

5/18/16 - 1pm

WEALTH MANAGEMENT

Morgan Stanley

# Surmounting Your 5 Biggest Retirement Planning Challenges



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## What Was Once A Sure Thing Isn't Anymore



- Detroit Declares Bankruptcy
- Delta Airlines Reduces Pilot Pension Benefits
- Looming Pension Crisis in Chicago

CHALLENGE NO. 1

# Longevity



Who Is This Man  
and How Did He Address  
This Issue?



## The Longest Retirement in History

### The Probability of Reaching Age 90



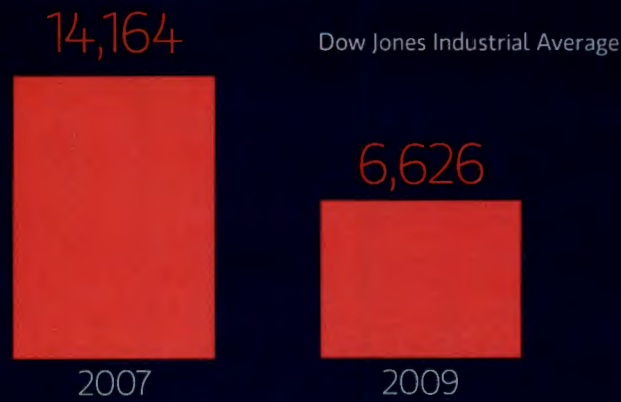
© 2014 Society of Actuaries | [Simple Life Expectancy Calculator \(2015\)](#). Averages take into account age and sex, using the 2012 Individual Annuitant Mortality mortality table, with mortality rates assumed to decline by 1% annually.

CHALLENGE NO. 2

## Market Volatility



## Ghosts of Volatility Past



Wall Street Journal, [http://online.wsj.com/midsize/publicpage?\\_r=24\\_djia\\_4time.html](http://online.wsj.com/midsize/publicpage?_r=24_djia_4time.html), May 2010

## Ghosts of Volatility Past

### Dow Jones Industrial Average: Top 5 Largest One-Day Losses

RANK	DATE	NET CHANGE	% CHANGE
1	9/29/08	-777.68	-6.98
2	10/15/08	-733.08	-7.87
3	9/17/01	-684.81	-7.13
4	12/01/08	-679.95	-7.70
5	10/09/08	-678.91	-7.33

Wall Street Journal, [http://online.wsj.com/midsize/publicpage?\\_r=24\\_djia\\_4time.html](http://online.wsj.com/midsize/publicpage?_r=24_djia_4time.html), May 2010





CHALLENGE NO. 3

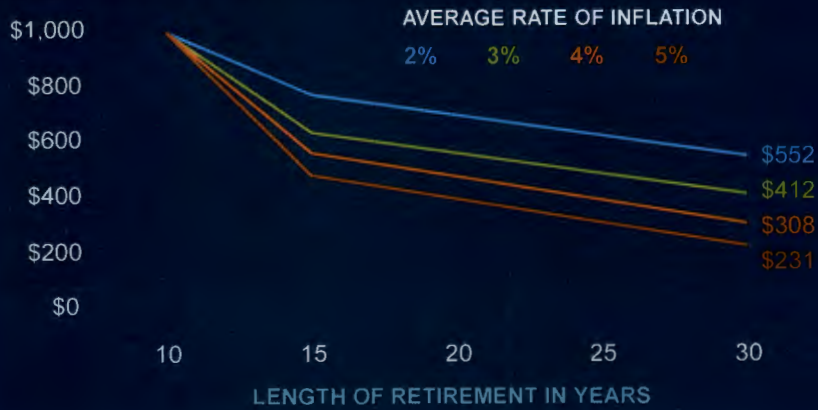
# Inflation

# 3



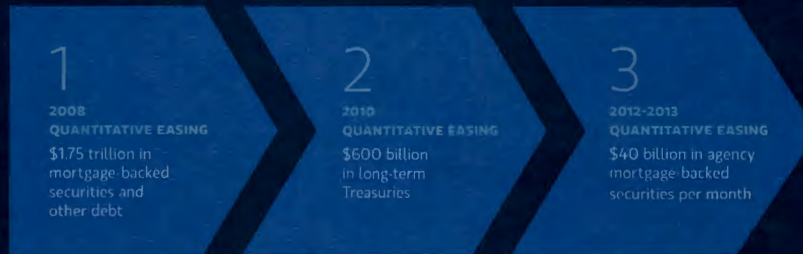
## Inflation Risk

PURCHASING POWER OF \$1,000



For illustrative purposes only. Does not reflect any specific investment.

## Will inflation increase during your retirement?



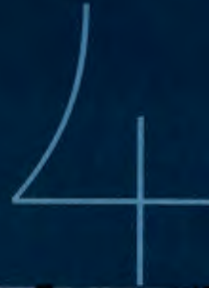
## Bigger Impact On Retirees

Health Care Cost Projections for a 65-Year-Old Couple				
	Age 65	Age 75	Age 85	Overall Costs
Annual Costs	\$6,999	\$10,345	\$14,530	\$266,589
Monthly Costs	\$583	\$862	\$1,211	--

Source: Healthview Services' 2015 Retirement Health Care Cost Data Report. Assumes life expectancy of 87 for the male, 89 for the female, and an MAGI income level below \$170,000.

CHALLENGE NO. 4

# Taxation



## 2015 Estimated Tax Rate Chart

MARGINAL TAX RATE 2015	SINGLE	MARRIED FILING JOINTLY	TAX RATE ON QUALIFYING DIVIDENDS AND LONG-TERM CAPITAL GAINS
10%	\$0 to \$9,225	\$0 to \$18,450	0%
15%	\$9,225 to \$37,450	\$18,450 to \$74,900	0%
25%	\$37,450 to \$90,750	\$74,900 to \$151,200	15%
28%	\$90,750 to \$189,300	\$151,200 to \$230,450	15%
33%	\$189,300 to \$411,500	\$230,450 to \$411,500	15%
35%	\$411,500 to \$413,200	\$411,500 to \$464,850	15%
39.6%	\$413,200+	\$464,850+	20%

Additional Medicare surcharge of 3.8% of net investment income applies if modified adjusted gross income exceeds \$250,000 filing joint, married and \$200,000 filing single.

Sources: TaxFoundation.org 5/15; IRS.gov 5/15



## Taxes and Inflation Can Take a Significant Bite



For illustrative purposes only. Does not reflect any specific investment. Hypothetical investment assumes a before-tax return of 8%, a state marginal tax bracket of 5%, a Federal marginal tax bracket of 25%, itemized deductions and an assumed inflation rate of 2%.

## Beware the Phantom Income



## How Do You Surmount These Major Barriers?

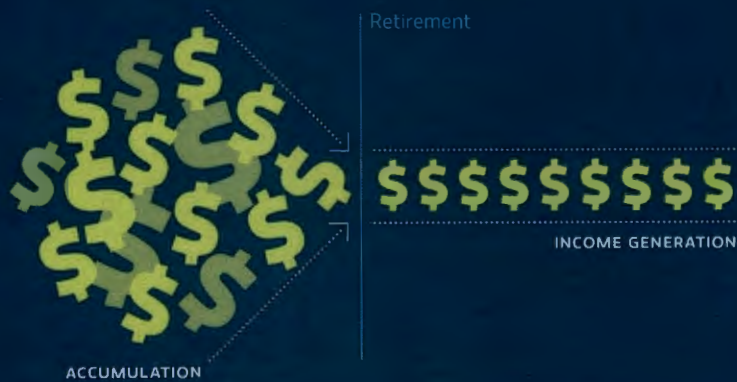
Don't forget to contribute to your 401(k)

Contributions to your 401(k) plan are made with pre-tax dollars

They can grow on a tax-deferred basis until you begin withdrawals

By the time you begin withdrawals during retirement, you may be in a lower income tax bracket

## At Retirement, the Game Changes



## The 4% Solution

4%

annual withdrawals, plus inflation

25

year estimated timeframe

90%

simulated success rate

### BUT WHAT HAPPENS IF YOU:

- Live longer than 25 years?
- Retire earlier than anticipated?
- Fail to adjust withdrawals when markets decline?
- Yield to temptation by withdrawing more?

## Meeting Your Challenges With A Variable Annuity

- Contract issued by insurance companies
- Choice of professionally managed investment options
- Tax-deferred growth potential like your 401(k)
- Income at retirement that can be guaranteed to last as long as you live

Guarantees are based on the claims paying ability of the issuing insurance company. Variable annuities are typically subject to other charges, such as separate account management fees and insurance costs (i.e., mortality and expense fees, etc.), as well as surrender charges for early withdrawals.

## Meeting Your Challenges With A Variable Annuity

CHALLENGE	SOLUTION
Longevity	Income guaranteed for as long as you and your spouse live
Taxation	<ul style="list-style-type: none"><li>• Tax-deferred growth potential</li><li>• Partially tax-free income payments</li></ul>

Guarantees are based on the claims paying ability of the issuing insurance company. Variable annuities are typically subject to other charges, such as separate account management fees and insurance costs (i.e., mortality and expense fees, etc.), as well as surrender charges for early withdrawals.

## Meeting Your Challenges With A Variable Annuity

CHALLENGE	SOLUTION
Longevity	Income guaranteed for as long as you live
Taxation	<ul style="list-style-type: none"><li>• Tax-deferred growth potential</li><li>• Partially tax-free income payments</li></ul>
Volatility	Highest Anniversary Value Income Benefit



## Highest Anniversary Value Benefit in Action

The benefit base by which your lifetime income payments are calculated will never decrease from its highest anniversary value

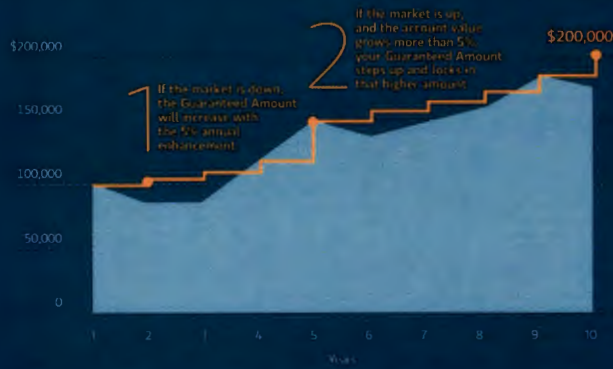


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## Meeting Your Challenges With A Variable Annuity

CHALLENGE	SOLUTION
Longevity	Income guaranteed for as long as you live
Taxation	<ul style="list-style-type: none"> <li>• Tax-deferred growth potential</li> <li>• Partially tax-free income payments</li> </ul>
Volatility	Highest Anniversary Value Income Benefit
Inflation	% Step-Up Value Income Benefit

## % Step-Up Value Income Benefit in Action



For illustrative purposes only. Does not reflect any specific investment. When evaluating a living benefit, there are several factors that must be considered as cost, investment limitations, holding periods, liquidity, withdrawals and your age and risk tolerance.

CHALLENGE NO. 5

# Leaving a Legacy to Loved Ones

# 5



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## Disclosures

Variable annuities are sold by prospectus only. The prospectus contains the investment objectives, risks, fees, charges and expenses, and other information regarding the variable annuity contract and the underlying investments, which should be considered carefully before investing. Prospectuses for both the variable annuity contract and the underlying investments are available from your Financial Advisor. Please read the prospectus carefully before you invest.

- Variable annuities are long-term investment vehicles designed for retirement. There are risks involved when investing in a variable annuity, including possible loss of principal.
- Withdrawal and distributions of taxable amounts are subject to ordinary income tax and, if made prior to age 59½, may be subject to an additional 10% federal income tax penalty. Early withdrawals will reduce the death benefit and cash surrender value.
- All guarantees are based on the claims-paying ability of the issuing insurance company.
- Optional benefits, such as living benefits and enhanced death benefits, are available for an additional fee.
- If investing in a variable annuity through a tax-advantaged retirement vehicle, such as an IRA, there is no additional tax advantage. Under these circumstances, purchasing a variable annuity should only be considered for its other features, such as lifetime income payments and death benefit protection.
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