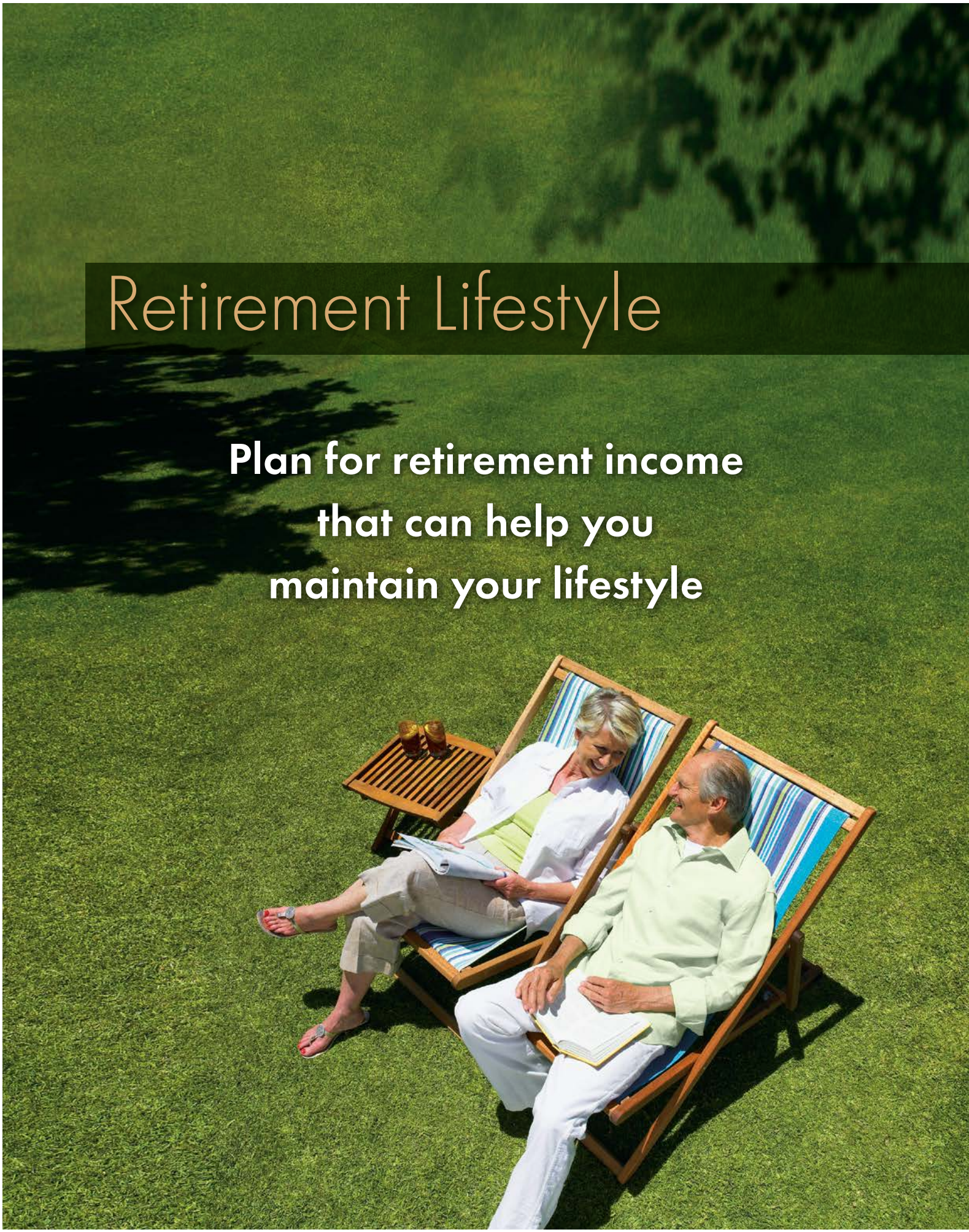
# Retirement Income Solutions
# For a Changing Market

## Investor Guide

# Retirement Lifestyle

**Plan for retirement income that can help you maintain your lifestyle**



When planning for your retirement income, it's expected that you'll need to factor in the impact of inflation over time. However, when it comes to retirement spending, one of the common misconceptions is that a retiree's expenses will remain the same throughout retirement.

Typically, newly retired people spend more money than those who have been retired for a few years due to more travel, recreation, or care for elderly parents.

## Research shows that overall expenditures actually decline throughout retirement

You may need more income in the early years of retirement—to help maintain your lifestyle—and less later on as you become less active.

| Expenses Over Time | |
|---|---|
| Ages | Average Annual Expenditures |
| 55-64 | $61,346 |
| 65-74 | $50,873 |
| 75+ | $38,691 |
| Total Change | -37% |

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey, August 2017

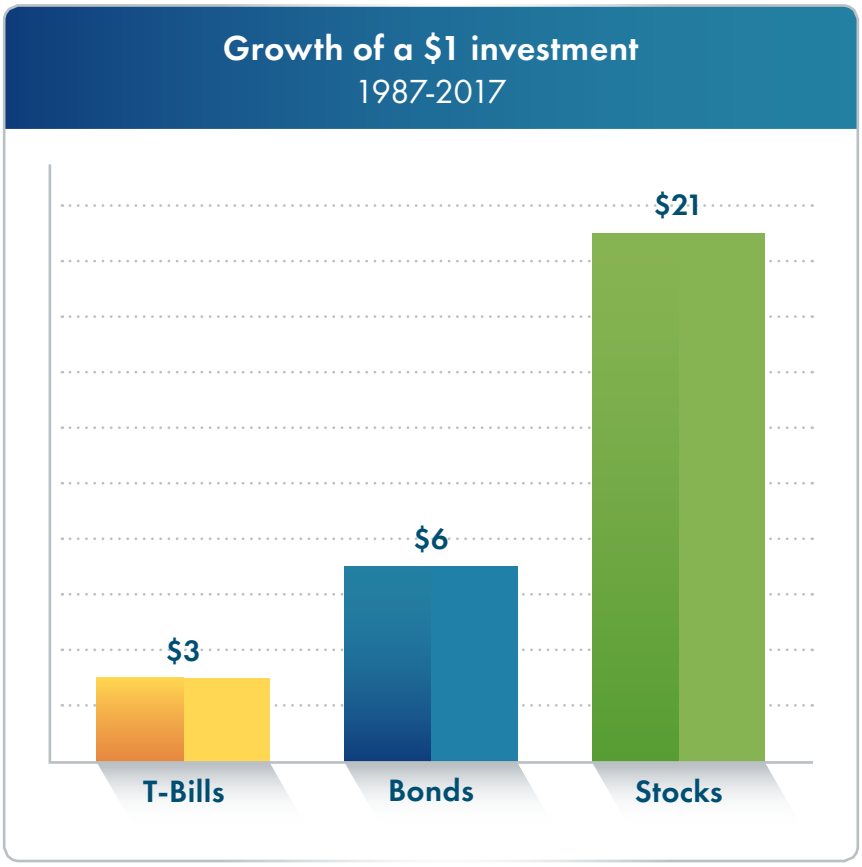
Of course, as you prepare for retirement you'll want to consider investing for growth potential to help your money keep up with rising costs over time. And given today's longer retirements, you may also want to secure an income that is guaranteed to last for as long as you live.

# Market Performance

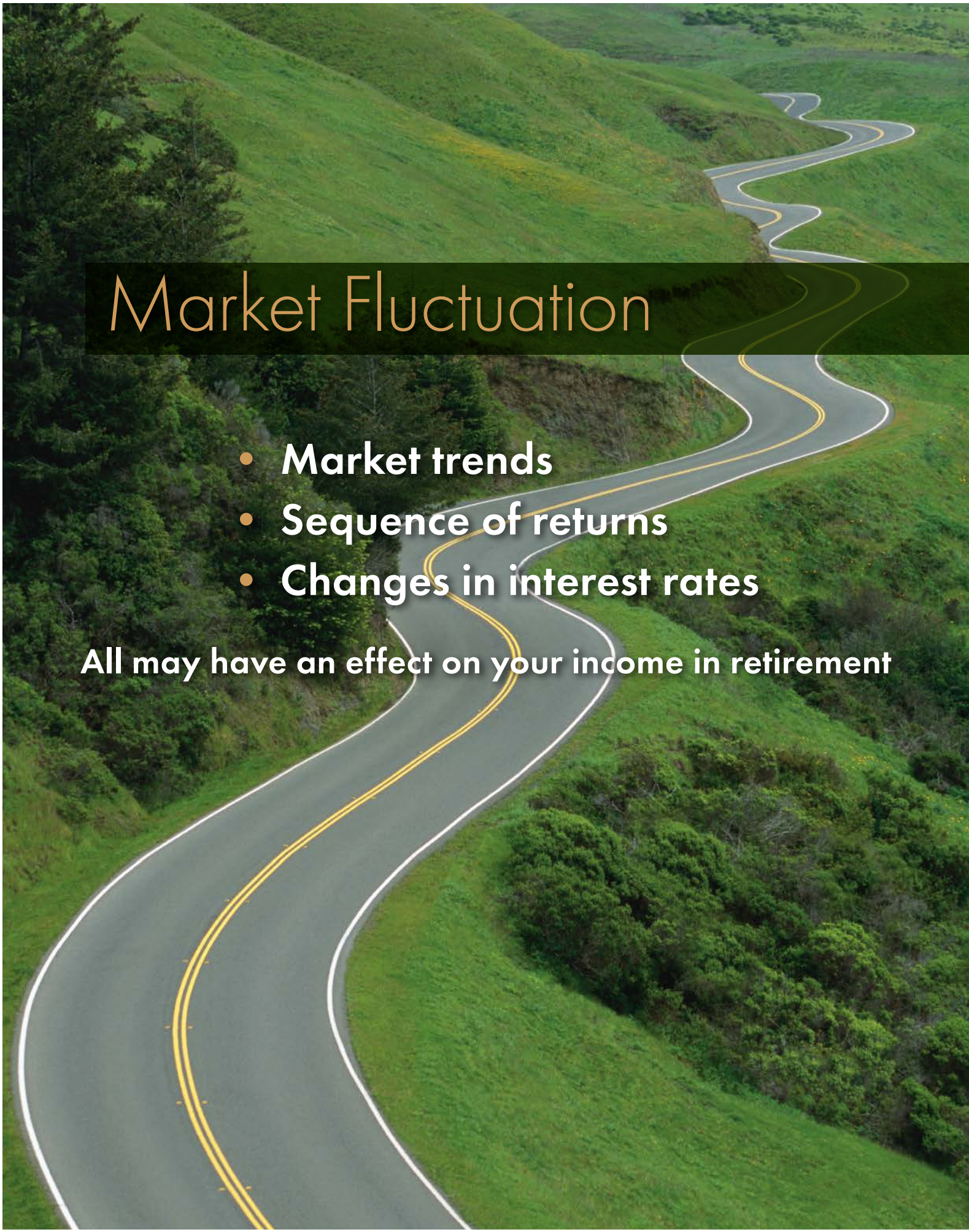
**Historically stocks have outperformed other investments**

# Stocks have outperformed other investments

over long periods of time. And while past performance is no guarantee of future results, it may be a factor worth your consideration.




Source: Wilshire Compass, 2018. T-Bills are represented by the T-Bill Index. Bonds are represented by the US Core Bond Index. Stocks are represented by the US Large Cap Core Stock Index. These indices are a proxy of the treasury, bond and equity markets. The indices have been constructed by Wilshire with data from various sources to provide a historical track record. T-Bills and government bonds are subject to interest rate risk, but they are backed by the full faith and credit of the U.S. Government if held to maturity. The repayment of principal and interest of a corporate bond is guaranteed by the issuing company, and subject to default, credit and interest rate risk. Stocks are subject to risk, including stock market fluctuation. This chart is for illustrative purposes only and does not represent any particular investment. Performance illustrated is not indicative of future results. Performance for specific investments is available from your financial representative. Your financial representative can help you determine what type of investments may be appropriate for you. Keep in mind, you cannot invest directly in an index; indexes are unmanaged.



# Market Fluctuation

- **Market trends**
- **Sequence of returns**
- **Changes in interest rates**

**All may have an effect on your income in retirement**

## While the long-term trend of the stock market

has been positive, it has come with periods of significant volatility. Consider the "Dips," "Corrections" and "Bear Markets" that have occurred since 1900. Such declines can have a direct impact on the value of your investments. Of course, past performance is no guarantee of future results.

**Stock market volatility since 1900**
Dow Jones Industrial Average, daily closes, 1/2/1900 - 12/31/2017

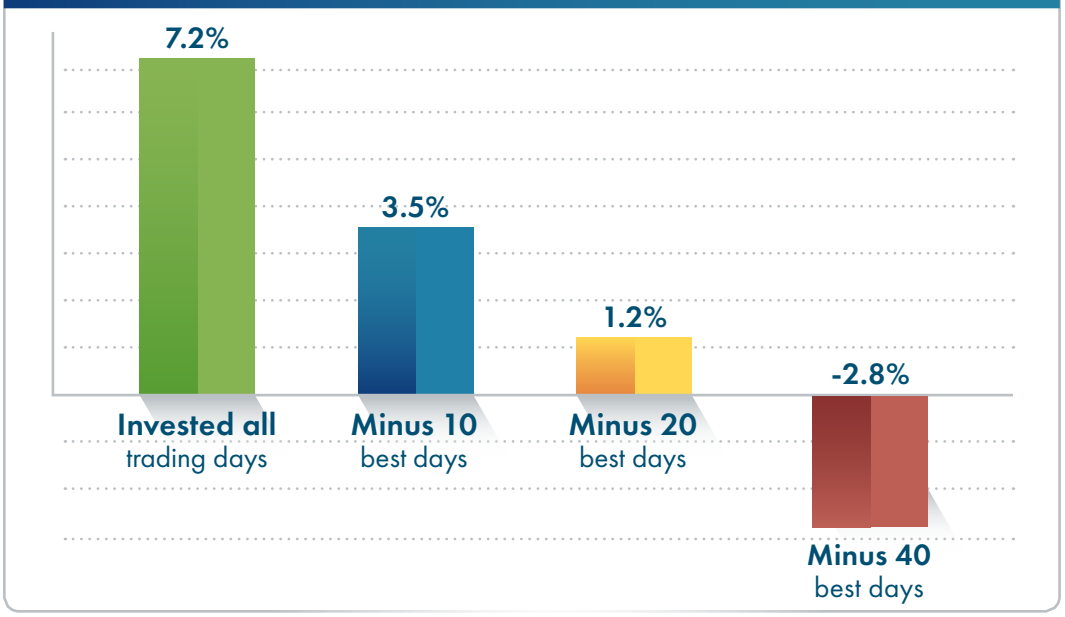
| Dips (5% or more) | Corrections (10% or more) | Bear Markets (20% or more) |
|---|---|---|
| 393 | 125 | 32 |
| 3.3 per year* | 1.1 per year* | Once every 3.7 years* |

*Average for period shown.
Source: Ned Davis Research, Inc., based on Dow Jones Industrial Average, daily closes.

## However, if you attempt to "time" the market,

it could derail your long-term investment strategy. Here's an example of how just missing a few days invested in the stock market may derail your long-term retirement strategy.

**Don't miss the upside potential**
Annualized Return, 1997–2017



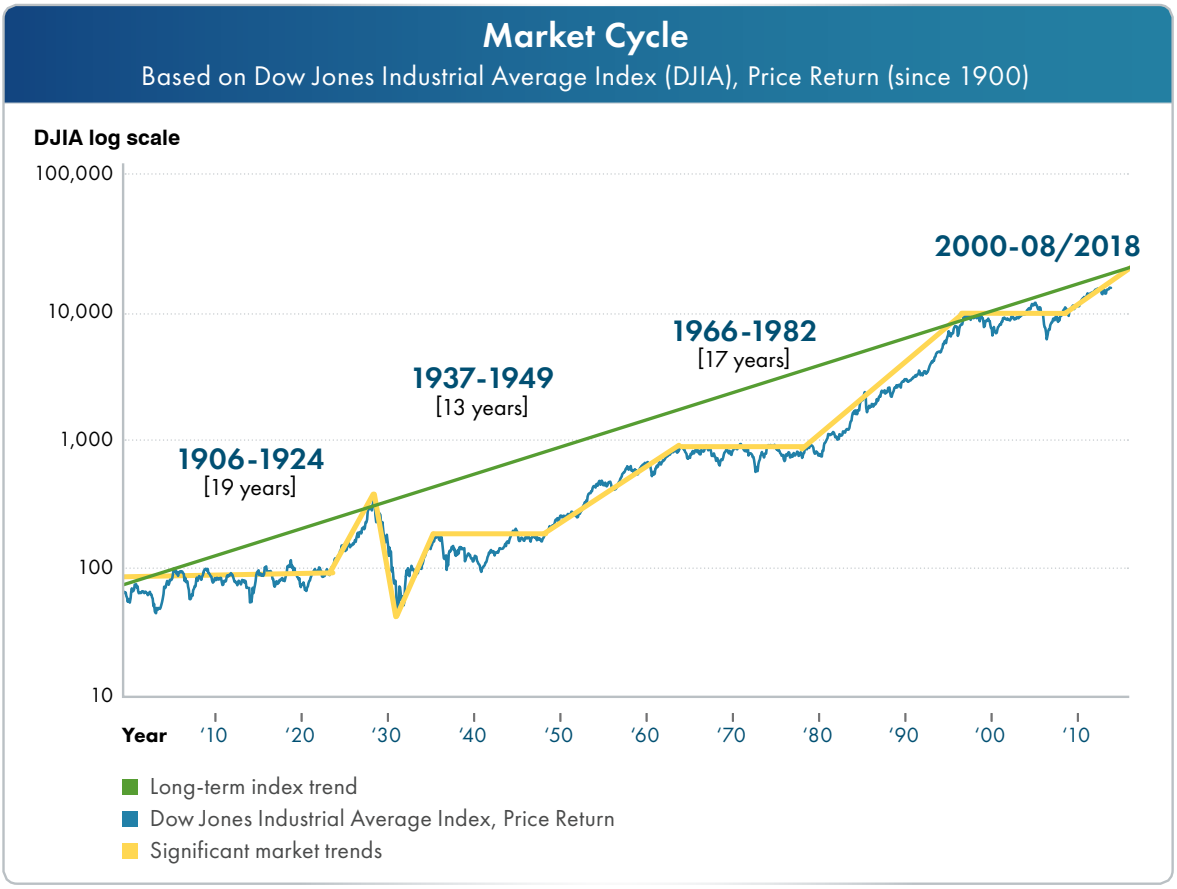

Source: Bloomberg and Wellington Management Company, LLP, 2018. Wellington Management Company, LLP is an SEC-registered investment advisor and an independent and unaffiliated sub-advisor to SunAmerica Asset Management, LLC. The above chart is for illustrative purposes only. It is based on the S&P 500® Index and is not intended to be indicative of the performance of any specific investment option. Performance does not reflect the deduction of fees associated with any particular investment. If shown, results depicted would be lower. Indexes are unmanaged. You cannot invest directly in an index. Performance illustrated is not indicative of future results.

# Market Cycle

**History shows that the market typically moves in cycles**

## Equity markets are unpredictable and have often gone through long periods of stagnant or horizontal movements before returning to a period of growth.

Investment strategies that work in bull markets may not be effective in bear or flat markets.

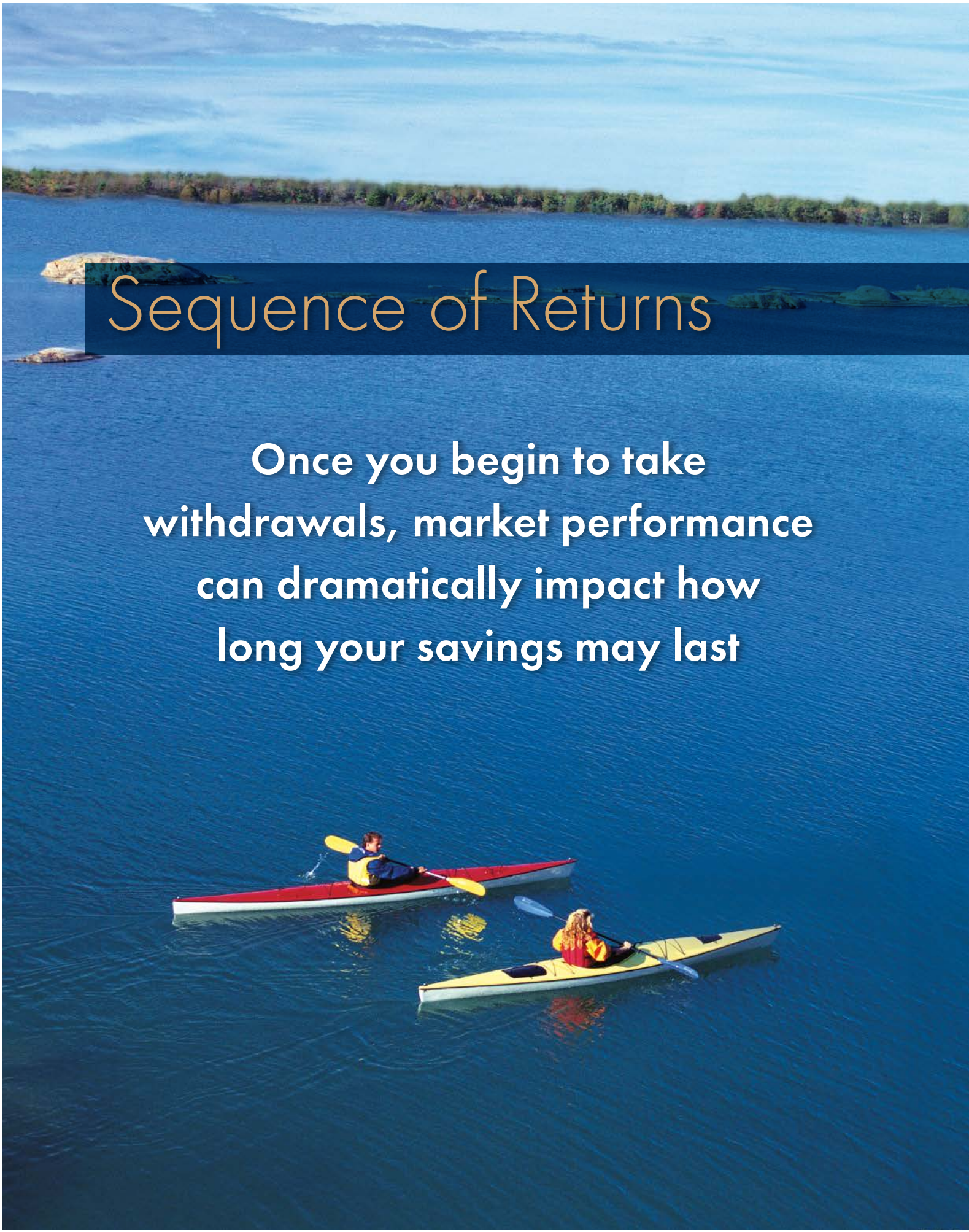



Source: FactSet, NBER, Dow Jones Global, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only. Data are as of August 20, 2018.

Note: Past performance is not a guarantee of future results. The examples in this brochure are for illustrative purposes only and are not specific to any particular investment. Indices are unmanaged, have no identifiable objectives and cannot be invested in directly.

# Sequence of Returns

**Once you begin to take withdrawals, market performance can dramatically impact how long your savings may last**



**What's also important to consider** is the order in which you encounter positive and negative returns, also known as the "sequence of returns." During the accumulation years, the sequence of returns may have less of an impact on your long-term goals. It's really your overall return that matters.

However, once you begin withdrawing money from your investment, the sequence of returns can become more critical. For example, if you encounter negative returns in the initial years of your retirement, it can have a lasting impact.

Consider the case of two individuals retiring just two years apart, and how the market's returns, when combined with their withdrawals, impacted the value of their retirement savings and how long their savings may last.

# The sequence of returns matters

## Ted retired at the end of 2000,

invested $250,000, and began taking 5% annual withdrawals from his investment in 2001

**Ted encounters a sharp market downturn early** in his retirement.

3 years into retirement, at the end of 2003, his account value is $179,792.

14 years into retirement, at the end of 2014, Ted's $250,000 investment was worth $176,615.

| Year | S&P 500® Return | Amount Withdrawn | Value After Withdrawal |
|---|---|---|---|
| 2001 | **-11.85%** | $12,500 | $207,875 |
| 2002 | **-22.10%** | $12,500 | $149,435 |
| 2003 | 28.68% | $12,500 | **$179,792** |
| 2004 | 10.87% | $12,500 | $186,836 |
| 2005 | 4.89% | $12,500 | $183,472 |
| 2006 | 15.81% | $12,500 | $199,979 |
| 2007 | 5.49% | $12,500 | $198,458 |
| 2008 | -37.00% | $12,500 | $112,529 |
| 2009 | 26.47% | $12,500 | $129,815 |
| 2010 | 15.06% | $12,500 | $136,865 |
| 2011 | 2.11% | $12,500 | $127,253 |
| 2012 | 15.98% | $12,500 | $135,088 |
| 2013 | 32.39% | $12,500 | $166,343 |
| 2014 | 13.69% | $12,500 | **$176,615** |

## June retired at the end of 2002,

invested $250,000, and began taking 5% annual withdrawals from her investment in 2003

**June encounters strong returns in the early years** of her retirement.

3 years into retirement, at the end of 2005, her account value is $333,962.

14 years into retirement, at the end of 2016, June's $250,000 investment had grown to $514,978—nearly three times the value of Ted's investment.

| Year | S&P 500® Return | Amount Withdrawn | Value After Withdrawal |
|---|---|---|---|
| 2003 | **28.68%** | $12,500 | $309,200 |
| 2004 | **10.87%** | $12,500 | $330,310 |
| 2005 | 4.89 | $12,500 | **$333,962** |
| 2006 | 15.81% | $12,500 | $374,262 |
| 2007 | 5.49% | $12,500 | $382,309 |
| 2008 | -37.00% | $12,500 | $228,354 |
| 2009 | 26.47% | $12,500 | $276,300 |
| 2010 | 15.06% | $12,500 | $305,411 |
| 2011 | 2.11% | $12,500 | $299,355 |
| 2012 | 15.98% | $12,500 | $334,692 |
| 2013 | 32.39% | $12,500 | $430,598 |
| 2014 | 13.69% | $12,500 | $477,047 |
| 2015 | 1.38% | $12,500 | $471,130 |
| 2016 | 11.96% | $12,500 | **$514,978** |

## How did the sequence of returns impact each retiree's investment?

Ted and June each started with $250,000 and withdrew the same amounts each year:

- 14 years into retirement, at the end of 2014, Ted's $250,000 investment had declined to **$176,615**
- 14 years into retirement, at the end of 2016, June's $250,000 investment had grown to **$514,978**

The difference in value is largely the result of the returns experienced in the early years of retirement. And while you can't control market performance in the early years of retirement, there are strategies that can help you control this type of market risk.

# The arithmetic of loss

Have you ever considered the impact of withdrawing money from your investment when the market is down? After a market decline, you'll need to earn even greater returns to make up for your losses—and the amount withdrawn—to get back to where you started.

## Rebounding from a market decline during the accumulation years

Initial investment amount: $250,000

| Accumulation Phase | | |
|---|---|---|
| Year | Rate of Return | Value at Year End |
| 2000 | -9.09% | $227,275 |
| 2001 | -11.85% | $200,343 |
| 2002 | -22.10% | $156,067 |

A three-year decline of more than 37%!

Return required to get back to $250,000: 60%

## Rebounding from a market decline when income is withdrawn

Initial investment amount: $250,000, annual withdrawal amount: $12,500

| Distribution Phase | | |
|---|---|---|
| Year | Rate of Return | Value at Year End |
| 2000 | -9.09% | $214,775 |
| 2001 | -11.85% | $176,824 |
| 2002 | -22.10% | $125,246 |

A three-year decline of nearly 50%!

Return required to get back to $250,000: 100%

The illustrations on the previous page and above are hypothetical and assume past performance of the S&P 500® Index. These illustrations are not intended to be indicative of the performance of a specific investment option. Indexes are unmanaged. You cannot invest directly in an index. Performance illustrated is not indicative of future results.

# Interest Rate Fluctuations

**Interest rate fluctuations may dramatically affect your income in retirement and your lifestyle**

# Could changing interest rates impact your income?

Investors often turn to fixed-income investments, such as Treasury bills and Treasury bonds, for retirement income. These investments are available in different terms or durations. The interest you receive will vary based on the term selected and economic conditions at the time of investment and/or reinvestment, which can impact your income. (Of course, if different terms had been selected, the results would differ.)

**In this example, Treasury bill income changed dramatically upon renewal.**

**Bond income was also subject to change after 10 years in this example.**

**What if you had invested $250,000 in each of the following investments at the end of 1992?**

| Year | Treasury Bills (6-month) | Treasury Bond (10-year) |
|---|---|---|
| 1993 | $8,451 | $16,925 |
| 1994 | 10,075 | 16,925 |
| 1995 | 15,200 | 16,925 |
| 1996 | 13,513 | 16,925 |
| 1997 | 13,225 | 16,925 |
| 1998 | 13,463 | 16,925 |
| 1999 | 12,001 | 16,925 |
| 2000 | 14,900 | 16,925 |
| 2001 | 11,850 | 16,925 |
| 2002 | 4,563 | 16,925 |
| 2003 | 2,763 | 10,075 |
| 2004 | 3,313 | 10,075 |
| 2005 | 7,150 | 10,075 |
| 2006 | 11,876 | 10,075 |
| 2007 | 12,526 | 10,075 |
| 2008 | 6,913 | 10,075 |
| 2009 | 713 | 10,075 |
| 2010 | 451 | 10,075 |
| 2011 | 363 | 10,075 |
| 2012 | 251 | 10,075 |
| 2013 | 263 | 4,300 |
| 2014 | 200 | 4,300 |
| 2015 | 251 | 4,300 |
| 2016 | 1,125 | 4,300 |
| 2017 | 2,188 | 4,300 |
| 2018 | 4,513 | 4,300 |
| **Total Income** | **$172,100** | **$295,800** |

- **Treasury bills and Treasury bonds** are guaranteed by the U.S. Government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Income is exempt from state and local income tax, but subject to federal income tax.

Your financial representative can help you determine which investments may be right for you.

The following initial interest rates were assumed in this example: Treasury bill: 3.47%; Treasury bond: 6.77%. Past performance is no guarantee of future results. Historical results shown should not be considered reflective of a specific investment. Results shown do not reflect the impact of expenses that would be associated with an actual investment. Source: Treasury bills and Treasury bonds: U.S. Board of Governors of the Federal Reserve System.

# Investor Behavior

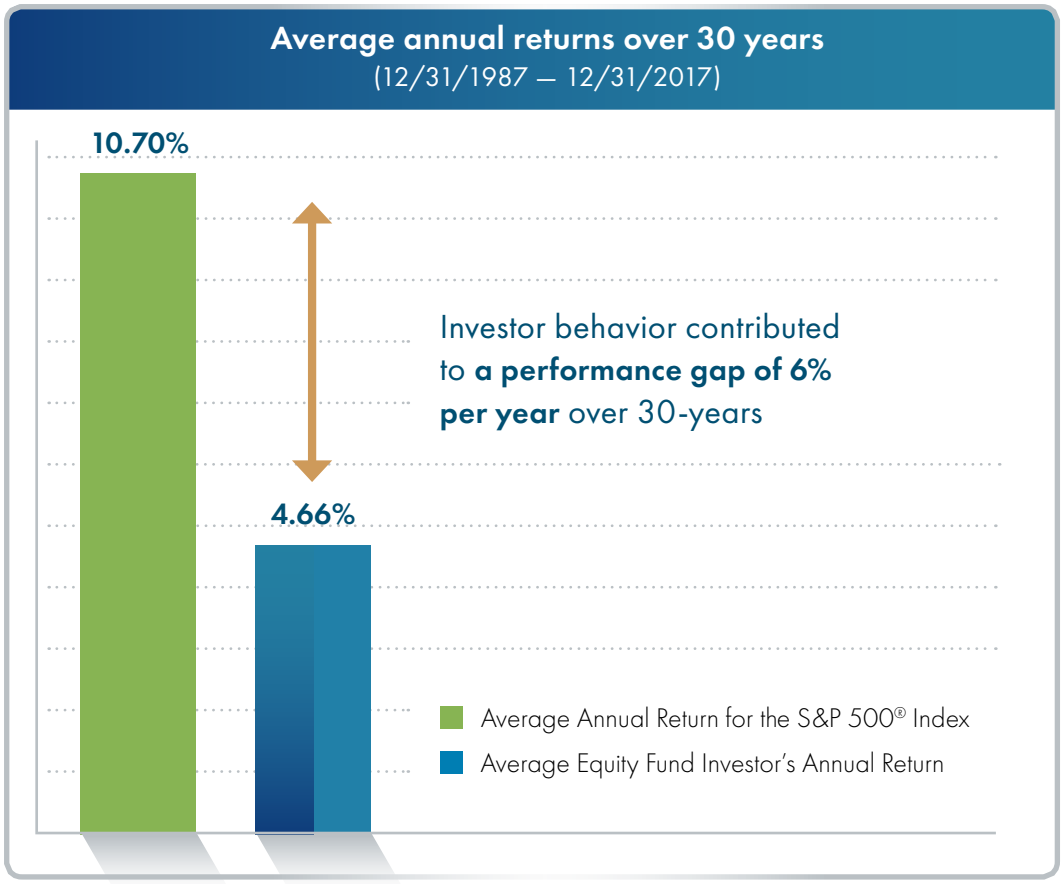
**Investor emotions and behavior are often affected by market corrections**

# Shifting emotions can impact a retirement plan

That's why it's important to understand your retirement strategy and stay committed to your plan for the long run.

The chart below shows that while the overall stock market (as measured by the S&P 500® Index) has performed well over the 30-year period examined, the return that the average equity fund investor experienced was actually much lower. In fact, it was 56% lower.

These results are the outcome of an annual study that measures the effects of investor decisions to buy, sell and switch into and out of equity mutual funds.* Of course, past performance is no guarantee of future results.

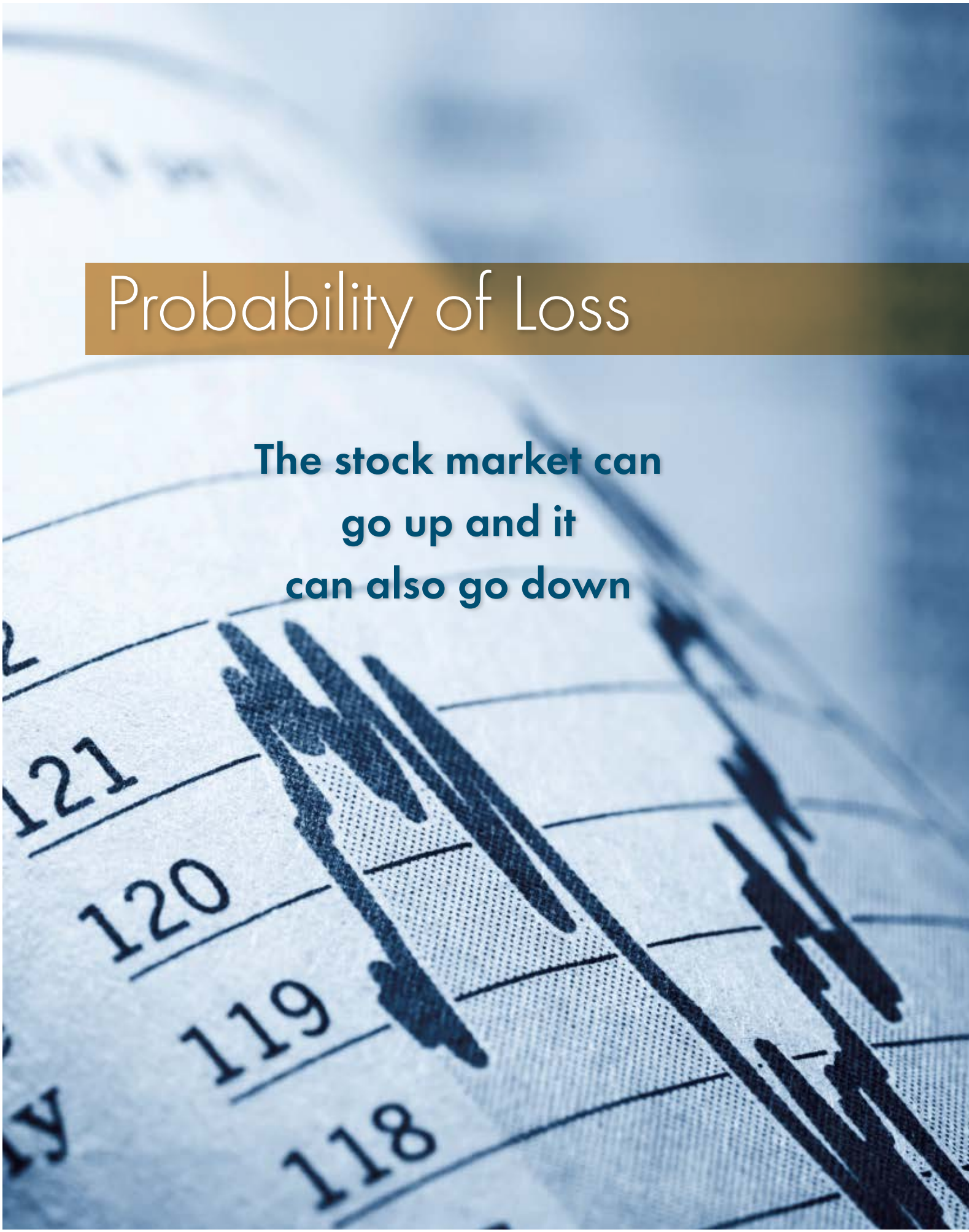



Keep in mind that the investor returns reflect investment selection, as well as sales charges, fees, expenses, and transaction costs, whereas the S&P 500® Index returns do not. These factors also contribute to the difference in returns. Indexes are unmanaged; you cannot invest directly in an index. Performance illustrated is not indicative of future results.

*Source: *2018 Quantitative Analysis of Investment Behavior,* DALBAR, period ended 4/30/18. This study utilizes data from the Investment Company Institute and Standard & Poor's to compare investor behavior with the returns of the overall equity market. The Average Equity Fund Investor represents the aggregate action of all investors in equity mutual funds. Investor returns are determined using the change in total equity fund assets after excluding sales, redemptions and exchanges. This method of calculation captures realized and unrealized capital gains, dividends, interest, trading costs, sales charges, fees, expenses and any other costs. The S&P 500® Index is an unmanaged index of large-cap U.S. stocks that is considered to be representative of the U.S. equity market.

# Probability of Loss

**The stock market can go up and it can also go down**



## You protect what's important to you with insurance—even when the odds of incurring a loss may be slim. For example, most people would never think to leave their home or car *uninsured*.

| ASSET | | VALUE | INSURED? | |
|---|---|---|---|---|
| | | | Yes | No |
|  | **Home** | $ | | |
| | | Odds of major fire damage over the next 30 years: less than 1% | | |
|  | **Life** | $ | | |
| | | Probability of a 60-year-old male dying within 5 years: less than 4% | | |
|  | **Auto** | $ | | |
| | | There was only 1 crash for every 43 registered vehicles in the U.S. in recent years | | |
|  | **401(k), IRA, other** retirement investments | $ | | |
| | | Historically, the stock market has experienced a decline of 20% or more approximately once every 3 to 4 years | | |

Your retirement investments may be one of your most valuable assets.
Should you consider protecting your retirement income against a market downturn?

Sources: *True Odds: How Risk Affects Your Everyday Life*, U.S; 2012 Individual Annuitant Mortality tables; U.S. Department of Transportation 2017; Ned Davis Research, Inc., based on Dow Jones Industrial Average, daily closes, 1/2/1900-12/31/2017.

# An annuity may help you secure your retirement income for a more comfortable retirement

**Annuities are long-term investments** designed specifically for retirement. They can help you build assets on a tax-deferred basis as you prepare for retirement. And when you're ready to retire, they can provide you with guaranteed lifetime income through standard or optional features. Optional income guarantees are subject to additional fees, withdrawal parameters and other limitations.

Contract and optional benefit guarantees are backed by the claims-paying ability of the issuing insurer. Early withdrawals may be subject to withdrawal charges. Partial withdrawals may reduce benefits available under the contract, as well as the amount available upon a full surrender. Withdrawals of taxable amounts are subject to ordinary income tax and, if taken prior to age 59½, an additional 10% federal tax may apply. Keep in mind, for retirement plans and accounts, such as IRAs and 401(k)s, an annuity provides no additional tax-deferred benefit beyond that provided by the retirement plan or account.

*Variable annuities are sold by prospectus only. The prospectus contains the investment objectives, risks, fees, charges, expenses and other information regarding the contract and underlying funds, which should be considered carefully before investing. Please contact your insurance and securities-licensed financial representative or call 1-800-445-7862 to obtain a prospectus. Please read the prospectus carefully before investing.*

An investment in a variable annuity involves investment risk, including possible loss of principal. The contract, when redeemed, may be worth more or less than the total amount invested. The purchase of an annuity is not required for and is not a term of the provision of any banking service or activity.

All contract and optional benefit guarantees, including any fixed account crediting rates or annuity rates, are backed by the claims-paying ability of the issuing insurance company. They are not backed by the broker/dealer from which this annuity is purchased.

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