Investing for Retirement

Targeting Desired Retirement Outcomes

There are four fundamental interconnected financial behaviors that determine one's ability to achieve their targeted retirement outcome: Earning, Spending, Investing and Insuring (ESII).™ As life events shift and alter our course, individuals must continually reprioritize and balance these behaviors while maintaining a focus on their retirement target. Use this framework to develop financial plans and course-correct as lives inevitably change.

In this paper, we discuss the Investing behavior and its critical role in preparing for and funding retirement.

Investing can be represented simply with two basic equations.

Earnings – Spending = Savings

Savings x Rate of Return x Time = Investing

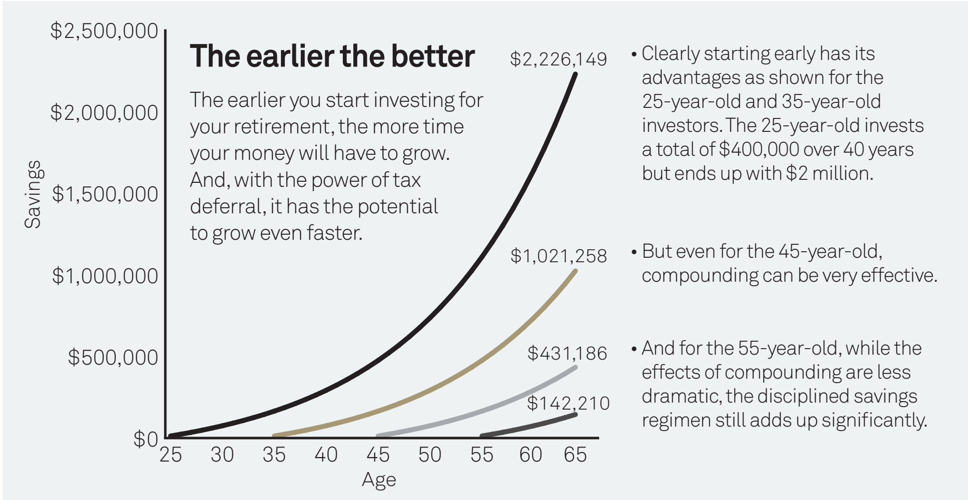
Or, in other words, whatever income is not spent is money available to save and invest. And money can grow when it is given time to earn a return.

It pays to start early, but it is never too late.

The chart on the right illustrates several hypothetical investment timelines. Starting early has its advantages, particularly for the investor between ages 25 and 35.

Even for the 45-year-old, compounding can be very effective.

While the benefits of compounding are less dramatic for the 55-year-old, a disciplined savings regimen still adds up significantly, especially if continued into the retirement years.



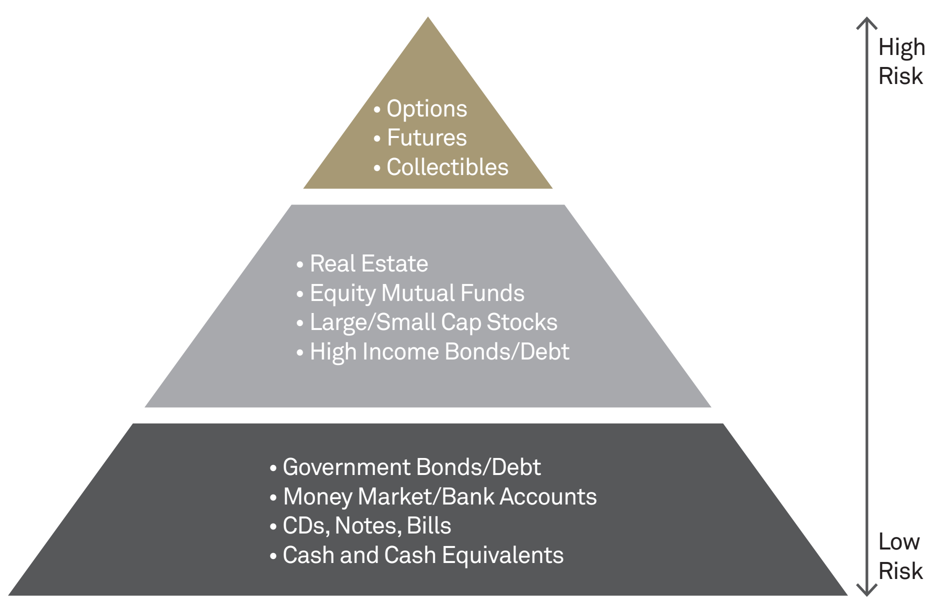
For illustrative purposes only and does not represent the results of any investment. Assumes the investor contributes $10,000 every year for the number of years indicated and earns an average return of 7.4% in a U.S. equity portfolio. 7.4% is the BNY Mellon Investment Management 10-year capital market assumption for U.S. Equity 2015–2024. It does not take into account volatility of returns or sequence of returns which could negatively or positively impact the hypothetical projection.

Risk vs. Reward

Investors typically begin with low-risk vehicles like FDIC-insured bank accounts until they have accumulated a cushion to cover six to 12 months of living expenses. Once that cash cushion is in place, they can begin to diversify with a mix of bonds, equities and possibly other securities. Investments involve varying degrees of risk in exchange for the potential to earn greater returns. Generally, investments that aim for higher returns come with more risk than investments aiming for lower returns.

Risk can range from conservative and moderately conservative to moderately aggressive, aggressive and very aggressive. Appetite for risk, also known as "risk-tolerance," varies through the life cycle and from person to person. The higher rewards of investing often come with higher risks. Generally speaking, the higher a security's return potential, the greater the risk — and vice versa.

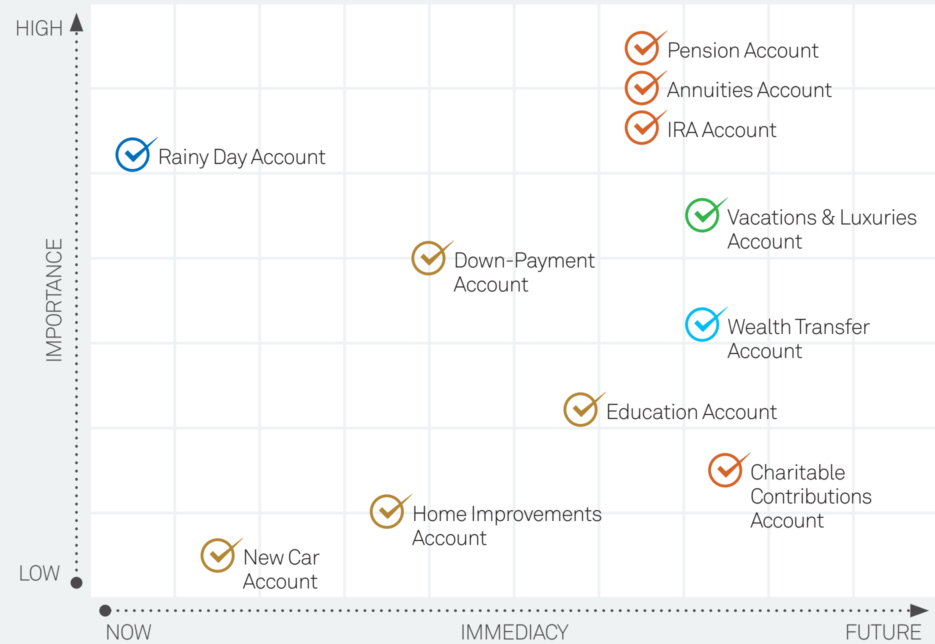
Until one has sufficient savings, risk should be conservative. As personal assets grow, and when there are many years until retirement, investors can take on more risk since they have time to recover from any unexpected short-term market declines. As they approach and enter retirement, investment risk again becomes more conservative to lock in capital gains and portfolio value, and avoid incurring unrecoverable losses should an unexpected market decline occur. Later in retirement, if the asset base is large enough and income is sufficiently assured, some investors may be able to assume more risk with a more aggressive investment strategy with the goal of increasing the size of their legacy.



Invest with **Goals**

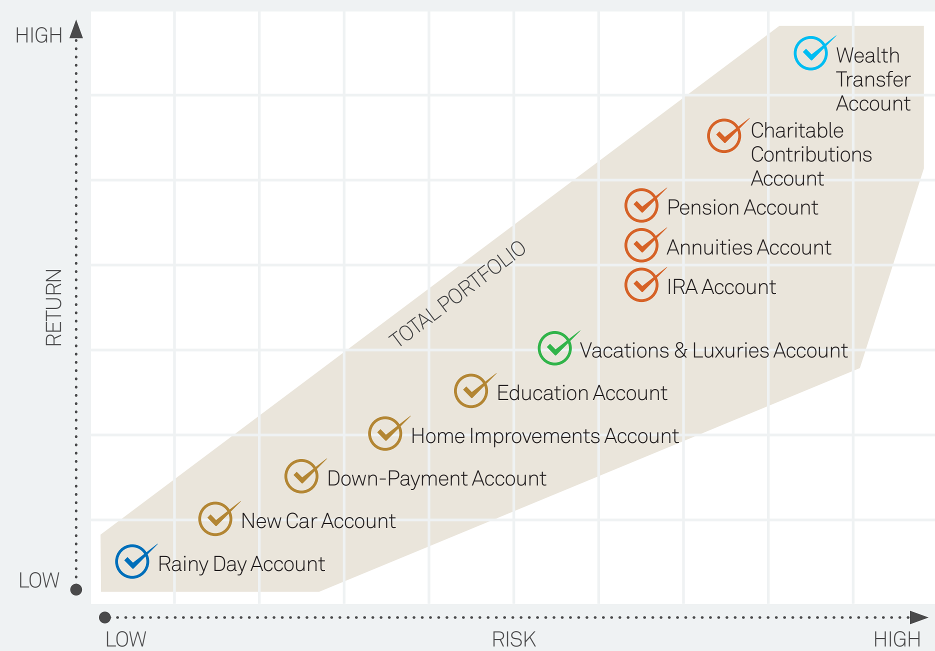
Goals-based investing is based on behavioral finance studies where individuals use mental accounting to imagine separate buckets of money dedicated to specific goals. This makes saving and investing easier by breaking life's savings goals into achievable sub-plans that aggregate to an overall investment and income portfolio. That portfolio accumulates during the working years and becomes a source of income through retirement.

Goals-based Portfolios



Each individual has his or her own set and ranking of portfolios. 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.

Time Horizon and Risk Tolerance

How long will it take before an individual needs to start drawing money from a given portfolio? The answer to that has to do with time horizon, which is the length of time over which investments are held before they are cashed in.

There are different time horizons to meet different financial goals — such as saving for a house, starting a college fund, or seeking a financially secure retirement. In general, short-term goals can be met with more conservative, less risky investments. Conversely, long-term goals may require and allow more aggressive, riskier investments — because a longer period of time gives you the ability to ride out short-term market fluctuations.

Diversification Through Asset Allocation

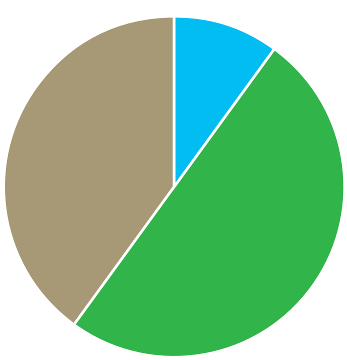
Similar to the advice, "don't put all your eggs in one basket," diversification is a portfolio strategy combining a variety of assets to reduce the overall risk of an investment portfolio. While it does not guarantee against loss, diversification is critical to reaching long-range financial goals while minimizing risk. To construct a diversified portfolio, invest in different asset classes, such as international and domestic bonds, international and domestic equities, and, with the guidance of an advisor, certain alternative investments. Asset allocation helps reduce the risk of volatility associated with any one particular investment by apportioning your investments across several different categories of investments.

Work with a financial advisor to determine the portfolio allocations that will best suit your goals and risk tolerance. Below are sample portfolios for illustrative purposes.

Money that will be needed within one year should generally be kept in low-risk, highly liquid bank or money market accounts. The allocations shown are initial allocations. As the intended investment purpose date approaches, the portfolio should be regularly reallocated to more conservative investments to help ensure that unforeseen market events don't negatively impact the portfolio savings, and the growth is locked in.

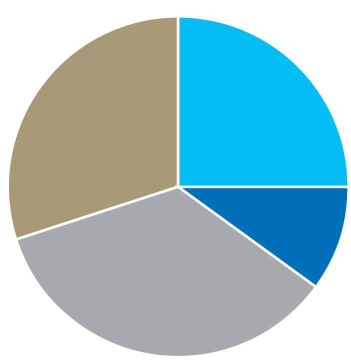
Short-Term: Time Horizon 2-5 Years

Conservative



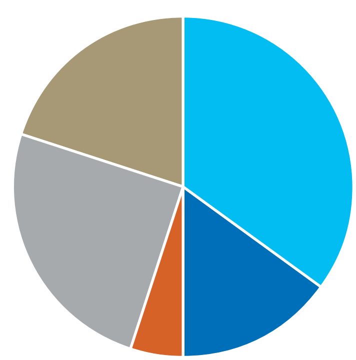
Domestic Equity	10%
Domestic Fixed Income	50%
Cash Equivalents	40%

Moderate



Domestic Equity	25%
International Equity	10%
Global Fixed Income	35%
Cash Equivalents	30%

Aggressive

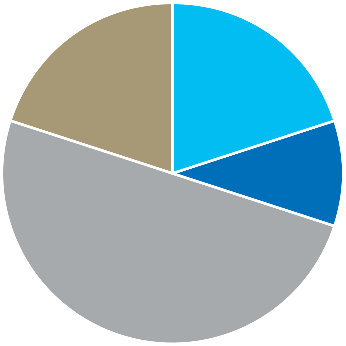


Domestic Equity	35%
International Equity	15%
Alternatives	5%
Global Fixed Income	25%
Cash Equivalents	20%

Common examples of short-term portfolio accumulation goals: money for automobile down-payments and purchases, college expenses, vacations, auto purchases, home improvements.

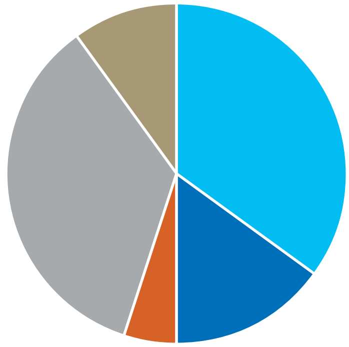
Intermediate-Term: Time Horizon 6–10 Years

Conservative



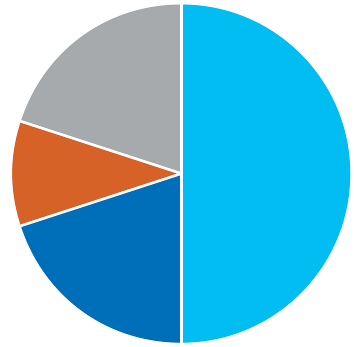
Domestic Equity	20%
International Equity	10%
Global Fixed Income	50%
Cash Equivalents	20%

Moderate



Domestic Equity	35%
International Equity	15%
Alternatives	5%
Global Fixed Income	35%
Cash Equivalents	10%

Aggressive

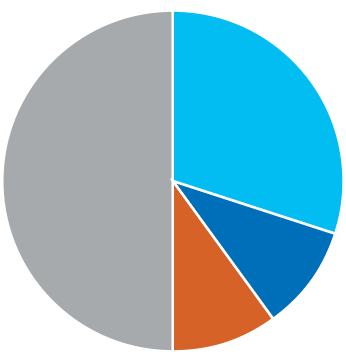


Domestic Equity	50%
International Equity	20%
Alternatives	10%
Global Fixed Income	20%

Common examples of intermediate-term portfolio accumulation goals: college savings accounts for young children, down payment on a home, retirement accounts within six to 10 years of retirement.

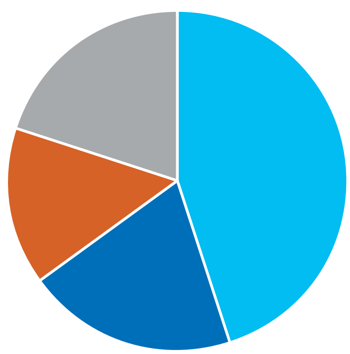
Long-Term: Time Horizon 10–15 Years

Conservative



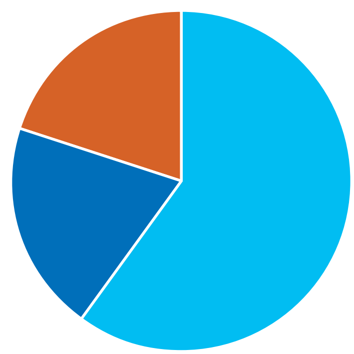
Domestic Equity	30%
International Equity	10%
Alternatives	10%
Global Fixed Income	50%

Moderate



Domestic Equity	45%
International Equity	20%
Alternatives	15%
Global Fixed Income	20%

Aggressive



Domestic Equity	60%
International Equity	20%
Alternatives	20%

Common examples of long-term portfolio accumulation goals: retirement accounts for people at least 10 years from retirement, legacy accounts.

These sample portfolios are not intended to represent investment advice that is appropriate for all investors. Each investor's portfolio must be constructed based on the individual's financial resources, investment goals, risk tolerance, investing time horizon, tax situation and other relevant factors. The categorization of sample portfolios as "conservative," "moderate" and "aggressive" is relative. BNY Mellon does not recommend any specific asset allocations.

This material does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed, and a financial advisor should be consulted.

The principal value and return on an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost.

Retirement Accounts

Investments can be held in retirement and non-retirement accounts. Depending on the type, retirement accounts offer tax-deductible contributions, tax-deferred growth, tax-free withdrawals or some combination thereof. Examples include — but are not limited to — Traditional IRAs, Roth IRAs, 401(k) plans, 403(b) plans, tax-deferred annuities and others. These vehicles have the potential to grow money faster and with fewer taxes than investments in non-retirement accounts. Most have limits on how much of one's earnings can be contributed to them each year and have penalties for withdrawals prior to retirement.

Non-retirement accounts allow nearly unlimited contributions and withdrawals, but are subject to combinations of ordinary annual income taxes and capital gains taxes. Paying taxes on investments each year can slow the rate of investment growth.

A typical retirement investment strategy, after savings accounts are funded, is to maximize contributions to the tax-favorable retirement accounts to earn employer-matching contributions where possible and to maximize the benefits of long-term tax-deferral. In each year, after the retirement accounts are funded, additional money can be invested in non-retirement vehicles that can be held for the long-term.

Wise Investing Through the Years

The 20s

- Create an income security cushion of FDIC-insured savings equal to at least six months of living expenses.
- With the cushion established — and increasing with income — begin contributing as much as you can afford to the employer's retirement plan. Currently, the maximum allowable pre-tax contribution into a 401(k) plan is indexed annually for inflation. In 2015, the limit was set at $18,500 per year.
- Consider a more aggressive asset allocation since retirement is many years away.

The 30s

- Make sure contributions to the employer's retirement plan are maximized, and then start investing in IRAs, and 529 plans (if intending to raise children). It may also be time to invest through a brokerage account and other vehicles.
- Retirement is still a long way off, which may allow for a relatively aggressive approach to asset allocation.

The 40s

- These are the beginning of the prime earning years, where family expenses may compete for investible dollars. Find a healthy balance of applying income to spending and insurance that still allows continued investing.
- Retirement is 15–25 years away, which may allow for a relatively aggressive asset allocation.

The 50s

- These are typically prime earning years, which means now is the time for an investing sprint. Maximize contributions to various investment vehicles.
- When beginning the transition period to retirement, begin a steady de-risking of the portfolio.

The 60s

- These are the transition years in which the focus shifts from accumulating wealth to generating income, so continue maximizing contributions up until the day of retirement.
- A strong decline in the equity markets now would be a significant setback. If not already done, consider shifting the portfolio to a conservative risk allocation.

The 70s

- One is likely retired and has a sense of how much income to draw from investments and other sources. Depending on the expenses-to-assets ratio, and other sources of guaranteed income, one may consider maintaining a conservative risk tolerance. If leaving a financial legacy is a goal and basic needs are being met with steady income, one may consider shifting up to a more moderate allocation.

Developing Healthy Investing Habits

1 Start early.

The sooner one starts investing, the longer the investments have for compounding. Increase contributions to savings and investments as income increases.

2 Target your desired retirement outcome.

Knowing what one wants provides the motivation to achieve it.

3 Have a plan, follow it and adjust as needed.

A plan instills discipline and makes goals achievable.

4 Diversify to smooth the ride.

Stocks, bonds, alternatives, domestic, international. All markets follow cycles. When some are declining, others may be increasing.

5 Pay off high interest-rate debt.

This is often the best and most assured return on investment.

6 Don't fall in love with an idea or an investment.

Invest without emotion and buy and sell accordingly.

7 Invest systematically and automatically.

Payroll deduction, automatic transfers, dividend reinvestment ensure continued investing.

8 Think long-term.

Markets rise and fall. A long-term approach allows one to ride out the market declines.

9 Take advantage of an employer match on your 401(k).

Not doing so is like declining a raise.

10 Be mindful of taxes.

Invest through retirement accounts. Invest for long-term, lower-taxed gains.

11 Manage investment risk.

Invest more aggressively when your investment horizon is long. De-risk when approaching and beginning retirement. Consider re-risking later in retirement, if appropriate.

12 Work with a financial advisor.

Beyond the advisor's expertise, he or she is a voice of reason when emotions could otherwise lead to poor decisions.

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.

This information is general in nature and not intended to constitute tax or estate-planning advice. Please consult your tax or estate-planning advisor for more detailed information on these issues and advice on your specific situation.

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