# Today's Choices, Tomorrow's Income


**The Intentional Investor**
Building your financial future

Today, your paycheck is likely your biggest source of income. But once you retire, you'll be dependent on Social Security, possibly a pension, and the investment portfolio that you built over your career.

Those first two items are largely out of your control. But your investment portfolio is completely in your hands. The choices you make today will affect the income stream your portfolio can generate in retirement.

**Three things you need to know about building retirement income:**

1 You may need more retirement income than you think.

2 Treasury bills today aren't keeping up with inflation.

3 Diversification is key.

# 1 You may need more retirement income than you think.

Average annual inflation increased

**2.3%**

between 1993 and 2013[1]

Once you start crunching the numbers of your retirement, you may quickly realize that you'll need more income than you thought. Why? Because the cost of living is rising, and so is your life expectancy.

### Rising cost of living

- Retirement doesn't have to be extravagant to be expensive.
- The costs of basic items that all retirees need – health care, utilities, food – are rising faster than the costs of optional items like entertainment.

**From 1993-2013, retirees faced rising average annual inflation costs in all basic categories, especially for health care services**

- 3.6% **Health Care**
- 2.5% **Food**
- 3.0% **Utilities**
- 2.3% **Housing**
- 2.5% **Transportation**
- 1.1% **Entertainment**

Source: Bureau of Labor Statistics

1 Source: Bureau of Labor Statistics

About

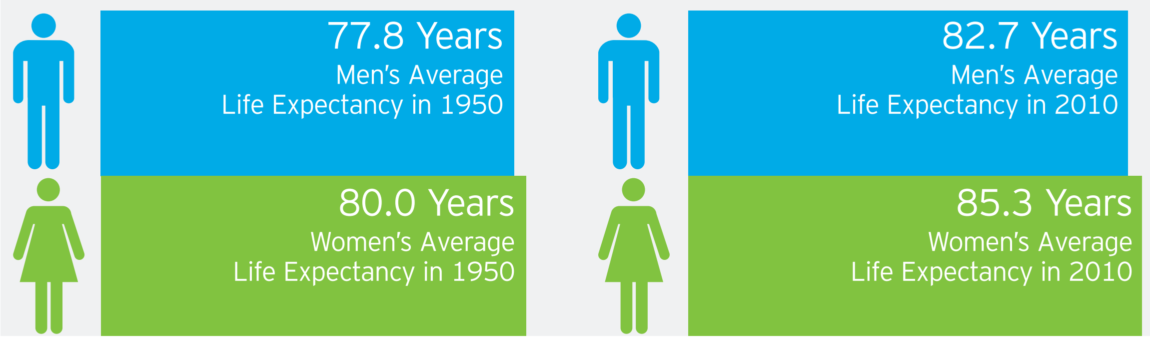
10%

of 65-year-olds today will live past 95[1]

## Rising life expectancy

- The life of the average American is getting longer. That means retirements are growing longer as well.
- Once you reach 65, you have a 25% chance of living past age 90, and a 10% chance of living past 95.[2]
- With numbers like that, it's quite possible that your investment portfolio could be called upon to generate retirement for 30 years or more.

**Longer life expectancies for 65-year-olds means longer retirements**




Source: Centers for Disease Control and Prevention, cdc.gov. "Life Expectancy at Birth, at 65 and 75 Years of Age by Sex, Race and Hispanic Origin."

1 Source: Centers for Disease Control and Prevention, cdc.gov. "Life Expectancy at Birth, at 65 and 75 Years of Age by Sex, Race and Hispanic Origin.
2 Source: ssa.gov

# 2 Treasury bills today aren't keeping up with inflation.

Treasuries earned only

**.13%**

in interest in 2013[1]

**Yesterday's solutions may not be right for today's investors**
Not long ago, US Treasury bills, short-term debt obligations backed by the US Government with a maturity of less than one year, were the go-to investment for many retirees. As we've seen, costs are clearly rising. But the income produced by Treasuries is falling. In 2000, a $100,000 investment in Treasuries would have produced close to $5,700 over the course of the year – a 5.7% rate of interest. That was more than enough to compensate for that year's 3.4% inflation rate.[2] But by 2013, that number had decreased dramatically.

Because Treasury securities are guaranteed as to timely payment of principal and interest if held to maturity, they are subject to less credit risk than other investments. Treasury bills are shorter term securities that are subject to less interest rate risk than other investments and Treasuries are exempt from state and local income tax.

**In 2013, Treasuries returned 1.37% less than the annual rate of inflation**


Source: treasury.gov. Past performance does not guarantee future results.

This means that today's investors must look past yesterday's income solutions and find strategies that are more appropriate for today's environment.

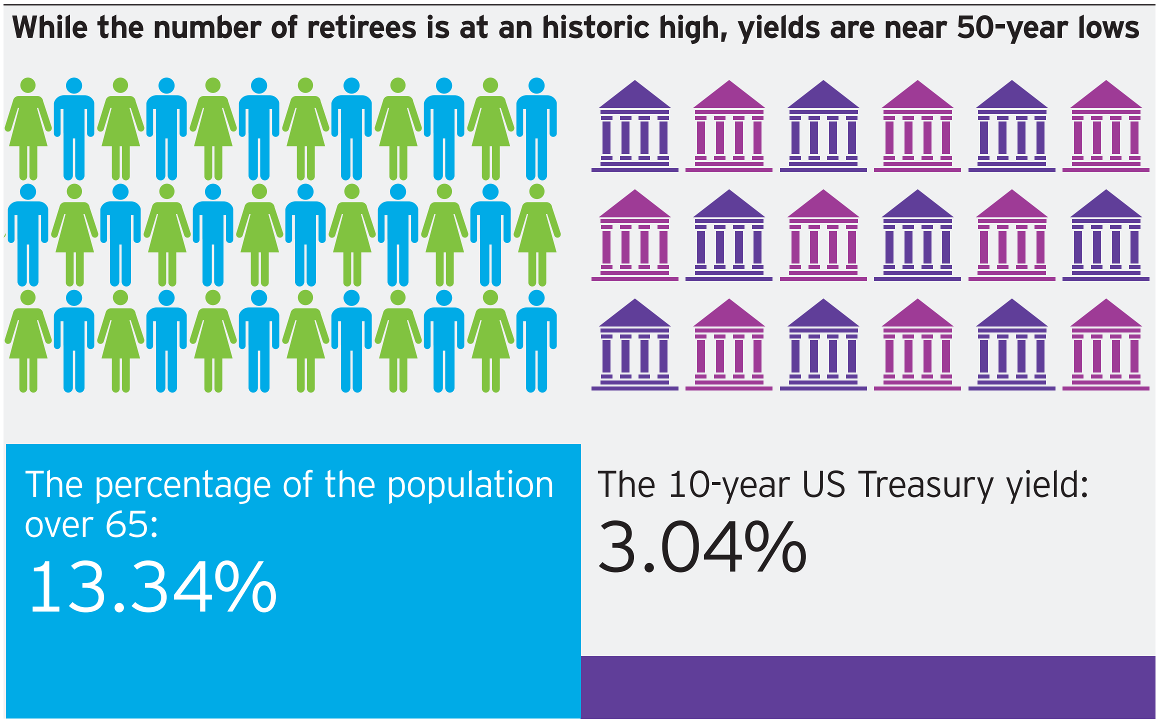
1 Based on an interest rate of 0.13% for a 1 year Treasury Bill as of Dec. 31, 2013.
2 Source: Bureau of Labor Statistics

Approximately

# 10,000

baby boomers
will retire each day
for the next 17 years[1]

**More Americans than ever need income, but where will they find it?**
The demand for income is as great, if not greater, than at any point in our nation's history. Invesco calls this the Age of Income. The percentage of the population over age 65 is at a historical high, while the 10-year Treasury is yielding 3.04% near its lowest levels in 50 years and well below its average of 7.30% over the same period.[2]




Source: FactSet, Invesco, US Department of Labor. As of Dec. 31, 2013. Past performance does not guarantee future results.

1 Sources: FactSet, Invesco, US Department of Labor. As of Dec. 31, 2013.
2 Source: treasury.gov as of Dec. 31, 2013.

# 3 Diversification is key.

Different income sources have ranked

#1

in returns from year to year

**Where can investors find income in a zero interest rate environment?**
Now that Treasury bills are no longer the go-to source for income, investors must consider new strategies. The good news is that there is no shortage of options to consider. The asset classes below have unique benefits that could help income investors meet their goals. They also have unique risks, as diversification does not guarantee a profit or eliminate the risk of loss, so it's important to discuss these with your financial advisor before adding them to your portfolio:

## Sources of income

- Dividend-paying equities may provide a mix of income and capital growth.
- Real estate may offer an alternative to conventional fixed income investments.
- High yield bonds may have higher income potential than government bonds.
- Emerging markets debt offers exposure to potentially high-growth markets abroad.
- Convertible bonds offer bond income with equity-like upside potential.

Because different income asset classes rank higher or lower from year to year, diversification may help reduce the volatility of your income stream over the course of a long retirement.

**Diversifying across income asset classes may mean reduced volatility**
Asset class annual top performers by %

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| Closed-End Funds | N/A | N/A | -4.39 | -36.32 | 50.01 | 14.02 | 3.23 | 14.81 | 3.59 |
| Convertible Bonds | 1.01 | 12.83 | 4.53 | -35.73 | 49.13 | 16.77 | -5.18 | 14.96 | 24.92 |
| Emerging Markets Debt | 6.27 | 15.22 | 18.11 | -5.22 | 21.98 | 15.68 | -1.75 | 16.76 | -8.98 |
| High-Yield Bonds (Corporates) | 2.76 | 10.76 | 2.26 | -25.88 | 58.76 | 14.94 | 4.96 | 15.78 | 7.44 |
| High-Yield Bonds (Municipals) | 8.58 | 10.75 | -2.28 | -27.01 | 32.74 | 7.79 | 9.25 | 18.14 | -5.51 |
| Mortgage-Backed Securities | 2.61 | 5.22 | 6.9 | 8.34 | 5.89 | 5.37 | 6.23 | 2.59 | -1.41 |
| Municipal Bonds | 1.27 | 3.42 | 5.28 | 5.92 | 7.16 | 3.35 | 6.89 | 3.03 | -2.55 |
| Preferred Stock | 0.96 | 8.1 | -11.31 | -25.24 | 20.07 | 13.66 | 4.11 | 13.6 | -3.65 |
| Senior Loans | 5.69 | 7.33 | 1.88 | -28.75 | 44.86 | 9.97 | 1.82 | 9.43 | 6.15 |
| Short-Term Bonds | 1.77 | 4.25 | 6.83 | 4.97 | 3.82 | 2.8 | 1.59 | 1.26 | 0.64 |
| Taxable Investment-Grade Bonds | 1.96 | 4.26 | 5.11 | -3.08 | 16.04 | 8.47 | 8.35 | 9.37 | -2.01 |
| 1 Year Treasury Bills | 3.68 | 5.05 | 4.62 | 1.84 | 0.47 | 0.32 | 0.18 | 0.18 | 0.13 |
| 10 Year Treasury Notes | 4.38 | 4.9 | 4.73 | 3.73 | 3.31 | 3.26 | 2.82 | 1.82 | 2.38 |

Source: Styleadvisor, Bloomberg L.P. and Lipper, as of Dec. 31, 2013. Past performance does not guarantee future results. An investment cannot be made directly in an index. Closed-End is represented by First Trust Composite Closed-End Fund Total Return Index (UPCEFT). Convertible Bonds is represented by BofA Merrill Lynch All Convertibles All Qualities Index. Emerging Markets Debt is represented by JP Morgan GBI-EM Global Diversified Index. High Yield (Corporates) is represented by Barclays U.S. High Yield 2% Issuer Cap Index. High Yield (Municipals) is represented by Barclays High Yield Municipal Index. Mortgage Backed Securities is represented by Barclays U.S. Mortgage-Backed Securities Index. Municipal Bonds is represented by Barclays Municipal Bond Index. Preferred Stock is represented by BofA Merrill Lynch Preferred Stock Fixed Rate Index. Senior Loans is represented by Credit Suisse Leveraged Loan Index. Short-Term Bonds is represented by Barclays U.S. Government & Credit 1-3 Year Index. Taxable Investment-Grade Bond is represented by Barclays U.S. Credit Index. 1 Year Treasury Bills are represented by T-Bill 1 Year TR IX. 10 Year Treasury Notes are represented by T-Bill10 Year TR IX. Full index description on back cover.

## Factors to consider

When assessing new sources of income, it's important to remember that yield is not the only factor to consider. An investment may pay a high rate of income today, but it may be more volatile, and its yield may not be sustainable over the course of a decades-long retirement.

A quality income portfolio is built with all your needs in mind, including:

- The level and sustainability of yields.
- The potential for capital appreciation.
- The benefits of portfolio diversification.

**Investors need to consider the risks versus the benefits**


For illustrative purposes only.

# Talk with your financial advisor

Making your money last for your retirement is a challenge. But with the help of your financial advisor, you can create a strategy that seeks to produce income for as long as you need it.

**Talk to your financial advisor about:**

- Assessing your income needs in retirement.
- Considering income-producing strategies that may outpace inflation.
- Diversifying your portfolio with a variety of income-producing strategies.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# Explore Intentional Investing with Invesco®

At Invesco, all of our people and all of our resources are dedicated to helping investors achieve their financial objectives. It's a philosophy of investment excellence we call Intentional Investing®, and it guides the way we:

## Manage investments

Our dedicated investment professionals search the world for the best opportunities, and each investment team follows a clear, disciplined process to build portfolios and mitigate risk.

## Provide choices

We manage investment strategies across all major asset classes and deliver them through a variety of vehicles. Our wide range of choices allows you to create a portfolio that's purpose-built for your needs.

## Connect with our clients

We're committed to giving you the expert insights you need to make informed investing decisions, and we are well-equipped to provide high-quality support for investors and advisors.

**About risk**

Common stocks do not assure dividend payments. Dividends are paid only when declared by an issuer's board of directors, and the amount of any dividend may vary over time.

Investments in real estate-related instruments may be affected by economic, legal, or environmental factors that affect property values, rents or occupancies of real estate. Real estate companies, including REITS or similar structures, tend to be small- and mid-cap companies, and their shares may be more volatile and less liquid.

The values of high yield bonds, also known as junk bonds, fluctuate more than those of high-quality bonds in response to company, political, regulatory or economic developments. High yield bonds are also subject to interest rate risk, which refers to the risk that bond prices generally fall as interest rates rise and vice versa.

Securities issued by foreign companies and governments located in developing or emerging countries may be affected more negatively by inflation, devaluation of their currencies, higher transaction costs, delays in settlement, adverse political developments, the introduction of capital controls, withholding taxes, nationalization of private assets, expropriation, social unrest, war or lack of timely information than those in developed countries.

Investments in convertible securities are subject to the risks associated with both fixed-income securities, including credit risk and interest rate risk, and common stocks. Convertible securities may have lower yields because they offer the opportunity to be converted into stock and if the stock is underperforming and the bond does not convert then the bond may have a lower return than a non-convertible bond.



The opinions expressed are those of the authors, are based on current market conditions and are subject to change without notice. These opinions may differ from those of other Invesco investment professionals.

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BofA Merrill Lynch All U.S. Convertibles Index tracks the performance of US-dollar-denominated convertible securities that are not currently in bankruptcy and have total market values of more than $50 million at issuance.

First Trust Composite Closed-End Fund Index is a composite index of the municipal, taxable fixed income and equity indexes which is intended to provide a capitalization weighted representation of the entire U.S. closed-end fund universe.

JP Morgan EMBI Global Index is an unmanaged index that tracks debt securities of emerging markets.

Barclays U.S. Corporate High Yield 2% Issuer Cap Index is an unmanaged index comprising US corporate, fixed-rate, noninvestment-grade debt with at least one year to maturity and at least $150 million in par outstanding. Index weights for each issuer are capped at 2%.

Barclays High Yield Municipal Bond Index is an unmanaged index considered representative of noninvestment-grade bonds.

Barclays US Mortgage Backed Securities Index represents mortgage-backed pass-through securities of Ginnie Mae, Fannie Mae and Freddie Mac.

Barclays Municipal Bond Index is an unmanaged index considered representative of the tax-exempt bond market.

BofA Merrill Lynch Core Fixed Rate Preferred Securities Index constituents are capitalization-weighted based on their current amount outstanding.

Credit Suisse Leveraged Loan Index represents tradable, senior-secured, US-dollar-denominated, noninvestment-grade loans.

Barclays 1-3 Year Government/Credit Index is an unmanaged index considered representative of short-term US corporate and government bonds with maturities of one to three years.

Barclays U.S. Credit Index is an unmanaged index considered representative of publicly issued, SEC-registered US corporate and specified foreign debentures and secured notes.

T-Bill 1 Year TR IX is an unmanaged index representative of one year Treasury bills.

T-Bill 10 Year TR IX is an unmanaged index representative of 10 year Treasury notes.

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