Planning for retirement in today's uncertain environment

Recognizing significant retirement risks

Protective®

Protect Tomorrow. Embrace Today.™

Face today’s economic uncertainty with confidence

Creating a plan for your financial future has never been more important, especially amid today’s economic uncertainty.

Retirements are getting longer. Markets are unpredictable. There are risks you may not have considered that can derail even the most carefully thought-out retirement plan.

Are you confident your plans will hold through today’s uncertainty? This guide is designed to help you recognize some of today’s most significant retirement risks. Then you and your financial professional can confidently discuss and set up the right strategies to help protect your retirement, even in the most uncertain times.

An introduction to market volatility:
The unpredictable disrupter

The stock market rises and falls. Your investments win and lose. But the possibility of market volatility — especially a steep drop in assets just before you need them — remains constant.

In the face of rising volatility, your plans can change drastically

Market volatility is an obvious retirement concern, as there's no way to predict when a negative return will hit your portfolio. But it's important to have a plan to manage the impact of volatility because the gains needed to recover from a decline are often considerably greater than the loss itself, and take precious time to earn back. For example, a 40% loss would take a 67% gain to recover. This can affect both your decision on when to retire and how long your income will last when you do.

LOSS INCURRED	GAINS NEEDED TO RECOVER
-10%	11%
-20%	25%
-30%	43%
-40%	67%
-50%	100%

This chart is for illustrative purposes only and does not represent the performance of any security.

PERCENTAGE LOST VS. THE GAINS NEEDED TO RECOVER

Though market volatility is a large retirement concern, there are still methods you and your financial professional can employ to reduce the impact.

For a deep dive on market volatility subtopics, continue reading to discover how Black Swan Events (pages 2-3) and Poor Sequence of Returns (pages 4-5) can impact your retirement planning.

Black Swan Events: When the rare and unexpected can change the path of your retirement

When you observe a rare and unexpected occurrence, it's natural to think: "That would never happen to me." But with this mindset, you might be unintentionally putting your hard-earned retirement savings at risk, thanks to what are called "Black Swan Events."

Black Swan risk explained

Recently coined in 2008, "Black Swan" risk is a financial metaphor for the possibility of experiencing catastrophic loss near or in retirement. It's based on the idea that people did not believe black swans existed in nature. But it only took a single sighting to change what everyone thought they knew about swans. Now apply this theory to current world events, and it's easy to see they can derail your carefully laid retirement plans.

DO YOU REMEMBER THE IMPACT OF THESE BLACK SWAN EVENTS?

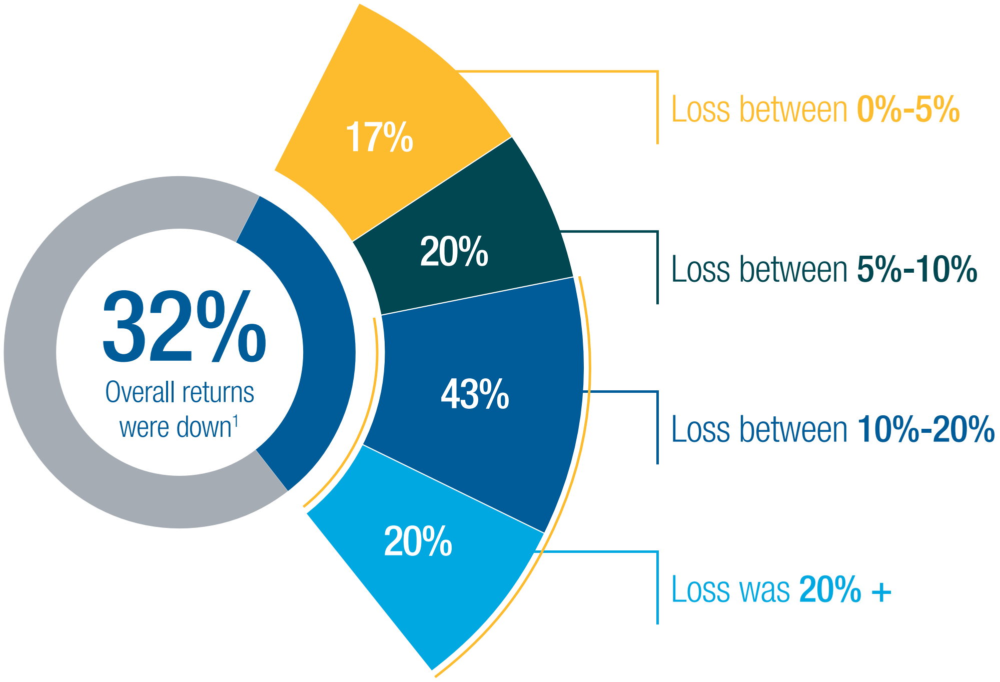
	February 2000 – January 2003 **Dot-Com Bubble Burst**	December 2007 – June 2009 **Global Financial Crisis**	2020 **COVID-19 Pandemic**
WHAT HAPPENED	Investors eagerly jumped onto the new technology bandwagon, often investing without much research. Many companies looking to capitalize on this quickly went public without a firm plan for profitability.	More Americans wanted to own their own homes, or upgrade to larger homes. To keep up with this demand, lenders loaned money to people who couldn't afford it. When the mortgages couldn't be paid, the banks that owned the loans began to collapse.	The COVID-19 pandemic spread with alarming speed at the start of 2020, infecting millions and bringing economic activity to a near-standstill as countries went on lockdown to curb the spread of the virus. The pandemic caused the largest economic shock the world had experienced in decades.
OUTCOME	Many of these companies failed to profit, sometimes folding just months after emerging on the stock exchange. During this time, the S&P 500® lost \$3.6 trillion.[1]	U.S. households lost \$19.2 trillion,[2] or almost \$20,000 for each American. Unemployment affected 15.7 million workers.[3] \$7.2 trillion vanished from the market in a little under two years.[1] The impact didn't stop there, as a global recession quickly ensued.	As a result of the pandemic, the U.S. economy fell from record highs to bear-market territory in just a matter of weeks. The S&P 500 lost 19.60% in the first quarter of 2020,[5] VIX increased over 288%[6] and unemployment reached a record high of 14.4% by April 2020.[7]
MARKET RECOVERY	It took almost 7 years for the S&P 500® to recover to the highs during the Dot-Com Bubble.[1]	It took about five years for the market to recover to pre-crash levels. In fact, U.S. household net worth still hasn't recovered. In 2007, household net worth for American families was \$139,700 and as of 2016, household net worth was still down over 30% with a value of \$97,300.[4]	While markets lost significant value in the first quarter of 2020, they recovered much of that loss by the end of the second quarter. The S&P 500 recovered to over 3,000 by the end of June 2020.[8] Yet, experts predict continued market volatility and deep recessions over the long term as a result of the pandemic.

How Black Swan Events can impact your retirement plans

Though these events don't happen every day, the impact can be much greater than you realize. A large market drop caused by a Black Swan Event can reduce the value of your portfolio and even prevent you from retiring when you planned. Index returns were down only 32% of the time, meaning that they were up much more often. However, when the market was down, you'd be more likely to experience a larger loss. Based on past results, a typical investment could have lost 10% or more of its value, more than half the time when the index was down.

MEASURING DOWN MARKET PERFORMANCE

Frequency of Negative S&P 500 Index Returns | 1928 – 2021



This information represents losses that the S&P 500 Index (Price Return) experienced from inception through December 2021. There were a total of 30 negative calendar years returns out of 93 total calendar year returns. The inception date for this index is January 3, 1928. Calculated by Protective Life using S&P 500 data provided by Morningstar.

Start the Conversation

While it might be difficult to completely avoid Black Swan Events due to their unpredictable nature, you can work with your financial professional to reduce the impact. Start by asking these questions:

- How can we limit the impact of Black Swan Events?
- What strategies can we use so I can keep my plans on track during market downturns?
- What should I do during a Black Swan Event?

Poor sequence of returns: The unforeseen threat

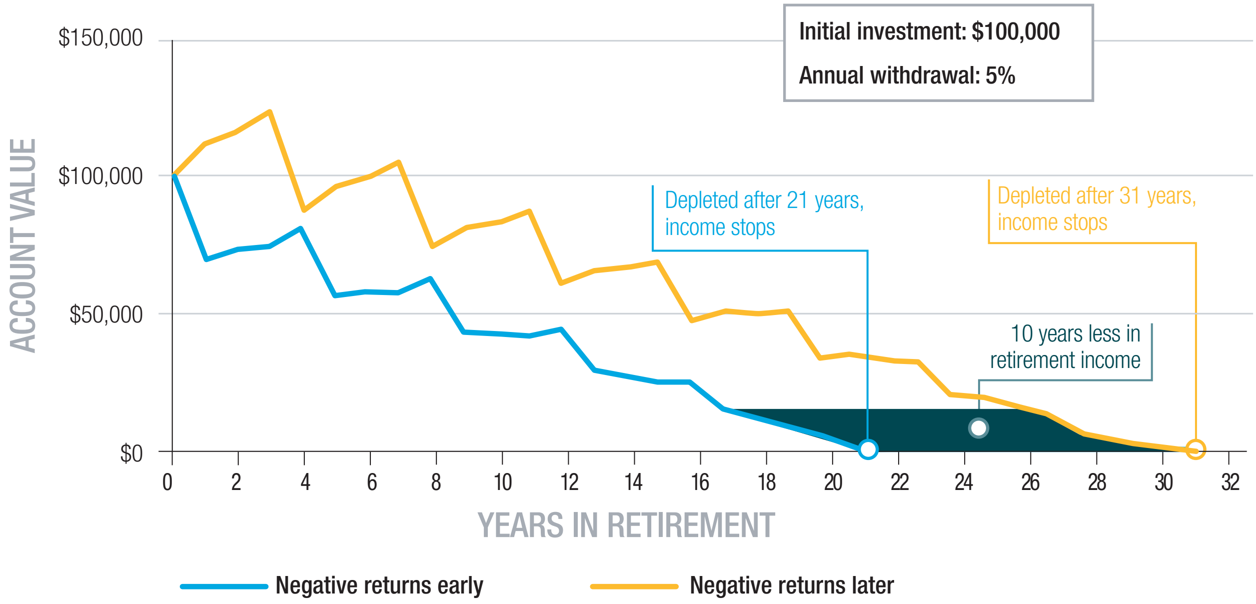
A negative return can be more damaging than you realize. The life-changing consequences of a market drop can be even more severe if it coincides with the time you begin converting your assets to steady retirement income.

Losses hurt more when retirement income begins

If you're like most retirees, you may plan to rely on regular portfolio withdrawals for retirement income. But investment losses early in retirement, often called a "poor sequence of returns," can substantially decrease the number of years your portfolio provides income. This could potentially leave you without income for ten years or more.

The example below shows how differently your starting balance can play out based on the sequence of returns you experience in retirement. Both portfolios have an average return of 6%, but experience individual returns in a different sequence.

SEQUENCES OF RETURNS RISK IN THE INCOME PHASE:
Losing earlier vs. Losing later



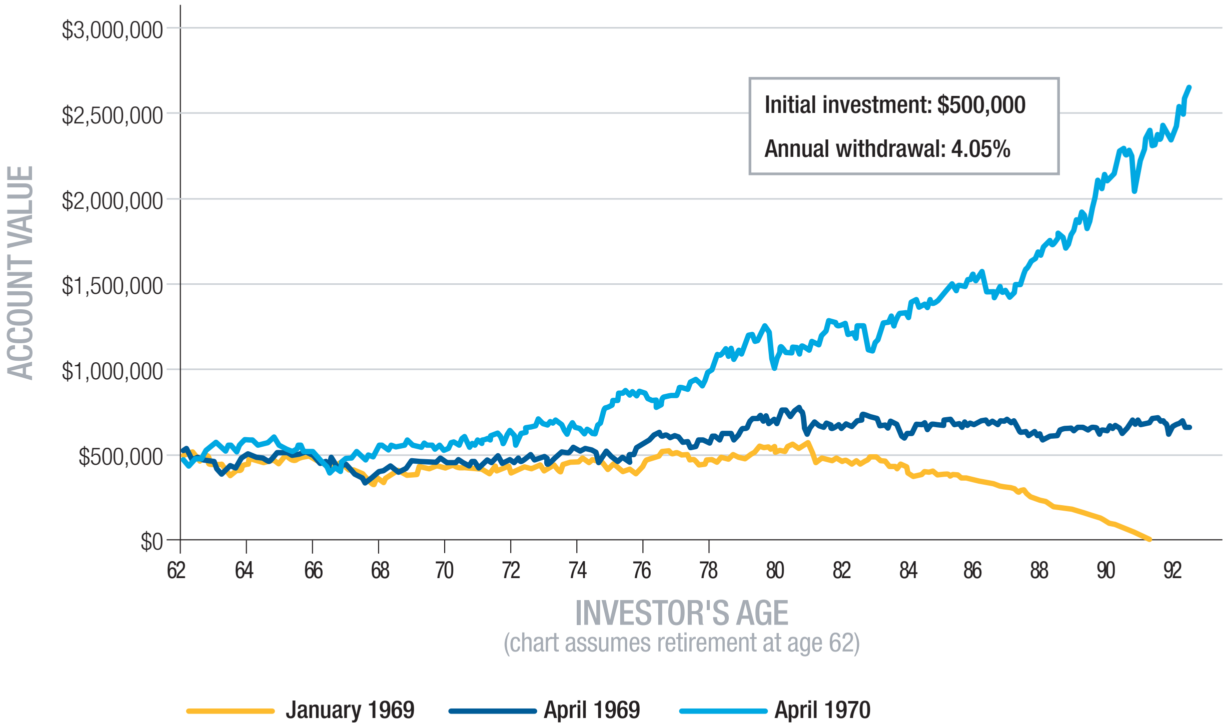
This chart is for illustrative purposes only. It assumes an initial account value of $100,000 for a hypothetical portfolio with a sequence of returns of 16%, 8%, 10% and -22% that repeats indefinitely and compared to the same returns in the reverse order. Both scenarios assume an annual withdrawal rate of 5% and an average return of 6%.

What market will you retire into?

Negative returns can be more damaging than you might realize, and the consequences of a market drop can be even more severe if it coincides with the time you begin retirement. In this historical example, the difference of just 18 months determined whether you ran out of money over the course of your retirement or doubled your investment.

HISTORICAL LOOK:

Value of portfolio for 30-year retirement 1969-1970



Source: 2015 LIMRA Retirement Book

Start the conversation

A poor sequence of returns can impact even conservative allocation strategies. Talk to your financial professional today to create a plan to manage this risk. Start by asking these questions:

- If I were to experience a poor sequence of returns with my invested assets early in retirement, what's the impact to my future income?
- What strategies can we use to ensure that I won't be left without income?
- Is there a way to add more guaranteed income to my retirement portfolio?

Rising health care costs: The inevitable risk hiding in plain sight

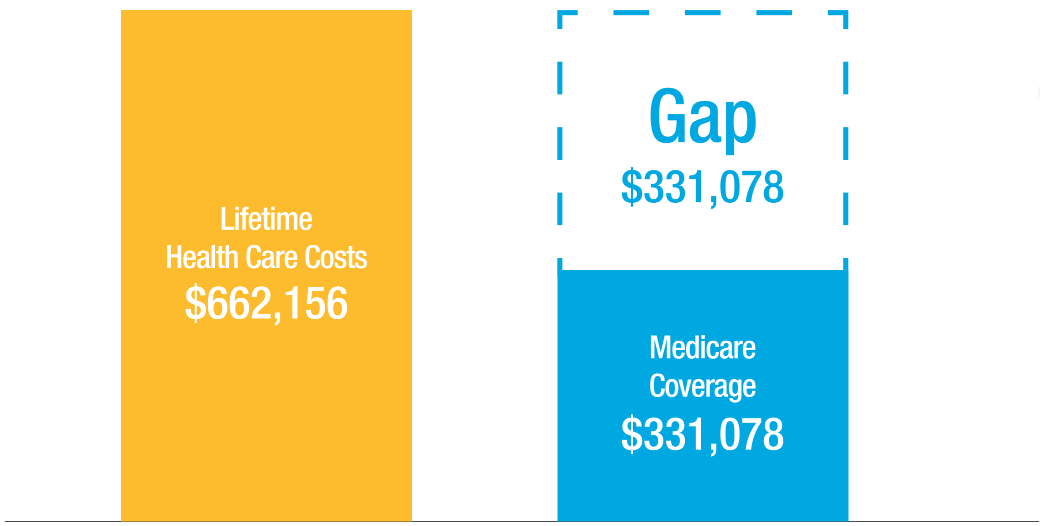
Your medical expenses are likely to increase as you age. Will you have enough to cover them?

Workers' confidence in their ability to afford basic expenses is higher than the confidence they report regarding their ability to pay for medical expenses in retirement.[9] Health care costs can be one of the biggest risks to your retirement income — especially if you don't have a plan to cover out-of-pocket costs you may not expect.

Out-of-pocket medical costs could be greater than you think

Because Medicare — a program offered through the Social Security Administration — only covers a portion of all health care expenses, the rest is up to you. Consider an average, healthy 65-year-old couple, who can expect to pay $662,156 on health care costs during the rest of their lifetime.[10] Even if Medicare covered half of those expenses, that would still leave a gap of more than $330,000.

POTENTIAL HEATH CARE GAP FOR AVERAGE 65-YEAR-OLD COUPLE



This example is hypothetical and is not indicative of any actual Medicare coverage amounts.

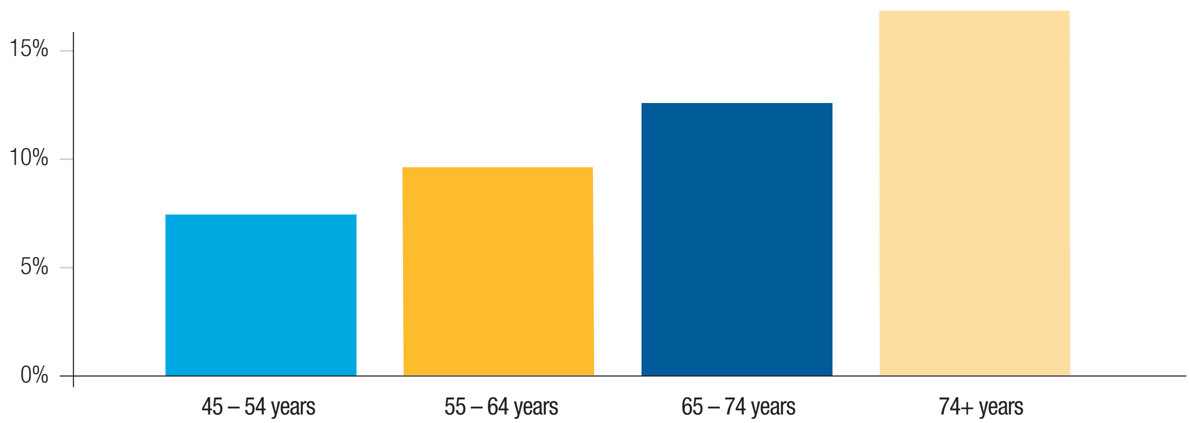
When life happens, be prepared for greater costs

At some point in life, you may face a challenge to your health, such as developing a chronic illness. In fact, the likelihood of developing a chronic illness is fairly high — 6 in 10 Americans have one or more chronic conditions.[11] Moreover, hospital care and prescription drug spending is expected to grow at an annual average rate of 5.6% over the next decade, both outpacing their average annual growth rates from 2012 to 2017.[12] This can put even more pressure on your health care budget in retirement.

Building an income plan that addresses rising health care costs

Health care costs are expected to rise 5.5% over the next decade,[12] and as you get older, these expenses may begin to encroach on other parts of your household budget, potentially derailing your retirement plans. While today's average 45-54 year-olds spend 6.80% of their income on medical expenses, you can expect to spend over 16% in the same category after age 75,[13] potentially leaving you with less money for other basic expenses.

AVERAGE 2015 HEALTH CARE EXPENDITURES AS PERCENTAGES OF TOTAL SPENDING



Start the conversation

While a false sense of confidence can hinder your ability to cover unexpected health care costs in retirement, you can work with your financial professional today to create a plan. Start by asking these questions:

- How flexible are my current retirement income plans if I had to spend more than expected on health care costs down the road?
- What can we do now to ensure that I maintain my lifestyle in retirement, despite health care costs?
- Are there ways to help me fill any gaps that may surface in my retirement?

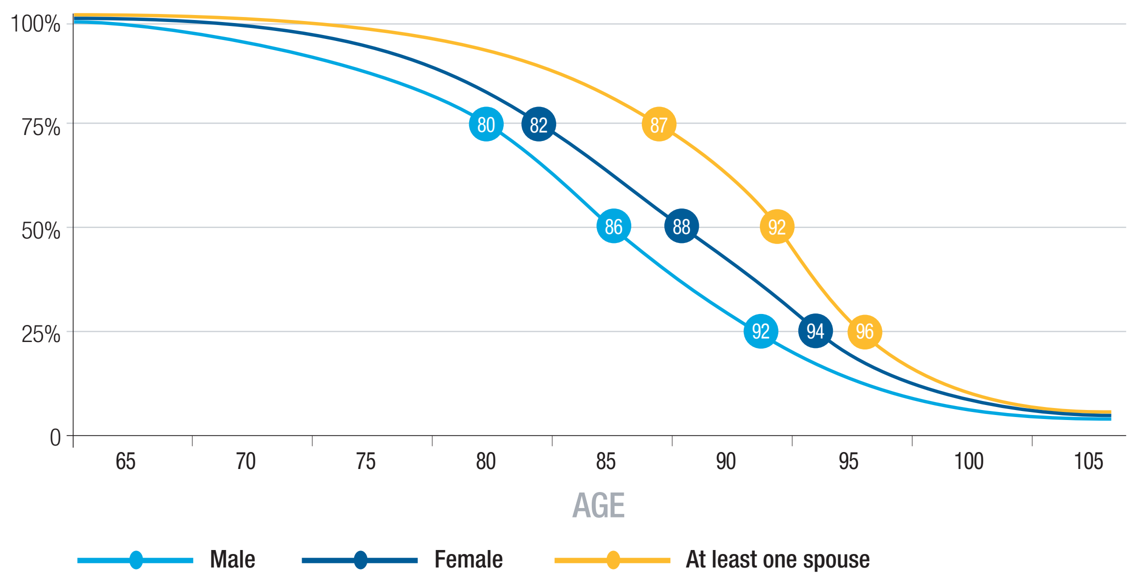
Longevity: The danger of an unexpected income gap

Retiring successfully today may feel like the ultimate guessing game, especially since you don't know how long you will live, nor how long your money will last.

Making sure your money lasts

You may need to plan for as long as 30 years of retirement. For couples today who are age 65, there's a 50% chance that at least one partner will live to age 92.[14]

PROBABILITY OF A 65-YEAR-OLD LIVING TO VARIOUS AGES



Source: Annuity 2012 Mortality Tables. ©2017 Morningstar. All Rights Reserved. MORNINGSTAR®

The impact of an unexpected income gap

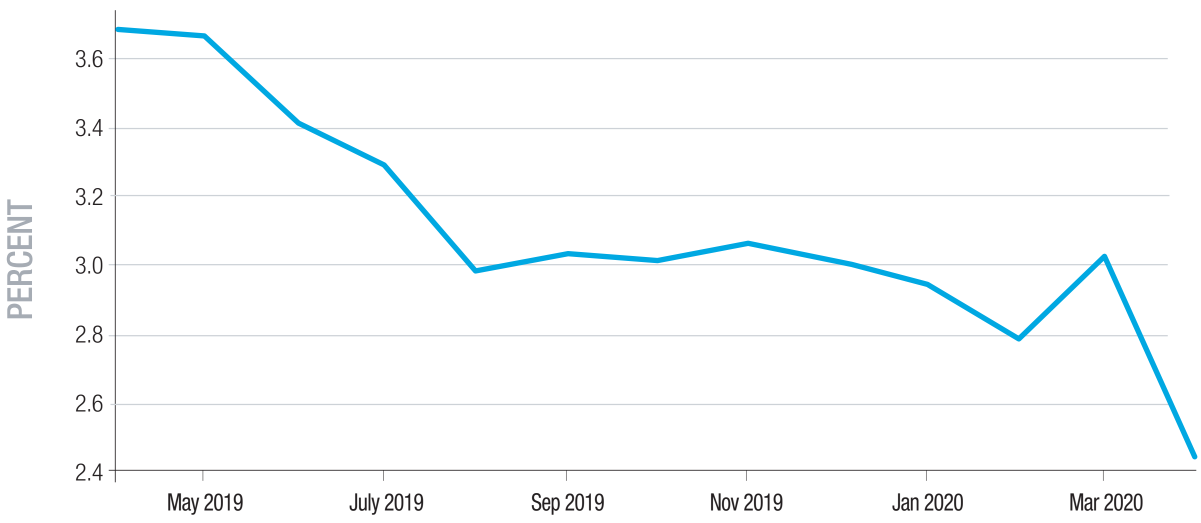
Consider what could happen if you live longer than expected. The average annual expenditures for Americans age 65 and over is $47,579,[15] but according to the latest reports, the average American retirement savings account for working age Americans age 32-61 is just $120,809.[16] So even five unexpected years in retirement could lead to a $237,895 income gap for you. Plus, this amount could grow even higher when you factor in inflation.

Average Annual Expenditures Ages 65 and Older		Number of Additional Years in Retirement		Retirement Income Gap
$47,579	X	5	=	$237,895!

Shifting investments may not be enough to cover an income gap

As you near retirement, a common strategy to combat market risk is to shift allocations to fixed income investments like bonds. But with interest rates at historic lows, bond investments may not provide enough return to sustain additional years in retirement or the income gap it can create.

MOODY'S SEASONED Aaa CORPORATE BOND YIELD



Source: Moody's

Start the conversation

The idea of outliving your retirement can be scary, but you can reduce longevity risk by creating a plan today. Start by asking these questions:

- Do I have enough saved to carry me through a lengthy retirement of possibly 20-30 years?
- What changes can I make today to ensure I don't outlive my money?
- Are there strategies we can incorporate in my current plans to help make sure I don't outlive my money?

Protect your retirement from uncertainty

The topics discussed in this guide are far from the only risks out there today. With all the uncertainty looming in today's economic environment, talk to your financial professional about retirement risks and how they affect your specific situation.

Together, you can consider strategies to help avoid the biggest hurdles that will present themselves, and protect the retirement you've always envisioned.

[1] Calculated by Protective Life using S&P 500 market capitalization information and data provided by Morningstar.

[2] The Financial Crisis Response in Charts. U.S. Treasury. 2012.

[3] The Employment Situation–October 2009. U.S. Bureau of Labor Statistics. 2009.

[4] 2016 SCF Chartbook. Federal Reserve. 2016.

[5] AFM Market Update First Quarter 2020, https://www.afmfa.com/market-update-first-quarter-2020.

[6] Yahoo! Finance, CBOE Volatility Index (^VIX). 2022. https://yhoo.it/3JZJE4Q.

[7] Pew Research Center June 2020 https://www.pewresearch.org/fact-tank/2020/06/11/unemployment-rose-higher-in-three-months-of-covid-19-than-it-did-in-two-years-of-the-great-recession/.

[8] Calculated by Protective Life using S&P 500 market capitalization information and data provided by Morningstar.

[9] 2021 Retirement Confidence Survey. Employee Benefits Research Institute. 2021.

[10] 2021 Retirement HealthCare Costs Data Report. 2021.

[11] CDC.gov https://www.cdc.gov/chronicdisease/about/index.htm

[12] Peter G. Foundation: Healthcare Costs for Americans Projected To Grow at an Alarmingly High Rate, 2019: www.pgpf.org/blog/2019/05/healthcare-costs-for-americans-projected-to-grow-at-an-alarmingly-high-rate

[13] Bureau of Labor Statistics: https://www.bls.gov/opub/btn/volume-9/how-have-healthcare-expenditures-changed-evidence-from-the-consumer-expenditure-surveys.htm

[14] Annuity 2012 Mortality Tables. ©2017 Morningstar. All Rights Reserved.

[15] 2020 Bureau of Labor Statistics, Consumer Expenditure Survey. December 2021.

[16] "The State of American Retirement," Economic Policy Institute, December 2019.

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