

Wealth Management

THE THREE TIERS OF RETIREMENT INCOME

An income strategy for retirees

In a low interest rate environment, the search for a competitive yield has led some investors to assume additional, but not always fully understood, risk. The impact of these decisions is commonly felt during times of market volatility and prolonged economic stress and can quickly devastate a portfolio's ability to generate sustainable, long-term cash flow. Investors looking for income may benefit from thinking differently about their approach.

THINK DIFFERENTLY

The starting point is the recognition that income and yield are two entirely different concepts. Income represents total cash flow and can be inclusive of Social Security, pensions, royalties, rental income and is what helps retirees meet their essential household expenses. Meanwhile, yield is related to the income a particular investment pays. While yield can be helpful to evaluate specific investment opportunities, investors are likely to be better served formulating a strategy based on income.

The Three Tiers of Retirement Income is a simple, yet powerful, tool to help investors allocate money to generate cash flow for various needs.



The Three Tiers of Retirement Income



Tier 3:
Yield



Tier 2:
Cushion Income



Tier 1:
Anchor Income

Tier 1: Anchor Income

How to meet your essential retirement needs

Tier 1 is dedicated to anchor income or income that is necessary to meet essential needs in retirement. To determine how much should be allocated to anchor income investments, a retiree may look at the monthly expenses for their essential needs. These expenses include recurring monthly costs for rent, utilities, insurance, food, health care and more. Estimating the total amount of monthly expenses provides a specific amount of income that will be needed and may be used to determine how much to allocate.

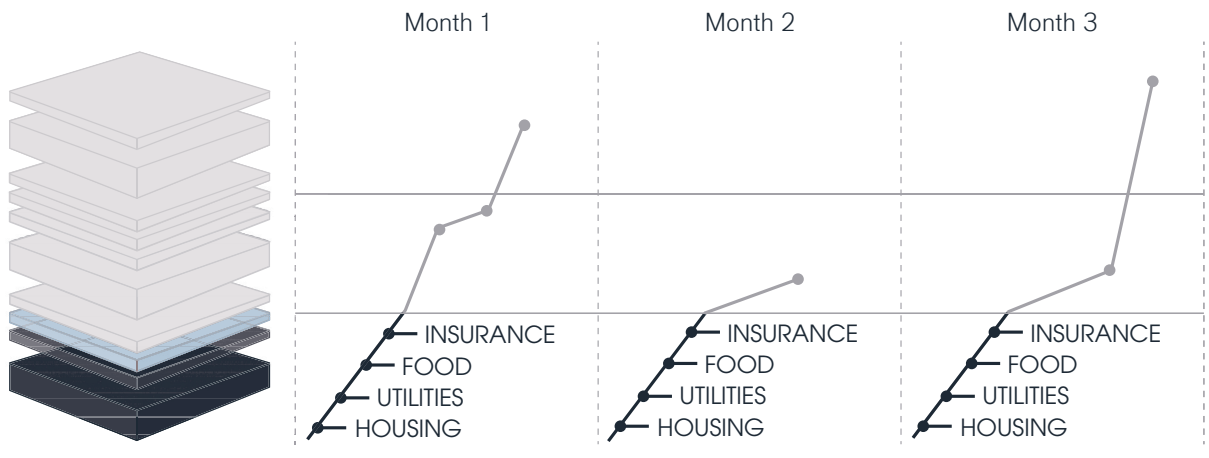
Getting the cash flow needed to meet essential retirement needs

Once the total amount to meet essential retirement needs is known, a retiree can look at anchor income to pay a specific, periodic amount that can generally be relied upon regardless of market or economic conditions. Specific examples include employer pensions and Social Security payments. Another example is an annuity that pays fixed monthly amounts. Many retirees may find peace of mind if their anchor income sources equal their essential household expenses.

Anchor Income Examples:

- Social Security
- Pensions
- Royalties
- Annuities

Tier 1: Anchor Income Essential Expenses



Tier 2: Cushion Income

Covering discretionary expenses and income gaps during retirement

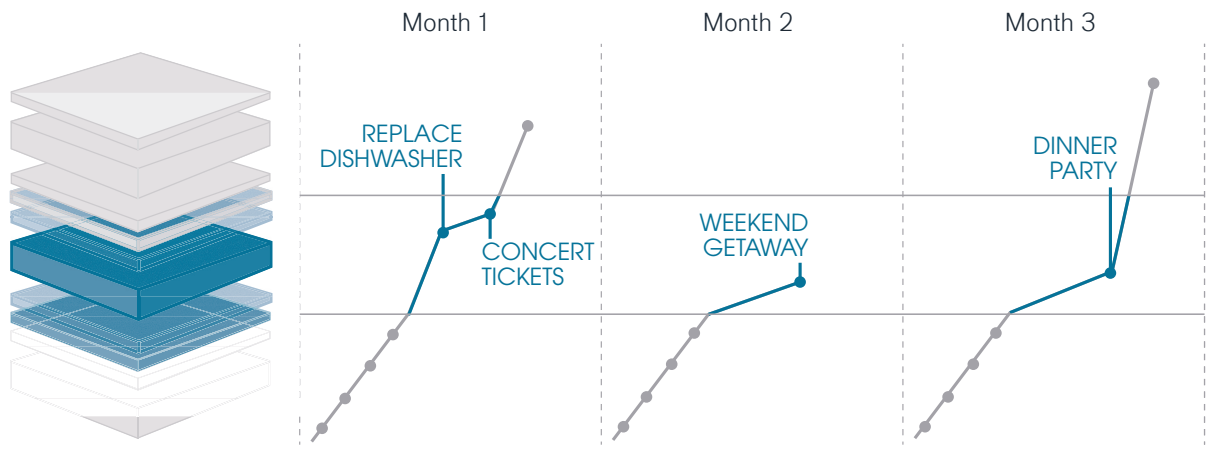
The second tier of the Three Tiers of Retirement Income is dedicated to cushion income. These investments can be used to pay discretionary expenses or cover gaps needed to pay for essential expenses. A good idea would be to allocate a certain number of months of expected living expenses to this tier in order to meet extra expenses not covered by Tier 1 income.

Investing to get the cash flow needed

This category of investments consists of investments such as savings accounts and money markets. Investors looking for greater return potential who have a higher risk tolerance might also consider short-term bond or low-duration bond mutual funds or ETFs. However, although bank deposits may be guaranteed as to principal and interest, investment products are not and investors should use caution to make sure the portfolio consists of high-quality investments since they can lose value. If effective, a pool of cash is readily available for withdrawals and can be augmented or replenished from the yield portion of the portfolio.

Tier 2: Cushion Income

Discretionary Expenses



✦ Tier 3: Yield

Getting more income from your portfolio

Tier 3 of the Three Tiers of Retirement Income is dedicated to yield. These higher risk investments could generate more income than the other retirement income tiers while offering diversification potential from the stock or growth portion of the portfolio. After the first two tiers of income are addressed, any remaining cash is allocated to investments with the potential to generate higher yield. As these investments often pay interest and/or dividends, those payments may be reinvested or can be used to supplement your anchor income, the income needed to meet essential expenses, and cushion income or income needed to meet discretionary expenses.

Investing for more income

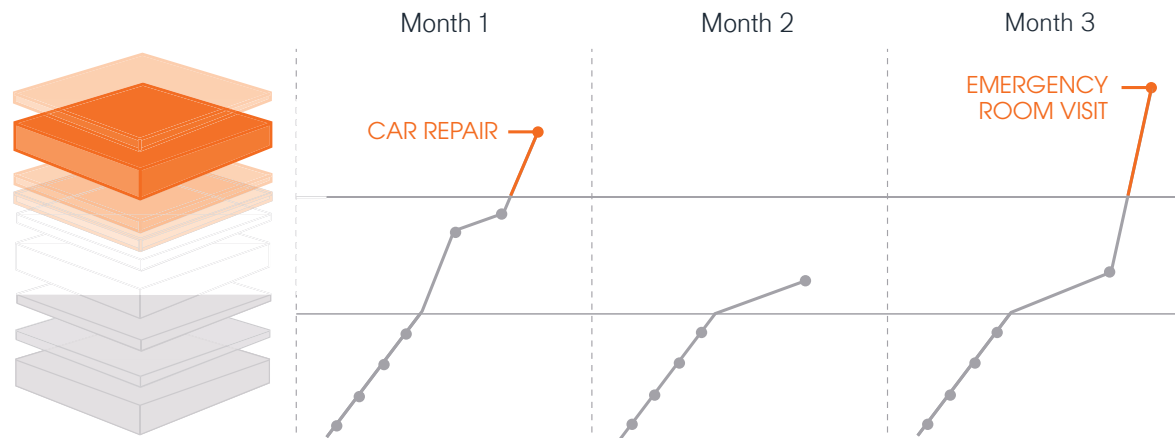
Yield is one, but not the only, calculation that can be used to help select these investments. Specific examples include government and corporate bonds of various maturities and credit quality and

high-dividend-paying stocks often found in the utilities, financials and real estate sectors. More complicated investments may also fit this category including preferred stocks and convertible bonds. Further, investors may wish to look beyond U.S. companies as international bonds and stocks may offer higher yields and diversification benefits. If individual security selection seems intimidating, an equity income, strategic income and/or global income mutual fund or ETF can provide a convenient alternative.

Prior to a decision, be sure to understand the benefits and limitations of your available options and consider factors such as differences in investment-related expenses, tax treatment and other concerns specific to your circumstances.

For some investors, their income needs may be such that interest and dividends are required to help meet immediate expenses. Even in these cases, however, investments should be made as part of a coordinated and thoughtful retirement income plan, rather than relying on yield measurements alone.

■ Tier 3: Yield Unexpected Expenses



**NEXT STEPS: TALK TO YOUR FINANCIAL PROFESSIONAL
ABOUT HOW TO STRUCTURE YOUR PORTFOLIO UNIQUELY
TO YOUR RETIREMENT INCOME NEEDS.**

Janus Henderson
— INVESTORS —

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Investing involves market risk and it is possible to lose money by investing. Investment return and value will fluctuate in response to issuer, political, market and economic developments, which can affect a single issuer, issuers within an industry, economic sector or geographic region, or the market as a whole.

Foreign securities are subject to additional risks including currency fluctuations, political and economic uncertainty, increased volatility, lower liquidity and differing financial and information reporting standards, all of which are magnified in emerging markets.

Fixed income securities are subject to interest rate, inflation, credit and default risk. The bond market is volatile. As interest rates rise, bond prices usually fall, and vice versa. The return of principal is not guaranteed, and prices may decline if an issuer fails to make timely payments or its credit strength weakens.

Annuities are long-term investment vehicles designed to accumulate money on a tax-deferred basis for retirement purposes. They limit access to the investment as a result of a surrender charges and are subject to a 10% tax penalty on certain withdrawals. Riders are generally available for an additional charge. Variable annuities are subject to investment risk, and investment return and principal value will fluctuate. Guarantees are subject to the claims paying ability of the insurer.

Diversification neither assures a profit nor eliminates the risk of experiencing investment losses.

No investment strategy can ensure a profit or eliminate the risk of loss.

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FOR MORE INFORMATION CONTACT JANUS HENDERSON INVESTORS

151 Detroit Street, Denver, CO 80206 | www.janushenderson.com

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