

# Retirement Income:

## Aging, Longevity, and Taxes

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In 1935...

Average life expectancy was **under age 60**

There were **160 workers** for every retiree

Created to keep seniors **out of poverty**

Today?

**78-80** years old

**Three to one**

**40%** of income

In January 1940, the first monthly retirement check was issued to Ida May Fuller of Ludlow, VT in the amount of **\$22.54**.  
Today, the average monthly benefit is **\$1,335!**

“ How can I maximize my social security? ”

**The short answer: It depends.**

**1**

**What you need to know**

**2**

**Strategies to consider**

**3**

**Who you should talk to**

**To help you confidently make a good decision.**

1

**What you need to know**

2

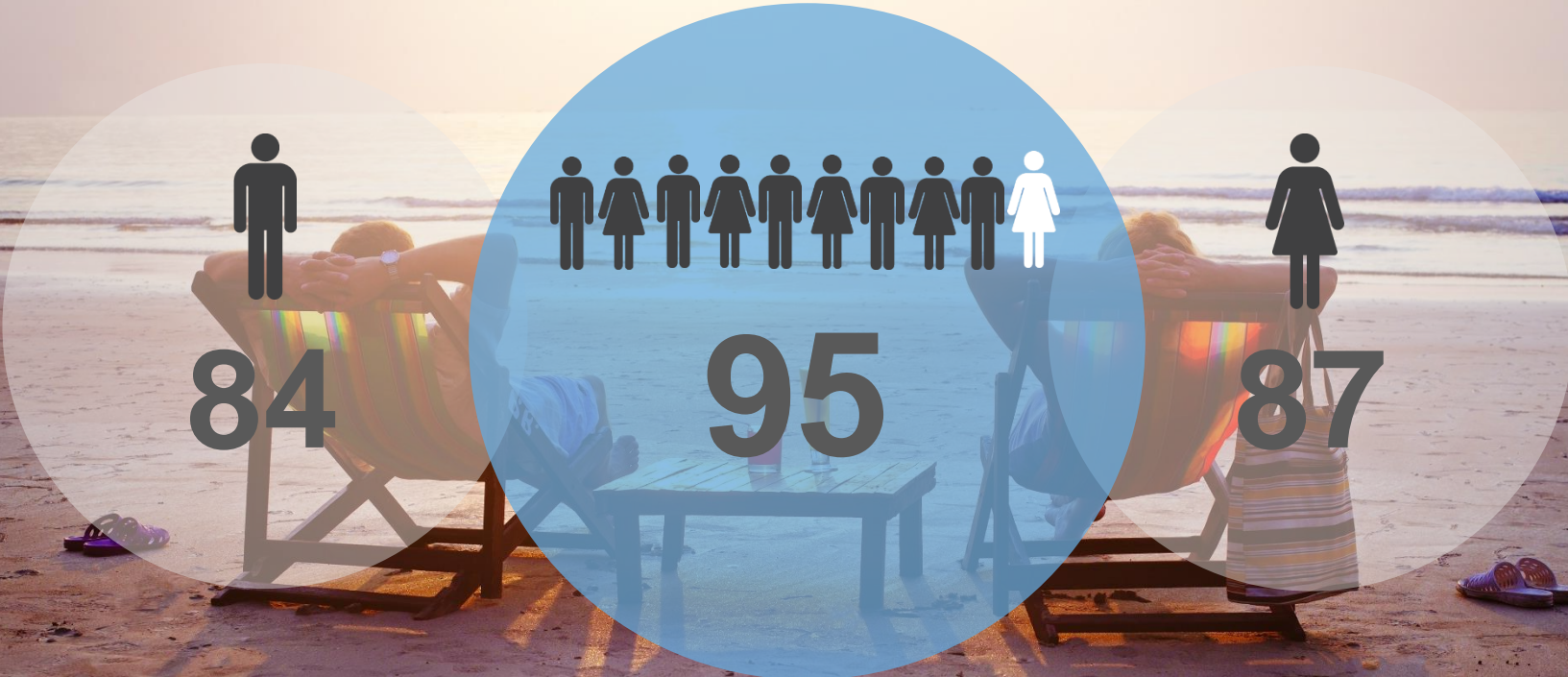
Questions you should ask

3

Who you should talk to

# How long will retirement last?

ESTIMATED LONGEVITY OF 65-YEAR OLDS TODAY



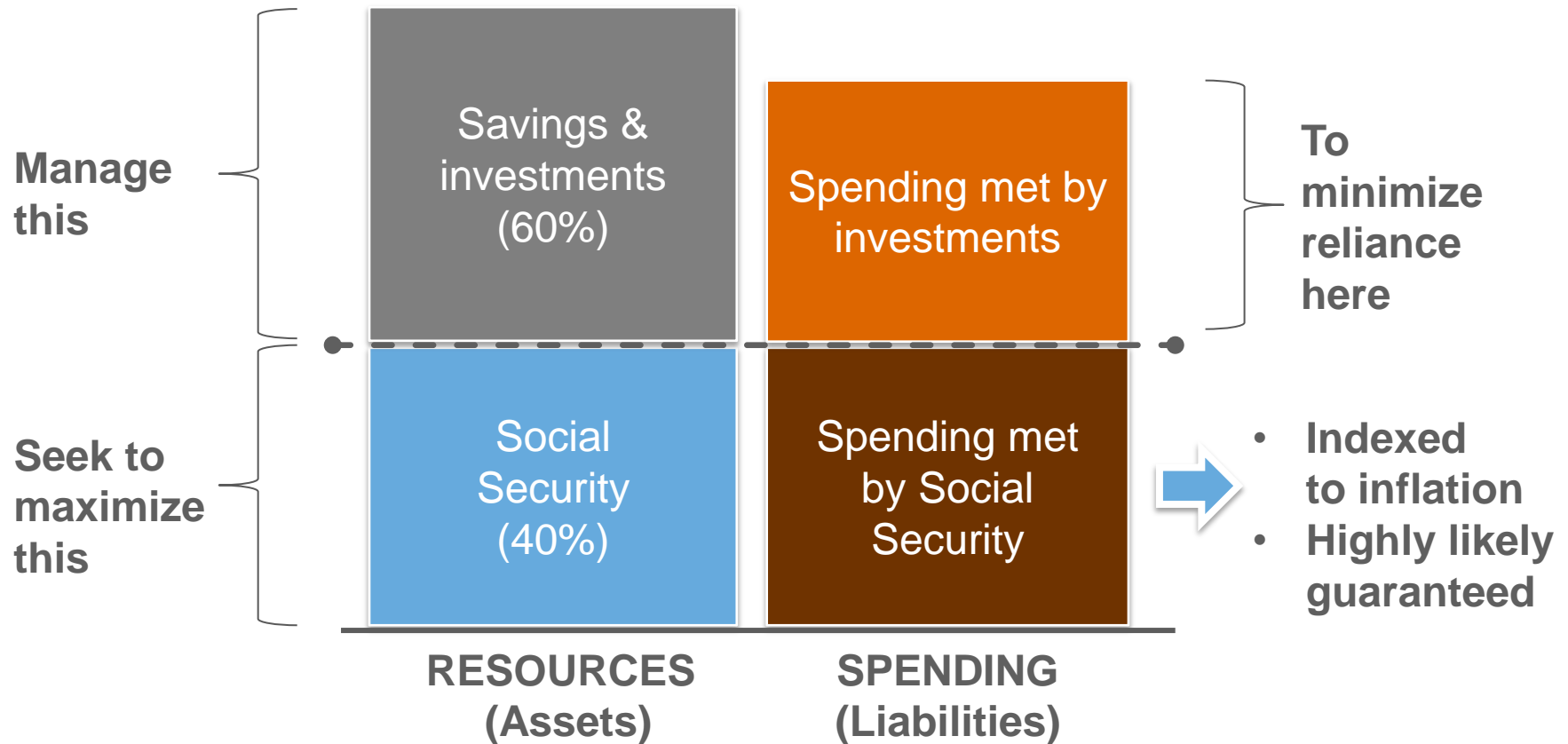
Source: <http://www.socialsecurity.gov/planners/lifeexpectancy.html>, January 2015

**What should you be most concerned about?**  
**Running out of money before  
running out of life.**





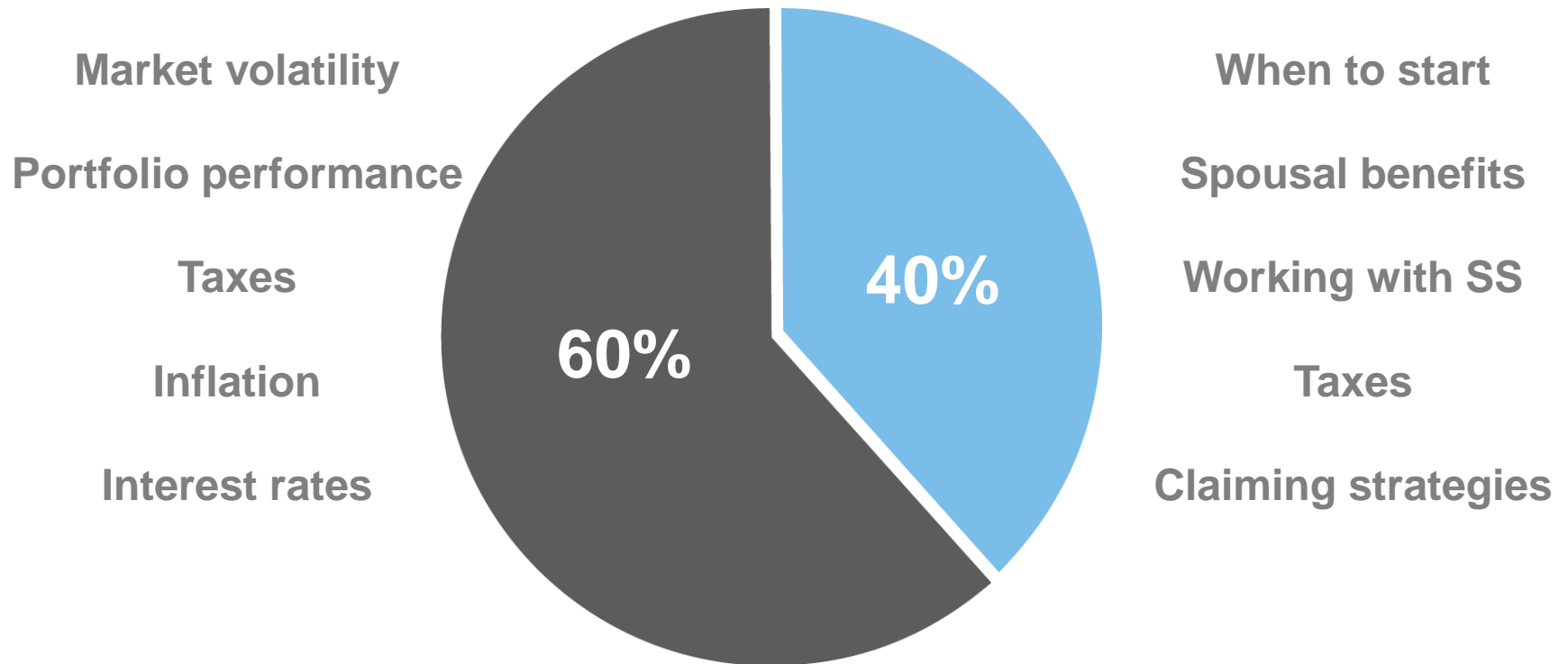
# Think of Social Security as your retirement income foundation



# Making retirement planning decisions

An ongoing conversation:  
**Investment portfolio**

A new conversation:  
**Social Security**



Source: Social Security Retirement Benefits, SSA Publication No. 05-10035, January 2015

# What is my benefit?



Go to SSA.gov and login



Get real data about your benefits

The screenshot shows the Social Security website homepage. At the top, there is a navigation bar with links for Accessibility, Contact Us, FAQs, Español, Other Languages, and Sign In. Below this is a search bar and a main menu with categories like Home, Numbers & Cards, Benefits, Information for..., Business & Government, and Our Agency. A large banner features a diverse group of people and a call to action: "Need a copy of your SSA-1099 or SSA-1042S? Create a my Social Security account online and get one today!". Below the banner are four service tiles: "my Social Security" (Log in, Create an Account), "Online Services", "Retirement Estimator", and "Disability Facts".

The screenshot shows a "Your Social Security Statement" document. At the top, it says "Prevent identity theft—protect your Social Security number" and "Your Social Security Statement" with the URL www.socialsecurity.gov. It is prepared for John P. Courier and dated March 17, 2015. A table of contents lists sections like "What's inside...", "Your Estimated Benefit", "Your Earnings Record", "Some Facts About Social Security", and "If You Need More Information". The main body of the document includes sections titled "What Social Security Means To You", "Social Security is for people of all ages...", "Work to build a secure future...", and "About Social Security's future...". It also features a signature of Carolyn W. Colvin, Acting Commissioner.



**Social  
Security  
benefit**

## So what do you need to focus on?

For you, your spouse and others

- ✓ Age
- ✓ Health
- ✓ Earning history
- ✓ Desire and ability to continue to earn income
- ✓ Tax rate

1

What you need to know

2

**Strategies to consider**

3

Who you should talk to

# What are my options?



## Married

Claim your benefit

Claim a spousal benefit



## Divorced

Claim your benefit

Choose your spousal benefit



## Widowed

Claim your benefit

Claim survivor benefit

Consider family benefits

# Congress has it's eye on Social Security!

~~FILE AND SUSPEND~~

RESTRICTED  
62  
APPLICATION

INCREASING THE  
RETIREMENT AGE

MEANS TESTING

INCREASING  
SOCIAL SECURITY  
TAXES

CHANGING THE  
COLA  
CALCULATION

# Everyone has options





# Remember the three big rules



Pay attention to the details



Wait as long as you can (for most people)



Claim everything you're entitled to

1

What you need to know

2

Questions you should ask

3

**Who you should talk to**

# Who should you talk to?

RESEARCH, TALK, PLAN



## Your advisor to make a plan

Your advisor can help you determine your retirement income needs and develop a portfolio to work toward your goals.

# Your retirement conversation

An ongoing conversation:  
**Your investment portfolio**

A new conversation:  
**Your Social Security**

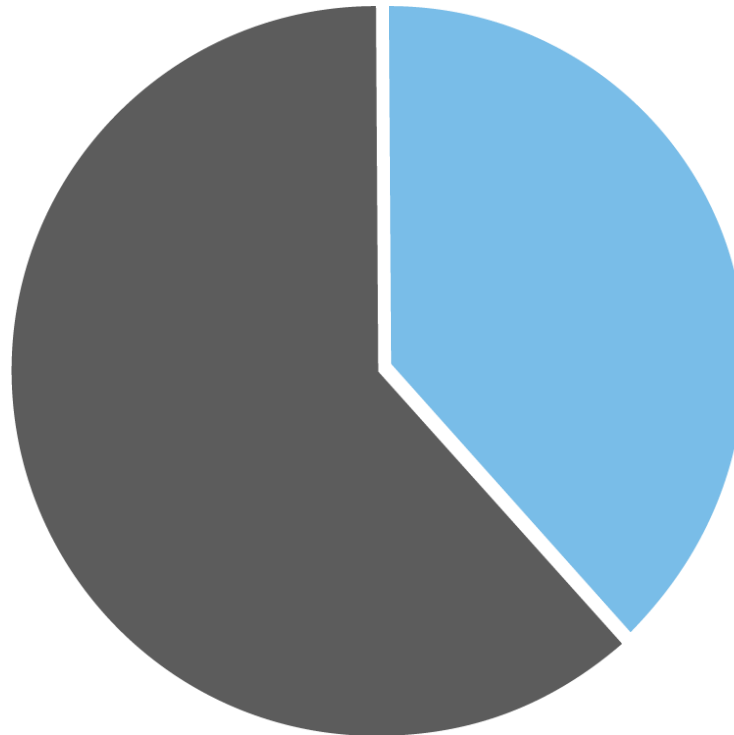
Taxes

Spending plan

Charitable giving

Inheritance

Longevity



Claiming strategies

Primary Insurance  
Amount

Delayed retirement  
credits

Spousal benefits

Cost of Living  
Adjustments

# Goal: Growing After-Tax Wealth

Tax-Managed Investing

## Important Information & disclosures

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Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Income from funds managed for tax-efficiency may be subject to an alternative minimum tax, and/or any applicable state and local taxes.

Indexes and/or benchmarks are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

The Morningstar Large Cap Equity Blend universe are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.

Historical data shown not an indicator of future results. Other universes/indexes will produce different results.

End investors should consult with their financial and tax advisors before investing.

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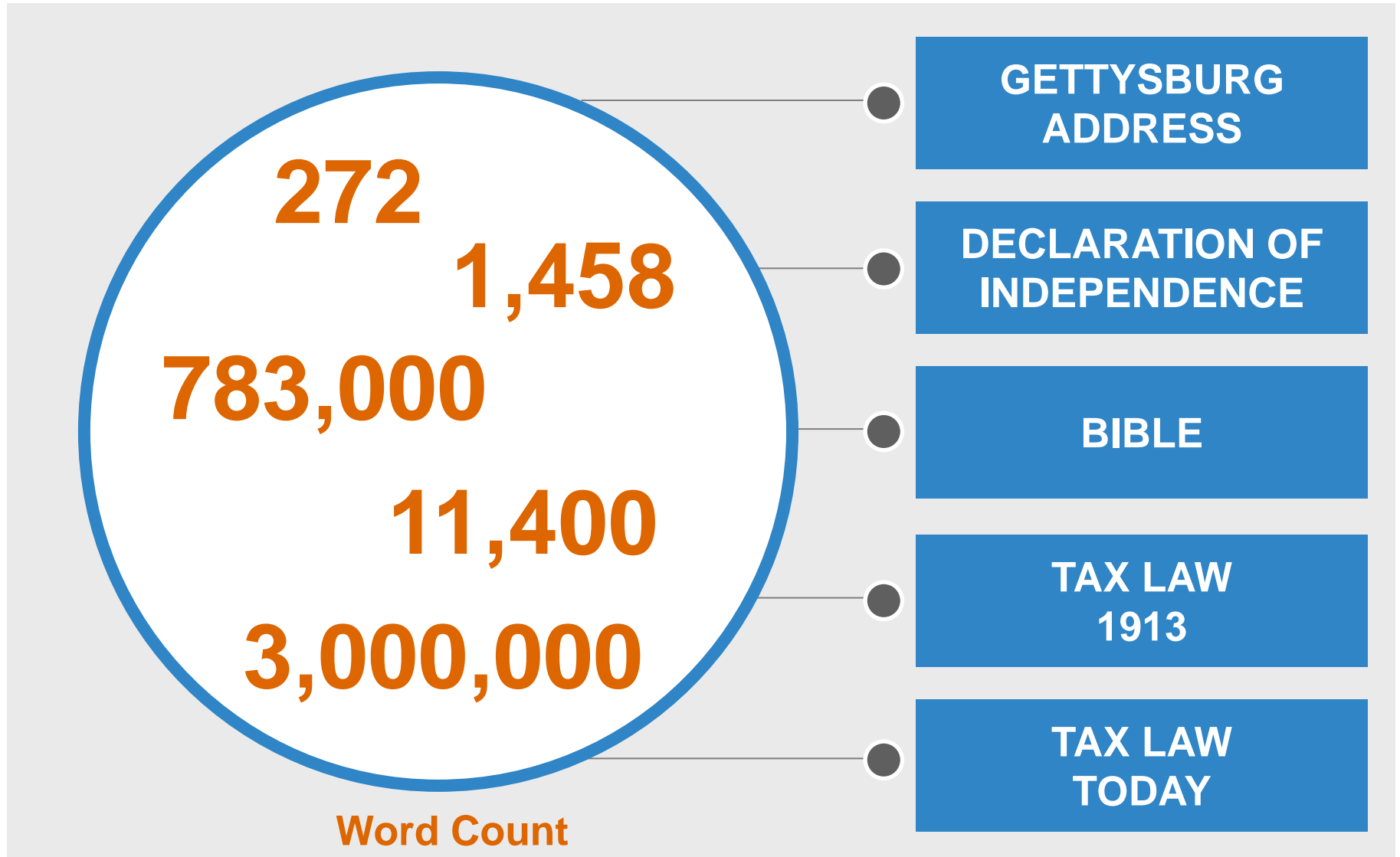
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**“I’m proud to be paying taxes  
in the United States. The only  
thing is, I could be just as  
proud for half the money.”**

—Arthur Godfrey

# Taxes are not easy!





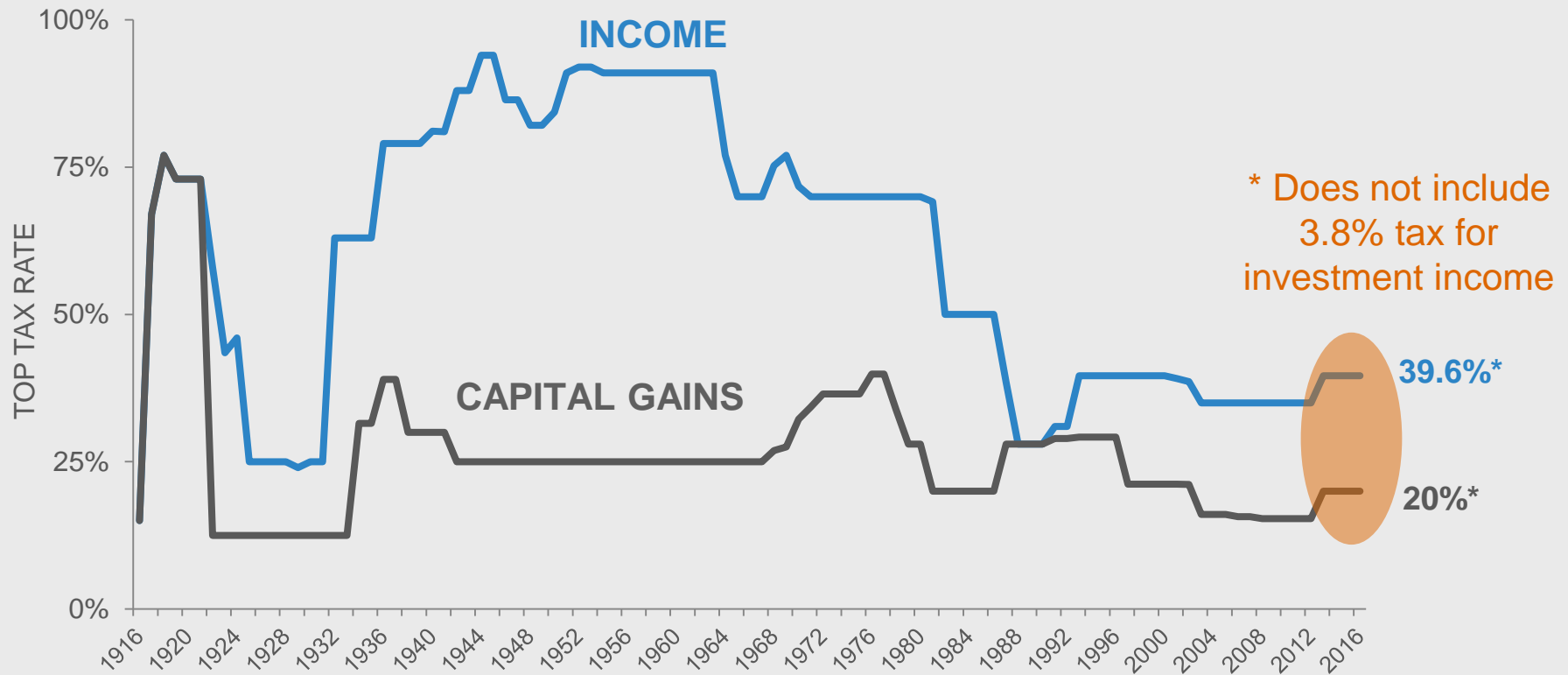
**1** Taxes can reduce investment returns

**2** The goal should be higher after-tax wealth – not tax avoidance

**3** There are steps you can take to help manage the impact of taxes

# Where are tax rates today?

1916-2016

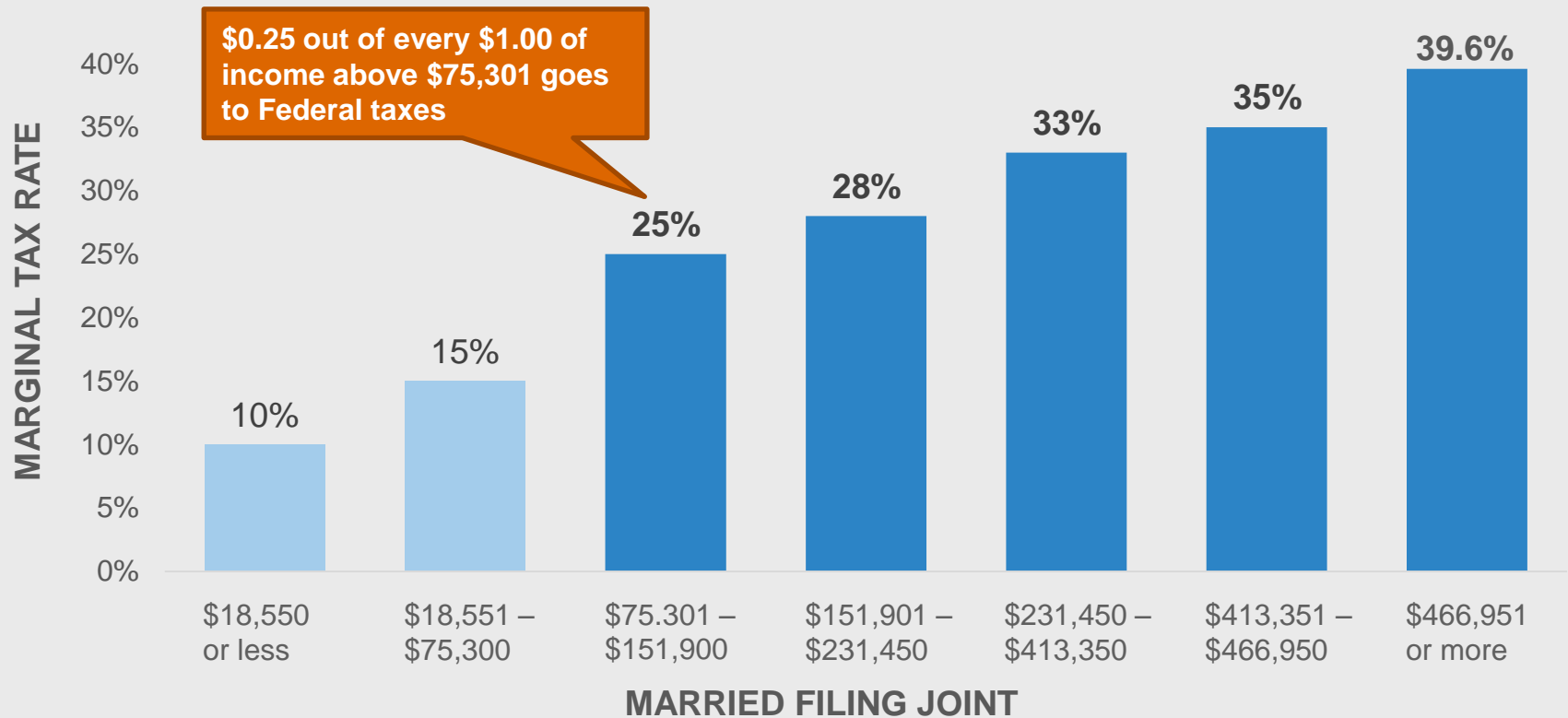


Yes, tax rates have increased. Make the tax conversation productive and focus on what you can control: **How you invest.**

Source: <http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=543>

# What are Federal income tax rates today?

2016 MARGINAL TAXABLE INCOME RATES (PAYABLE IN 2017)



You don't need to be in the top bracket to feel the pinch of taxes



Source: Internal Revenue Service

# Managing taxes so you keep more of your return

## “WORST”

- › Non-qualified dividend income
- › Short-term capital gains
- › Interest income

Top Tax Rate

43.4%

## “BETTER”

- › Qualified dividends
- › Long-term capital gains

Top Tax Rate

23.8%

## “BEST”

- › Municipal bond interest\*
- › Unrealized capital appreciation

Top Tax Rate

0.0%

**Not all return is equal: Understanding source  
may help in growing after-tax wealth**

\*Generally for municipal bonds, only interest from bonds issued within the state is exempt from that state's income taxes.

# Form 1040: Investment tax pain points

CONNECTING TAXES TO THEIR SOURCES

<b>Income</b>  <b>Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.</b>  If you did not get a W-2, see instructions.	7	Wages, salaries, tips, etc. Attach Form(s) W-2 . . . . .	7		
	8a	Taxable interest. Attach Schedule B if required . . . . .	8a		
	b	Tax-exempt interest. Do not include on line 8a . . . . .	8b		
	9a	Ordinary dividends. Attach Schedule B if required . . . . .	9a		
	b	Qualified dividends . . . . .	9b		
	10	Taxable refunds, credits, or offsets of state and local income taxes . . . . .	10		
	11	Alimony received . . . . .	11		
	12	Business income or (loss). Attach Schedule C or C-EZ . . . . .	12		
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> . . . . .	13		
	14	Other gains or (losses). Attach Form 4797 . . . . .	14		
	15a	IRA distributions . . . . .	15a		b Taxable amount . . . . .
	15b				15b
	16a	Pensions and annuities . . . . .	16a		b Taxable amount . . . . .
	16b				16b
	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E . . . . .	17		
	18	Farm income or (loss). Attach Schedule F . . . . .	18		
	19	Unemployment compensation . . . . .	19		
	20a	Social security benefits . . . . .	20a		b Taxable amount . . . . .
	20b				20b
	21	Other income. List type and amount . . . . .	21		
	22	Combine the amounts in the far right column for lines 7 through 21. This is your <b>total income</b> ▶ . . . . .	22		

## 8a: TAXABLE INTEREST

- > Interest income
- > Can be taxed at individual's highest marginal rate
- > *What is the after-tax yield?*

## 9a/b: DIVIDENDS (Qualified vs. non-qualified)

- > From mutual funds and/or individual stocks
- > *Know the difference (unqualified rate can be 82% higher)*

## 13: CAPITAL GAINS (Often supported by Schedule D)

- > Includes capital gain distributions from mutual funds
- > *Is the distribution high in relation to amount invested?*

## AFTER-TAX RETURN =

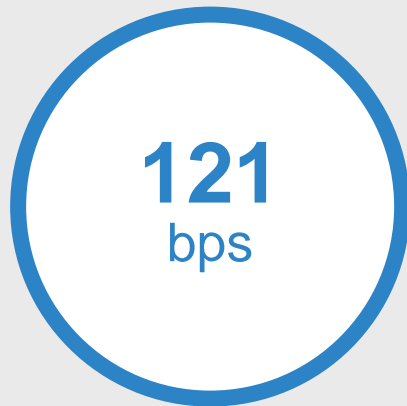
Investment pre-tax return – Tax impact  
(both Federal and State)

For illustrative purposes only.

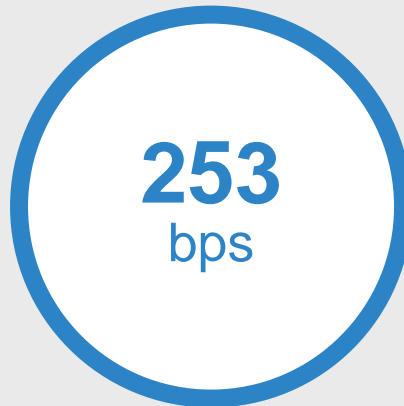
# How much return is lost to taxes (annual tax drag)?

## U.S. Equity

10 Years  
Ending June 2016:

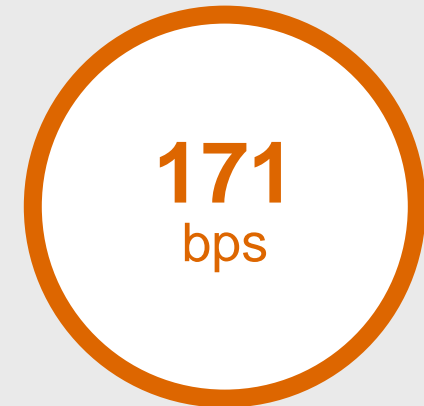


1996–2000<sup>2</sup>:



## U.S. Fixed Income

10 Years  
Ending June 2016:

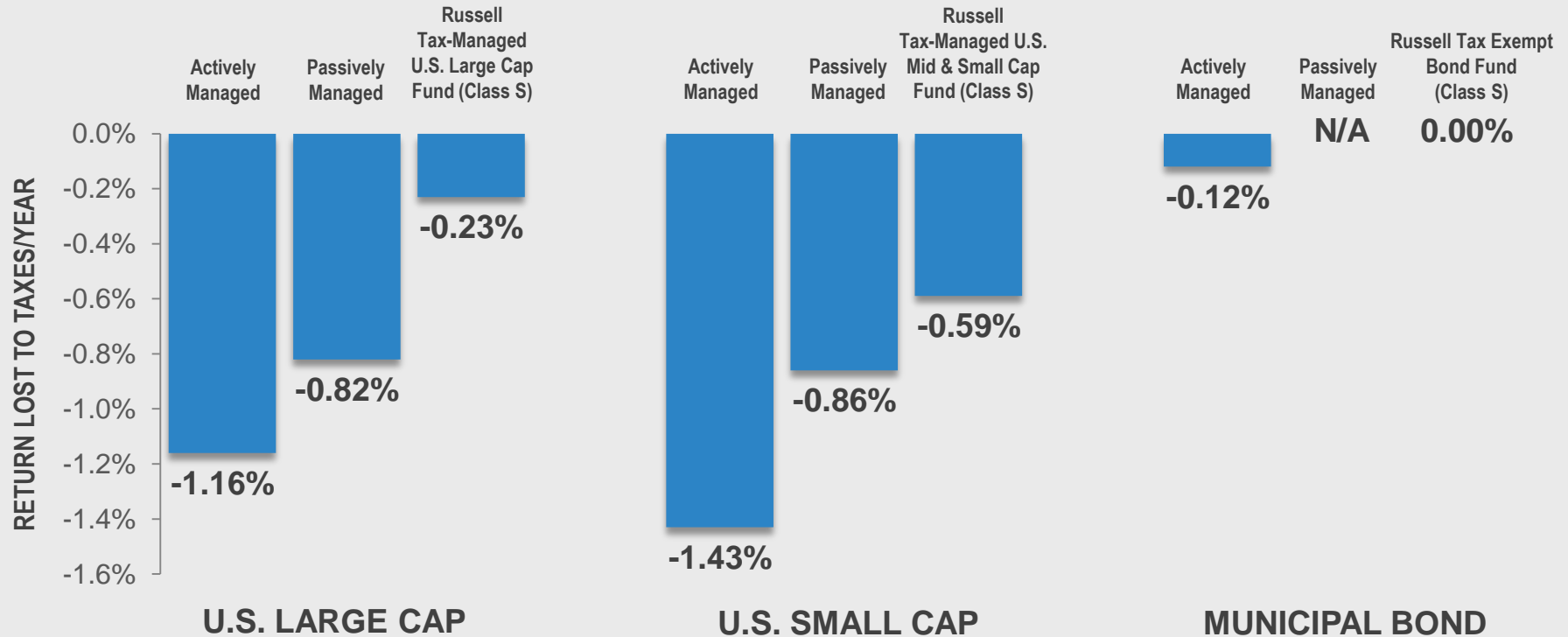


Taxable investors hold \$7.2 trillion of the \$15.7 trillion invested in open-end mutual funds<sup>4</sup>

<sup>1</sup> Morningstar U.S. Equity Mutual Funds, Universes, <sup>2</sup> Lipper Research Study, Taxes in the Mutual Fund Industry 2011, <sup>3</sup> Morningstar Taxable Bond Fund Universes, <sup>4</sup> 2016 Investment Company Factbook, p. 251. See appendix for further details.

# Dialing down tax drag

AVERAGE ANNUAL TAX DRAG FOR 10 YEARS  
ENDING JUNE 30, 2016



Performance quoted represents past performance and should not be viewed as a guarantee of future results. The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Current to the most recent month-end performance data may be obtained by visiting [www.russellinvestments.com/us/fundperformance](http://www.russellinvestments.com/us/fundperformance).

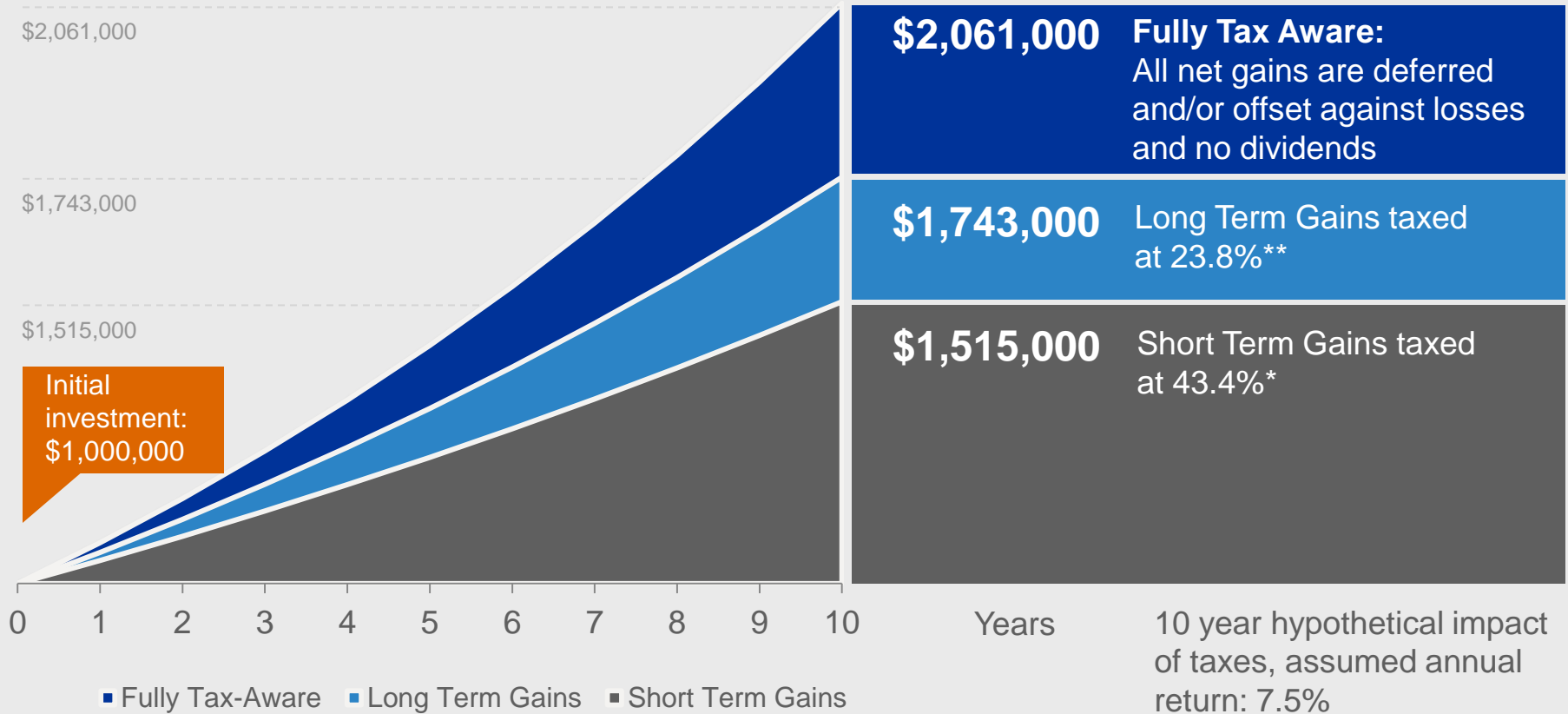
See slide 24 for standardized fund returns.

Universe averages: See appendix at end of presentation. Created table of all U.S. equity mutual funds, ETF's and municipal bonds as reported by Morningstar. Calculated arithmetic average for pre-tax, post-tax return for all shares classes as listed by Morningstar. Passive is defined as being an index fund as reported by Morningstar or part of an ETF Category.

Morningstar Categories included: U.S. ETF Large Blend, U.S. ETF Large Growth, U.S. ETF Large Value, U.S. ETF Mid-Cap Blend, U.S. ETF Mid-Cap Growth, U.S. ETF Mid-Cap Value, U.S. ETF Small Blend, U.S. ETF Small Growth, U.S. ETF Small Value, U.S. OE Large Blend, U.S. OE Large Growth, U.S. OE Large Value, U.S. OE Mid-Cap Blend, U.S. OE Mid-Cap Growth, U.S. OE Mid-Cap Value, U.S. OE Small Blend, U.S. OE Small Growth, U.S. OE Small Value, U.S. OE High Yield Muni, U.S. OE Muni California Intermediate, U.S. OE Muni California Long, U.S. OE Muni Massachusetts, U.S. OE Muni Minnesota, U.S. OE Muni National Intermediate, U.S. OE Muni National Long, U.S. OE Muni National Short, U.S. OE Muni New Jersey, U.S. OE Muni New York Intermediate, U.S. OE Muni New York Long, U.S. OE Muni Ohio, U.S. OE Muni Pennsylvania, U.S. OE Muni Single State Intermediate, U.S. OE Muni Single State Long, U.S. OE Muni Single State Short.

# Understanding the impact of taxes on client portfolios

## Hypothetical growth of \$1,000,000 over 10 years



\*43.8% Tax rate: Top marginal rate of 39.6% + 3.8% Net Investment Income Tax, \*\* LT Cap Gain rate of 20% + 3.8% Net Investment Income Tax. This example does not reflect the deduction of state income taxes. If it had, returns would have been lower.

This is a hypothetical illustration and not meant to represent an actual investment strategy.

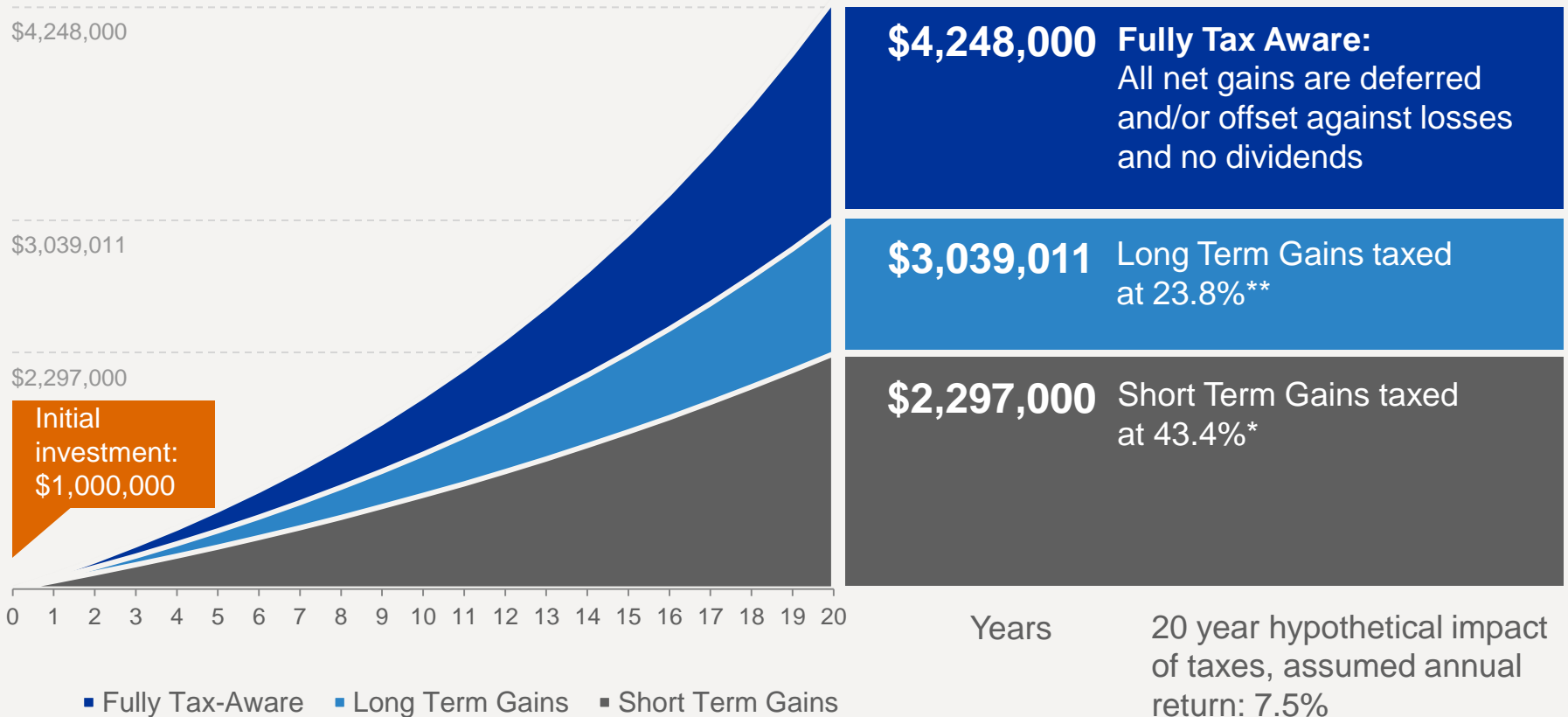
Taxes may be due at some point in the future and tax rates may be different when they are.



# Longer-term view: 20 years

## THE POWER OF COMPOUNDING

Hypothetical growth of \$1,000,000 over 20 years



\*43.8% Tax rate: Top marginal rate of 39.6% + 3.8% Net Investment Income Tax, \*\* LT Cap Gain rate of 20% + 3.8% Net Investment Income Tax. This example does not reflect the deduction of state income taxes. If it had, returns would have been lower.

This is a hypothetical illustration and not meant to represent an actual investment strategy.

Taxes may be due at some point in the future and tax rates may be different when they are.

# Examples of tax-management strategies for equities

MANAGER RESEARCH

TAX LOSS  
HARVESTING

MANAGE  
HOLDING PERIOD

MINIMIZE  
WASH SALES

MANAGE  
YIELD

TRANSITION MANAGEMENT

# Municipal bonds can be beneficial for tax-sensitive investors

- › Municipal bond interest is exempt from Federal taxes but may be subject to state taxes.\*
- › Returns from capital appreciation are taxable.
- › Tax-equivalent yield matters.

Tax-Exempt vs. Taxable Yield						
Federal Tax Rate						
Federal Rate	15.00%	25.00%	28.00%	33.00%	35.00%	39.60%
NIIT Tax	0.00%	0.00%	0.00%	3.80%	3.80%	3.80%
Total	15.00%	25.00%	28.00%	36.80%	38.80%	43.40%
Tax-Exempt Yield	Equivalent Taxable Yield					
1.00%	1.18%	1.33%	1.39%	1.58%	1.63%	1.77%
1.50	1.76	2.00	2.08	2.37	2.45	2.65
2.00	2.35	2.67	2.78	3.16	3.27	3.53
2.50	2.94	3.33	3.47	3.96	4.08	4.42
3.00	3.53	4.00	4.17	4.75	4.90	5.30
3.50	4.12	4.67	4.86	5.54	5.72	6.18
4.00	4.71	5.33	5.56	6.33	6.54	7.07
4.50	5.29	6.00	6.25	7.12	7.35	7.95
5.00	5.88	6.67	6.94	7.91	8.17	8.83
5.50	6.47	7.33	7.64	8.70	8.99	9.72
6.00	7.06	8.00	8.33	9.49	9.80	10.60
6.50	7.65	8.67	9.03	10.28	10.62	11.48
7.00	8.24	9.33	9.72	11.08	11.44	12.37

**An investor paying the highest marginal Federal tax rate (39.60% + 3.80% NIIT = 43.40%) that holds a municipal bond yielding 2.50% is receiving the taxable equivalent yield of 4.42%.**

\*Generally for municipal bonds, only interest from bonds issued within the state is exempt from that state's income taxes.

# Opportunity: Tax-managed investing for trusts

PROGRESSIVE TRUST TAX RATES REQUIRES TAX-SMART INVESTING

- › Trusts cross top marginal rate at \$12,301 vs. \$464,851 for couples (MFJ\*)
- › Trusts pay 3.8% Net Investment Income Tax\*\* at \$12,301 vs. \$250,00 for couples (MFJ)

## What account size could pay top rate?

Assumed mutual fund account balance	\$125,000
Fund declares 10% capital gain distribution	10%
Taxable gain	\$12,500

**Trust with only \$125,000 could qualify for top marginal rate of:**

- › 43.4% if ST Capital Gain
- › 23.8% if LT Capital Gain

*(includes Net Investment Income Tax of 3.8%)*

\*Married Filing Jointly \*\*Net Investment Income Tax based upon Modified Adjusted Gross Income. All tax rates and tax stats from the Internal Revenue Service.

# Tax-management strategies to evaluate

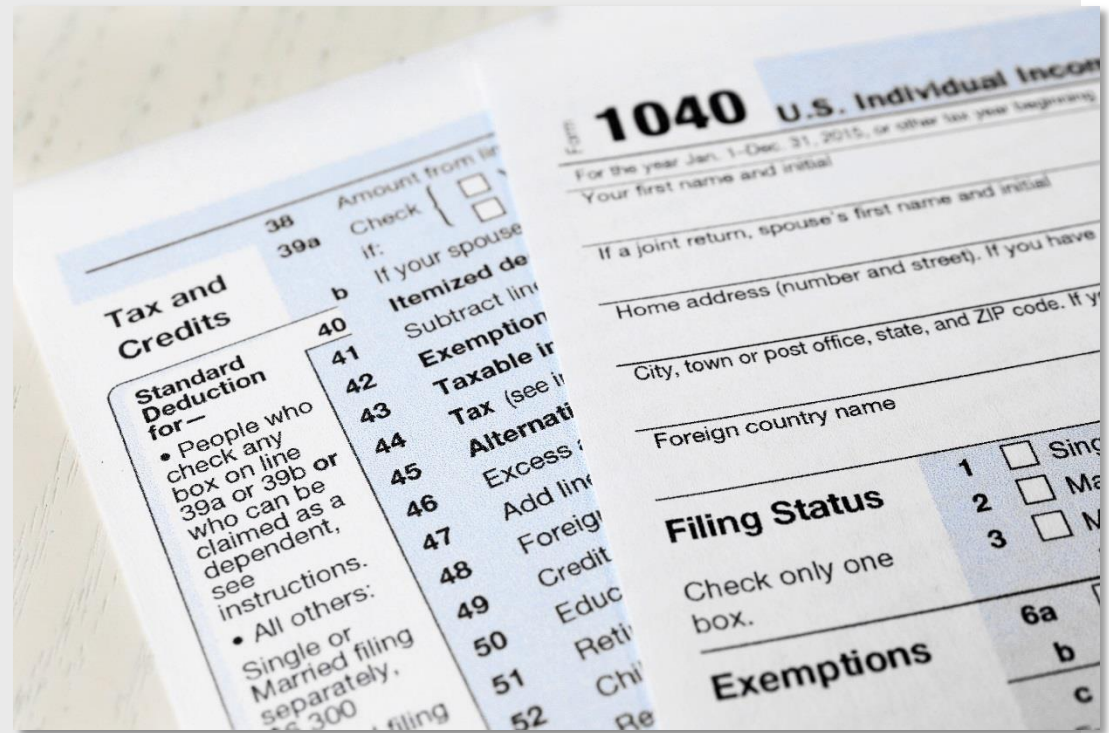
- › Asset location matters (IRA, 401k, taxable, etc.)
- › Pay attention to the holding period
- › Understand turnover
- › Select tax lots / Avoid wash sales
- › Manage portfolio yield
- › Harvest losses throughout year (not just year-end)
- › Centralize the portfolio management of multiple managers
- › Diversify different sources/types of municipal bond interest

**Strategies should strive to defer gain recognition**

\*Generally for municipal bonds, only interest from bonds issued within the state is exempt from that state's income taxes.

# Helping to achieve long-term financial goals

- › It's not about tax avoidance, but higher after-tax wealth
- › Taxes can definitely have an impact on achieving long-term financial goals
- › There are steps you can take to help manage the impact of taxes



**It's not about what you earn, but what you keep!**

\*Generally for municipal bonds, only interest from bonds issued within the state is exempt from that state's income taxes.

# Additional disclosures

## Morningstar Category Definitions:

**Large-blend portfolios** are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries, and owing to their broad exposure, the portfolios' returns are often similar to those of the S&P 500 Index.

**Large-growth portfolios** invest primarily in big U.S. companies that are less expensive or growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

**Large-value portfolios** invest primarily in big U.S. companies that are projected to grow faster than other large-cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields). Most of these portfolios focus on companies in rapidly expanding industries.

**Mid-Cap blend portfolios** invest in U.S. stocks of various sizes and styles, giving it a middle-of-the-road profile. Most shy away from high-priced growth stocks but aren't so price-conscious that they land in value territory. The U.S. mid-cap range for market capitalization typically falls between \$1 billion and \$8 billion and represents 20% of the total capitalization of the U.S. equity market. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

**Mid-Cap growth portfolios** invest in stocks of all sizes, thus leading to a mid-cap profile, but others focus on midsize companies. Mid-cap growth portfolios target U.S. firms that are projected to grow faster than other mid-cap stocks, therefore commanding relatively higher prices. The U.S. mid-cap range for market capitalization typically falls between \$1 billion and \$8 billion and represents 20% of the total capitalization of the U.S. equity market. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

**Mid-Cap value portfolios** focus on medium-size companies while others land here because they own a mix of small-, mid-, and large-cap stocks. All look for U.S. stocks that are less expensive or growing more slowly than the market. The U.S. mid-cap range for market capitalization typically falls between \$1 billion and \$8 billion and represents 20% of the total capitalization of the U.S. equity market. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

**Small blend portfolios** favor U.S. firms at the smaller end of the market-capitalization range. Some aim to own an array of value and growth stocks while others employ a discipline that leads to holdings with valuations and growth rates close to the small-cap averages. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.

**Small growth portfolios** focus on faster-growing companies whose shares are at the lower end of the market-capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).

**Small value portfolios** invest in small U.S. companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small cap. Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).

## Appendix and disclosures (cont'd)

### Methodology for Universe Construction:

- › From Morningstar, extract U.S. equity mutual fund and ETF's for reported period.
- › Averages calculated on a given category. For example, average after-tax return for the large cap category reflects a simple arithmetic average of the returns for all funds that were assigned to the large cap category as of the end date run. For funds with multiple share classes, each share class is counted as a separate "fund" for the purpose of creating category averages. Morningstar category averages include every type of share class available in Morningstar's database.
- › Large Cap/Small Cap determination based upon Morningstar Category.
- › If fund is indicated by Morningstar as passive or an ETF, the fund is considered to be passively managed. Otherwise, the fund is considered to be actively managed.
- › Tax Drag: Pre-tax return Less After-Tax Return (pre-liquidation)

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