Principles for a successful retirement

Using insights to achieve better client outcomes
2023

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Planning for retirement may feel overwhelming, but focusing on the levels of control you have over various factors can give you more confidence.

There are factors that are out of your control, like market returns and the future of tax policy, legislative and regulatory reforms. Using slides from the ***Guide to Retirement*** we present seven essential retirement planning principles, giving investors the confidence to make more informed decisions and take positive steps toward a successful retirement.

Principles for a successful retirement

1. Plan for a long life
2. Know how much you'll need
3. Make an informed decision about Social Security
4. Understand rising health care costs
5. Maintain an emergency savings fund
6. Minimize taxes to maximize retirement dollars
7. Be well diversified and stay invested

1 Plan for a long life

The longer you live, the longer your investments must last

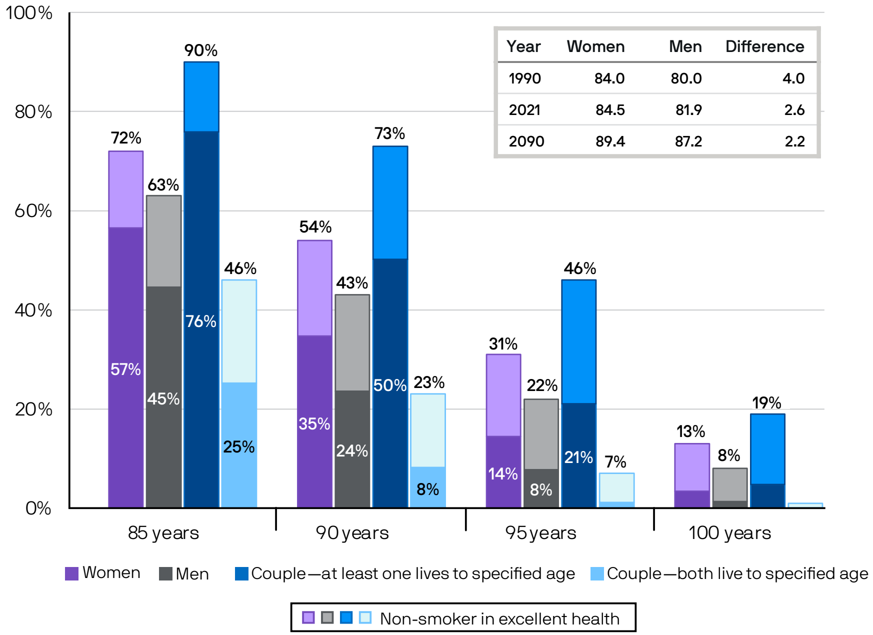
At least one member of a 65-year-old couple has nearly a 50/50 chance of reaching 90 and a one-in-five chance of turning 95 or older. Living longer affects key retirement decisions such as how to make the most of your time, how to invest, when to claim Social Security and whether you might need long-term care.

Some are likely to live much longer: More than one in 10 women and one in 20 men are projected to make it to 100 or older if they self-report non-smoking and excellent health. And keep in mind that with new medical advances, family history is not destiny, so you may live longer than you think.

Accordingly, your retirement plan should account for 35 or more years of living expenses. That means your investments need to continue growing long after you stop working to keep pace with inflation and reduce the risk of outliving your money.

Life expectancy probabilities

If you're age 65 today, the probability of living to a specific age or beyond



Average life expectancy at age 65

Year	Women	Men	Difference
1990	84.0	80.0	4.0
2021	84.5	81.9	2.6
2090	89.4	87.2	2.2

Plan for longevity

Average life expectancy is a mid-point, not an end-point. You may need to plan on the probability of living much longer – perhaps 35 years in retirement – particularly if you are a non-smoker in excellent health.

Investing a portion of your portfolio for growth is important to maintain your purchasing power over time.

Source (chart): Social Security Administration, Period Life Table, 2019 (published in the 2022 OASDI Trustees Report); American Academy of Actuaries and Society of Actuaries, Actuaries Longevity Illustrator, http://www.longevityillustrator.org/ (accessed September 29, 2022), J.P. Morgan Asset Management. Source text: Social Security Administration 2022 OASDI Trustees Report.

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2 Know how much you'll need

Define your goal and craft a plan. A retirement plan doesn't have to be daunting—it's important to just get started. The next step is to develop a plan that will take your own situation into account. Once you know where you're heading, a comprehensive retirement plan is like any good GPS. It helps you get and stay on track to your destination—even as your life, the markets and the economy change.

The retirement savings checkpoints tell you how much you should have invested today to be on pace toward maintaining your current lifestyle through 35 years of retirement. If you're below your checkpoint today or have a different vision for your retirement, you may need to work with a financial professional to adjust your plan. Be sure to review and update it regularly.

The key to getting on track, and staying on course

A successful retirement can be achieved by saving as much as possible during your working years. The checkpoints in the table on the next slide assumes that you save 10% of your gross annual income—significantly more than the average annual savings rate in America. The good news is that you are in complete control of how much you save, and your employer may help with a company match, so make savings a priority.

Saving

Retirement savings checkpoints

Household income ≥$100k
Annual savings rate: 10%

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Current age	Current household income: $100,000	$125,000	$150,000	$175,000	$200,000	$250,000	$300,000
	Checkpoint (x current household income)						
25	0.1	0.4	0.6	0.8	0.9	1.1	1.3
30	0.7	1.1	1.3	1.5	1.7	1.9	2.1
35	1.5	2.0	2.2	2.5	2.7	3.0	3.2
40	2.5	3.0	3.3	3.6	3.8	4.2	4.5
45	3.5	4.2	4.5	4.9	5.2	5.6	5.9
50	4.7	5.5	5.9	6.3	6.6	7.1	7.5
55	6.0	6.9	7.4	7.9	8.3	8.8	9.3
60	7.4	8.4	8.9	9.5	9.9	10.5	11.1
65	8.3	9.3	9.9	10.5	10.9	11.6	12.2

This analysis assumes you would like to maintain an equivalent lifestyle in retirement.
Household income is assumed to be gross income (before taxes and savings).

How to use:

- Go to the intersection of your current age and your closest current household income.
- Multiply your current household income by the checkpoint shown. This is the amount you should have saved today, assuming you continue contributions of 10% going forward.
- **Example: For a 40-year-old with a household income of $100,000: $100,000 x 2.5 = $250,000**

Model assumptions

Annual gross savings rate: **10%**

Pre-retirement portfolio:
60/40 diversified portfolio

Post-retirement portfolio:
40/60 diversified portfolio

Inflation rate: **2.5%**

Retirement age:

- Primary earner: **65**
- Spouse: **63**

Years in retirement: **35**

This chart is for illustrative purposes only and must not be relied upon to make investment decisions. J.P. Morgan Asset Management's (JPMAM) model is based on proprietary Long-Term Capital Market Assumptions returns, and an 80% confidence level. Portfolios are described as equity/bond percentages (e.g., a 40/60 portfolio is 40% equities and 60% bonds). Assumptions include household income replacement rates shown on slide 18. Consult with a financial professional for a more personalized assessment. Allocations, assumptions and expected returns are not meant to represent JPMAM performance. Given the complex risk/reward tradeoffs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. References to future returns for either asset allocation strategies or asset classes are not promises or even estimates of actual returns a client portfolio may achieve.

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3 Make an informed decision about Social Security

Social Security pays you more for waiting

Social Security benefits are calculated based on your 35 best earning years. You are eligible for 100% of your benefit at your Full Retirement Age (FRA). Individuals born in 1960 and later have an FRA of 67. Claiming at 62 will permanently reduce your benefit by as much as 30%. Waiting to claim after FRA gives you an 8% increase each year in your benefit amount for a maximum of 124%.

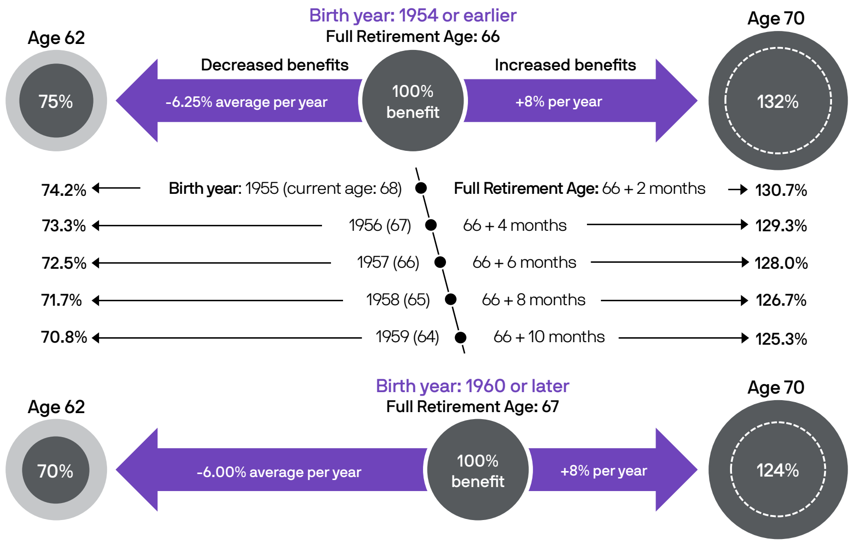
Given these tradeoffs around timing and the dollar amount of benefits, it's important to consider your longevity before making your election.

For example, if you expect to live a relatively long life and can afford to wait, it can be beneficial to claim your Social Security benefits closer to or at age 70 in order to maximize your lifetime payments.

Social Security timing trade-offs

Benefits differ by birth year and claim age

Full Retirement Age (FRA) = 100% benefit



Cost of living increase for benefits received in 2023	8.7%

Average cost of living adjustment (1985-2023)	2.8%

Understand the trade-offs

Deciding when to claim benefits will have a permanent impact on the benefit you receive. Claiming before your full retirement age can significantly reduce your benefit, while delaying increases it.

In 2017, full retirement age began transitioning from 66 to 67 by adding two months each year for six years. This makes claiming early even more of a benefit reduction.

For illustrative purposes only. The Social Security Amendments Act of 1983 increased FRA from 65 to 67 over a 40-year period. The first phase of transition increased FRA from 65 to 66 for individuals turning 62 between 2000 and 2005. After an 11-year hiatus, the transition from 66 to 67 (2017-2022) is complete. This material should be regarded as educational information on Social Security and is not intended to provide specific advice. If you have questions regarding your particular situation, you should contact the Social Security Administration and/or your legal or tax professional.
Source: Social Security Administration, J.P. Morgan Asset Management.

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4 Understand rising health care costs

Plan on rapidly rising expenses

Medical expenses tend to rise sharply throughout retirement as we grow older and require more care at higher prices. Out-of-pocket costs for an average 65-year-old retiree on traditional Medicare are projected to almost triple from around $500 per month this year to nearly $1,500 in today's dollars by age 95.

These costs are averages *per person* and do not include most long-term care. Costs may be much higher if you have expensive prescriptions.

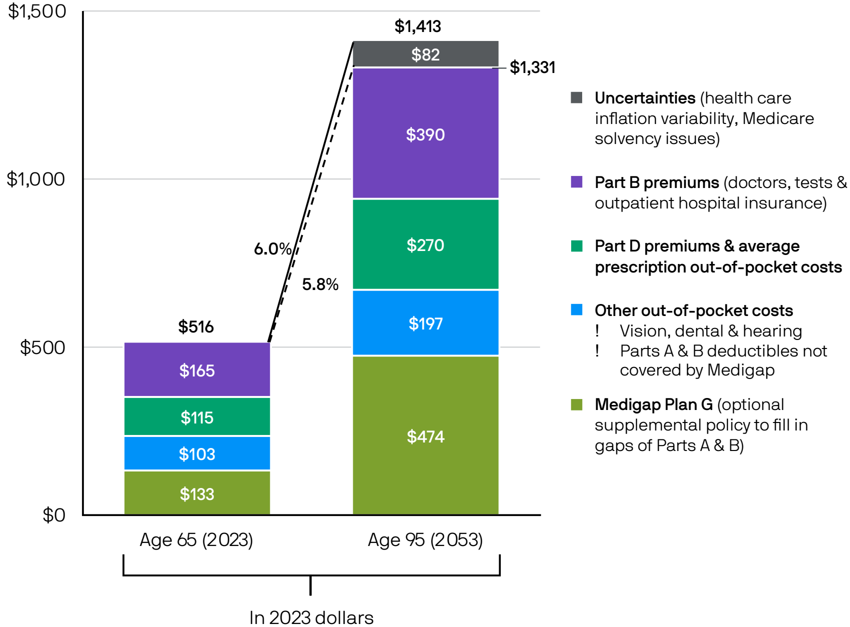
Include health care costs as a separate expense in your retirement plan, and to be conservative, assume a 6% annual growth rate for Medicare expenses.

You may want to assess your long-term care alternatives when you are healthy, or as early as age 50, when the most options are likely available to you.

Rising health care costs in retirement

Original Medicare costs in retirement (in 2023 dollars)

Monthly amount per person



A growing concern

Annual expenses per person in 2023 are $6,192.

Given variation in health care cost inflation from year to year, it may be prudent to assume an annual health care inflation rate of 6.0%, which may require growth as well as current income from your portfolio in retirement.

Estimated future value total average monthly cost at age 95 is $2,965. Today's dollar calculation used a 2.5% discount rate to account for overall inflation. Medigap premiums typically increase with age, in addition to inflation, except for the following states: AR, CT, MA, ME, MN, NY, VT, WA. For local information, contact the State Health Insurance Assistance Program (SHIP) https://www.shiptacenter.org/. Plan G premium is nationwide average for non-smokers. If Plan G is not available, analysis includes the most comprehensive plan available.
Source: HealthView Services proprietary data file received January 2023 used by permission.

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5 Maintain an emergency savings fund

Emergency savings are essential in building a sound and resilient financial foundation. Life is uncertain—people encounter unexpected spending shocks such as having to fix their cars or health care expenses, and income shocks from losing their jobs or reduced hours.

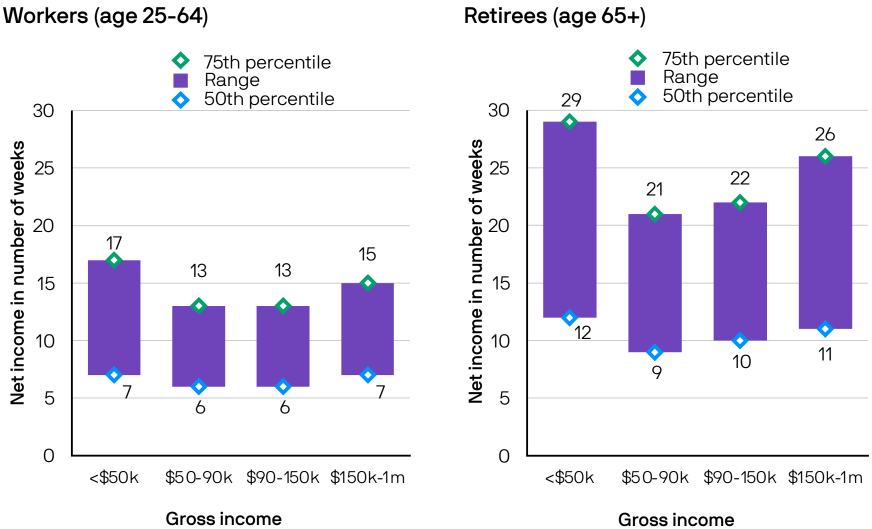
Retirees encounter more spending shocks and in larger amounts than workers, likely due to unpredictable costs like healthcare. Lower-income households need larger emergency savings because the shocks they encounter can be large relative to their baseline “normal” spending.

How much to set aside in an emergency savings account will vary by household income, personal circumstances and comfort level. As a general guide, consider setting aside 2–3 months of pay if you’re working, or 3–6 months of income if you’re retired.

Defined Contribution

Annual emergency reserves

Net income in weeks needed to weather spending and income shocks



Prepare for uncertainties in life

Life is uncertain – spending shocks and/or job losses can happen at anytime. Emergency savings can help pay for these uncertainties and keep retirement savings intact.

Workers typically encounter spending shocks more frequently (about once every three months) than income shocks (about once a year).

- Consider setting aside 2-3 months of pay

Retirees encounter more spending shocks in larger amounts than workers, likely due to unpredictable costs such as health care.

- Consider setting aside 3-6 months of income

Source: J.P. Morgan Asset Management analysis, 2022; longitudinal Chase data (2017-2019) of those households with monthly income, which may include wage income, unemployment, etc. Chase data includes internal select data from JPMorgan Chase Bank, N.A. and its affiliates (collectively "Chase") including select Chase check, cash, credit and debit card and electronic payment transactions from January 1, 2017 to December 31, 2019. Additional information on J.P. Morgan Asset Management's data privacy standards available at https://am.jpmorgan.com/us/en/asset-management/mod/insights/retirement-insights/gtr-privdisc/. Spending shocks are calculated monthly and include those months when monthly spending is 25% above the previous 12 months' median spending and the 25% excess spending amount could not be funded by that month's income. Income shocks are calculated monthly and include those months when monthly income is 25% less than the previous 12 months' median income and that month's spending amount could not be funded by the reduced income.

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Minimize taxes to maximixe retirement dollars

When saving for retirement, it is important to be well diversified from a tax perspective because once in retirement, drawing from various account types to fund spending needs may impact not only the income taxes owed, but how much Social Security may be subject to income taxes and/or Medicare surcharges owed.

Currently, qualified withdrawals from Roth IRAs and Health Savings Accounts (HSA) are tax-free and are not included in Social Security taxation or Medicare surcharge requirements. Roth accounts and HSAs can be nice complements to taxable and tax-deferred accounts because they can provide greater flexibility and control during retirement.

Spending

Diversified sources of retirement funding

Account type	Investment earnings/ withdrawals	Included when calculating whether: Income taxes owed?	Included when calculating whether: Social Security % taxed? Medicare surcharges?
Health Savings Account	Tax-free withdrawals (for qualified health care expenses)[1]		
Roth 401(k)/IRA	Tax-free withdrawals[2]		
Taxable Account	Tax-exempt interest		☑
Taxable Account	Ordinary dividends Taxable interest	☑	☑
Taxable Account	Qualified dividends	☑	☑
Taxable Account	Realized capital gains	☑	☑
Pre-tax 401(k)/ Traditional IRA	Taxable withdrawals (ordinary income)	☑	☑

Retirement funding sources are not created equal

Investment earnings and withdrawals from tax-advantaged accounts are important sources to fund retirement spending needs.

When building a retirement income plan, be aware of sources that may be used to determine:

- Income taxes
- How much Social Security benefit is subject to tax
- Additional required Medicare premiums

Qualified withdrawals from Roth or Health Savings Accounts can provide tax-free funding that will not result in reduction of government benefits.

This is not intended to be individual tax advice; consult your tax professional.

[1]Must have a qualifying high-deductible health plan to make contributions. Funds in the HSA may be withdrawn tax free for qualified medical expenses unless a credit or deduction for medical expenses is claimed. After age 65 funds also may be withdrawn at ordinary income tax rates without penalty for any reason.

[2]Subject to 5-year Roth account holding period and age requirements.

Source: J.P. Morgan Asset Management.

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7 Be well diversified and stay invested

Plan to stay invested

During periods of extreme market declines, a natural emotional reaction can be to “take control” by selling out of the market and seeking safety in cash. This is due to the fact that losses hurt more than gains feel good. The action not only locks in losses, but often results in missing some of the best days that closely follow, and which are key to a portfolio’s recovery.

Trying to time the markets is extremely difficult. Staying the course with a diversified long-term investment strategy is likely to produce a better retirement outcome.

Investing

Impact of being out of the market

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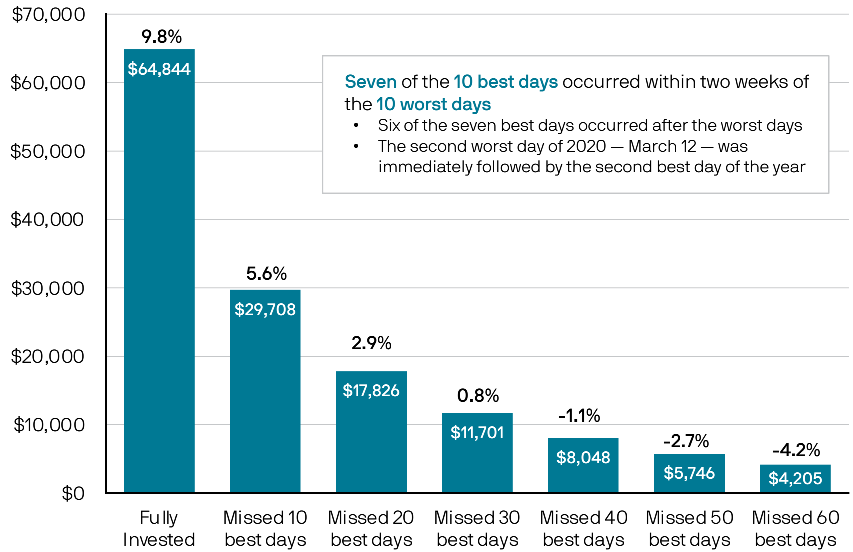
Returns of the S&P 500

Performance of a $10,000 investment between January 1, 2003 and December 30, 2022



Plan to stay invested

Losses hurt more than gains feel good. Market lows can result in emotional decision making.

Taking "control" by selling out of the market after the worst days is likely to result in missing the best days that follow. Investing for the long term in a well-diversified portfolio can result in a better retirement outcome.

Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of December 31, 2022.

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FOR MORE INFORMATION ABOUT THE RETIREMENT INSIGHTS PROGRAM OR TO VIEW THE ENTIRE *GUIDE TO RETIREMENT,* PLEASE VISIT WWW.JPMORGANFUNDS.COM/GTR

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