MassMutual

Secure your future

With retirement income you can't outlive

What does retirement mean to you?

There are many different ways to think about retirement — and your dreams and goals may not appear on anyone's list but your own. Some people see retirement as a time to kick back, relax and slow down. Others look forward to reinventing themselves.

No matter how you envision your retirement, having the freedom to live life your way will depend, at least in part, on having a secure source of income you can't outlive.

TABLE OF CONTENTS

1 Where will you be at age 70?

2 Step 1: Build a framework

3 Step 2: Consider the future

4 Step 3: Assess the risks

8 Step 4: Get the details

9 Step 5: Evaluate your goals

10 Step 6: Ask questions

12 Step 7: Take action

Where will you be at age 70?

Or 80, or 90 — or beyond? The question is relevant for anyone thinking about life after age 50. Although science can't prove that "70 is the new 50," the evidence is clear when it comes to life expectancy. Ongoing advances in medical care have resulted in an unprecedented increase in life expectancy over the last few decades. The average American today is living a longer and healthier life than his or her counterpart of a generation ago.

This means that the average person leaving the world of full-time work at age 65 can reasonably expect to spend 20 to 30 years or more in what has traditionally been called "retirement."

The word "retirement" is really a convention that has always implied stepping away from the mainstream of life. For many people, nothing could be further from the truth. Retirement for these people means having the freedom to explore life or reinvent themselves in ways that might have been impossible when they were younger.

No matter how you imagine retirement, it's very likely that your savings will have to go further and last longer.

The holy grail of a confident retirement – income you can't outlive

Running out of money is the number one fear of many people approaching retirement.[1] Although no one can predict the future with 100% accuracy, there are steps you can take today to prepare for a more secure and comfortable future, no matter how long your retirement lasts.

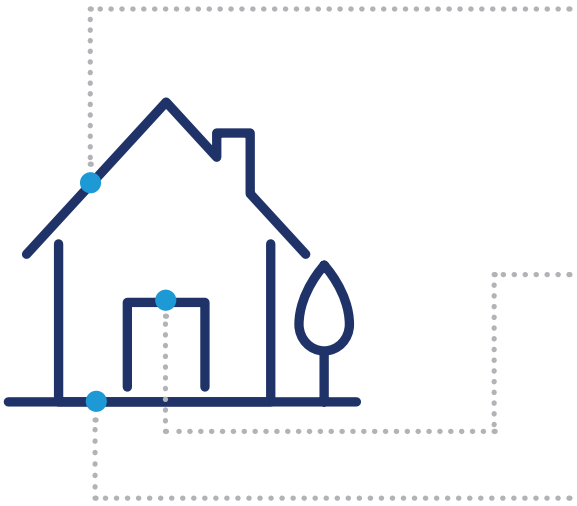
A good place to start is with a sound retirement income plan.

[1] *The Retirement Income Reference Book. 2015.* LIMRA Secure Retirement Institute.

Step 1: Build a solid framework

A sturdy framework is one that is strong enough to support your plan while leaving room for adjustments as your needs change. A retirement income strategy that addresses the need for growth potential, access and predictable income can strengthen your plan and help you feel more confident about your future.

The three building blocks for a sound retirement



Growth potential: Assets set aside for the pursuit of growth offer the best possibility of keeping pace with inflation, although the potential for growth also entails market risk. Examples include stocks, bonds, mutual funds and variable annuities.

Access: These liquid assets are readily available for emergencies or for discretionary spending. Examples of liquid assets include money market accounts and simple savings accounts.

Predictable income: This is the foundation, or "floor," of your retirement income plan. It's income that isn't exposed to market ups and downs and is guaranteed to be there when you need it. There are three key sources for this kind of income: Social Security, a defined benefit pension plan (if you are lucky enough to have one) and the lifetime income options provided by many annuities.

Step 2: Estimate future income and expenses

The 4-Box Strategy® of income planning is a simple way to identify projected income and expenses in retirement. The diagram below shows some typical necessary and discretionary expenses, and the income sources that should be used to pay for them.

With this strategy, predictable income is used to cover your necessary expenses, while income from other assets is used for discretionary expenses.

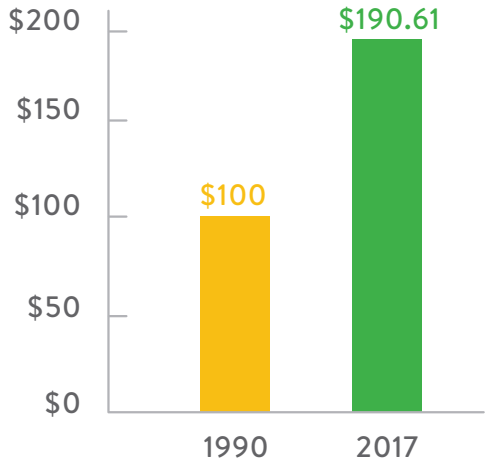
Lifestyle		Income Sources	
Necessary Expenses These are the costs of things you need or would rather not live without.	• Housing • Food • Health Care • Other	**Predictable Income** This kind of income is not exposed to market risk.	• Social Security • Pensions • Annuities
Discretionary Expenses These costs are associated with things that may not be essential, but that are really nice to have.	• Travel • Hobbies • Other	**Income from Assets** This kind of income is not predictable or guaranteed and may not be sustainable.	• Stocks • Bonds • Cash • Mutual Funds • Other

Your financial professional can help you identify your projected income and expenses to create a personalized analysis based on your situation.

Step 3: Assess the risks

Most successful plans include an assessment of potential risks — and that's true for retirement income planning, too. As you work with your financial professional, consider the following potential risks that can have an impact on your retirement income security.

Risk #1: Inflation



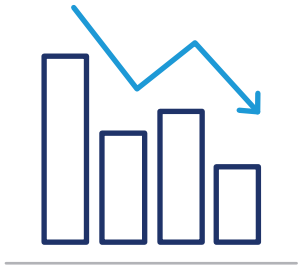
90.6%

The cumulative inflation rate for the 27-year period from January 1990 to January 2017.[2]

You may think that a 7% inflation rate in the 1970s was terrible, and that 2% or 3% annually since 1990 isn't so bad. Well, the total cumulative inflation rate for the 27-year period from January 1990 through January 2017 was 90.6%. Something that cost $100 in January 1990, cost $190.61 in January 2017. In other words, that price almost doubled and purchasing power was cut nearly in half.

At a minimum, your retirement income needs to keep pace with inflation just to maintain your lifestyle.

Risk #2: Market factors



56.4%

Percentage loss of the S&P 500 during years 2007–2009 of the Great Recession.

Market volatility and the sequence of investment returns can have a negative impact on retirement income.

Having enough predictable income may lessen the pressure to use other portfolio assets to generate income. That can mean having more opportunities to grow your assets, pay for discretionary expenses or create a legacy.

[2] https://inflationdata.com/Inflation/Inflation_Calculators/Cumulative_Inflation_Calculator.aspx, retrieved August 1, 2017.

Risk #3: Excessive withdrawals

97% vs. 26%

The likelihood of sustaining a portfolio comprising 75% bonds and 25% stocks over a 25-year retirement, assuming a 4% withdrawal rate vs. a 6% withdrawal rate, respectively.[3]

What is a "safe" withdrawal rate? The higher the withdrawal rate, the lower the likelihood of sustaining retirement assets over time.

Risk #4: Health care costs

$265,000

The estimated savings a 65-year-old couple would need for a 90% chance of covering out-of-pocket health care expenses throughout their retirement.[4]

The trade-off for increased life expectancy may be having to spend more money on health care.

The cost of health care may be a concern for many of us — especially as we get older. It's important to think about the potential out-of-pocket costs as you consider your predictable income needs.

[3] Probability of Meeting Income Needs over a 25-Year Retirement, © 2017 Morningstar.

[4] Assumes median prescription drug expenses throughout retirement. Employee Benefit Research Institute. "Savings Medicare Beneficiaries Need for Health Expenses: Some Couples Could Need as Much as $350,000," *EBRI Notes*, Vol. 38, No. 1, Jan. 31, 2017.

Risk #5: Housing expenses

32.9%

The percentage of a retired household budget spent on housing-related expenses.[5]

Massachusetts Institute of Technology (MIT) AgeLab research has found that the costs associated with housing are often overlooked in retirement income planning. Many people assume that if they have paid off their mortgage before retiring, future costs will be manageable — perhaps even negligible. Anyone who has maintained a home for any length of time knows that this is not necessarily true.

Routine maintenance, property taxes and repairs add up. And, if you intend to remain in a home you love, you may need to pay for adaptations to accommodate changing needs.

Risk #6: Tax liabilities

70½

Required minimum distribution (RMD) rules generally require that owners of non-Roth qualified assets must begin receiving income distributions at age 70½.

This can be a problem if the additional income (and the associated tax liability) is not needed at that time. RMD rules can also make planning for income needs later in retirement more difficult.

Tax efficiency is important for everyone — perhaps even more so for higher income households. It can mean the difference between reaching your goals and falling short of them.

[5] Bureau of Labor Statistics, U.S. Department of Labor, *Beyond the Numbers*, "A closer look at spending patterns of older Americans," March 2016, Vol. 5, No. 4, https://www.bls.gov/opub/btn/volume-5/spending-patterns-of-older-americans.htm.

Risk #7: Longevity

72%

The likelihood that one or both spouses who are currently age 65 will live until age 90.[6]

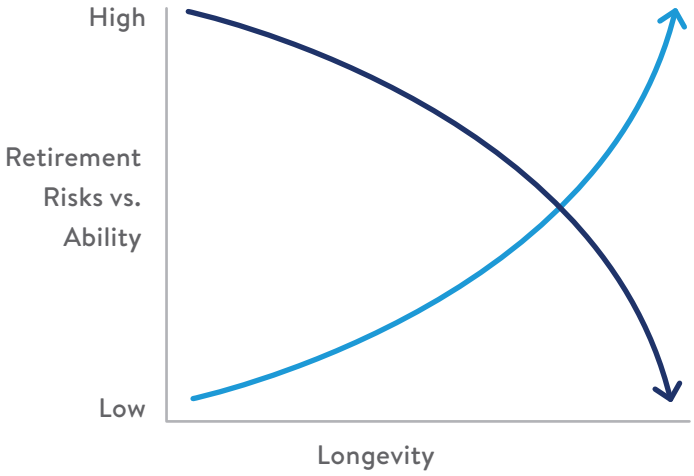
A longer life can mean having more time to do what matters most to you. But living longer can also make it more difficult to sustain an income stream over time.

Longevity can exacerbate potential risks. That's why having sufficient guaranteed income is so important. It's income that's reliable, no matter what happens in the financial markets, and is available for as long as you need it.

Looking at risk through the lens of longevity

Key Risks:

- Inflation
- Market Factors
- Excessive Withdrawals
- Health Care Costs
- Housing Expenses
- Tax Liabilities



Longevity can exacerbate the impact of retirement risks as social, cognitive and financial abilities tend to decline.

COLOR KEY

Social, cognitive and financial ability to handle decisions

Impact of longevity on retirement risks

[6] Society of Actuaries 2012 IAM Period Mortality Table.

Step 4: Get the details

Acknowledging risk isn't about getting stuck in negative thinking. It's about empowering yourself to make informed decisions that can help you make the next phase of your life more comfortable and secure. A deferred income annuity (also called a DIA) can be a positive first step in managing the risks associated with longevity.

DIAs are often referred to as a "longevity annuities" because they provide a contractual guarantee against the risk of outliving your assets. A DIA is specifically designed to provide a pension-like stream of predictable income that begins at a point in the future and lasts for as long as you need it to.

To understand a DIA, it helps to understand what a DIA is not. It is not an investment; there are no fees and there is no market performance to worry about. In addition, there is no accumulation or cash value — and, therefore, no liquidity (with very limited exceptions for some products).

In general, the only time that distributions will be made from a DIA contract are via an income stream or a death benefit. If you are seriously considering using a DIA as part of your retirement income strategy, it's essential to have a separate source of liquid assets that you can tap for emergencies or other expenses.

Although this lack of liquidity is inflexible, it serves an important purpose. It's a key reason why a DIA can guarantee income that will be deferred — in some cases, until decades later. Think of the money you put into a DIA as securing a guarantee of your future income.[7]

Because of the lack of liquidity, it's important to consider carefully what portion (if any) of your assets you feel comfortable committing to your future income needs. Be sure to talk with your financial professional before you make a decision.

A deferred income annuity may allow you to spend more money when you want to — perhaps earlier in retirement when your health may be more robust. You might feel more comfortable about taking that vacation or treating the grandkids because you've taken steps to help secure your financial future.

[7] Guarantees are based on the claims-paying ability of the issuing company.

Step 5: Consider your goals

As part of your predictable income strategy, a deferred income annuity can help you achieve one or more of the following objectives.

Goal #1. Create a pension-like stream of income

A DIA can help you secure a pension-like stream of predictable income that can supplement Social Security and pension benefits. A DIA can also be used to fill any income gaps in your predictable income foundation, or floor.

Goal #2. Transfer your risk

A DIA allows you to transfer the risk of outliving your assets to the insurer. In return for your purchase payment(s), the insurer guarantees a specific amount of future income that will continue for as long as you live or for a period of time you choose. You also transfer your interest rate and market risk. No matter what happens in the financial environment during the DIA's deferral period, you will receive the income amount that was guaranteed at the time of purchase.

Goal #3. Plan for income later in retirement

If you own qualified assets in a traditional IRA or an ERISA-qualified retirement plan (such as a 401(k) or 403(b) plan), you may already know that RMD rules require you to begin receiving distributions from those assets by age 70½ — whether or not you need the additional income at that time.

However, changes in the RMD rules have given owners of qualified assets more flexibility in planning for their future income needs.

Consider a QLAC strategy

When a deferred income annuity is set up as a qualified longevity annuity contract (QLAC), you can allocate a portion of your eligible qualified assets into the QLAC and delay receiving distributions on those assets up until a maximum age of 85.

The assets in a QLAC are not included in your RMD calculations until they are distributed as income, effectively allowing you to shift some of your income, and the associated taxes, to a later date. Once distributions from a QLAC begin, they must comply with RMD requirements.

The primary reason to consider a QLAC is to facilitate longevity planning. This planning might include covering late-life expenses, such as health care costs, or providing an income replacement strategy when one spouse dies and Social Security benefits are lost. Your financial professional and tax advisor can help you determine whether a QLAC strategy may be the right choice for you.

Step 6: Ask questions

There are many different DIA products in the marketplace. A trusted financial professional can help you navigate the choices and evaluate a DIA within the context of your overall retirement income strategy.

The conversation with your financial professional can start with some basic questions.

How will you fund your DIA?

This is a fundamental strategy decision you'll need to make before your contract is issued.

In general, a DIA can be funded with either qualified (pretax) assets or nonqualified (after-tax) assets. Depending on the insurer, a DIA may be available in a variety of contract types. The following are some examples:

- Nonqualified
- Roth IRA
- QLAC IRA[8]
- Traditional IRA
- SEP IRA
- Custodial QLAC IRA[8]

Will you need income for one life or two?

Most DIA products offer a variety of single life and joint life annuity options. Your answer to this question is important because the option you choose will help to determine (among other things):

- Whether contract assumptions are based on one life or two.
- What type of death benefit (if any) may be payable.
- Whether there are any additional guarantees, such as a "period certain."
- The amount of your annuity income payment.

Is beneficiary protection important to you?

Planning for your retirement income needs is important, but providing for your family in the event of your death is also important. With some exceptions, most DIA annuity options provide for a return of purchase payment(s) if you die before annuity payments begin.

After annuity payments begin, any death benefit payable will be based on the annuity option you have chosen.

[8] A QLAC IRA cannot be purchased with Roth IRA or inherited IRA dollars.

How will you purchase your future income?

In general, a DIA allows you to purchase your future income all at once or gradually, over time. Often, the initial required purchase payment is higher, with lower minimum requirements for any subsequent purchase payments.

Each time you make a purchase payment, you'll know exactly how much future income you are buying. Multiple purchase payments are typically combined into a single income stream when you are ready to begin receiving your income.

The IRS imposes specific purchase payment limits for a QLAC.

When do you want annuity payments to begin?

The date that your deferral period ends and annuity payments begin is often called the "annuity date." The period of time from the date your contract is issued to the annuity date is called the "deferral period." Many DIAs require a minimum deferral period of 13 full months after your contract is issued.

Additional annuity date requirements apply if your DIA is funded with qualified assets or is set up as a QLAC.

How often do you want to receive annuity income payments?

The typical DIA offers a choice of monthly, quarterly, semiannual or annual annuity payments.

Is inflation protection important to you?

Many deferred income annuities offer an optional inflation protection feature designed to increase your annuity income payment each year. You choose the inflation protection option and the specific percentage when you purchase your contract. The downside of including an inflation protection feature is that the higher the annual percentage increase, the lower your beginning annuity payments will be.

It's important to weigh the trade-off of having lower beginning annuity income payments that gradually increase over time against having higher beginning annuity income payments that do not increase over time.

Do you worry about having to choose an annuity date that may be years in the future?

No matter how carefully you plan for your retirement income needs, life can bring unanticipated changes. You may need to begin receiving income sooner or later than you had originally planned.

That's why many deferred income annuities include the ability to change your annuity date, subject to contract provisions. Knowing you have that flexibility may help you feel more comfortable about making the commitment to your future income needs.

Step 7: Take action

Are you ready to take the next step?

- Do you want to establish a guaranteed, pension-like stream of future income?
- Do you want to supplement Social Security or pension benefits?
- Are there any income gaps in your predictable income floor?
- Are you concerned about running out of money?
- Would you be interested in a way to manage your RMDs?
- Can you afford to give up liquidity for a portion of your assets in return for guaranteed income?

Learn more:

Contact a trusted financial professional. He or she can help you assess your options within the context of your overall retirement income plan.

Notes:

MassMutual...

Helping you secure what matters most.

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AN4300 1117 DOL-2, 3 CRN202011-203767