price inflation in 20 years.

Exhibit 4 shows the cost of food for American couples who are 51 and older as reported by the USDA. There was a 50% total increase in the cost of food between 2000 and 2015. However, in one year, between 2007 and 2008, the increase was 7.2% and from 2010 to 2015 the increase was 11.9%. Inflation is typically reported as an overall economic average, but the reality is that annual increases often spike, leaving many surprised and unprepared.

Because the costs of goods and services rise at different rates for different sectors of the economy, inflation does not affect everyone to the same degree. For example, gasoline and other fuel prices skyrocketed in recent years, from just under $1.50 in 2000 to a peak of $4.00 in 2008, wreaking havoc on most Americans' budgets. Those who commuted to work every day were greatly impacted by this price change. Retirees, on the other hand, may not have felt the impact as strongly, or felt they could make changes to adjust their spending.

[2] Consumer Price Index, Table 26, as of October 2015

Exhibit 4

Cost of food for American couples age 51 and older[3]

Year	Average month food cost	% increase year/year	% increase over 2000
2000	$393.70	—	—
2005	$460.10	—	16.8%
2007	$488.00	6.1%	24.0%
2008	$523.30	7.2%	33.0%
2010	$529.00	1.1%	34.0%
2015	$592.10	11.9%	50.4%

The healthcare sector has become one of the most volatile in recent years and often impacts retirees more adversely than workers. The costs across the healthcare industry have risen significantly and have been outpacing average inflation. In 2010, the average annual medical care costs rose 2.9% versus average inflation of 1.2%.[2] HealthView Services' 2017 Retirement Health Care Costs Data Report shows retiree health care expenses will rise at an average annual rate of 5.47% for the foreseeable future — almost triple the U.S. inflation rate from 2012 – 2016 (1.9%)[4] and more than double annual projected Social Security cost-of-living adjustments (COLAs – 2.6%). In addition, retirees spend a substantially larger share of their budgets on medical care — more than twice that of workers.[5]

[3] Source: USDA, Official Food Plans for families of 2, age 51+70; moderate cost plan; May data used for each year

[4] Source: Bureau of Labor Statistics

[5] Center for Retirement Research at Boston College, October 2015

This steady upward trend in the price of essentials for daily living and the shifting of budget categories underlines the importance of factoring inflation into your retirement planning.

In order to accommodate the effects of inflation and rising costs throughout retirement, your retirement income will also need to increase periodically. (A tall order when you are not working and receiving a cost of living increase each year.) A good rule of thumb is to assume that, if inflation runs at a flat 3%, your retirement income will need to double every 25 years. So, if you need to generate $50,000 from your assets in your first year of retirement, then you will need to produce $100,000 in your 25th year.

The impact of taxes during retirement must be addressed as well. While working, most Americans meet their tax obligations through payroll deductions; but once in retirement, you must assume responsibility for paying income taxes on your own, perhaps on a quarterly basis. And, the amount owed will vary throughout your retirement years, as income sources and tax rates change.[6]

Tip

Once you retire, you'll need to stay current with changing tax rates for your particular situation. Talk to your Financial Advisor at Wells Fargo Advisors about potential strategies for minimizing taxes and consult your tax advisor.

[6] Wells Fargo Advisors is not a tax advisor.

Managing healthcare costs: A complex maze

One of the most daunting tasks facing new retirees is to understand healthcare options and costs. For most Americans at work, it's typical to have employer-sponsored health insurance. But as you enter retirement, you'll need to ensure that you have adequate health insurance for both yourself and your spouse — and understand how much it may cost to provide that insurance.

At age 65, Medicare becomes available and provides certain baseline health insurance; but, many costs are not covered. While estimates vary, a healthy 65-year-old couple could need approximately $404,253 in today's dollars to cover total healthcare costs in retirement.[7] You also may want to think about long-term care insurance to cover a wide range of eventualities (such as assisted living or skilled nursing care expenses). Your Financial Advisor can help you assess your need for long-term care insurance and find an appropriate level of coverage.

There are several misconceptions about Medicare, which is the universal health insurance provided by the government for all U.S. citizens once they reach age 65. Some basic facts:

- Medicare is not free.
- Medicare is available on an individual basis. It is not available to a spouse who has not reached age 65.
- Medicare will not cover all of your healthcare costs; supplemental private insurance or "Medigap" insurance is generally needed and comes at an additional cost.
- Medicare does not cover any of the costs for long-term care coverage or facilities.

Examining and understanding your health insurance choices is an important step in your retirement assessment. Exhibit 5 on the next page highlights some of the choices that may be available to you based on both your age and your employment status.

[7] 2017 Retirement Health Care Costs Data Report, HealthView Services

Exhibit 5

Common health insurance options by age and employment status

(not a comprehensive list and may not meet your specific situation)

Age	Employment status	Health insurance options	Premiums	Summary
Pre-65	Working full-time	Employer-provided	Deducted from paycheck	Benefit plan options where employee typically pays a portion of group premium
Pre-65	Not employed or no healthcare coverage	COBRA may be an option or individual healthcare	If COBRA, typically 102% of previous employer plan If individual, self-pay; rates depend on state, insurance company selected, income, and family size	COBRA allows for spouse or family coverage, but is only available for 18 months after losing employer coverage Individual coverage is available through the Health Insurance Marketplace.
65+	Working full-time	Employer (Primary) Medicare (Secondary)	Deducted from paycheck if employer providing	Small employers may adjust healthcare coverage options upon your 65th birthday, as you become eligible for Medicare. Check with your benefits office for specific details.
65+	Not working	Medicare	Monthly premium plus additional cost for supplemental coverage.	Once individuals reach age 65, they are automatically eligible for Medicare. Generally, a supplemental healthcare policy is needed to cover gaps in coverage.

It is important to begin to understand both Medicare and your other health insurance options well before you plan to retire.

Tip

Ask your Financial Advisor about setting up a meeting to talk with the specialists available to all Wells Fargo Advisors' clients.

Meeting long-term care needs

One of the largest expenses in the healthcare system is providing for long-term care needs. Among those who are 65 and older, 41% have a disability that affects their ability to handle some of the most basic tasks of everyday living — and most will require some form of long-term care. In 2017, an estimated 5.3 million (10%) Americans age 65 and older had Alzheimer's disease.[8]

Planning for the possibility of your personal long-term needs is an important step in the retirement income planning process. Many pre-retirees mistakenly think that Medicare provides for long-term care, but that is not the case. Medicaid, the state and federal program that will pay most nursing home costs for people with limited income and assets, may be an option in some cases. However, it is available only to certain low-income individuals and families who fit into an eligibility group that is recognized by federal and state law. Medicaid is a state-run program, and each state sets its own guidelines regarding eligibility and services. Many specific eligibility requirements must be met in order to qualify.

The bottom line: if you or a family member needs long-term care assistance, the personal costs can significantly erode your assets if a plan is not in place.

A look at the national median rates for costs of nursing care in 2016:[9]

- Licensed home health aide: $127/day
- Adult day care: $68/day
- Assisted living — private: $3,628/mo ($119/day) = $43,539/year
- Nursing home — semi-private room: $225/day = $82,125/year
- Nursing home — private room: $253/day = $92,378/year

[8] *2017 Alzheimer's Disease Facts and Figures, Alzheimer's Association*

[9] *Genworth, 2016 Cost of Care Survey*

Meeting our family obligations

Up to this point in the guide, the focus has been on the broad economic and market factors that can affect your retirement income plan. But, there are other important considerations as well — those family commitments and obligations that could have an impact on how you and your Financial Advisor develop your income stream.

Every family situation is unique, with different priorities to satisfy. That's why it's important to talk to your Financial Advisor about your family situation and your role in supporting family members. Consider what your role will be with these different family groups as you move into retirement:

1. **You, your spouse/partner** — A key consideration when preparing for retirement is, of course, your needs and those of your spouse/partner. Are you both healthy or is one person a care-giver for the other? Are you both about the same age, so benefits will be available at about the same time — or are there many years between you? Have you worked out mutually agreeable goals and plans for your future? Will you both be on the same path as you begin retirement?

2. **Your children** — Are there any special needs that you must provide for any of your children? Have you made all appropriate arrangements or do you need assistance finding alternative solutions? Are any of your children living with you or are you providing any financial support for them? How long do you plan to help your children? What are your legacy goals for your children — both personal and financial?

3. **Your parents** — You may find that you are providing care or financial support for aging parents. Are you able to continue the level of support you are providing? Do you have siblings who might help? Are there issues arising between you and your spouse due to these commitments to one set of parents? Have you made all appropriate arrangements or do you need assistance finding alternative solutions?

4. **Your grandchildren** — Are you supporting any of your grandchildren and, if so, to what extent? Are you making contributions toward their future education or are you planning to do so? What is the legacy that you wish to pass along to this generation?

5. **Other family members or friends that you are supporting**
   Many retirees take on the care for an elderly aunt or uncle, or a long-time friend in need. You will need to assess the financial impact of taking responsibility for the care of extended family members. What alternatives do you have to help support these important people?

Family obligations are important and should be addressed as much as possible in the planning process. Family dynamics are often complex as well — with mixed families from prior marriages, different cultural expectations, becoming single due to death or divorce, and so forth. How you address your personal family situation will have an impact on your retirement income and your legacy goals. That's why it's critical that you discuss your situation with your Financial Advisor who can help you explore any decisions that need to be made and any alternatives that might meet your needs.

It may be impossible to foresee and plan for the level of care that may be required for other family members. But it's important to discuss these possible financial and personal obligations with your Financial Advisor so that she or he can show you the impact on your retirement income. If you're already in a situation where you must provide care-giving, make sure you work with your Financial Advisor to assess the impact of these obligations on your retirement income, lifestyle, and investment planning.

Trade-offs today for a better tomorrow

As you now assess your goals and the other realities of retiring, you may find that you have more goals than assets to cover them. Or, you may not feel comfortable spending as much as you originally thought. Or, you may be given the opportunity to retire early and that becomes more important than originally planned.

That's why you will need to talk with your Financial Advisor about trade-offs — and the actions you can take now to better prepare for your future retirement. The idea here is to prioritize your goals into groups: those that you **must have** during retirement, those that you **would like to have** but could scale back if necessary, and those that you would be **willing to trade off** for other more important goals.

Exhibit 6

Common trade-offs

What trade-offs might you think about? Here's a list of some of the scenarios you should consider when thinking about your own retirement — and how they may affect your planning:

Ideal	Acceptable	Action/Trade-off
Your dream might be to retire at age 62 …	… but working three or four more years may help you boost your retirement income success.	Work longer
You might think that you should begin Social Security as early as possible (age 62) …	… but you will have an increase in future monthly income for each year you wait to begin collecting; and a full 76% increase if you delay Social Security until age 70.	Delay the start of Social Security
You thought it would be fine to enter retirement with a few years left on a mortgage or other large debt …	… but, in fact, it may be more beneficial to pay down that debt before you retire.	Pay off more debt
You might have thought that you were saving enough …	… but increasing your savings rate in your last few years of working may make a significant difference in the amount of income you have throughout retirement.	Increase savings rate
You might not have considered modifying or downsizing your lifestyle today to improve your retirement …	… but delaying the purchase of a new car or scaling down a major trip or vacation now may mean more flexibility in the future.	Downsize your lifestyle
Your dream is to retire fully and spend time pursuing passions …	… but you are willing to work part-time after retiring from full-time work, perhaps even in a different field.	Work part-time

These trade-offs may not apply to your particular situation, but they give you an idea of the kinds of choices you might consider making today to help bolster your retirement income tomorrow.

Be prepared to discuss your priorities and acceptable trade-offs with your Financial Advisor at Wells Fargo Advisors at your next meeting. This information will enable him or her to factor your preferences into the *Envision* process to create a side-by-side comparison of your "ideal" situation and your "acceptable" alternative scenarios.

The importance of creating a budget

The thought of putting together an actual budget can discourage even the most diligent and organized among us. But now that retirement is on the horizon, and your monthly paycheck will eventually stop, it's more important than ever to take the time to construct a detailed budget.

Using the information from earlier in this module, set up a budget that reflects your best estimates for ongoing expenses that you need to meet in retirement. This will help you and your Financial Advisor understand your baseline costs each year in retirement.

After assembling all of your expenses, you will want to identify those costs that make up your **essential expenses** — those costs that will occur each and every month throughout retirement. This is a particularly important step, as it sets your personal baseline for the amount of income you must cover every year in retirement. When you meet with your Financial Advisor, she or he will ask you for both an overall budget and the essential expenses in order to build a plan that addresses your must-haves and your nice-to-haves.

General guidelines you may want to consider as you build your budget:

- Some industry experts suggest that targeting 80% to 100% of your preretirement income is a good budget range; others suggest 125% of preretirement income to cover lifestyle spending and increasing healthcare costs that you are now responsible for.
- Just 4 in 10 workers (41%) report they and/or their spouse have ever tried to calculate how much money they will need to have saved so that they can live comfortably in retirement.[10]
- Although average spending goes down in retirement, that does not mean every household experiences a drop in spending as they enter retirement. For some, expenses may not change at all, and for some they may even increase. During the first two years of retirement, 45.9% of households actually spent more than their preretirement levels and 28% of households spend more than 120% of their preretirement levels.[11]

Tip

Writing down even rough estimates of your budget will help your Financial Advisor address specific expenses in retirement and ensure that all essential expenses are accounted for adequately. Base your budget on your checkbook and credit card statements — this will give you a good overview of where you are currently spending.

Your Financial Advisor at Wells Fargo Advisors is available to help you think through various expenses, assess the impact of inflation on your budget, and find where your goals fit in.

- **Use a budget worksheet your Financial Advisor can provide to identify major and minor expense categories: mortgages and debt, healthcare costs, home repairs, property maintenance, utilities, food, transportation, travel, hobbies and interests, and the like.**
- **Use your current spending patterns as a baseline to get started.**
- **Note specific years when any debt will be settled.**

[10] 2017 Retirement Confidence Survey, Employee Benefit Research Institute and Greenwald & Associates.
[11] Source: EBRI, Issue Brief, November 2015

Assess your sources of income

Once you have gathered your expenses with a budget, you can focus on the various sources of income you will have to meet those expenses at retirement. This is the time to think back on all of your previous jobs and benefits from years ago, and those of your spouse/partner. In addition to future Social Security payments, most American workers have any combination of these sources of income:

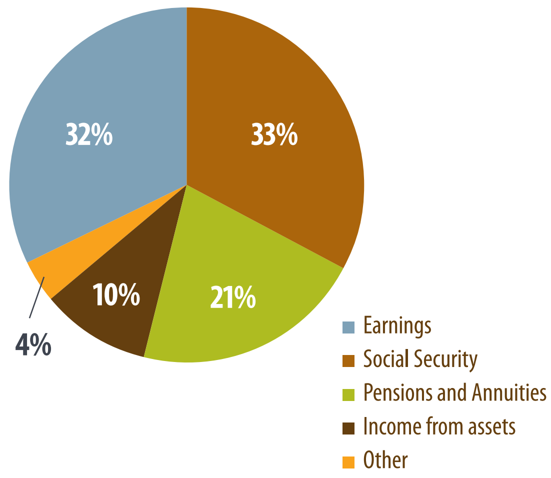
- Employer-defined benefit pension plans
- Employer-defined contribution plans: 401(k), 403(b), 457, Thrift Savings, SEP-IRAs, SIMPLE-IRAs, Profit Sharing/Money Purchase (Keoghs)
- Traditional or Roth IRAs
- THRIFT savings plan or teacher's state pension plans
- Annuities
- Savings bonds or CDs
- Other taxable savings or brokerage accounts

It is not uncommon for a couple to have 10 or more sources of income, as retirement accounts must be held for each individual. Now might be a good time to simplify and consider consolidating your accounts to make it easier to plan your retirement.

Use a budget worksheet to list each account separately to review with your Financial Advisor. He or she will consider the different underlying investments and the different tax status of each account when determining how to invest and withdraw your future income.

Exhibit 7[12]

It is important to have a full understanding of how your working wages will be replaced once you are living in retirement. Social Security is a piece of your income foundation. But for individuals age 65 or older, Social Security provides only about 33% of preretirement income.



If you are fortunate to have a defined benefit pension plan, it may provide another 21% of your replacement income. For most American workers getting ready to retire today, pension plans are no longer an option. You may, instead, receive a cash balance or lump-sum payout that your Financial Advisor can help manage to generate income.

The bottom line is that most Americans should plan that they need to provide 60% to 80% of their income needs in retirement with their own assets, investments, and earnings from work.

Tip

Take a careful look back into all of your previous jobs and put together the full list of sources of income available to you and your spouse/partner. Share the details with your Financial Advisor for a more complete look at your ability to create income throughout retirement.

[12] Source: Social Security Administration, *Income of the Aged Chartbook*, 2014. This chart is for illustrative purposes only. Due to rounding, may not total to 100% exactly.

In summary

You've read about a number of topics that are the building blocks for your future retirement income. You began with thinking about your personal goals and dreams for retirement — and how they might be the same or different from those of your spouse/partner. Then, several market and economic factors were discussed:

- Longevity versus life expectancy.
- Market volatility and your changing risk profile.
- Inflation and taxes.
- Healthcare costs while in retirement.

You also considered your family obligations and legacy goals, and thought about the trade-offs you might be willing to make if your retirement goals are out of sync with your assets. And, finally, you read about the importance of building a budget to plan for the expenses you will have throughout retirement.

Your next steps checklist

It's now time to get started preparing for your retirement income planning meeting with your Financial Advisor at Wells Fargo Advisors. Consider these steps:

- ❐ Consider your goals and dreams for retirement — compare them with your spouse's/partner's goals and dreams.
- ❐ Gain an understanding of the market risks that can impact your decisions for retirement and the success of your assets to generate income.
- ❐ Think about how your comfort with risk might be changing.
- ❐ Assess your family obligations and make a list of your wishes for each group of your family members.
- ❐ Identify those actions you might be willing to trade off today for a more successful retirement tomorrow.
- ❐ Build your budget — the expense side and the income sources side.
- ❐ Make an appointment with your Financial Advisor to begin your personal journey into retirement.

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.

This material has been prepared for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. Investors should make their own decisions based on their specific investment objectives, risk tolerance, and financial circumstances. Investing involves risk including the possible loss of principal. Stocks offer long-term growth potential, but may fluctuate more and provided less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations. Investments in fixed-income securities are subject to market, interest rate, credit and other risks. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline in the bond's price. Credit risk is the risk that an issuer will default on payments of interest and/or principal. This risk is heightened in lower rated bonds. If sold prior to maturity, fixed income securities are subject to market risk. All fixed income investments may be worth less than their original cost upon redemption or maturity.

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 needs.

Important:

The projections or other information generated by *Envision* regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Results may vary with each use and over time.

***Envision* methodology:**

Based on accepted statistical methods, the *Envision* tool uses a simulation model to test your Ideal, Acceptable and Recommended Investment Plans. The simulation model uses assumptions about inflation, financial market returns and the relationships among these variables. These assumptions were derived from analysis of historical data. Using Monte Carlo simulation the *Envision* tool simulates 1,000 different potential outcomes over a lifetime of investing varying historical risk, return, and correlation amongst the assets. Some of these scenarios will assume strong financial market returns, similar to the best periods of history for investors. Others will be similar to the worst periods in investing history. Most scenarios will fall somewhere in between. Elements of the *Envision* presentations and simulation results are under license from Wealthcare Capital Management, LLC. © 2005 – 2017 Wealthcare Capital Management, LLC. All Rights Reserved. Wealthcare Capital Management, LLC is a separate entity and is not directly affiliated with Wells Fargo Advisors.

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