



**Today's choices, tomorrow's income**



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:**

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

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**2** Yesterday's solutions may not be right for today's investors.

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**3** Diversification is key.

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

Average annual inflation increased

# 2.3%

between 1994 through 2017<sup>1</sup>

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 1994 - 2017, retirees faced rising average annual inflation costs in all basic categories, especially for health care services**



5.3%

**Health care**



2.4%

**Food**



2.2%

**Utilities**



2.4%

**Housing**



1.5%

**Transportation**



-0.9%

**Entertainment**

Source: Bureau of Labor Statistics, January 1994 through December 2017

<sup>1</sup> Source: Bureau of Labor Statistics

a 65 year-old has a

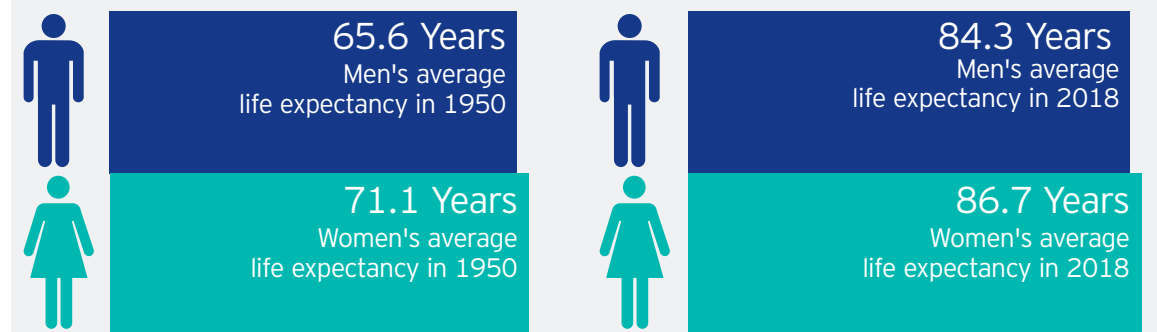
# 10%

chance of living past 95.<sup>1</sup>

## 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.<sup>2</sup>
- With numbers like that, it's quite possible that your investment portfolio could be called upon to generate retirement income for 30 years or more.

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



Source: ssa.gov, 2018

1 Source: ssa.gov, 2018

## 2 Yesterday's solutions may not be right for today's investors.

After taxes and inflation, CDs have earned a negative "real" rate of return in

# 14

of the last 16 years.

### The high cost of stability

Not long ago, certificates of deposit (CDs) were one of the tried-and-true investments for many retirees because of their inherent safety: The FDIC insures the principal and interest of CDs up to \$250,000. And while it is true that CDs are very safe, the price investors may pay for that safety is years of low and even negative real returns.

The tax rate used in the example below is the highest rate as reported by the Internal Revenue Service (IRS). The tax rate is not indicative of the experience of every investor, and a lower tax rate will have a favorable effect on the real return. Of course, past performance cannot guarantee comparable future results.

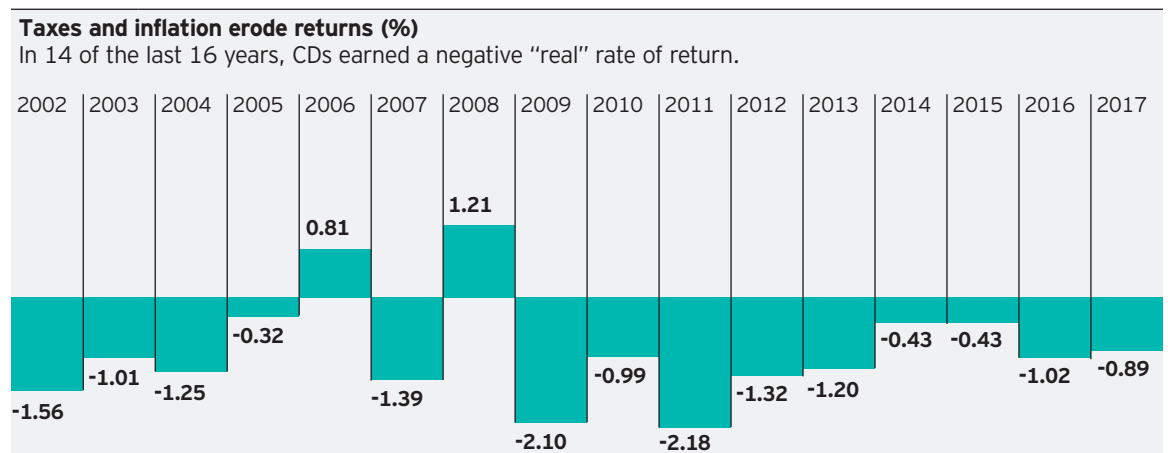


Chart reflects real return after taxes at the top federal tax rate for each year as reported by the IRS and inflation as represented by the Consumer Price Index (CPI). Chart also reflects CD rates for each year as represented by the Bloomberg CD 12-Month Index. Sources: Invesco, Bloomberg L.P., Morningstar Inc., and IRS.gov. *Past performance is no guarantee of 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.

# 3 Diversification is key.

Different income sources have ranked

# #1

in returns from year to year

## Where can investors find income in a low interest rate environment?

Investors must consider a variety of 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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Closed-end funds	-36.32	50.01	14.02	3.23	14.81	3.59	8.65	-5.87	11.94	14.77
Convertible bonds	-35.73	49.13	16.77	-5.18	14.96	24.92	9.44	-2.99	10.43	13.70
Emerging markets debt	-4.65	20.44	13.32	-3.00	21.51	-6.32	-8.50	-12.64	9.81	15.50
High-yield bonds (corporates)	-25.88	58.76	14.94	4.96	15.78	7.44	2.46	-4.43	17.13	7.50
High-yield bonds (municipals)	-27.01	32.74	7.79	9.25	18.14	-5.51	13.84	1.81	2.99	9.69
Mortgage-backed securities	8.34	5.89	5.37	6.23	2.59	-1.41	6.08	1.51	1.67	2.47
Municipal bonds	-2.47	12.91	2.38	10.70	6.78	-2.55	9.05	3.30	0.25	5.45
Preferred stock	-25.24	20.07	13.66	4.11	13.59	-3.65	15.44	7.58	2.32	10.58
Senior loans	-28.75	44.87	9.97	1.82	9.43	6.15	2.06	-0.38	9.88	4.25
Short-term bonds	4.97	3.82	2.80	1.59	1.26	0.64	0.77	0.65	1.28	0.84
Taxable investment-grade bonds	-3.07	16.04	8.47	8.35	9.37	-2.01	7.53	-0.77	5.63	6.18
1-year Treasury bills	2.34	0.45	0.30	0.17	0.16	0.12	0.11	0.30	0.60	1.19
10-year Treasury notes	20.30	-9.92	8.10	16.99	4.23	-7.85	10.72	0.90	-0.14	2.13

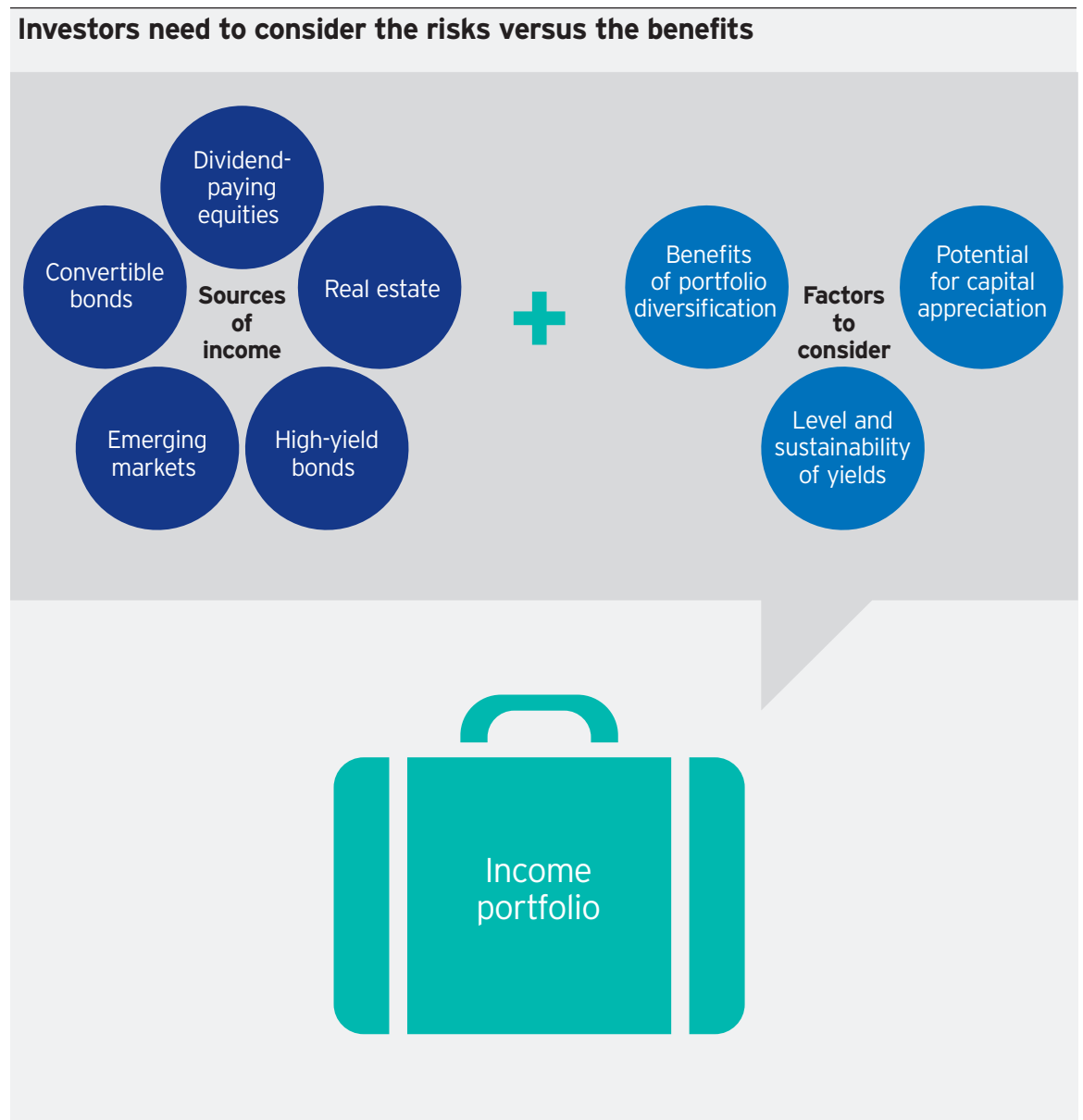
Source: StyleADVISOR, Bloomberg L.P. and Invesco, as of Dec. 31, 2017. Emerging Markets Debt is represented by JP Morgan GBI-EM Global Diversified Composite Index; High Yield (Corporates) is represented by Bloomberg Barclays U.S. High Yield 2% Issuer Capped Index; High Yield (Municipals) is represented by Bloomberg Barclays Municipal High Yield Bond Index; Taxable Investment -Grade is represented by Bloomberg Barclays U.S. Credit Index; Mortgage Backed Securities is represented by Bloomberg Barclays U.S. Mortgage-Backed Securities Index; Short-Term Bonds is represented by Bloomberg Barclays U.S. Government & Credit 1-3 Year Index; Municipal Bonds is represented by Bloomberg Barclays Municipal Bond Index; Convertible Bonds is represented by ICE BofAML All U.S. Convertibles Index; Senior Loans is represented by Credit Suisse Leveraged Loan Index; and Preferred Stock is represented by ICE BofAML Preferred Securities Index; Closed-End is represented by First Trust Composite Closed-End Fund Total Return Index (UPCEFT). 1 Year Treasury Bills are represented by T-Bill 1 Year TR Index. 10 Year Treasury Notes are represented by the FTSE 10-Year Treasury Benchmark Index. 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.



For illustrative purposes only.

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# Talk with your financial professional

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

## Talk to your financial professional 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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### 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.

An investment in fixed-income securities carries interest rate and credit risk. Interest rate risk refers to the risk that bond prices generally fall as interest rates rise and vice versa. Credit risk is the risk of loss on an investment due to the deterioration of an issuer's financial health.

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.

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NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

This presentation is for general educational use only. This does not constitute a recommendation of any investment strategy or product for a particular investor. Investors should consult a financial professional before making any investment decisions. Diversification does not guarantee a profit or eliminate the risk of loss.

This information is not intended for tax advice. Investors should consult a tax advisor.

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 GBI-EM Diversified Composite Index is an unmanaged index that tracks debt securities of emerging markets.

Bloomberg 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%.

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

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

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

ICE BofAML Fixed Rate Preferred Securities Index constituents are capitalization-weighted based on their current amount outstanding.

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

Bloomberg 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.

Bloomberg 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 Index is an unmanaged index representative of one year Treasury bills.

FTSE 10-Year Treasury Benchmark Index is a broad measure of the performance of 10-year US Treasury securities.