Lifetime income and asset allocation:

Working together

Asset allocation is one of the most important factors affecting investment outcomes over the long term.

A financially healthy retirement

We all know that being physically healthy, and adopting good habits to stay that way, are vitally important. Without good health, what we can accomplish and how much we can enjoy life is limited. Of course, staying healthy requires some effort – such as making time for regular exercise and eating well. It also involves some sacrifice – perhaps saying no to that second helping or having only a few bites of the chocolate fudge cake. The good news is, we know we are capable of the effort and the sacrifice, and that by itself is powerful.

Working toward and sustaining good financial health is similar to and almost as important as maintaining our physical health. In fact, physical health can be affected by financial health. You have to work to achieve good financial health, and it requires some planning and sacrifice, but it's well worth it in the end. And, taking control of your financial health is empowering.

You can think of putting aside money today to support your lifestyle in retirement and making informed investment choices about investing that money as the equivalent of exercising and eating right. And just as our physical health benefits most from a combination of strenuous, heart-pumping workouts, strength and balance training and good nutrition, your ability to save enough to accomplish your long-term financial outcomes also relies on choosing the right approach and combination of investments.

Of course, you prefer to generate strong returns, but not at the risk of "financial injury." In other words, you want to invest wisely. While putting some savings into investments* that offer potentially high returns (think "stock market") can be part of a sound strategy, we should also consider keeping a portion in more stable investments (think "bonds"). Achieving a financially healthy retirement can require some of both.

How much you earn from your investments is only part of the picture; another consideration is how much of those investment earnings you keep. Deferring taxes† on investment returns, which can help more of your money to earn returns year after year, is like giving a big nutritional boost to your future retirement income.

While a certain amount of tax-deferred investing is available through a 401(k) plan or IRA, it is possible to do more with annuities. Annuities are long-term, tax-deferred vehicles designed for retirement. Earnings are taxable as ordinary income when distributed and may be subject to an additional 10% tax if withdrawn before age 59½. Variable annuities, while involving investment risks, offer a combination of stable, lifetime income and growth opportunities.

Retirement lifestyle goals – a hierarchy of needs and wants

Retirement goals can encompass many things. For most people, they include the ability to:

- Cover basic living expenses, large and small, which are likely to increase with inflation
- Have a reserve to cover emergencies, which by definition are unexpected
- Allow for discretionary expenses, such as travel
- Pay for big-ticket items, such as replacing the roof on your house, updating your appliances or buying a new car
- Leave something for your heirs. The size and importance of a heritance varies for each individual, depending upon values and circumstances

It can be helpful to think of your "life in retirement" goals as a hierarchy, with some of them having different priorities than others. With this perspective, you can then think about the minimum amount of income that might be required to cover the goals at the top of

What is an Annuity?
Annuities are long-term, tax-deferred vehicles designed for retirement. Variable annuities involve investment risks and may lose value. Earnings are taxable as ordinary income when distributed and may be subject to a 10% additional tax if withdrawn before age 59½.

* **Investing involves risk, including possible loss of principal.**
† Tax deferral offers no additional value if an annuity is used to fund a qualified plan, such as a 401(k) or IRA. It also may not be available if the annuity is owned by a "non-natural person" such as a corporation or certain types of trusts.

your list, the things you truly need. For you, this might translate into "enough income to cover basic living expenses and an emergency reserve." Next, you can consider how much additional income you would need to cover most or all your remaining objectives. This should involve an assessment about whether you are willing to accept some variability in a portion of your retirement income in exchange for the potential to earn a higher return that could allow you to achieve more of the goals on your list.

After identifying your hierarchy of retirement lifestyle goals, you can get specific about the sources of future income, including investments, which may be needed to achieve those goals.

In previous generations, many workers had a pension, a fixed, guaranteed payment provided by their employer throughout their retirement years (and people often had only one employer for their entire working life). Pensions and Social Security benefits were seen as the most important sources of reliable income in retirement, with personal savings as the third, and probably smallest, slice of the total retirement income pie.

Few employers provide pensions in the U.S. today. For most Americans, the responsibility to save for retirement actually falls on our shoulders. Typically, this includes participating in a 401(k) plan or contributing to an IRA, and setting aside other money that can help you to live and spend money how you want during retirement. By starting to save early and taking full advantage of tax-deferred investing, more of your retirement lifestyle goals can be within reach, in the near-term and throughout your retirement years.

But as mentioned earlier, it's not just about saving more. It's about saving and investing wisely.

Balancing growth & risk

One of the most important concepts in investing is balancing potential growth and risk. Taking on too much risk with our retirement accounts in an attempt to generate big returns on all our investments could end up as a mistake in the long run for the minimum savings we are relying on to meet those basic retirement goals. That could be a source of stress for everyone. However, investing too conservatively means your retirement savings may not keep pace with inflation. The key is to have a mix of investments so that overall you strike a balance – not too aggressive, not too conservative.

Asset allocation basics

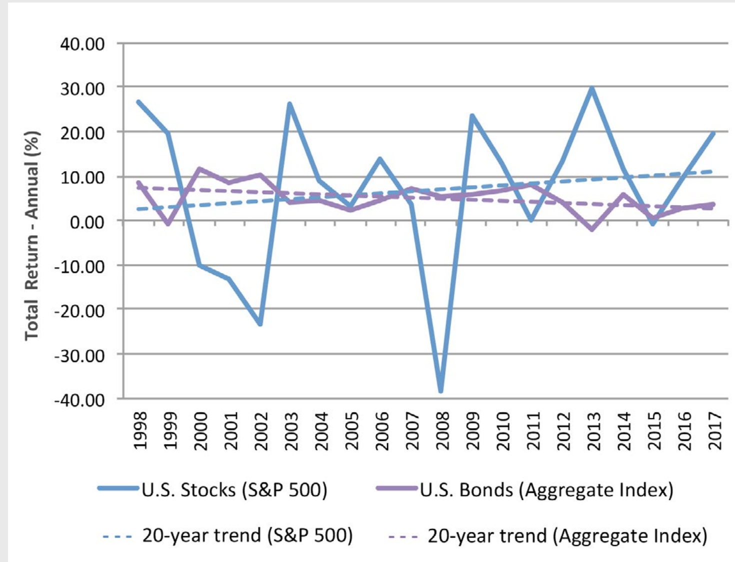
The potential for growth and the amount of risk involved vary across different types of investments. Your asset allocation – meaning the way your money is distributed across investments that can range from ultraconservative to those that offer potentially high returns but have large ups and downs – is one of the most important factors affecting investment outcomes over the long term.

Fixed-income investments – a general term that includes bonds – are usually more conservative than equity investments (mutual funds, exchange traded funds and individual stocks). Note that there are exceptions: certain types of fixed-income investments can be quite risky and can offer a higher possible return than certain types of stocks that are relatively conservative. But, as a general rule, "fixed income" likely means lower return/lower risk, and "equities" likely means higher return/higher risk.

The graph to the right shows the annual returns over the past 20 years from investing in the U.S. stock market (as measured by the S&P 500 Index[1]), and in a broad index of high-quality bonds (measured by the Bloomberg-Barclays U.S. Aggregate Bond Index). The dotted lines show the trends of these two investment classes,[2] with the stock market's total return trending upward and the bond market's total return on a downward trend over this period.

In most years, the return from U.S. stocks is higher than the return from bonds, but it is occasionally much lower. The two big downturns in the stock market over this 20-year period reflect the global financial crisis of 2008, and the "dot.com bust" of the early 2000s. In contrast, the returns from bonds are quite stable and are almost never negative. Since the bond market is more stable – that is, has less volatility – than the stock market, its returns are lower than stock returns. Bond returns have been below 6% (pre-tax) for most of the past 20 years. This probably would have been even lower were it not for the many years of declining interest rates resulting from actions taken by the Federal Reserve to help the economy recover from the 2008 financial crisis. When interest rates go down, bond prices go up, so the Fed's actions to push down interest rates boosted the returns from bonds over the past 6+ years[3].

Given this information about the relative performance of stocks and bonds, we can decide what percentage of our savings to allocate to safer but lower returns versus riskier but potentially higher returns.[§] You might be comfortable with an asset allocation of 50% stocks/50% bonds, or you might prefer a much more aggressive allocation of 70% stocks/30% bonds or a more conservative mix of 30% stocks/70% bonds. The right allocation for you depends on a number of factors, including how much you need to cover those basic retirement expenses and how close you are to retirement.



1

Standard & Poor's is not affiliated with Jackson National Life Distributors LLC. S&P®, S&P 500® and Standard & Poor's® are trademarks of The McGraw-Hill Companies, Inc., and have been licensed for use by Jackson National Life Insurance Company. The product is not sponsored, endorsed, sold or promoted by Standard & Poor's, and Standard & Poor's makes no representation regarding the advisability of purchasing the product. The S&P 500® Index is unmanaged and not available for direct investment. Index performance does not include the reinvestment of dividends. Index portfolios seek to track the performance of their stated benchmark index. All indexes are unmanaged and investors cannot invest directly in an index. **Past performance is no indication of future results**.

S&P 500 Historical Annual Returns

§ Past performance is no indication of future results.

Social security, annuities and your asset allocation

Financial professionals typically recommend shifting a greater percentage of your investments into fixed income and holding less in stocks as you approach or enter retirement. However, some investors may have too little of their savings invested in equities, limiting their opportunity to participate in the stock market's higher returns (remember that graph – despite some big dips, the return over time from stocks is usually higher than for bonds).

This allocation between stocks and bonds is not simply a matter of what you have in your 401(k) or other savings accounts. As a general way to think about it, future Social Security benefits could be considered similar to owning a portfolio of bonds, a portfolio that will start paying you regular income after you retire. The same could be true for the guaranteed income‡ component of annuities, according to this example from Zack's Investment Research[4]:

> "Many investment allocation models look at stocks, bonds and cash (but) they don't take Social Security into account, even though Social Security can play a role in an overall investment plan, especially since it provides a relatively stable string of regular income.
>
> [...]Throughout your working life, you and your employer, if you had one, pay into the Social Security system. When you reach retirement age, you receive a set monthly payment that increases every year along with the cost of living.
>
> Since Social Security can serve the same purpose, to some extent, as a fixed income investment like some annuities or like bonds, it could be included as a part of your allocation for those investments. Famed investor John Bogle, founder of the Vanguard Group, has argued this in the past."

‡ Guarantees are backed by the claims-paying ability of the issuing insurance company.

The following example illustrates this concept:

Asset Allocation Example

Consider a 47-year-old who wants to delay taking Social Security benefits until he reaches the full retirement age of 67, but doubts he will want to keep working that long and may want to retire early. He's generally healthy and understands it's possible he could live to his mid-80s. He expects to earn $1,600 per month in Social Security benefits, and $19,200 per year when he starts receiving those benefits at age 67. He's been contributing to his savings regularly for the past 20 years and has accumulated $600,000 in his 401(k) and other investment accounts. If he can earn a 6% after-tax return on that $600,000, it may double in 12 years (according to the "Rule of 72," as described in Spending Your Money in Retirement: Rumors and Reality), by the time he turns 60.

In discussions with his financial advisor, he realizes that a variable annuity would provide him with additional tax-deferred income that would, along with withdrawals from his 401(k) plan and other savings, make it possible for him to retire before he turns 67. Although he could start receiving payments from the annuity any time after age 59 ½, he expects to wait until he is 62. He then plans to have his annuity payments continue for 20 years, assuming he will live to age 82.

Since both Social Security benefits and the guaranteed income feature of variable annuities can be thought of as part of the fixed income portion of an overall asset allocation, he can include them in his planning with this in mind. In other words, when determining how much of his 401(k) or IRA savings he should have in stocks versus fixed income investments, he can consider the fixed income portion of his asset allocation to be at least partly covered by his Social Security benefits and by the guaranteed income from the variable annuity.

Working with his financial advisor, they can use a simple approximation and an assumption about his remaining life expectancy to estimate (roughly) what his stream of future Social Security benefits would be worth today, if they could be paid out as a lump sum. Note that this is only for financial planning purposes, because Social Security does not actually work this way (although some pension plans do offer a "lump sum" payout versus lifetime benefits). He could do a similar approximation with the guaranteed income feature of the variable annuity he is considering, based on the amount of income he would receive annually and the number of years he expects to receive that income (again based on his assumed remaining life expectancy if the variable annuity has guaranteed income for life).

The guaranteed lifetime income feature of a variable annuity provides predictable payments, while the variable component has the potential for higher growth or loss of prinicpal, based on his chosen investments. So, taking into account his future Social Security benefits, his guaranteed annuity income, the variable component of the annuity and his 401(k) investments, he can create a more comprehensive plan for an all-inclusive asset allocation.

A final note on that hierarchy of retirement goals. It's fairly common to hear that living expenses decline after you retire, and that you will be able to live on 70% to 80% of the income you needed in your pre-retirement years. That actually may not be the case, especially in the earlier years just after you retire, when you expect to be active and may want to travel more than your work schedule currently allows. If you retire before you are eligible for Medicare, you must also factor in the cost of health insurance, unless you are covered under your working spouse's plan or have retiree health benefits from your employer. It's more conservative to expect your expenses in the first few years of retirement to be closer to 90% to 100% of your pre-retirement expenses.

It may seem like a big challenge to save enough by the time you retire so that you may have the income you need to meet your goals and enjoy your life in retirement. But just like exercising regularly and maintaining good eating habits will have a significant, positive impact on your physical health, achieving financial health is an absolutely achievable goal, through a combination of consistent, disciplined saving, an appropriate asset allocation, thoughtful investment choices, and taking full advantage of tax-deferred investment opportunities that can help you to keep more of your investment returns.

Earnings are taxable as ordinary income when distributed and may be subject to a 10% additional tax if withdrawn before age 59½.
Optional benefits are available for an extra charge in addition to the ongoing fees and expenses of the variable annuity.

[1] Macrotrends, “S&P 500 Historical Annual Returns,” http://www.macrotrends.net/2526/sp-500-historical-annual-returns

[2] The Balance, “Stocks and Bonds, Calendar Year Performance”, https://www.thebalance.com/stocks-and-bonds-calendar-year-performance-1980-2013-417028

[3] The New York Times, “Quantitative Easing Is Ending. Here’s What It Did, in Charts.” https://www.nytimes.com/2014/10/30/upshot/quantitative-easing-is-about-to-end-heres-what-it-did-in-seven-charts.html

[4] Zacks, “How to Use Social Security in the Allocation of Investments”, https://finance.zacks.com/use-social-security-allocation-investments-11788.html

Before investing, investors should carefully consider the investment objectives, risks, charges and expenses of the variable annuity and its underlying investment options. The current contract prospectus and underlying fund prospectuses, which are contained in the same document, provide this and other important information. Please contact your Internal Wholesaler to obtain the prospectuses. Please read the prospectuses carefully before investing or sending money.

This material was prepared to support the promotion and marketing of Jackson® variable annuities. Jackson, its distributors and their respective representatives do not provide tax, accounting or legal advice. Any tax statements contained herein were not intended or written to be used, and cannot be used, for the purpose of avoiding U.S. federal, state or local tax penalties. Clients should contact their own independent advisors as to any tax, accounting or legal statements made herein.

Annuities are issued by Jackson National Life Insurance Company® (Home Office: Lansing, Michigan) and in New York by Jackson National Life Insurance Company of New York® (Home Office: Purchase, New York). Variable annuities are distributed by Jackson National Life Distributors LLC, member FINRA. May not be available in all states and state variations may apply. These products have limitations and restrictions. Contact Jackson for more information.

CMC20683 06/18

JACKSON®