Helping America Retire: A Blueprint for Targeting Desired Retirement Outcomes

Our Mission

BNY Mellon is steadfast in our commitment to helping individuals achieve their targeted retirement outcomes. We understand the retirement issues Americans face, and it is critical that our solutions address these unprecedented needs.

The retirement landscape is now more challenging than ever — made so by continued aftershocks of the recession, dwindling government benefits and a daunting, privately funded retirement system. These factors in addition to the normal changes of life have made retiring a seemingly hardscrabble journey, intimidating to even the savviest of people. Our mission is to make the road less arduous — to help transform the way America retires through an expert team of financial professionals and an array of tailored insights, programs, tools and products.

We strongly believe that individuals should actively choose how they will spend retirement, and this is achievable through astute planning. We advocate working with financial advisors and taking a three-prong approach to attain desired retirement outcomes. The first is setting realistic retirement targets. The second, developing a budget to lay the groundwork. The final, and perhaps most critical, part is designing a course of action that involves four key financial behaviors: Earning, Spending, Investing and Insuring (ESII).™

The four behaviors take into account that life happens and regular reprioritizations are necessary to keep retirement targets in sight. The framework helps individuals understand how their everyday decisions directly impact their retirement outcomes and provides structure so that investing in one's future is practical and effective.

The State of Retirement in America

America is facing a retirement crisis. Retirement readiness lost considerable ground during the financial downturn of 2008, which wiped out trillions of dollars of household wealth, and is still struggling to regain solid footing. Although headlines show stock markets and housing recovering since the recession, the St. Louis Fed points out that the recovery has been uneven across American families, with stock market and housing gains accruing mainly to the wealthy.[1]

Additionally, government-funded entitlements, such as Social Security, have become strained in their sustainability and adequacy as longer life expectancies and medical advancements mean more people are receiving government benefits for longer timelines. To honor these promises, the government will need to either defer or decrease benefits, increase taxes or some combination of both.

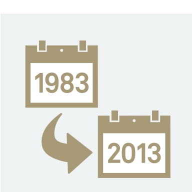
Another compounding factor is the employer-sponsored retirement system, which has undergone dramatic change in the last few decades. As a nation, we have shifted the risk of funding retirements from employers through Defined Benefit pension plans, to employees who now fund their own Defined Contribution plans. Defined Benefit pension plans are run by investment professionals who can pool risks, make projections on life expectancies and the future costs and income needs of retirees, and fund them accordingly. They are similar to insurance plans in their promise to provide reliable income. Whereas, Defined Contribution plans are essentially enhanced savings plans that leave the saving and investing up to individuals who are all too often ill-prepared to handle those responsibilities and likely to make costly mistakes. The result is an American populace that will largely face a retirement primarily based on Social Security income unless something different is done.

62%

...workers were covered by an employer-sponsored Defined Benefit pension plan.

17%

In just 30 years the number dropped by 45%.



12%–71%

During that same time, the number of workers with Defined Contribution plans rose by 59%.*

* The Center for Retirement Research at Boston College, "401(k)/IRA Holdings in 2013: An Update From the SCF" by Alicia H. Munnell, 2015.

[1] Federal Reserve Bank of St. Louis: "Housing Rebound Broadens the Wealth Recovery But Much More is Needed," November 1, 2013, and "Average Americans Still Have Not Recovered from Crash, but the Wealthy are Flourishing," May 11, 2013.

Today, more people have access to Defined Contribution plans, but the number who do not is still considerable. Even more alarming is that a significant portion of the American workforce has zero savings for retirement.*

Obtaining adequate retirement income is a significant concern not only for America's growing population of retirees, but also for policymakers, regulators and financial services providers.

While financial services providers can help influence and guide government policy, we can still do a better job of educating and encouraging individuals to self-fund their retirement by saving and investing more, and starting earlier. We can help them self-fund with practical methods and tools to change and fortify financial habits in the face of everyday competing priorities.

Financial advisors can play a critical role in helping individuals prepare for better targeted retirement outcomes. 86% of Baby Boomers who plan for retirement with the help of a financial professional say they are better prepared as a result of their advisor's help, says an April 2015 report by the Insured Retirement Institute.

We believe it's time to have brave conversations on retirement, which include educating individuals on their roles and responsibilities for their own retirements and empowering them to target better retirement outcomes. And it's time for bold solutions; it requires creating more relevant programs that reflect an understanding of the diverse needs of society, as well as developing better methods to facilitate saving and investing.

45% Working-age households

41% Near-retirement households

Do not own any assets in a retirement account.*

* The National Institute on Retirement Security, "The Continuing Retirement Savings Crisis" by Nari Rhee, Ph.D., and Ilana Boivie, March 2015.

Almost 40 million retired workers are collecting Social Security retirement benefits today.‡

36% Derive 90% or more of their income from Social Security.†

24% Report Social Security is their sole source of retirement income.†

† Social Security Administration, "Income of the Population 55 or Older, 2012," April 2014.

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Retirees have little to no income outside of Social Security during a time of longer lifespans and rising health care costs.‡

‡ Social Security Administration, Fact Sheet, November 2015.

Guiding Principles to Targeting Successful Retirement Outcomes

Retirement success begins with targeting a desired outcome. BNY Mellon defines a successful retirement outcome as achieving income sufficient to sustain and protect one's desired retirement lifestyle plus legacy goals. For many, this means having the financial security and ability in retirement to:

- Meet day-to-day living expenses
- Make personal lifestyle choices about where and how to live, and enjoy hobbies and personal pursuits
- Maintain quality of life, personal health and independence
- Leave residual assets for heirs and achieve philanthropic goals

Only with a target in mind can one properly plan and sequence the steps necessary to achieve the desired outcome.

Most individuals have a vague idea of how they want to live during retirement and usually require some guidance to sharpen that picture and set clear and definable goals. Financial advisors can help establish practical and achievable retirement outcomes by getting clients to spend quality time thinking about their future and answering the following questions:

A well-chosen and enduring target provides stability, focus and a point of aim for planning purposes at any moment in time.

- What is my idea of retirement?
- At what age do I want retirement to begin?
- Do I want to stop working altogether after I retire?
- Do I want to work less or less hard?
- Where do I want to live?
- What part will my family members play?
- Do I want or need to be close to brothers/sisters/children/parents?
- Will I be alone or with a significant other?
- What role will my health play in the quality of my retirement?
- Do I have philanthropic goals?
- Do I want to leave a legacy or pass assets to my children?

Reverse Planning – The Financial GPS to Retirement

Once a targeted retirement outcome has been established, the next step for financial advisors is to help their clients design a budget, or a financial GPS that maps out a clear route to wealth building and desired retirement outcomes. One of the most effective methods advisors can use is reverse planning, which starts with the retirement outcome and then builds a budget by working backwards. Reverse planning quantifies the cost of retirement in terms of annual expenses, then projects them over the individual's retirement life expectancy, and solves for the gap between retirement income and expenses.

One can work with a financial advisor to first calculate what retirement will cost initially and annually. An advisor can help determine what guaranteed sources of income can be expected from Social Security, pensions and annuities, and subtract the guaranteed annual income from the expenses to calculate the funding gap. The advisor then determines the value of assets that will be required to generate sustainable income to close the gap. That asset value is the target necessary to achieve the desired retirement outcome.

Reverse planning solves for the gap between retirement income and retirement expenses.

Getting to Retirement

Retirement is a journey, not a destination. How individuals live today dictates how they will live in retirement. Financial professionals are encouraged to help clients navigate to their desired retirement outcomes by focusing on four fundamental interconnected financial behaviors: Earning, Spending, Investing and Insuring.

This four behaviors concept is beautiful in its simplicity. For the most part, individuals know they must *earn income* in order to *spend*. And they must spend in order to provide for their needs and wants. What they are less familiar with is the extent to which they must invest prudently to spend more and work less in the future, and their need to *insure* their earnings, assets and health against unforeseen events that could derail their retirement plans. It is through professional advice that they come to understand the interplay of these four behaviors and take action to holistically manage them.

Prioritize and Reprioritize
to Establish and Maintain

Prioritizing short- and long-term financial goals is critical to establishing and maintaining the earning, spending, investing and insuring balance. The retirement pyramid below illustrates what goals clients should focus on first by stacking them in order of importance.

The fundamental needs form the base of the pyramid with the most important goals, including housing, food, medical insurance, pension, annuities and long-term care.

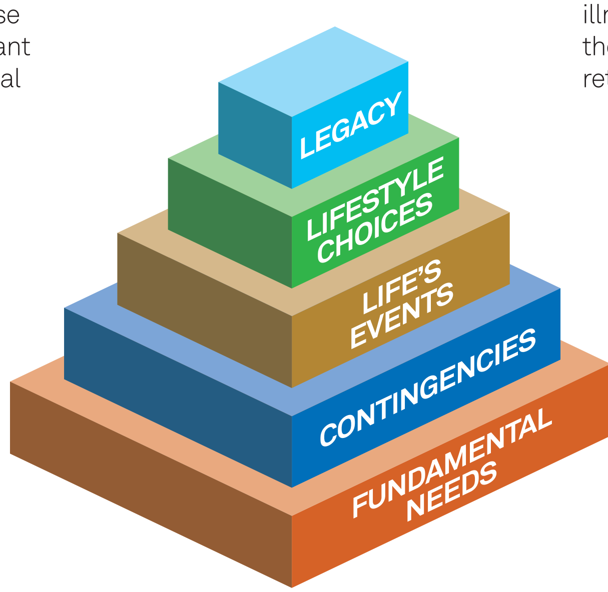
Contingencies, the next level, means creating a rainy day account or emergency fund.

The third level revolves around significant life events — getting married, having children, buying a house, furthering education, transitioning into retirement, etc.

Lifestyle choices include vacations and luxuries.

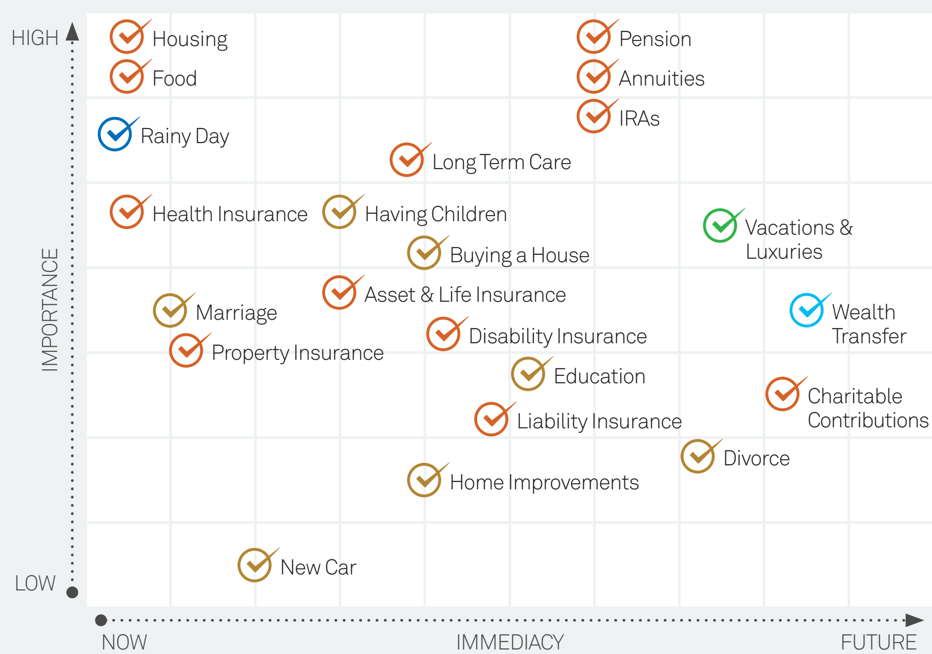
The peak of the pyramid, legacy, focuses on wealth transfer.

The four behaviors structure is flexible to adjust when life throws curves, such as a divorce, an unexpected long-term illness, or a spouse's death, and keeps the focus on achieving one's targeted retirement outcome.



Earning and spending behaviors also shift depending on where individuals are in their life cycle. For example, life insurance for a new parent is both highly important and immediate. For an older person, retirement savings and long-term care are also highly important and immediate. A home renovation project has relatively lower importance and moderate immediacy.

Prioritizing Life's Expenses and Goals Over Time



For example only. Every individual will have his or her own set and ranking of priorities. Priorities will evolve over time.

Invest with Goals

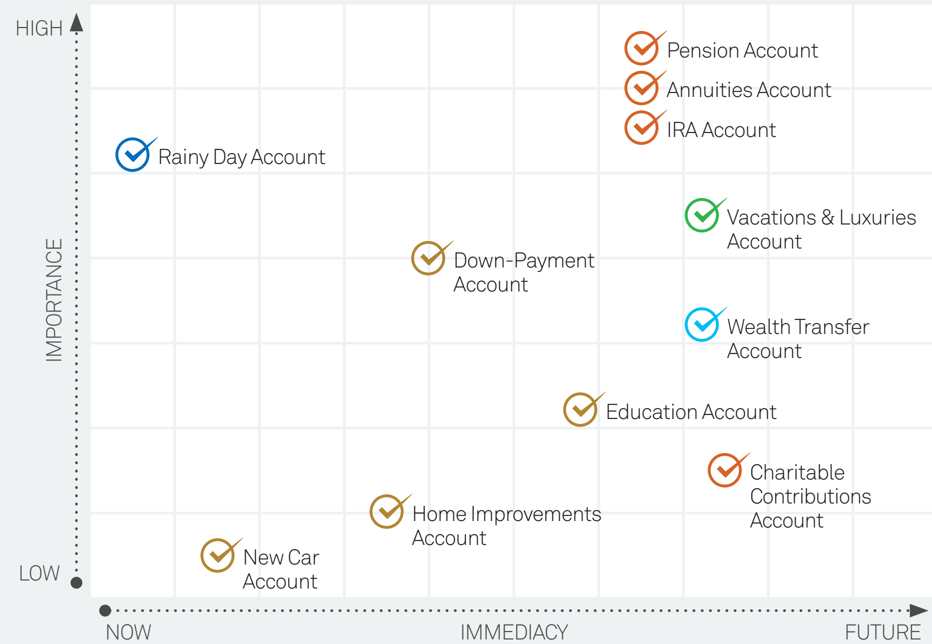
Goals-based investing is based on behavioral finance studies where individuals were using mental accounting to imagine separate buckets of money dedicated to specific goals.

Goals-based investing capitalizes on mental accounting to make saving and investing easier — by breaking life's savings goals into achievable sub-plans that aggregate to an overall investment and income portfolio. That portfolio accumulates during the working years and becomes a source of income through retirement.

Putting It All Together

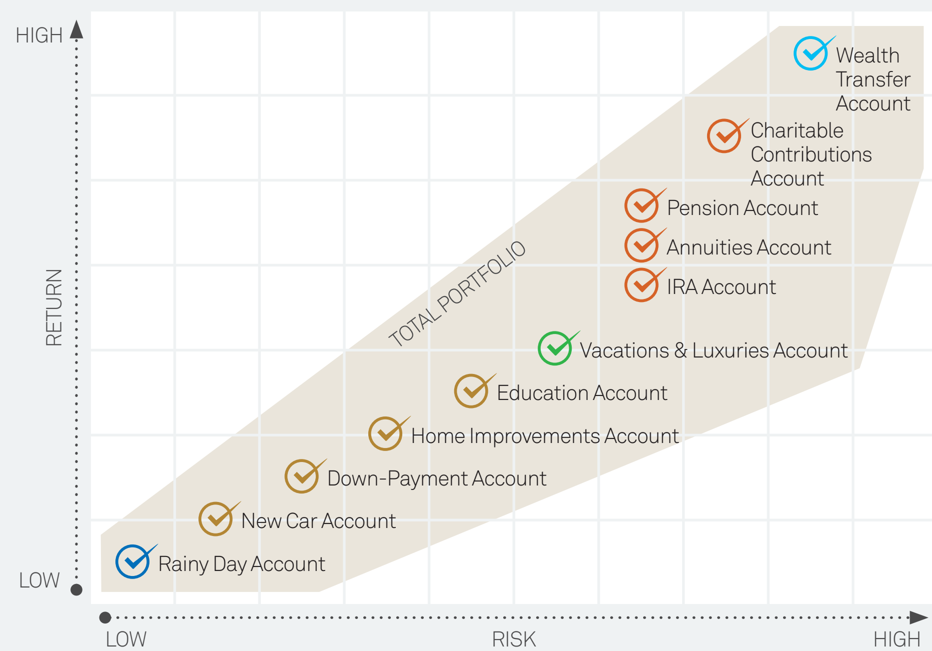
We believe individuals are better served working with a financial advisor who can help them develop a plan to achieve their targeted retirement outcome. Advisors can help quantify the target in terms of 1) more reliable sources of income such as Social Security, pensions and annuities and 2) a total asset portfolio needed to provide additional retirement income and funds for legacy and other goals. Individuals and their advisors can then use reverse planning to develop purpose-driven portfolios and a plan that flexibly integrates the individual's earning, spending habits, investments and appropriate insurance to protect against life's unexpected events that could otherwise derail a well-lived plan.

Goals-based Portfolios



Each individual has his or her own set and ranking of priorities. Priorities will evolve over time.

Goals-based Portfolios Aggregate to Create the Total Portfolio



Different goals have different time horizons allowing for different levels of investment risk.

Investors should consider the investment objectives, risks, charges and expenses of a fund carefully before investing. Contact your financial advisor to obtain a prospectus, or a summary prospectus, if available, that contains this and other information about a fund, and read it carefully before investing.

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