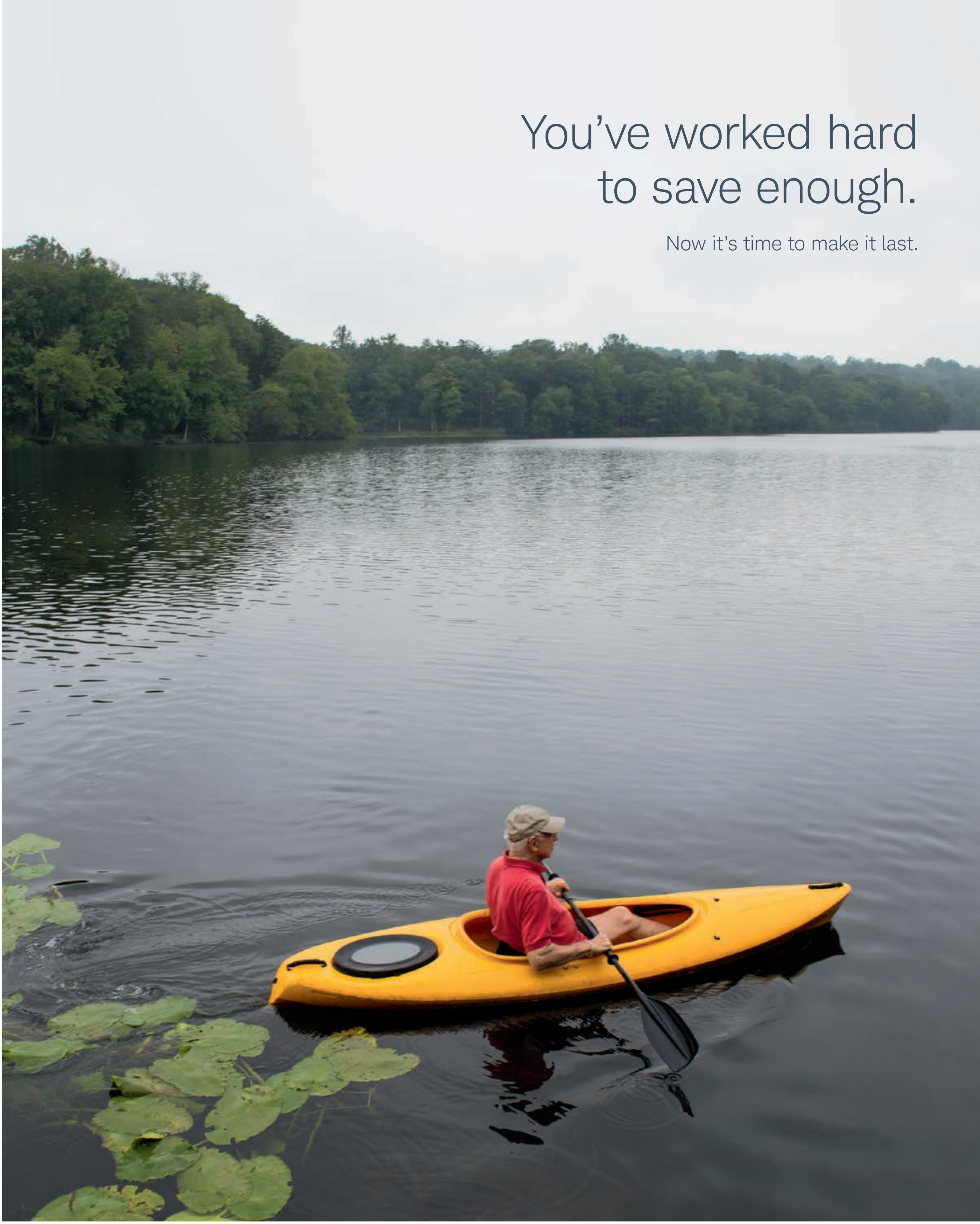
Owning Your Retirement

Your guide to making money last.

charles SCHWAB

Own your tomorrow®


You've worked hard to save enough.
Now it's time to make it last.

Your retirement countdown

You can count on our personal guidance along the way.

Know the three steps to creating retirement income.

10 years until retirement

We can help you start thinking about the kind of retirement you want and prepare a saving and investing plan to help keep you on track. Now may be the time to take advantage of catch-up contributions after age 50; pay down high-cost, non-deductible debt; and consider long-term care insurance.

5 years until retirement

Together, we can refine the "when, where, and how much" of your retirement plan. We'll revisit your asset allocation strategy, suggest possible portfolio withdrawal strategies, and adjust your retirement savings plan if necessary. A major retirement expense will likely be health care. Now is a good time to explore your options.

2 years until retirement

We can help you fine-tune your retirement budget, prepare your income strategy, and adjust your asset allocation plan to decrease risk and fund a short-term reserve.

1 year until retirement

As retirement approaches, we can help you finalize your budget and strategy, open or consolidate your accounts, and set up your cash flow system. You'll need to file for Social Security three months before you expect to receive your first check and sign up for Medicare three months before your 65th birthday.

In retirement

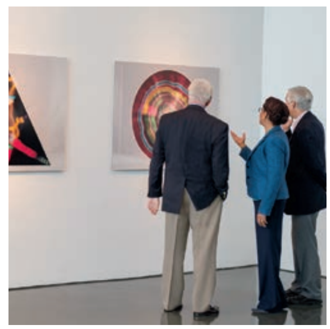
We'll encourage you to meet with a Financial Consultant at least annually to review your budget and help with rebalancing your portfolio. As you approach age 72, we can help you prepare to take required minimum distributions from traditional IRAs and 401(k)s and make sure your estate and gifting plans are up-to-date.

Take stock

Planning could make the difference between wondering if your money will last and having great confidence that it will.

Five questions that can help you plan:

1. What does retirement look like for you?
2. What assets do you have for retirement?
3. What are your outside income sources?
4. How much do you expect to spend?
5. How much will you need from your portfolio?



1 What does retirement look like for you?

Will you spend more time traveling? Still work, but for fewer hours? Are you healthy and looking forward to a long, active life?

Will you move? Downsize? Take care of parents? Help children get on their feet? Leave a legacy?

The more clearly you can describe the retirement you see for yourself, the more accurately you can plan for funding it. A Schwab Financial Consultant can help you think it through.

2 What assets do you have for retirement?

Over the years, you've probably accumulated a number of accounts earmarked for retirement. When you're counting assets, it's important to include all your accounts—not just those at Schwab. Some may be tax-advantaged and others may be taxable. Knowing how your withdrawals will be taxed can help you create a tax-smart withdrawal strategy:

- **Tax-advantaged accounts.** While accounts such as IRAs and 401(k)s give you tax advantages while you're building assets, withdrawals from these accounts are taxed as regular income. Roth IRAs and Roth 401(k)s are the exception. Withdrawals from these accounts are tax-free as long as you are 59½ and your account is at least five years old.
- **Taxable accounts.** Expect to pay capital gains taxes on any earnings and gains you realize when you withdraw from taxable accounts such as standard brokerage and savings accounts.

3 What are your outside income sources?

How much do you expect to receive from sources other than your portfolio, such as Social Security, pensions, salary, and rental income from real estate?

Estimating Social Security income requires a decision about when to start taking payments. It can be as early as age 62, or as late as 70, with payments increasing each year you wait.

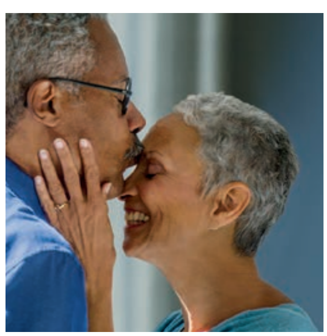
If you're in good health, you may come out ahead by postponing payments until at least your full retirement age (as defined by the IRS) and to age 70 if possible. A Schwab Financial Consultant can help you understand your options.

4 How much do you expect to spend?

It may surprise you to know that many retirees actually spend more in their first years of retirement than they did before—especially those who step up travel or spend more on hobbies.

We suggest that you estimate your expenses with one of two approaches:

- **Prepare a detailed budget** based on actual and anticipated spending in retirement, making sure to include taxes, health care, insurance, and any financial responsibilities to children or elderly parents.
- **Assume you'll need the same income** as you did before retirement, less any money you were saving for retirement. Why? While certain costs such as mortgage payments or work-related expenses may go down, others such as travel and health care may go up.



What's realistic for health care?

Be aware that Medicare doesn't cover items such as eyewear, dentistry, hearing aids, insurance premiums, and co-payments, so be sure to budget for them. It's important to be properly insured—ideally with Medicare Parts A, B, and D, along with a Medigap supplemental policy.

Optimizing Social Security—Jim and Betty's strategy

5 How much will you need from your portfolio?

Once you've estimated expenses and non-portfolio income, you can determine how much income you'll need from your portfolio.

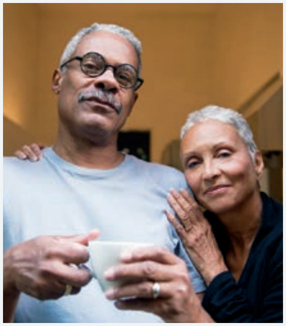
Estimate your living expenses for a year − Subtract any income from non-portfolio sources = Annual income your portfolio must provide

Can your portfolio provide the income you need?

For a rough estimate of what you might need for a 30-year retirement, the Schwab Center for Financial Research suggests that you aim for a portfolio that's 25 times larger than the income you will need from your savings your first year.

Annual income needed from portfolio x25 = Retirement assets needed for a high confidence level that your savings will last under a variety of markets

These numbers may vary depending on your own situation. Talk with a Schwab Financial Consultant about a spending rate that may be right for you.



Optimizing Social Security—Jim and Betty's strategy

Jim and Betty will be retiring in two years when Jim turns 66 and Betty is 62. Originally, both planned to start taking Social Security right away. However, after talking with Schwab, they found that they could boost benefits substantially if Jim—the higher earner—waits until he's eligible for maximum benefits.

About the benefits below. The annual benefits shown in the first table are lower than those used in the plans. Benefits in the first chart are in today's dollars with no adjustment for inflation. Benefits in the plans start two years from now and include adjustments for inflation.

Annual benefits in today's dollars			
	Early Benefit (62)	Full Benefit (66)	Maximum Benefit (70)
Jim	$22,500	$30,000	$39,600
Betty	$19,125	$25,500	$33,600

Plan comparison with benefits adjusted for inflation[1]

Original Plan

Jim starts taking full retirement benefits at age 66, and Betty takes early benefits at age 62.

Year 1	
Jim's full benefit	$31,524
Betty's early benefit	$20,088
Combined benefits	$51,612
Lifetime total:	**$2,005,597**

[1] Benefit calculations include a 2.5% annual inflation adjustment and assume that both Jim and Betty will live to age 90.

Examples are for illustration only, and not necessarily representative of the maximum benefit for all retirees.

Optimized Plan

As the higher-earning spouse, Jim waits to take his benefits until age 70. Between ages 66 and 70, Jim receives $13,392 each year in spousal benefits from Betty.

Years 1–4	
Jim's spousal benefit	$13,392
Betty's early benefit	$20,088
Combined benefits for years 1–4	$33,489
Year 5 and after	
Jim's maximum benefit	$45,924
Betty's early benefit	$20,088
Combined benefits for year 5 and after	$68,103
Lifetime total:	**$2,310,620**

Adjust portfolio

Structure your portfolio to keep income stress-free.

Adjust investments as retirement progresses.

Match investments to income needs.

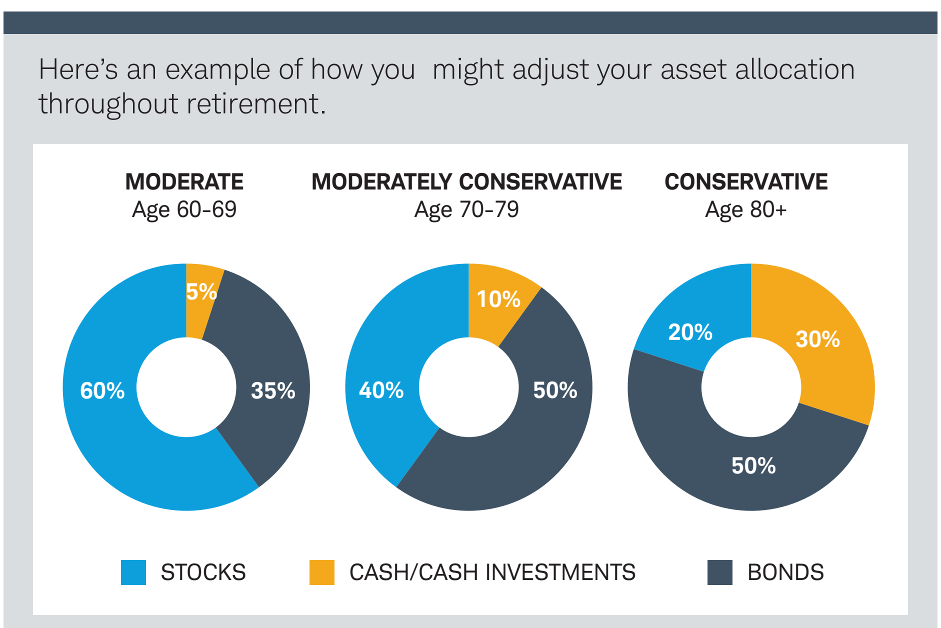
Set aside cash for a year's worth of expenses.

Build your portfolio with a short-term reserve.

Adjust investments as retirement progresses.

As the years go by, it's important to keep your investments in sync with your tolerance and capacity for risk. Depending on the size of your portfolio and income needs, we generally recommend that you progressively decrease investment risk as you approach and move through retirement.

In the early years, you might start with as much as 60% of your portfolio in stocks to help counteract the long-term effects of inflation. Later on, as your need for long-term growth lessens, stocks may take less prominence.



Source: Schwab Center for Financial Research

Match investments to income needs.

How much income will you need for essentials? What could you live without? Knowing that "must-haves" are covered with income from relatively reliable income sources is not only reassuring, it can also make you feel more confident about investing the rest of your portfolio in a more aggressive combination of income and growth investments.

Would an annuity make sense?

If Social Security and other predictable income sources can't quite cover your essential expenses, you might consider using a portion of your retirement assets to purchase an income annuity that pays a guaranteed stream of income for a set period of time or life. Or, you might consider a variable annuity that offers either guaranteed lifetime income through annuitization or an optional guaranteed lifetime withdrawal benefit.[1]

This approach can help you cover your essential expenses while enabling you to participate in the market. Keep in mind that all annuity guarantees are subject to the claims-paying ability of the issuing insurance company. (Schwab does not provide the guarantees on the annuities it offers.)

[1] A guaranteed lifetime withdrawal benefit is an optional rider available for an additional cost.

Predictable income	Fluctuating income
Social Security Pension payments Interest payments from bonds and CDs Annuities ↓	Stock dividends Mutual fund and ETF distributions Proceeds from selling investments ↓
Essential expenses	**Discretionary expenses**
Housing Taxes Food and utilities Health care and insurance	Travel Entertainment Gifts and hobbies Memberships

Set aside cash for a year's worth of expenses.

We encourage clients to set aside one year of income needed from their portfolio (after accounting for predictable income sources) into a liquid account. For convenience, you can make this your spending account and replenish it as necessary from your long-term portfolio and non-portfolio sources.

Doing so gives you 12 months' worth of money to spend without having to rely on your portfolio. This way, you won't need to focus on meeting monthly cash flow needs or have to tap investments in a down market.

Build your long-term portfolio with a short-term reserve.

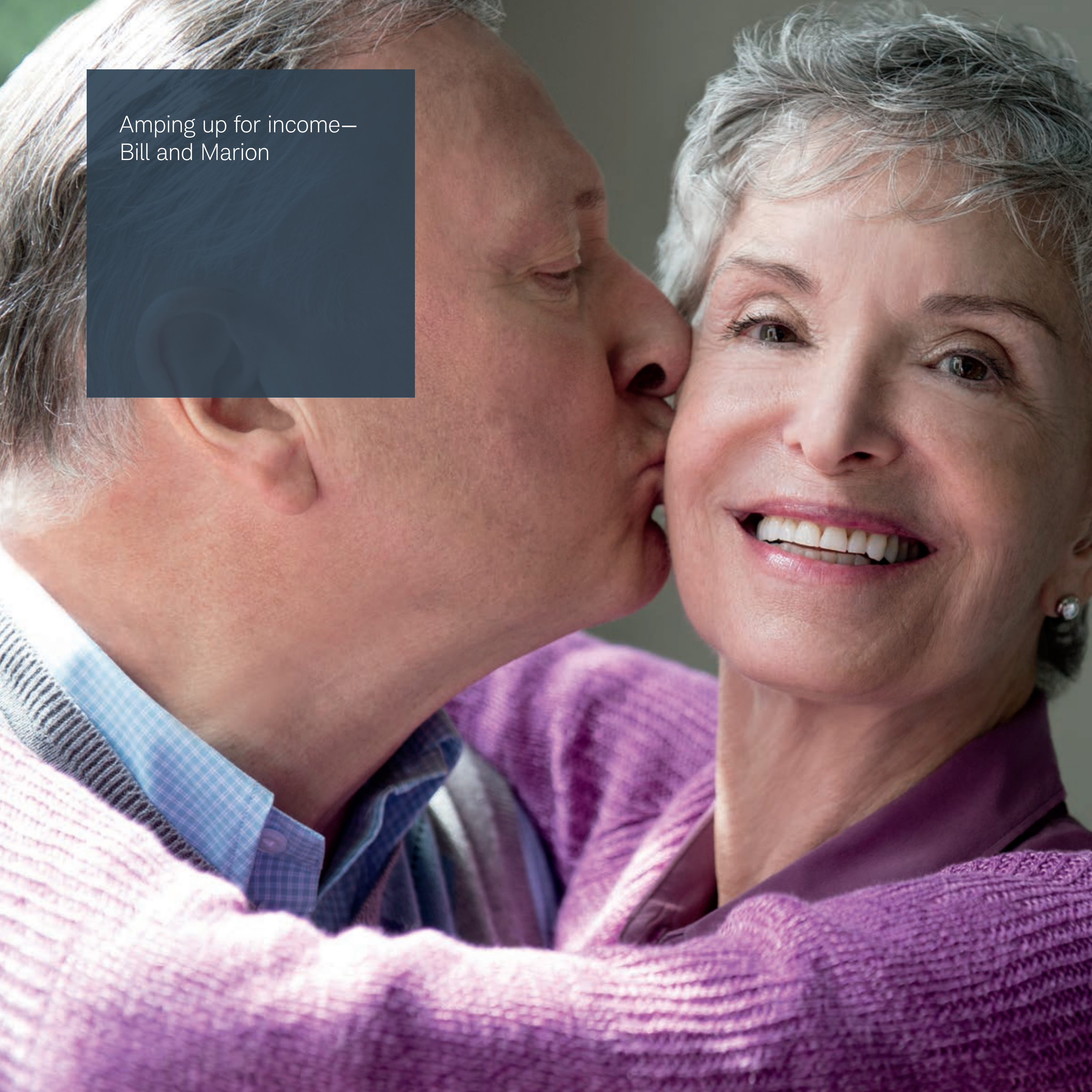
Once you've set aside a year's worth of cash, the rest of your portfolio can be invested according to your strategic asset allocation in a combination of cash, fixed income, and stock investments.

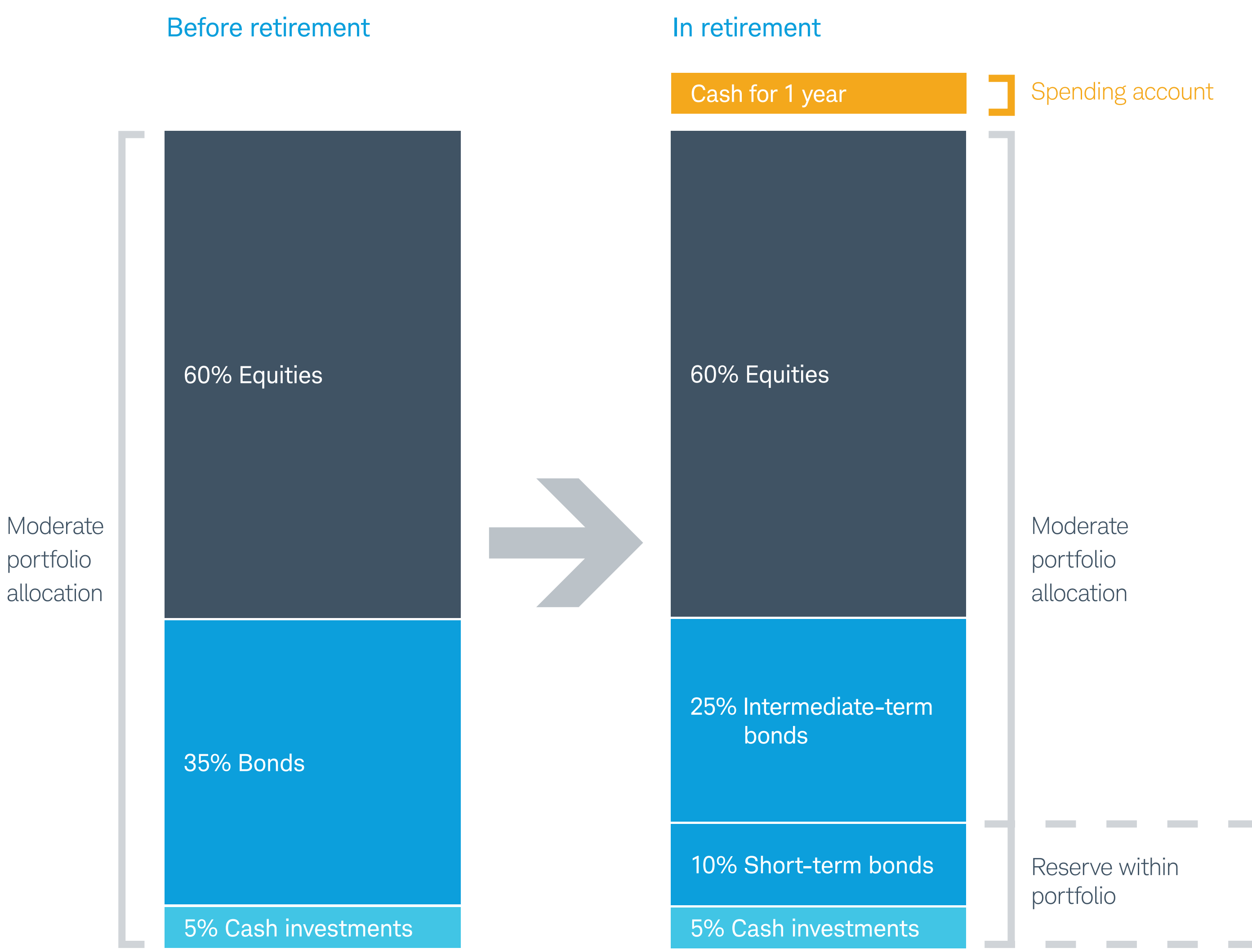
Your short-term reserve

As part of the long-term allocation, consider keeping two to four years' worth of the money you need from your portfolio in short-term high-quality bonds, bond funds, or CDs. With two to four years' worth of money available to tap as needed, you can ride out market volatility and keep the rest of your portfolio invested.

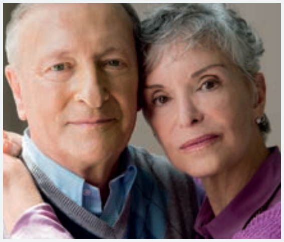
This reserve can be built with all or a part of your portfolio's cash investments and a portion of the fixed income investments, if necessary.

Amping up for income—Bill and Marion





Before retirement
In retirement
Cash for 1 year
Spending account
Moderate portfolio allocation
60% Equities
35% Bonds
5% Cash investments
60% Equities
25% Intermediate-term bonds
10% Short-term bonds
5% Cash investments
Moderate portfolio allocation
Reserve within portfolio



Bill and Marion's income strategy

Bill and Marion are ready to retire with the substantial assets they've built. They plan to spend $100,000 a year—$40,000 from Social Security and $60,000 from portfolio withdrawals. This represents a 4.6% initial withdrawal rate that will be adjusted each year for inflation. The income plan created for the couple by Schwab estimates that they have an 80% likelihood of sustaining this rate throughout their lifetime with a moderate portfolio asset allocation, which assumes a 7% return annually.

Target retirement date:	**Now**
Expected years in retirement:	**25**
Retirement assets:	**$1.3M**
Risk tolerance:	**Moderate**

Annual income goal:	$100,000
Annual Social Security income:	$40,000
Income needed from portfolio:	**$60,000**

How the couple allocated their assets		
	Bank account The couple set aside $60,000—the amount they estimate they'll need from their portfolio in the first year—in a bank account that they will use for everyday expenses. This account will be replenished with interest payments from their bonds and dividends from their mutual funds and stocks.	**$60,000**
Portfolio	**Short-term reserve** With the remaining assets, the couple set up their income portfolio, starting with a short-term reserve of $120,000 (two more years of the income needed from their portfolio). This money will be invested in short-term CDs and high-quality bonds.	**$120,000**
Portfolio	**Long-term investments** After establishing the short-term reserve, the couple invested the remaining assets according to a moderate-risk asset allocation.	**$1,120,000**
Total retirement assets		**$1,300,000**

Any projections or other information generated regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not a guarantee of future results. Individual results may vary.

Create cash flow

Create a cash flow system that works for you.

Choose an income approach.

Plan your withdrawals.

Use a smart portfolio drawdown strategy.

Monitor and adjust your plan over time.

Choose an income approach.

Your best approach for generating retirement income will depend on how much you've saved, how much income you'll need, and how long you'll need it.

Three income approaches

Interest and dividends only. Live off interest and dividend payments and touch principal only when absolutely necessary (e.g., big-ticket or unexpected expenses). Depending on the interest rate environment, this may be most appropriate early in retirement or if you have a large portfolio relative to your spending needs.

Total return. Most retirees find that they need to supplement income from dividends and interest with a sustainable rate of measured withdrawals from their principal. To help clients feel more confident that they won't run out of money over a 30-year retirement, we generally recommend that they withdraw roughly 4% of their portfolios during the first year in retirement, then adjust that dollar amount each year for inflation.

Total return with annuity. You may want to cover essential expenses with guaranteed income from an income annuity or a variable annuity, which may include an optional guaranteed lifetime withdrawal benefit ensuring you a base level of income. Then you can invest the rest of your money for discretionary expenses and growth potential.

Please keep in mind that all annuity guarantees are based on the financial strength and claims-paying ability of the issuing insurance company. Schwab does not provide the insurance guarantees on the annuities it offers.

A guaranteed lifetime withdrawal benefit is not a contract value and is not available for withdrawal like a cash value. Your actual contract value will deplete with each withdrawal.

Three approaches to generating income

Interest and dividends only	Total return	Total return with annuity
Interest and dividends	Interest and dividends	Interest and dividends
	Capital gains or principal	Capital gains or principal
		Annuity income

Interest and dividends only

Advantages

- Leaves your principal intact.
- Used in early retirement years, helps avoid selling investments needed to support future spending needs or unexpected expenses.

Disadvantages

- Requires a much larger portfolio to support spending.
- Income can be volatile as interest rates change.
- Difficult to protect against inflation risk.

Total return

Advantages

- Allows broader investment diversification.
- Supports more consistent cash flow over time.
- Interest and dividends are one, but not the only, source of income.

Disadvantages

- May require more hands-on involvement by you or an investment manager.
- May require sale of investments to fund spending.
- May spend down principal.

Total return with annuity

Advantages

- Allows for broader investment diversification.
- Dedicates a portion of the portfolio to covering fixed living expenses.
- Helps manage market and longevity risk with guaranteed payments.

Disadvantages

- Requires hands-on involvement and may increase management fees.
- Reduces flexibility to make changes to investments.
- Spends down a portion of principal.

Plan your withdrawals.

Pay living expenses from your bank account.

- Maintain one year's worth of living expenses in your bank account.
- Withdraw money from this account as needed.
- Replenish this account with money from your main portfolio in addition to any income received from non-portfolio sources such as Social Security.

Draw interest and dividends from your main portfolio.

- Consider turning off the automatic reinvestment feature for mutual funds and directing interest and dividends from individual bonds and stocks into the bank account, starting with taxable accounts.
- If interest, dividends, and mutual fund distributions are not enough, plan to sell investments and/or tap your short-term reserve.

Generate additional cash-flow from regular rebalancing, if necessary.

- Use cash investments and the short-term reserve or sale of assets during periodic rebalancing, depending on market performance.
- Be sure to plan for and take required minimum distributions (RMDs) from traditional IRAs if you're over age 72.

Non-portfolio income sources

- Social Security
- Pensions
- Annuities
- Part-time salary

Interest and dividends

- Stocks
- Intermediate-term bonds
- Reserve short-term bonds and cash investments

Withdrawals from portfolio

If necessary, withdraw principal, starting with maturing bonds and CDs.

Main portfolio

365

Bank account

Maintain **one year's** worth of living expenses

Spend from cash account

Flexible cash flow—Marilyn's strategy

Use a smart portfolio drawdown strategy.

To supplement your income from Social Security and other non-portfolio sources, we suggest drawing income from your portfolio in this order:

Steps to generating cash flow from a retirement portfolio

First
Take your RMD from your IRA if you're 72 or older.

Next
Take interest, dividends, and other income from your investments.

Next
Draw principal from maturing bonds and CDs.

Finally
Sell overweighted assets when you rebalance your portfolio.

- Sell from taxable accounts first.
- Then sell from tax-advantaged accounts—starting with traditional IRAs, then Roth IRAs.

Monitor and adjust your portfolio over time.

Watch for changes in spending or income to ensure that you remain on track with your plans. In a prolonged down market, for example, you may need to curb or postpone discretionary spending to avoid drawing down your portfolio too quickly.

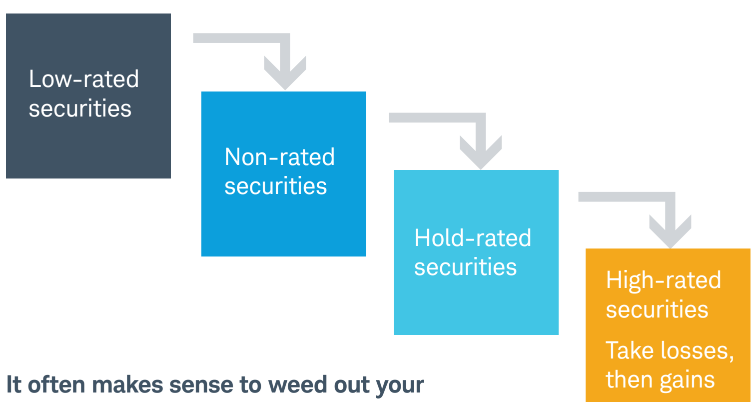
Questions to ask yourself:

- Am I living on more—or less—than I originally calculated? Do I need to alter my spending or look for other income?
- Has my financial situation changed significantly as a result of receiving a large lump sum from a property sale, pension, or inheritance? Is my investing strategy still appropriate?
- Has a change in my employment situation affected my income?
- Have Social Security payments or RMDs changed the income picture for my spouse or me?
- Am I still comfortable with the investment products in my portfolio?

Which investments should you sell?

Your best approach may be to sell investments when you rebalance your portfolio each year. For example, if your portfolio has become overweighted in a certain asset class, such as stocks or bonds, you could sell some of those investments to generate needed cash and get yourself back on target.

Performance and credit ratings—such as Schwab Equity Ratings® for stocks, Morningstar for mutual funds and exchange-traded funds (ETFs), and Moody's for bonds—can help you decide which investments to sell.



It often makes sense to weed out your lowest-rated securities first.

A Schwab Consultant can help you assess the best drawdown approach based on your needs and goals.

Marilyn's cash flow strategy

Marilyn is recently widowed and wants to make sure that the money she and her husband saved will see her through retirement. Her good health and family history point to a retirement that could stretch well beyond 30 years. While her portfolio would likely provide ample income to supplement her Social Security and pension payments, she feels more comfortable adding an additional source of guaranteed income by purchasing an annuity.

Target retirement date:	**65**
Expected years in retirement:	**30+**
Retirement assets:	**$850,000**
Risk tolerance:	**Conservative**

Annual income goal:	$60,000
Annual Social Security and pension income:	$40,000
Income needed from portfolio:	**$20,000**

Here's how Marilyn will allocate her assets:		
	Bank account Marilyn is setting aside only half the amount she'll need from her portfolio in the first year. The other half will come from her guaranteed annuity payment.	**$10,000**
	Annuity Marilyn will purchase a variable annuity with a guaranteed lifetime withdrawal benefit rider, which allows her to withdraw 5% of an income base for life.[1] Her $200,000 purchase payment establishes the initial income base and will provide at least $10,000 per year for life. The income base can rise, but is guaranteed not to fall regardless of market performance. Note: The income base is not a contract value and cannot be withdrawn in cash like a cash value. The actual contract value will reduce with each withdrawal, though Marilyn can continue the 5% withdrawals for life, even if the contract value is reduced to zero.	**$200,000**
Portfolio	**Short-term reserve** Marilyn reserves $40,000 to cover four years of income needed from her portfolio—after accounting for Social Security, pension, and annuity payments—and adds $30,000 for unexpected expenses. This is invested in a money market fund, short-term bond fund, and CDs.	**$70,000**
Portfolio	**Long-term investments** For the rest of her portfolio, Marilyn will invest in stocks and fixed income mutual funds.	**$570,000**
	Total retirement assets	**$850,000**

[1] Withdrawals in excess of the specified annual amount may permanently and significantly reduce future income.

Let’s create a plan for you.

Share your vision for retirement with a Schwab Financial Consultant. Together, we can create a personal retirement income plan to help you start spending your savings with greater confidence that your money will last.

Your plan will include:

Where you stand now.

- Your savings, income, and expenses—both current and estimated
- How your savings and assets can support you
- Your comfort level with investment risk

What you want.

- When you plan to retire (if you haven’t already)
- Your desired lifestyle
- Major milestones you expect to achieve

How to move forward.

- Ways to balance income and expenses
- How to generate retirement income from all available sources
- Realistic options—and next steps required
- Check-ins to keep your plan in line with evolving needs

Take your next step.

Talk with your Schwab Financial Consultant or call **1-877-789-6076** for help with your retirement needs.

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Investment value will fluctuate, and shares, when redeemed, may be worth more or less than their original cost.

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Variable annuities are long-term investment vehicles designed for retirement purposes. The value of a variable annuity may be more or less than the premiums paid and it is possible to lose money.

Variable annuities are subject to a number of fees including mortality and risk expense charges, administrative fees, premium taxes, investment management fees, and charges for additional optional features. Although there are no surrender charges on the variable annuities offered by Schwab, such charges do apply in the early years of many contracts. Withdrawals prior to age 59½ may be subject to a 10% federal tax penalty in addition to applicable income taxes.

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Examples provided are for illustrative purposes only and are not intended to be reflective of results you can expect to achieve.

Dividends are not guaranteed and stocks may reduce or stop paying dividends, affecting the portfolio's ability to generate income.

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