



HELPING TO
GUARD

YOUR GOLDEN YEARS

**WAYS TO HELP PRESERVE YOUR
RETIREMENT IN A SHIFTING ECONOMY**

HELPING TURN RETIREMENT DREAMS INTO **REALITY**

As you enter or approach retirement, it's natural to start thinking about ways to turn your dreams into reality. Whether that means traveling, spending more time with family or simply enjoying a confident life, your income will be the key to making it all happen.

But in today's economic environment, where headlines are dominated by talk of declining interest rates and persistent inflation, you may find yourself asking some important new questions:

If my savings earns less interest, will I still have enough retirement income?

How will falling interest rates affect the value of my investments?

Are there ways to offset reduced earnings without taking on more risk?

Are there opportunities I should explore before rates decline?

In the following pages, we'll explore how this changing landscape — particularly declining interest rates — could affect your retirement plan. More importantly, we'll show you some potential strategies to help protect your income and take advantage of opportunities that may emerge, helping you maintain the retirement lifestyle you've worked so hard to realize.

When people retire, no matter how much money they've saved, the No. 1 concern of many seems to be: "Will I have enough?" The big question on everyone's mind is whether they will have the income they need to maintain their lifestyle, no matter how long they live.

Many retirement portfolios include a mix of stocks and other investments that, while offering growth potential, also carry the risk of losses. To help balance this risk, retirees often find it prudent to allocate a portion of their savings to instruments that offer principal protection — such as CDs, bonds and fixed-rate annuities. The interest generated by these more conservative investments can help provide a steady, reliable source of income that many retirees depend on throughout their retirement.

But if interest rates decline, the income from these principal-protected instruments will naturally decrease. This leaves retirees with two choices: either they adjust to living on less income, or they continue withdrawing the same amounts as before, risking a faster depletion of their savings.

Let's look at an example. Consider a married couple, both aged 64, with \$500,000 in principal-protected savings earning a consistent 5% annual return. They could confidently withdraw \$36,000 per year and expect their savings to last nearly 27 years — until age 91. But if the return drops to 3%, while maintaining the same \$36,000 annual withdrawal, their savings would be exhausted in just 19 years — by age 83.

While conservative investments may provide lower levels of risk, falling interest rates can reduce the income they generate, leaving retirees with difficult choices. To maintain your desired lifestyle without prematurely exhausting your savings, it's important to reassess your retirement strategy. By understanding how declining rates can impact your income and exploring alternative strategies, you'll be better equipped to make informed decisions that help preserve your financial future and help keep your retirement dreams on track.

The examples contained herein are for illustrative purposes only; they should not be viewed as a representation of either past or future results.



WILL FALLING INTEREST RATES DRAIN YOUR SAVINGS FASTER?

0.00%

In response to the COVID-19 crisis, the Federal Reserve slashed its target for the federal funds rate by 1.5% in March 2020, bringing it down to a range of 0% to 0.25%.¹

0.25%

The federal funds rate fell from 5.25% to 0.25% during 2007-2008.²

Near zero for seven years

Interest rates remained near zero for seven years, from December 2008 until December 2015.³



EXTENDING DURATION TO COMBAT FALLING RATES

Investing may feel simple when you can get an FDIC-insured one-year CD yielding over 5% APY. Sure, it's great to lock in a high rate for just a year, but the catch is that when your CD matures, you might find yourself hunting for a new deal — only to realize rates have dropped faster than your morning coffee cools. The same goes for bonds, fixed-rate annuities or any other fixed-income instruments that currently offer a decent return but only for a short duration.

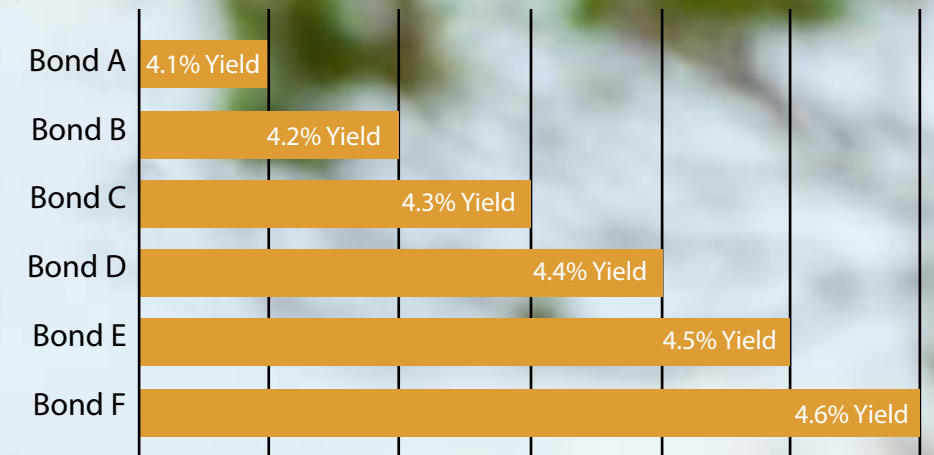
If rates begin to tick down, locking in higher rates by extending the instrument's term or duration ahead of time can help preserve income. Longer-term bonds and other fixed-rate instruments often offer higher yields than short-term options, which can help buffer the impact of falling interest rates. By making this shift before rates decline, you may be able to help secure more consistent income over the long run.

Laddering: A Conservative Approach to Extending Duration

Rather than locking all your money into a 30-year bond to secure a higher yield, you may consider a more flexible strategy known as laddering. Laddering involves spreading your investments across bonds, CDs or fixed-rate annuities with staggered maturities. For example, instead of investing entirely in a long-term bond, you might invest equal portions into bonds maturing in one, three, five and 10 years. As each bond matures, you reinvest that portion into a new bond with a longer duration.



Bond Ladder on Day 1



Months to Maturity

This chart is for illustrative purposes.

This strategy offers several advantages:

- **Access to Liquidity:** Since a portion of your portfolio matures regularly, you'll have ongoing access to funds if interest rates rise and you want to reinvest at higher yields.
- **Income Stability:** Laddering can create a more predictable income stream by helping balance the varying yields from short-, medium- and long-term investments.
- **Reduced Risk:** Spreading your investments across different maturities helps mitigate the risk of locking everything into a long-term bond or annuity at potentially lower rates. If interest rates rise, you're not stuck waiting decades for your investment to mature.

In short, laddering allows you to extend the duration of your income-generating investments without taking on the added risk of committing everything to a single long-term option.



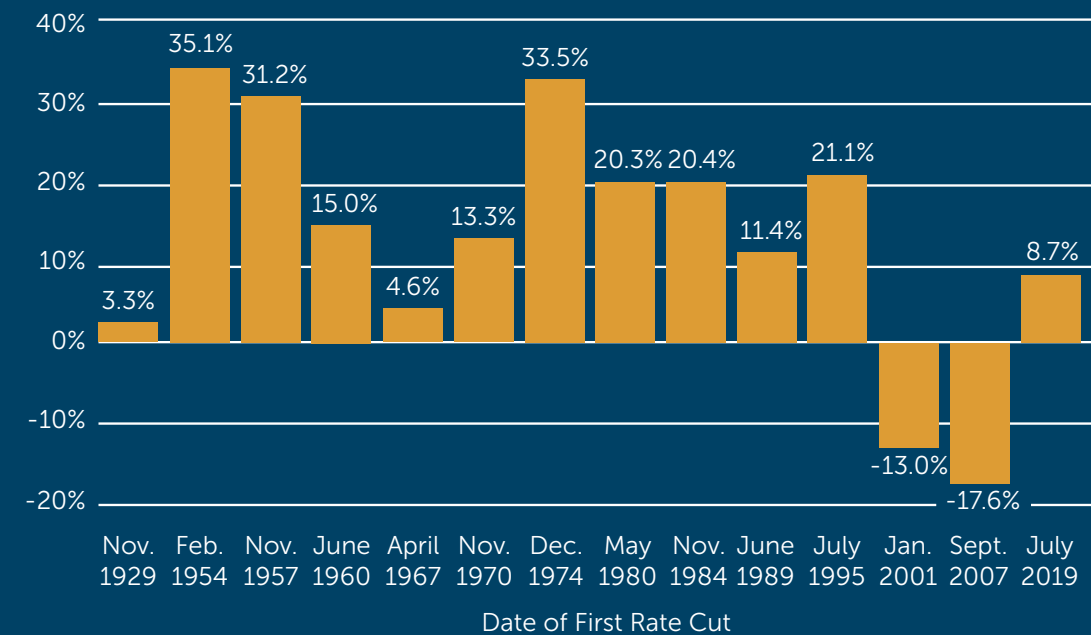
WHY BALANCE MATTERS IN A CHANGING RATE ENVIRONMENT

In any retirement plan, balance is key. A diversified portfolio that includes both equities and principal-protected instruments like bonds is important, particularly when interest rates are falling. This balance helps to manage risk while still offering the potential for growth.

The Role of Equities – Equities (stocks) provide growth potential, which can help counteract the effects of inflation and help preserve your purchasing power over time. While stocks can be volatile, they can offer long-term opportunities for growth that may help you sustain your income throughout retirement.

The Role of Bonds – Bonds and other principal-protected instruments, on the other hand, serve a different function. They help provide stability and income, especially in more conservative portfolios. In an environment of falling interest rates, bond prices tend to rise, which can be a benefit for your portfolio. However, lower rates also mean that new bonds and other fixed-income instruments will offer lower returns, so it's important to strive for the right balance.

History Shows: RATE CUTS CAN BOOST STOCKS⁴



Since 1929, there have been 14 instances where the Federal Reserve cut interest rates, and in 12 of those cases, the S&P 500 posted positive returns over the following 12 months. For example, after rate cuts in 1984, 1995 and 2019, the S&P 500 experienced significant gains of 20.4%, 21.1% and 8.7%, respectively. However, there were two periods — 2001 (dot-com bubble) and 2007 (subprime mortgage crisis) — where rate cuts were followed by negative returns due to economic downturns.⁵

Why Falling Interest Rates Could Benefit the Stock Market

When interest rates decline, borrowing becomes cheaper for both businesses and consumers. Lower rates can stimulate economic growth, which is often reflected in higher stock prices. For retirees, this can mean the potential for gains in the equity portion of their portfolio. However, relying too heavily on equities to make up for lost income from bonds could increase the overall risk of your portfolio, especially during volatile market periods.

A balanced portfolio allows you to adapt to changing market conditions while helping to manage risk. By maintaining a mix of assets designed to perform in different environments, you can help protect your retirement income in the future.



EXPLORING ALTERNATIVES

Secure Growth With Protection: Look into fixed index annuities (FIAs). These insurance products offer growth potential tied to market performance with a safety net, featuring a guaranteed minimum interest rate, making them appealing for those seeking growth alongside some level of preservation.



ADDITIONAL CONSIDERATIONS

If interest rates fall, you'll need to reassess your financial strategies to make the most of potential opportunities while helping to protect yourself from the challenges that lower yields can bring. Below are key considerations for how falling rates could impact different aspects of your planning, along with strategies to help you navigate these changes.

Refinancing Opportunities: Lower Loan Costs

One opportunity provided by a low-interest-rate environment is the potential to refinance existing mortgages or other loans. With lower rates, retirees may be able to reduce their monthly payments, potentially freeing up additional cash flow for other expenses or investments. This extra liquidity can be especially helpful for those living on fixed incomes, allowing them to manage their budgets more effectively.

The Erosion of Purchasing Power

If interest rates decline while inflation stays steady or rises, the purchasing power of your fixed-income payments and savings may erode. It becomes important to rebalance your portfolio to include assets with growth potential, helping to offset the risk of inflation.

Delaying Social Security: A Strategic Advantage

Delaying Social Security benefits can be one of the most effective strategies for optimizing long-term income. Social Security benefits increase by approximately 8% for each year you delay claiming them after reaching full retirement age, up until age 70. This guaranteed, inflation-adjusted increase offers a more stable income compared to lower-yielding bonds, savings accounts or the fluctuating values of stocks. This can also benefit your surviving spouse, as their benefits are often tied to your own. By optimizing your benefits, you can help ensure a higher, more reliable income for your spouse in the future.

Estate Planning Considerations

Falling interest rates can have complex effects on estate and legacy planning, particularly on the structure and performance of trusts. Some trusts, especially those structured to help minimize estate taxes, may be less effective in a low-rate environment. Conversely, certain estate planning strategies may become more advantageous. This makes it more important to review your estate planning strategies with a financial advisor and estate planning attorney to help ensure they remain aligned with your goals. Adjustments may be necessary to maintain tax benefits and help protect your estate for future generations in a low-rate landscape.

Navigating Uncertainty

While there is evidence to suggest that we are entering a period of declining interest rates, it's important to remember that no one can predict the future with certainty. The Federal Reserve's policies are influenced by a wide range of factors. And while they may be inclined to keep rates low, unexpected circumstances — such as inflationary pressures or global economic shifts — could prompt a change in course, leading to rising rates once again.

EXPLORING ALTERNATIVES

Diversify Income Sources: Consider adopting a multi-asset approach to income investments. A balanced mix of bonds, dividend-paying stocks, real estate investment trusts (REITs), income annuities and other income-generating assets can help provide a more stable and diversified income stream.

PREPARING FOR FALLING INTEREST RATES: TAKE ACTION NOW

To be best prepared for falling interest rates, it's important to take a proactive approach and thoroughly review your financial plan with a trusted advisor. Here are some key areas to focus on to help protect your retirement and ensure your long-term financial future.

1. Income and Withdrawal Strategy

WHY IT'S IMPORTANT: As interest rates decline, the returns on your fixed-income investments may fall, affecting your overall income. It's important to reassess your income strategy to ensure it remains sustainable in a low-rate environment. This includes reviewing your withdrawal rates to help make sure your savings last throughout retirement. Working with your financial advisor can help you strike the balance between income and principal preservation to help minimize the risk of depleting your nest egg while you are still alive.

2. Portfolio Risk

WHY IT'S IMPORTANT: Falling interest rates can impact the performance of certain asset classes. Reviewing the risk level of your investments with your advisor will help you avoid unnecessary exposure to potential losses. Your advisor can help you adjust your portfolio to maintain the right mix of growth potential and capital preservation, helping ensure that you stay on track with your long-term goals while managing market volatility.

3. Tax Planning Strategies

WHY IT'S IMPORTANT: In a low-interest-rate environment, finding ways to optimize your after-tax income is important. Tax-efficient withdrawal strategies, Roth conversions and other long-term tax planning options may help offset the effects of lower returns. Consulting with your advisor will ensure you're taking advantage of all available strategies to potentially reduce your tax burden and increase your take-home retirement income.

4. Estate Planning Strategies

WHY IT'S IMPORTANT: Falling interest rates can also have implications for estate planning strategies, particularly those involving trusts and gifting. Some strategies may become less effective in a low-rate environment, while others, like grantor-retained annuity trusts (GRATs), may become more advantageous. It's important to review your estate plan with your advisor and estate planning attorney to help ensure it remains aligned with your goals and still provides the tax benefits you expect.



DON'T WAIT UNTIL IT'S TOO LATE

By being proactive and thoroughly reviewing your plan with your financial or legal advisor, you can better navigate the challenges of falling interest rates and help protect your financial future. Don't wait until it's too late — schedule a review with your advisor today and help ensure your retirement plan is equipped to weather changes in the economic landscape.

SOURCES:

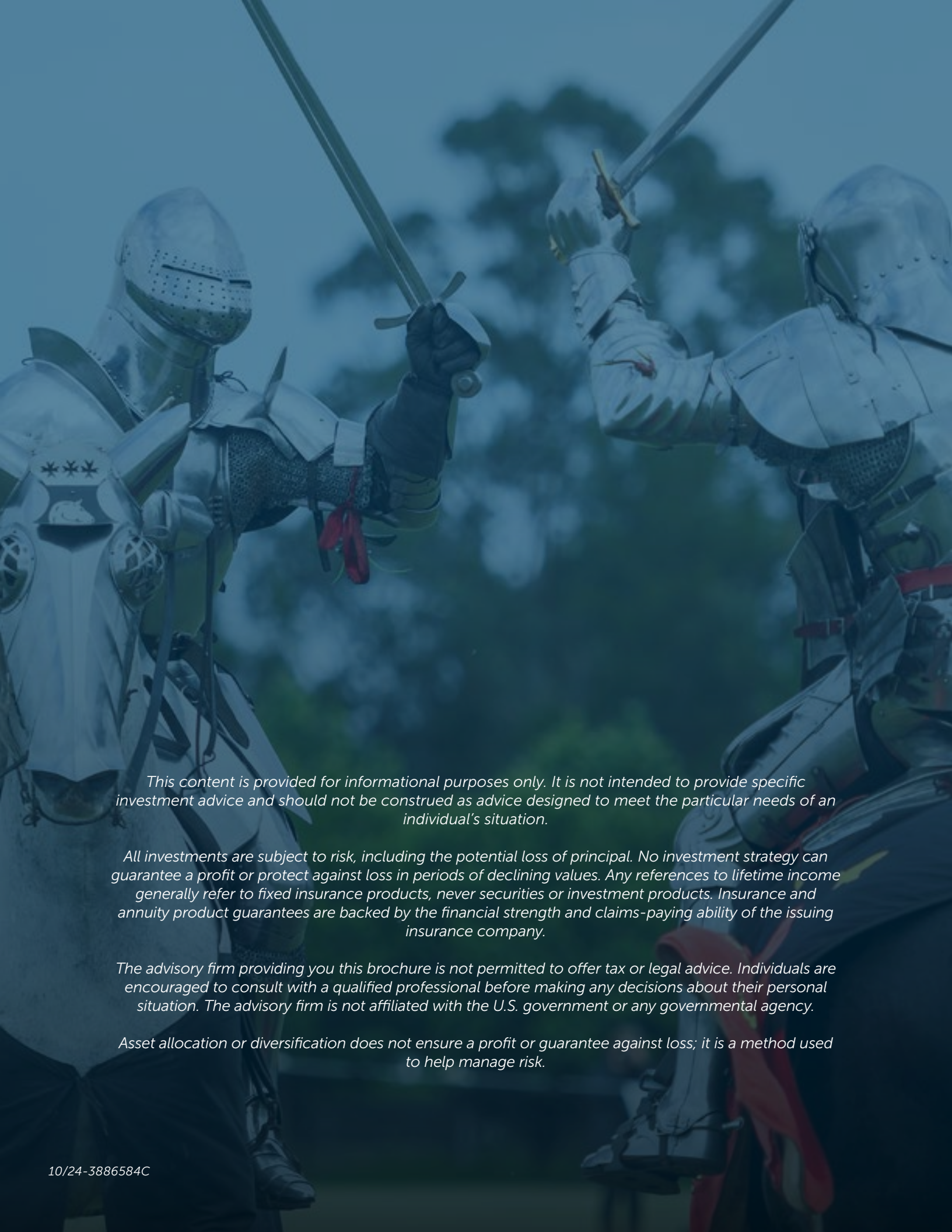
¹ Eric Milstein and David Wessel. *Brookings*. January 2, 2024. "What did the Fed do in response to the COVID-19 crises?" <https://www.brookings.edu/articles/fed-response-to-covid19/>. Accessed Oct. 14, 2024.

² Board of Governors of the Federal Reserve System. July 10, 2024. "Policy Tools." <https://www.federalreserve.gov/monetarypolicy/openmarket.htm>. Accessed Sept. 18, 2024.

³ Federal Reserve Bank of St. Louis. Sept. 3, 2024. "Federal Funds Effective Rate." <https://fred.stlouisfed.org/series/FEDFUNDS>. Accessed Sept. 18, 2024.

^{4.5} Liz Ann Sonders. *Charles Schwab*. Aug. 16, 2024. "What Past Fed Rate Cycles Can Tell Us." <https://www.schwab.com/learn/story/what-past-fed-rate-cycles-can-tell-us>. Accessed Sept. 18, 2024.



The background image shows two knights in full plate armor sparring with swords in a field. The knights are wearing helmets with visors and carrying shields. The scene is set outdoors with trees in the background. The entire image has a blue tint.

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