



Retirement planning is full of risks

Here's how to manage them

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A tool from **sociology** can help clarify the road ahead

Executive summary

Whether it's just around the corner or decades away, you've likely thought about retirement and whether yours will be financially secure. Maybe you even have a retirement plan in place—or at least know you should.

Whatever your retirement status, a key question for you is whether you'll have the retirement funds you need when you need them. Unfortunately, there is no crystal ball, and you face risks. Will your retirement investments generate the income you expect or will they prove too volatile or underperform? Will inflation eat into your retirement? Will your financial needs increase due to declining health—either yours or a loved one's?

You get the point. Retirement can be a risky business. That's why planning for this exciting next chapter in life is inherently challenging—you face a number of questions you can't answer in advance. Although you can't know how or which risks will affect you, fortunately you can plan for those risks so you have the ability to manage them and their impacts if they do occur.

This white paper examines the two basic categories of retirement risks you can face: personal and portfolio. The first category includes risks that affect you as you age, including those that concern your health and your living situation. The second includes risks to your portfolio's performance. It's essential to keep an eye on each to maximize your likelihood of a comfortable retirement. This white paper discusses some general approaches as well as some more specific options for managing these risks.



The importance of differentiating wants and needs

Before you assess your risks and make a plan to address them, there's a first step you should take. You must understand your retirement goals and identify the financial resources you'll need to meet them. Maybe your plan is to travel the world, move closer to the kids or to a better climate or just age in place as long as your health permits.

You'll certainly want to anticipate everyday living expenses. You might also wish to take up new hobbies and leave a legacy for your family members and favored charities.

Some of these goals involve needs and others are better described as desires. How do you prioritize them? Fortunately, there's a standard methodology for doing so.

It's called Maslow's "hierarchy of needs."¹

Psychologist Abraham Maslow created the model to explain psychological health and human motivation. It has since been applied to everything from corporate management to higher education. It can also be used to prioritize retirement goals, which helps you better manage the risk associated with them.

¹ Saul McLeod, Simply Psychology, "Maslow's Hierarchy of Needs," updated April 4, 2022.



Maslow's hierarchy comprises five levels of needs. They are from the most basic to the most aspirational.

- **Physiological** needs include fundamentals such as food, clothing, shelter and other basics.
- **Safety** is broadly defined to include employment, health, property and even personal security.
- **Love and belonging** covers social needs including personal relationships from friendship and family to intimacy.
- **Esteem** needs include feelings of validation, achievement and appreciation both from one's community and oneself.
- **Self-actualization** is the aspiration to achieve one's full potential, whether physically, creatively, professionally, financially or otherwise.

You can prioritize your retirement goals by aligning them to Maslow's hierarchy. This might confirm, for example, that you need to help ensure funding for a move closer to the kids and grandkids—if that's one of your goals—before you get too far along in planning big vacations. This exercise helps determine how much money is required to satisfy your more basic needs and how much it will take to underwrite your self-actualization desires. Identifying and planning for your most pressing needs first is one way to help reduce the risk of a financial catastrophe in your retirement.

It's **personal**. Risks that could affect the retirement income you'll need

Personal risk factors affect you rather than your portfolio. They work by increasing the amount of money you'll require in retirement as opposed to portfolio risks that can decrease the amount of money you have to meet those requirements. In Maslow's hierarchy, these risks relate especially to your physiological and safety needs.

Here are key personal risks you might face.

Longevity

The risk of living a long life is that you'll outlive your retirement funds. Many people fear running out of money and having to depend on relatives or the government, regardless of how realistic their fear is.

One way to address this concern is to delay your retirement—and, in particular, your Social Security benefits—until age 70. That will give your portfolio more time to grow as well as give you a larger monthly payment from the government as long as you live.²

² Adam Hardy, Money, "The 5 Biggest Risks People Face in Retirement, Ranked," July 8, 2022.





Healthcare

What do you do if your health deteriorates before or during retirement? What if a completely unpredictable disease or accident creates unexpected healthcare costs?

Many people assume that Medicare will take care of this risk. It certainly can—to an extent. You must be 65. Unlike Social Security, you can't start claiming benefits early, and you have to be prepared for the costs that Medicare doesn't cover. Medicare Parts A and B pay for costs including hospital stays, doctor visits, tests, and services; Medicare Part D pays for prescription drugs.³ But you're still on the hook for Medicare premiums, copays and out-of-pocket costs, which can cost the average couple about \$330,000 throughout their retirement, according to Fidelity Investments.⁴

Fortunately, there are ways to manage risk associated with high, unexpected healthcare costs. Medicare supplement insurance plans can cap the out-of-pocket costs standard Medicare doesn't cover. If you qualify for them, health savings accounts (HSAs) can be a great way to save for these costs. Many employers will contribute to HSAs much like they contribute to 401(k) funds, helping accelerate savings growth.⁵ Additionally, long-term-care insurance can help protect you against a key cost that Medicare does not cover: the cost of a home-health aide, nursing home, or assisted living facility. If you're interested, buy long-term-care insurance early, because the older you are when you apply for it the more it costs you.⁶

³ Medicare.gov, "Parts of Medicare," accessed January 2, 2025.

⁴ Fidelity, "Fidelity Investments® Releases 2024 Retiree Health Care Cost Estimate As Americans Seek Clarity Around Medicare Selection," August 8, 2024.

⁵ Hattie Greenan, American Society of Pension Professionals & Actuaries (ASPPA), "HSAs Show Growth and a Focus on Education," November 20, 2024.

⁶ Daniel Kurt, Investopedia, "The Best Time to Get Long-Term Care Insurance," updated September 29, 2021.

Family

Your family members can be a great source of emotional comfort, supporting your higher-level needs in Maslow's hierarchy. But they also pose a set of risks, potentially reducing your financial resources and increasing your expenses. The death of a spouse, for example, can mean more than a deep emotional loss—it can mean the loss of pension benefits and an increase in medical and other debts.⁷ If you're at full retirement age, Social Security provides survivor benefits. However, these may not be sufficient to offset the loss of income from a spouse who was working to provide additional income during retirement.⁸

Short of death, events such as divorce—with its division of marital assets—can put your needs and wants at risk, which can be a particular burden on women. Consider one study that found among divorced women 65 and older, 17% had incomes below the official poverty threshold compared with only 5.8% of married women.⁹

And there's everyday life. The urge to help family members in need may be irresistible, but fulfilling that urge comes at a cost to the financial resources you've been counting on for your retirement.

Life insurance can be a crucial help to limit some of these risks, particularly if you plan to depend on income from a spouse who continues working during retirement. Long-term-care insurance can help with the financial impact of a spouse's declining health. And, regarding divorce, if you didn't sign a prenuptial agreement prior to marriage, talk about a postnuptial agreement as part of your long-term and retirement planning.

Housing

Will you retire in place or move to a retirement community? Will you downsize? Will you own or rent? These choices engender risk because you might make plans based on current conditions in the real estate market only to find that years later, when you go to implement those decisions, your market assumptions are no longer valid.

Selling your home during a down market could cut into the retirement funds you were counting on. Rising mortgage rates might not be a direct concern for you if you don't plan to take out a new mortgage, but they can reduce the number of potential buyers and the selling price for your home.

One way to manage the risk of selling or buying a house against the market is to delay that transaction until market conditions improve. Paying off your mortgage early, if you have one, can give you greater flexibility to remain in place while you await a market upturn.

⁷ Julia Kagan, Investopedia, "Post-Retirement Risks," March 27, 2022.

⁸ Adam Hardy, Money, "The 5 Biggest Risks People Face in Retirement, Ranked," July 8, 2022.

⁹ Zhe Li and Joseph Dalaker, Congressional Research Service, "Poverty Among the Population Aged 65 and Older," December 6, 2022.

Nothing **personal**. Potential risks to your retirement portfolio income

It's not just unexpected expenses or outsized needs that can imperil a financially stable retirement. Even if you anticipate your needs relatively well, there's still the question of the resources you have to meet them. When you're ready to make withdrawals from your investments, will they have grown enough to meet your needs? How should you plan investments to reduce risk and optimize return? And in an age of wars, pandemics and who knows what's next, how will global conditions affect your retirement? Here's a look at key issues to consider.

Inflation

After decades of relative stability, inflation surged during the global pandemic. In June 2022, inflation reached a 40-year high and demonstrated its potential to erode purchasing power.¹⁰ But even moderate inflation can have a significant effect on retirees' finances and a retirement fund that holds significant cash will steadily erode in value.¹¹ Inflation can also erode the value of securities and other investments as it eats away at their underlying fundamentals.¹² But not all investments are alike. Commodities such as gold are often seen as a good hedge against inflation,¹³ as are real estate, floating-rate bonds and Treasury inflation-protected securities.¹⁴

Stock market volatility

Even if stock market volatility isn't the biggest risk to your portfolio, it can sure feel that way. This is because stock market drops can be emotional as well as financial events. And they seemingly can come out of nowhere—for instance, bad economic news, a distant outbreak of war, a disruption to oil and gas production or unexpected election results.

These and other events can trigger a market drop that can feed into a bear market. And stock market volatility can impact your portfolio especially harshly if your assets aren't accounting for the level of risk you can tolerate and the amount of time you have to bounce back from a downturn.

¹⁰ Christopher Rugaber, Associated Press, "US inflation Surges Again in June, Raising Risks for the Economy," July 13, 2022.

¹¹ Western & Southern Financial Group, "The Impact of Inflation on Your Savings & Investments," updated April 26, 2022.

¹² Ibid.

¹³ Ibid.

¹⁴ James Royal, Bankrate, "5 Best Investments that Hedge Against Inflation, and Others to Avoid," February 2, 2022.



Historically, stocks tend to outperform other investments over time,¹⁵ but that's no consolation to you if the investments you were expecting to fund your needs—particularly your foundational needs like those Maslow describes—have taken a downturn.

Global uncertainty

As mentioned, wars and other disruptive events anywhere in the world can trigger a stock market downturn. But that's not the only way such events can lead to losses in your portfolio. International supply-chain disruptions can impact one or more of the industries in which you're invested—think rare-earth metals that are needed for batteries and the products like electric cars that use them. Another public health emergency could crush the economies of regions or countries where you have money invested.

Demographic changes

You're not the only one planning to retire, of course. But have you thought about how other retirees can affect your portfolio? The U.S. population is aging at an unprecedented rate. By 2030, about one in every five Americans will be past age 65.¹⁶ It's possible that as members of this rapidly expanding demographic continue to retire and sell investments to fund retirement, it will put downward pressure on the markets. As a result, investments could underperform expectations. A similar effect could be produced as larger cohorts simultaneously sell off riskier investments to purchase more conservative ones. That could adversely affect retirees both when they sell and when they buy.¹⁷

Tax risk

Before you access your retirement income, the tax man will likely take his share. Distributions from workplace retirement plans and traditional IRAs are generally taxed as income.¹⁸ You can know how much you'll pay in taxes if your distributions are taxed at today's rates, but you don't know what the tax rates will be when you're ready to take distributions. The higher the tax rates, the more those taxes will eat into your distributions, forcing you to draw down on your investments more quickly than you may have anticipated. Jackson launched its Security in Retirement Series to help financial professionals and retirement investors more effectively identify and manage potential threats to financial security. To access details and up-to-date findings from this multiphase research effort, please visit jackson.com/researchcenter.

¹⁵ The Investopedia Team, Investopedia, "Which Investments Have the Highest Historical Returns?" September 29, 2022.

¹⁶ National Center for State Courts, Center for Elders and the Courts, "Demographics of the Aging Population," accessed November 13, 2024.

¹⁷ Brian J. Bloch et al., Investopedia, "How Demographic Trends Could Affect Your Portfolio," June 20, 2022.

¹⁸ Bancorp, "How Sequence of Returns Risk Can Impact When to Retire," 2022.

What level of risk is right for you?

As discussed, there's an array of risks—both to you and your portfolio—that can influence your retirement plans. Many of them can be addressed with time, money, and effort—but not all. Which risks can or should you accept? How much risk can you live with?

There's no single correct answer to these questions, of course. Your answers depend on your goals, where they fall on Maslow's hierarchy, and your circumstances—including your age, years until retirement, other sources of income and health. Your answers also depend on both your tolerance of risk and your capacity for it.

Risk tolerance refers to how much tolerance you have for potential losses in your portfolio. How much anxiety can you handle when your investments decline? How much are you comfortable losing overall?

Risk capacity, conversely, refers to the amount of risk you can handle financially. The more financial obligations you have, the more you depend on your investments to meet them, and the sooner those obligations are due, the less risk capacity you have.¹⁹

Like every aspect of retirement planning, this is a good conversation to have with your financial professional. The more they understand your risk tolerance and capacity, the better they can propose retirement strategies for you. Your financial professional can use risk-assessment software to quantify your risk tolerance and capacity and map them to an appropriate mix of assets for your portfolio.

Another way of thinking about your approach to risk is with a floor-and-ceiling analogy. How much money will you require to meet the goals in the foundation levels of Maslow's hierarchy, your physiological and safety needs? That's the "floor" in your financial goals. You won't have much risk tolerance for the investments you make to meet your floor. Your "ceiling" represents the income you need to satisfy your desires at the top of the hierarchy, particularly around self-actualization. You can tolerate higher risk for your wants because it's not a catastrophe if your income isn't enough to meet your optional goals. Although you might better tolerate risk for your ceiling goals, you might not have the capacity for them, that is, the actual ability to take on these risks.

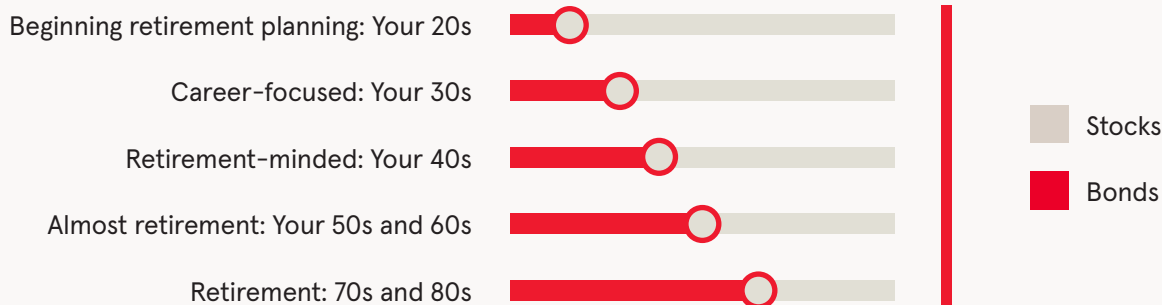
¹⁹ Christine Benz, Morningstar, "A 7-Point Risk Drill for Your Portfolio," January 19, 2022.

Diversification is the name of the game

Managing risk doesn't mean eliminating risk. You can eliminate virtually all risk to your capital by keeping it in a federally insured savings account, but your retirement can fail because that choice doesn't allow your money to grow and work for you.

You should consider ways to balance risk and reward. You can diversify your portfolio with various investments collectively designed to preserve your capital, generate steady income and enable growth. The mix that's right for you doesn't just depend on your risk tolerance and capacity, or where your goals fit on Maslow's hierarchy. It also depends in part on how old you are and how many years you have until your planned retirement. As those numbers change from year to year, so should the spread of assets—also called “asset allocation”—in a diversified portfolio.

For example, some investors, when they're relatively young, choose to put a majority of their retirement savings into securities and a minority into bonds. This can offer their portfolios the potential for maximum upside from compounded interest and time to recover from inevitable market downturns. Then they tip that balance slowly but steadily over the years away from securities and toward bonds, trading away the potential for high reward—and high risk—for greater security of their capital.²⁰



Source: Zina Kumok, Investopedia, “How to Invest at Every Age,” September 9, 2022.

Diversification does not assure a profit or protect against loss in a declining market.

²⁰ Zina Kumok, Investopedia, “How to Invest at Every Age,” September 9, 2022.

What are options for risk-averse investors to consider?

Annuities are retirement products that could provide protected, reliable income when you need it. They can help bridge the gap between the savings you've accumulated over time and traditional sources of retirement income like Social Security. Plus, if you don't need the income immediately, you could potentially see its value grow tax deferred over time.* That's why an annuity might be a powerful addition to your financial plan, depending on your situation.

There is a cost associated with optional riders for such benefits as guaranteed lifetime income. Also, annuity upside potential could be limited as compared to some other financial products. However, many investors find any potential trade-offs worth the protection against various financial risks annuities can provide. You should work closely with a financial professional to decide whether an annuity makes sense based on your retirement goals.

Bonds offer a guaranteed return on your investment. However, their price—and thus the value of your investment—can fluctuate over time, sometimes markedly and generally in inverse relationship to the market for securities. Bonds can be a good option for investors in or near retirement seeking steady interest income or to create a more balanced portfolio.

Because some bonds are riskier than others, and may pay higher interest as a result, it's important to work with a financial professional to ensure you understand all their features when considering bonds as an investment.

Long-term-care insurance is just what it says: insurance to help cover the costs of long-term care, generally ranging from home health aides to assisted-living and skilled-nursing facilities. Many people assume Medicare covers these expenses, but it doesn't. According to a government study, there's a 70% chance that typical 65 year olds will need some long-term care as they get older.²¹ If you think you could become that "typical 65 year old," consider looking into it now. This insurance is typically less expensive the younger you are when you acquire it.²²

Not only can long-term care insurance help policyholders maintain their independence and afford quality care, it can reduce the financial and psychological stress extended care can impose on a family. One potential downside is paying premiums for years and never using the coverage. Whether you buy coverage or not, you should have a plan in place for help if and when it is needed.

* Tax deferral offers no additional value if an IRA or a qualified plan, such as a 401(k), is used to fund an annuity, and may be found at a lower cost in other investment products. It also may not be available if the annuity is owned by a legal entity such as a corporation or certain types of trusts.

²¹ Aging In Place, "What Is Long-Term Care Insurance and Who Needs It?" accessed September 27, 2022.

²² Ibid.

Next steps

Your financial future is unknown and the unknown can be scary. But there are tried-and-true steps you can take to help with the uncertainty, manage the risk and increase your chances of a financially secure retirement.

Work with your financial professional when assessing your retirement risks and planning for potential retirement strategies. Your financial professional can help you identify the distinctive set of risks you face in your financial future, map those risks to your goals and devise a portfolio and plan that work for your unique circumstances.

Be honest with yourself and your financial professional about your personal and financial situations and your goals. Cover your “floor” but still reach for the “ceiling.”

Keep in mind the difference between risk tolerance and risk capacity, and know when to keep your investments in line with each.

Adopt a diversified portfolio and recalibrate your assets every few years, even after you retire. Consider lower-risk products such as annuities and insurance to cover your physiological and safety needs and higher-risk investments such as securities for your aspirational and self-actualization needs. Be aware that annuities carry some degree of risk. You should consult carefully with a trusted financial professional.

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