Overcoming Risk With Retirement Income

GREAT AMERICAN INSURANCE GROUP

Uncomplicate Retirement®

Annuities issued by Great American Life Insurance Company®

As you approach retirement, your financial goals typically change. Instead of focusing on saving, it may be time to think about how you're going to make your money last.

In fact, having enough money to last a lifetime is the top retirement goal for two-thirds of investors.

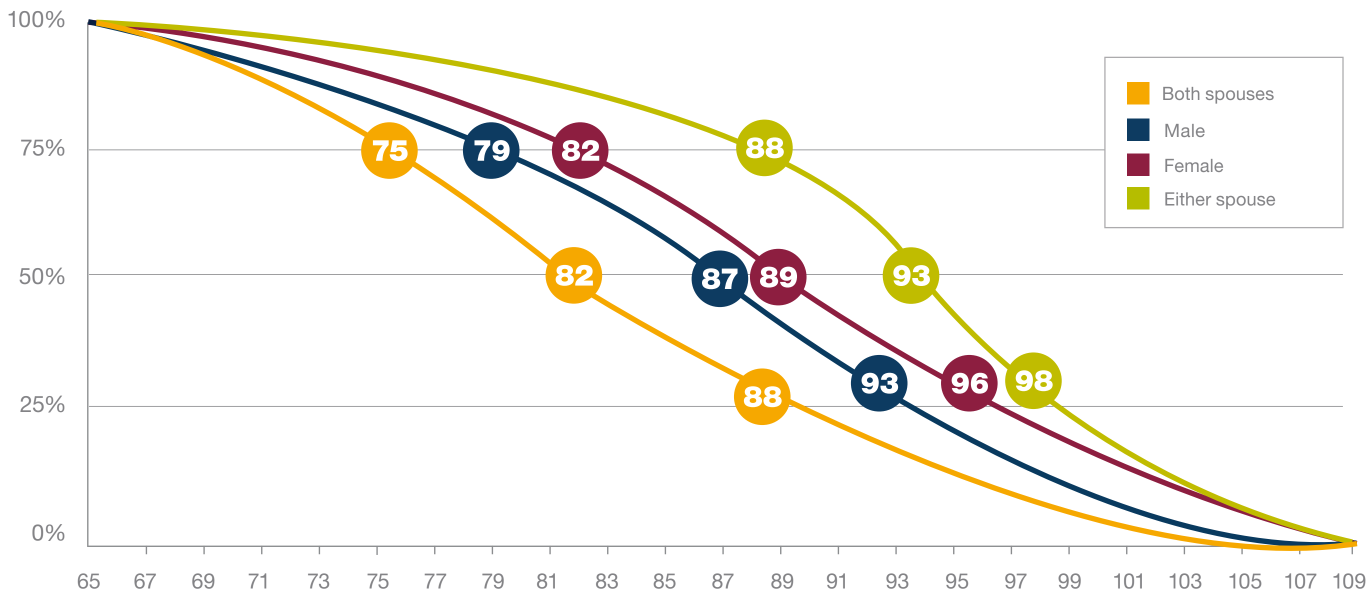
Developing an income plan is one step you can take in your journey for lifetime income. This guide covers five risks you may want to consider when creating your plan.

Risk 1: Outliving Your Assets

Thanks to improvements in health care and medicine, today's retirees are living longer, healthier and more active lives than ever before. Average life expectancies continue to climb with each passing decade.

As the chart shows, there's a high probability of living well into your 80s and 90s.

Probability of 65-year-olds Surviving to Select Ages (Average Health)



Source: LIMRA Secure Retirement Institute analysis of the Human Mortality Database, University California, Berkeley (USA), and Max Planck Institute for Demographic Research (Germany) and 2015 U.S. population mortality. Available at mortality.org or humanmortality.de.

- 50% of 65-year-old males will live to age 87.
- 50% of 65-year-old females will live to age 89.
- For 65-year-old couples, there is a 50% chance both spouses will live to age 82 and 50% chance one spouse will live to age 93.

Longer life expectancies may mean greater risk of outliving your savings. You can mitigate this risk by including a source of lifetime income in your plan.

Risk 2: Interest Rates Are At All-Time Lows

Retirees have historically relied on fixed income investments to provide retirement income. From 1968-2001 the interest rate on a 10-Year U.S. Treasury Note was 4% or higher, which provided retirees with decent interest earnings from a safe environment. However, interest rate yields have trended down over the last 30 years, hitting a historical low of 1.37% in 2016.

10-Year Treasury Constant Maturity Rate

Source: https://fred.stlouisfed.org

Fixed income investments can bring a level of safety to your portfolio, but low yields may result in less retirement income.

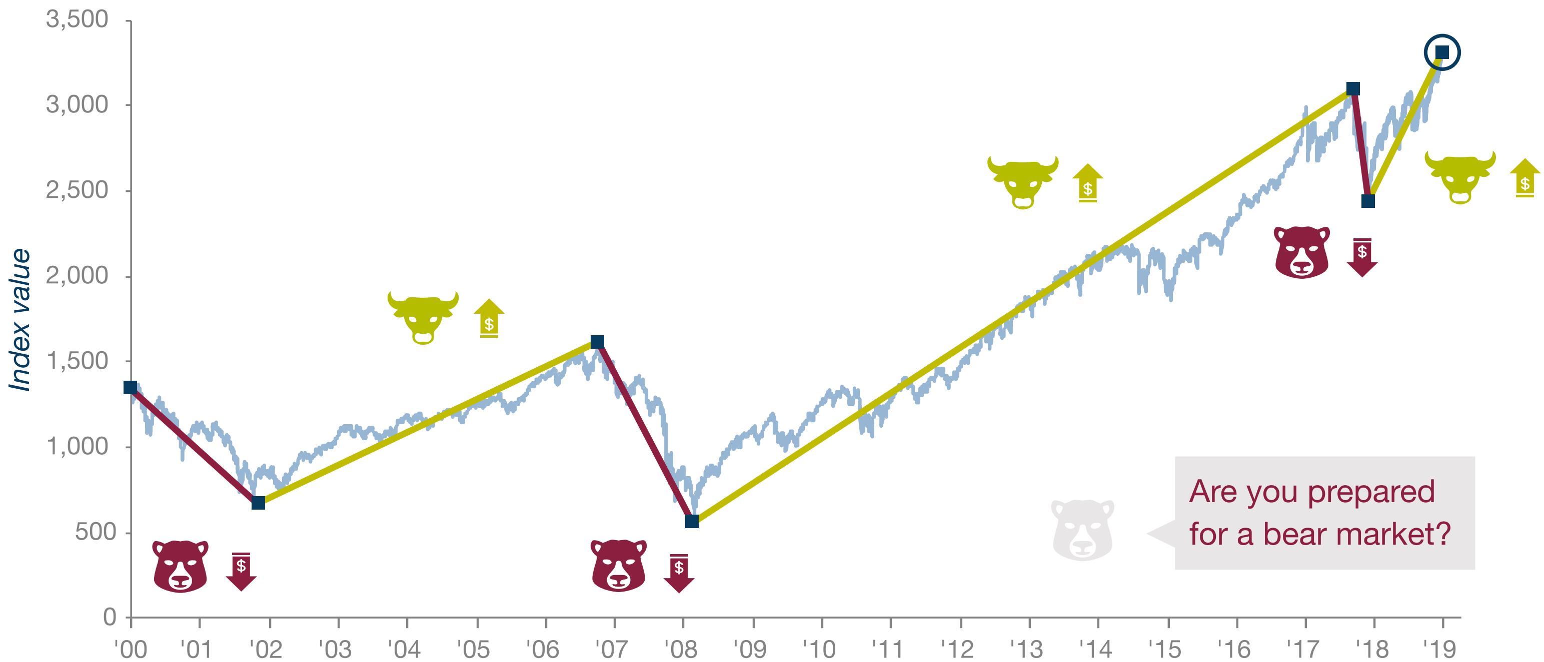
Consider investments other than fixed income for generating retirement income.

Risk 3: Market Volatility Can Derail Your Plans

A major market downturn could wipe out years of accumulated assets and derail your retirement plans. The graph below shows historical values of the S&P 500® from 2000-2019. While the peaks represent opportunities for growth, the valleys represent threats for significant loss.

In fact, there's a high probability of living well into your 80s and 90s.

Historical Fluctuations in S&P 500® Index Values



To demonstrate the volatility of the stock market, historical S&P 500 Index values are shown in the graph above. The connecting lines between the points represent high and low index values. The last value shown is as of 12/31/19. Index values fluctuate over time.

One sharp market drop could compromise your financial security.

You can protect your portfolio by including income sources that aren't subject to market loss.

Risk 4: The Sequence Of Returns Can Make Or Break A Portfolio

The order or sequence of returns on your portfolio is an important factor to consider in retirement. In the following example, the hypothetical portfolios assume a $500,000 investment and 5% annual withdrawals. They use the same historical S&P 500® Index returns from the same 20-year period, only the sequence is reversed. You can see how early losses have a critical effect on the portfolios' ending values.

Impact of Sequence of Returns in Retirement

Source: LIMRA Secure Retirement Institute, The Retirement Income Book, 2018. The analysis is based on actual S&P 500 annual returns from 1989 to 2008 (20-year period). Assumes an initial withdrawal rate of 5%, adjusted by 3% inflation during retirement. The hypothetical portfolio 'Positive returns early' reflects the actual annual S&P 500 performance. The portfolio 'Negative returns early' is based on the same annual performance data, only sequenced in reverse chronological order.

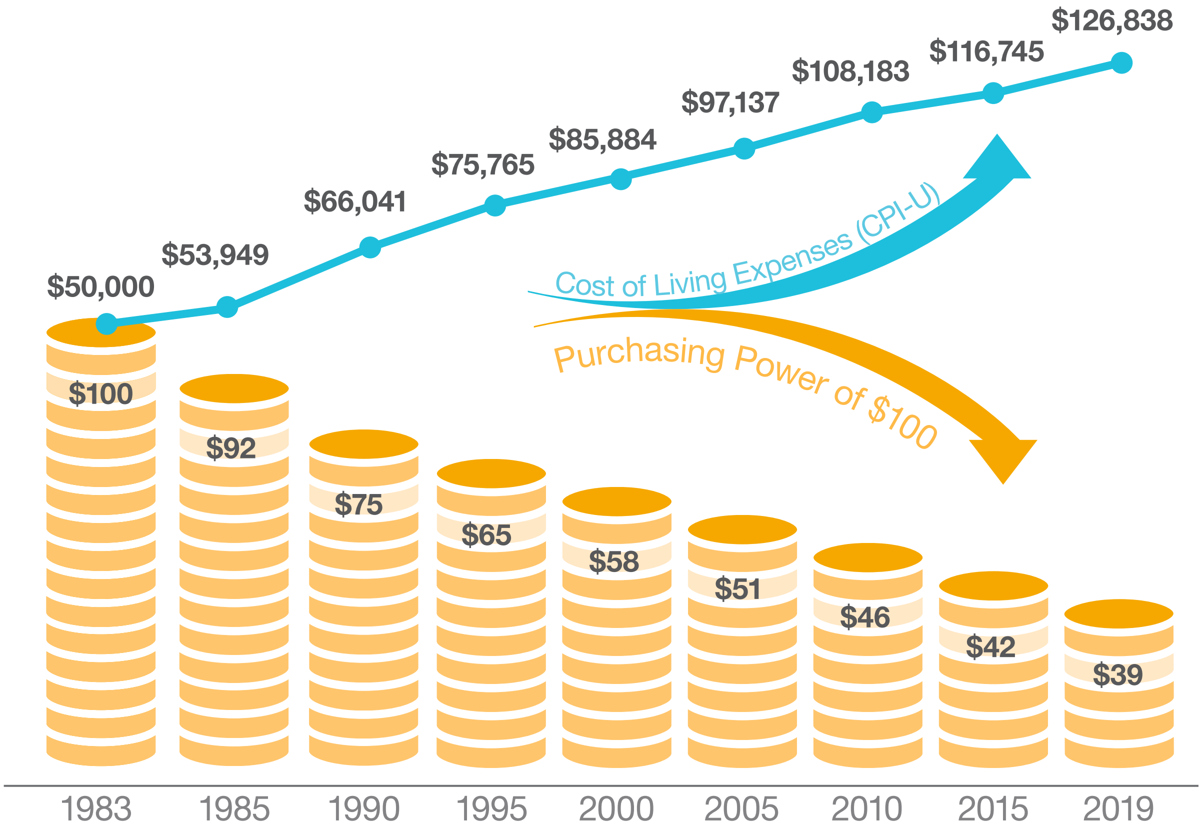
Although it can have a significant effect on your savings, you can't predict or control the sequence of returns.

Having a reliable source of income that's protected from market loss can help avoid cashing in investments during market downturns.

Risk 5: Inflation And Taxes Aren't Going Anywhere

A thorough income plan must account for inflation and taxes — two realities that can't be avoided. Even a low inflation rate can reduce your purchasing power over time. Inflation has caused living expenses of $50,000 in 1983 to go up to $126,838 in 2019 — a 153% increase! This means $100 in 1983 was only worth $39 in 2019.

Impact of Inflation on Living Expenses and Purchasing Power



Source: U.S. Bureau of Labor Statistics CPI Inflation Calculator

Additionally, with today's low tax rates, there may be little chance to reduce your tax burden in retirement.

Having a well-diversified portfolio and taking advantage of tax-deferred growth may help your assets grow at a faster rate and minimize the effects of inflation and taxes on your retirement income.

Finding Peace of Mind

Incorporating an annuity into your income plan may help you achieve a more financially secure retirement. Talk with your financial professional about the benefits of purchasing an annuity, which may include tax-deferred growth, protection from market loss and lifetime income.

Great American specializes in offering annuities that are easier to understand, helping you to achieve your goals with no surprises.

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