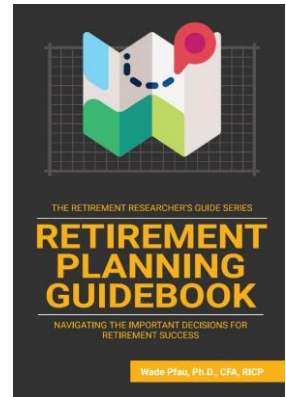




Retirement Researcher

PREPARE FOR YOUR BEST RETIREMENT™

Navigating the Important Decisions for Retirement Success



Presented by:

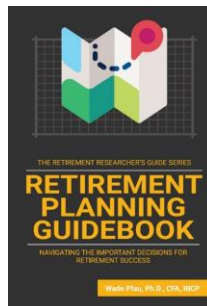
Wade Pfau, Ph.D., CFA, RICP
 RetirementResearcher.com
 RisaProfile.com



Retirement Researcher

Navigating the Important Decisions for Retirement Success

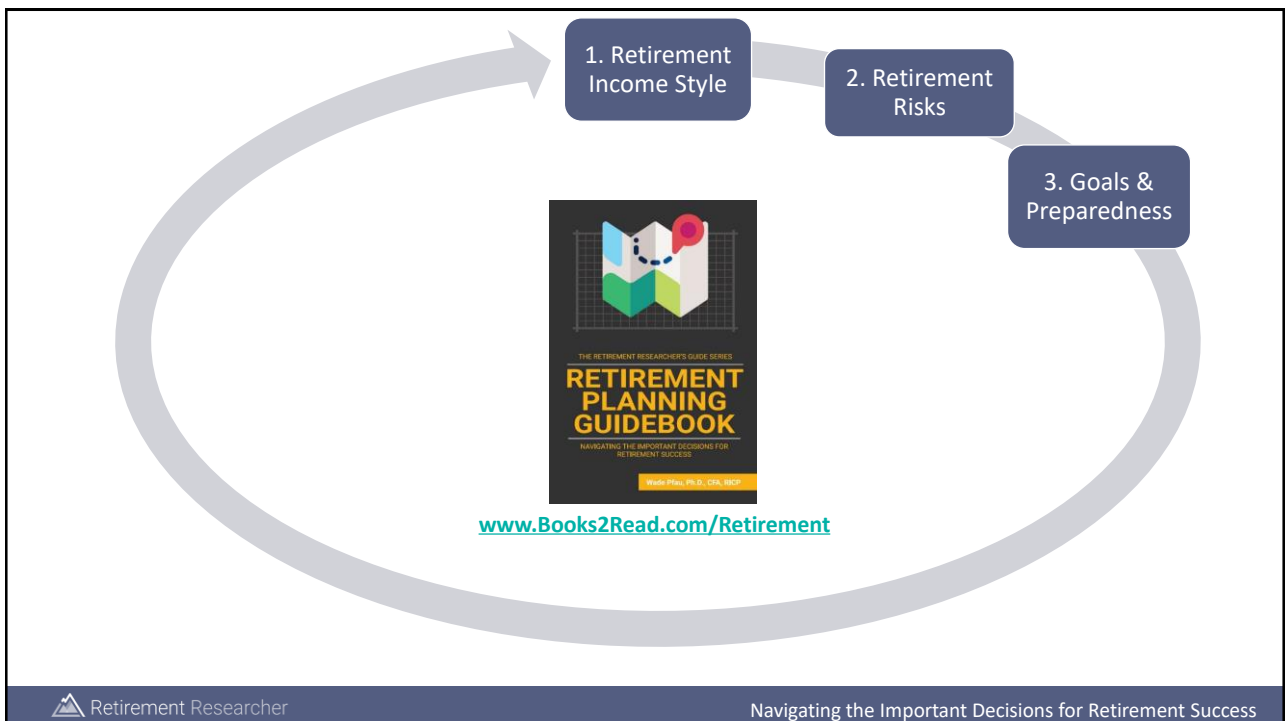
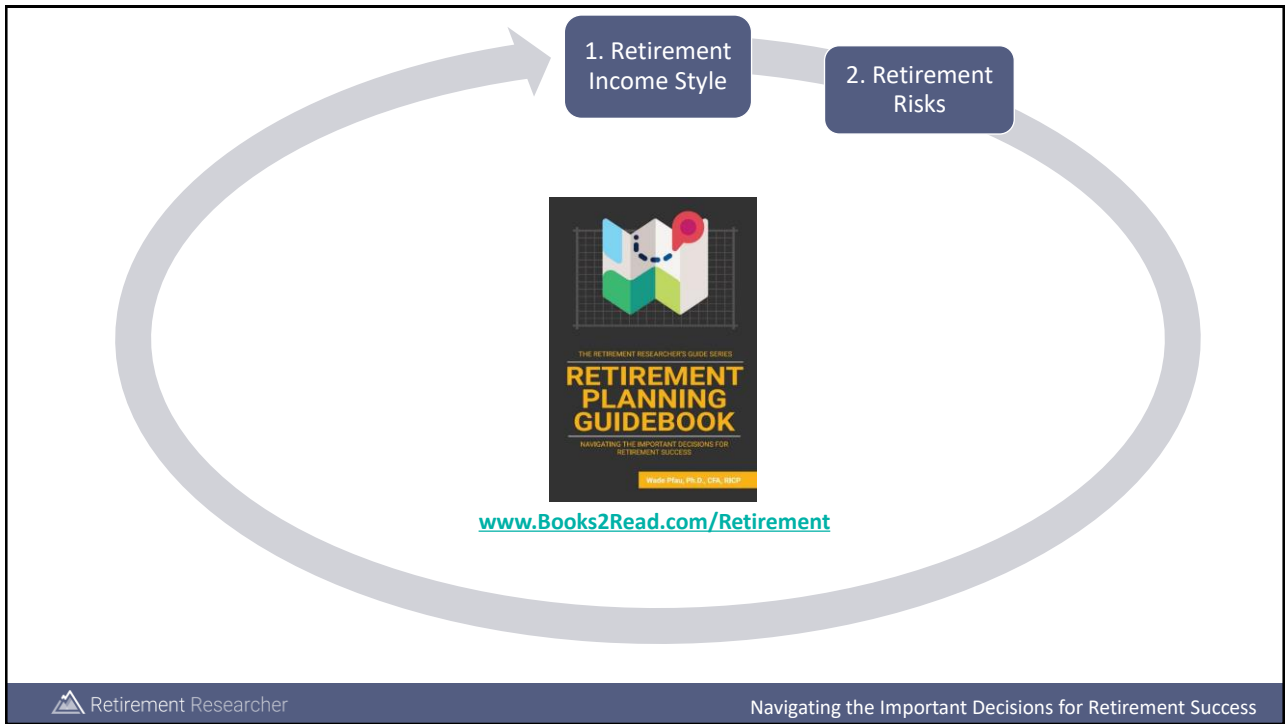
1. Retirement
Income Style

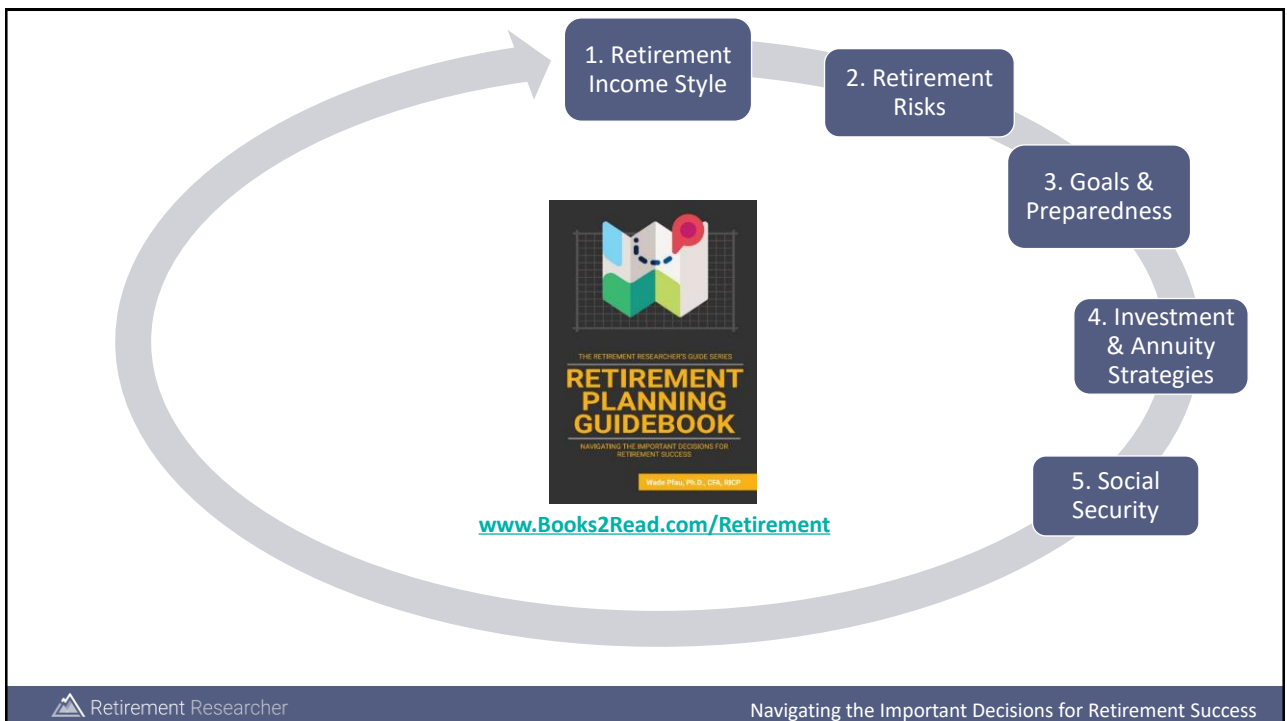
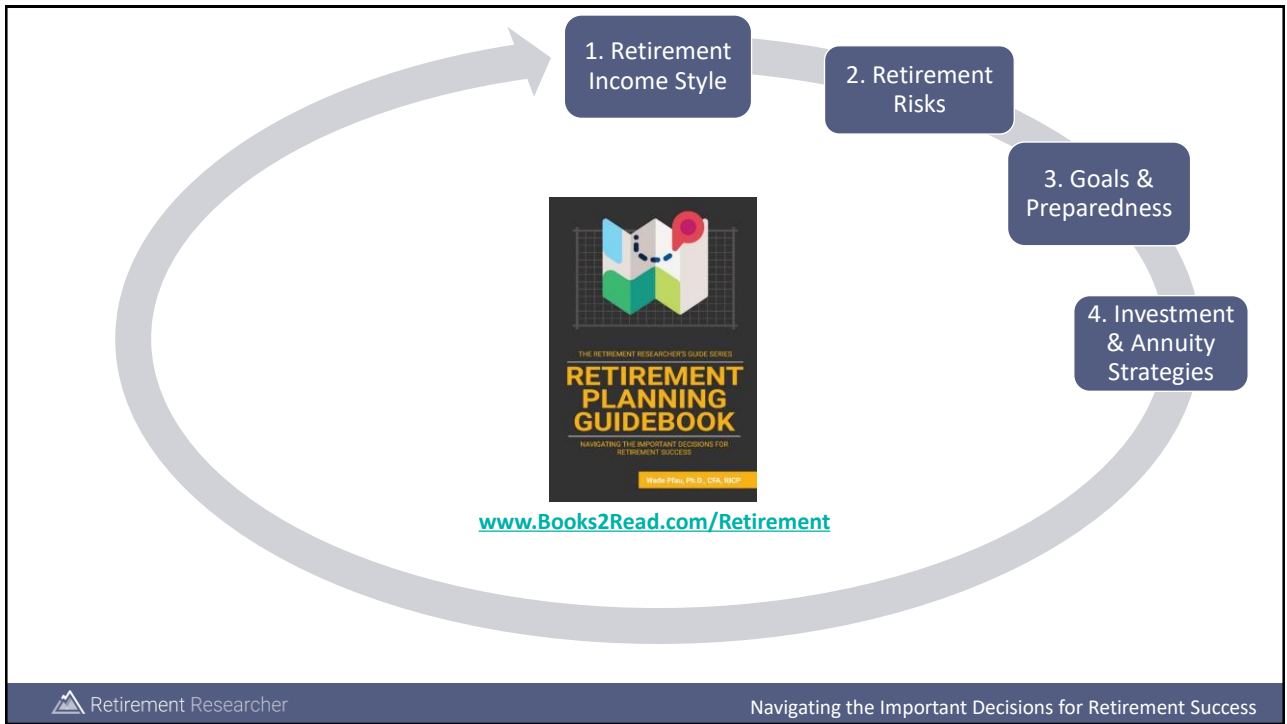


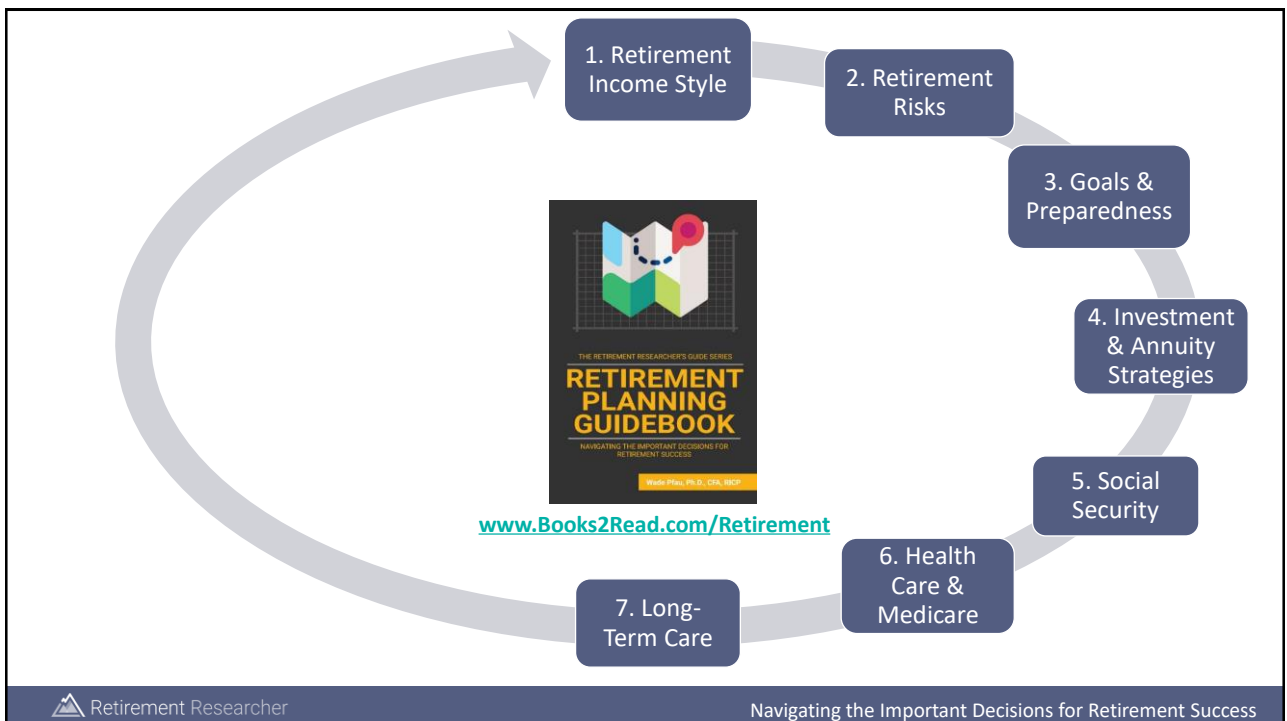
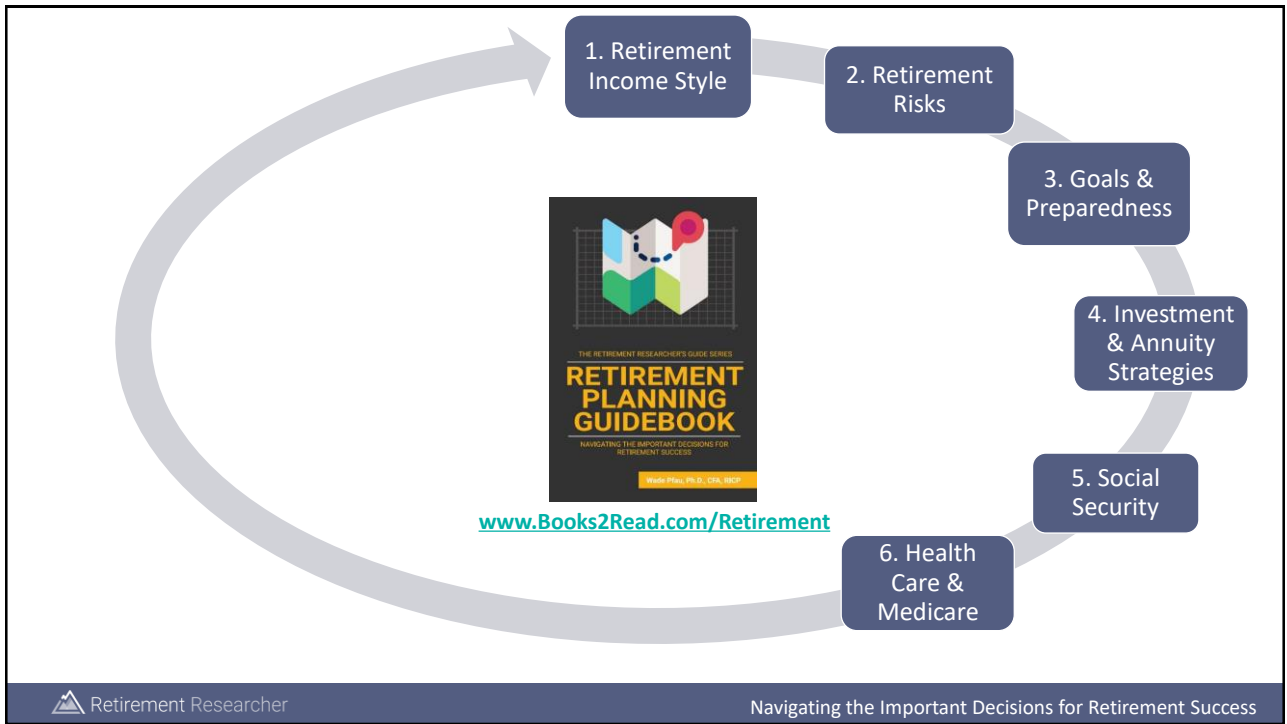
www.Books2Read.com/Retirement

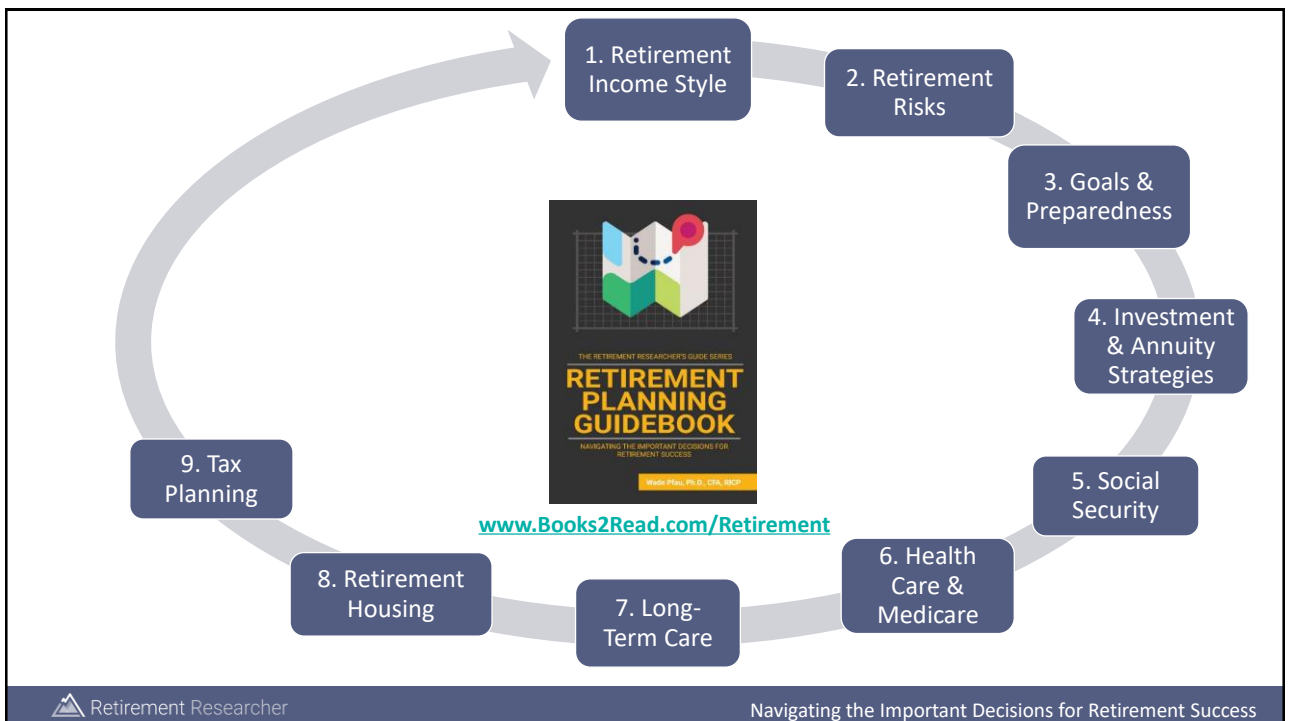
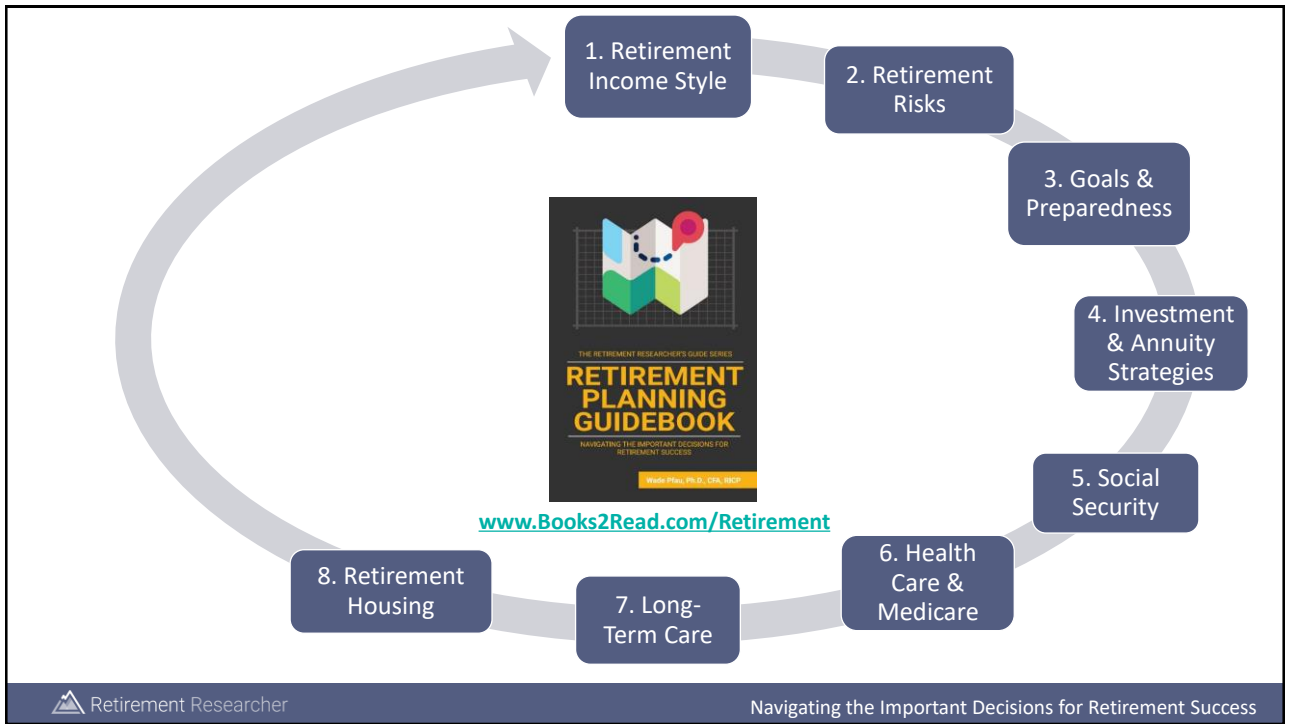
Retirement Researcher

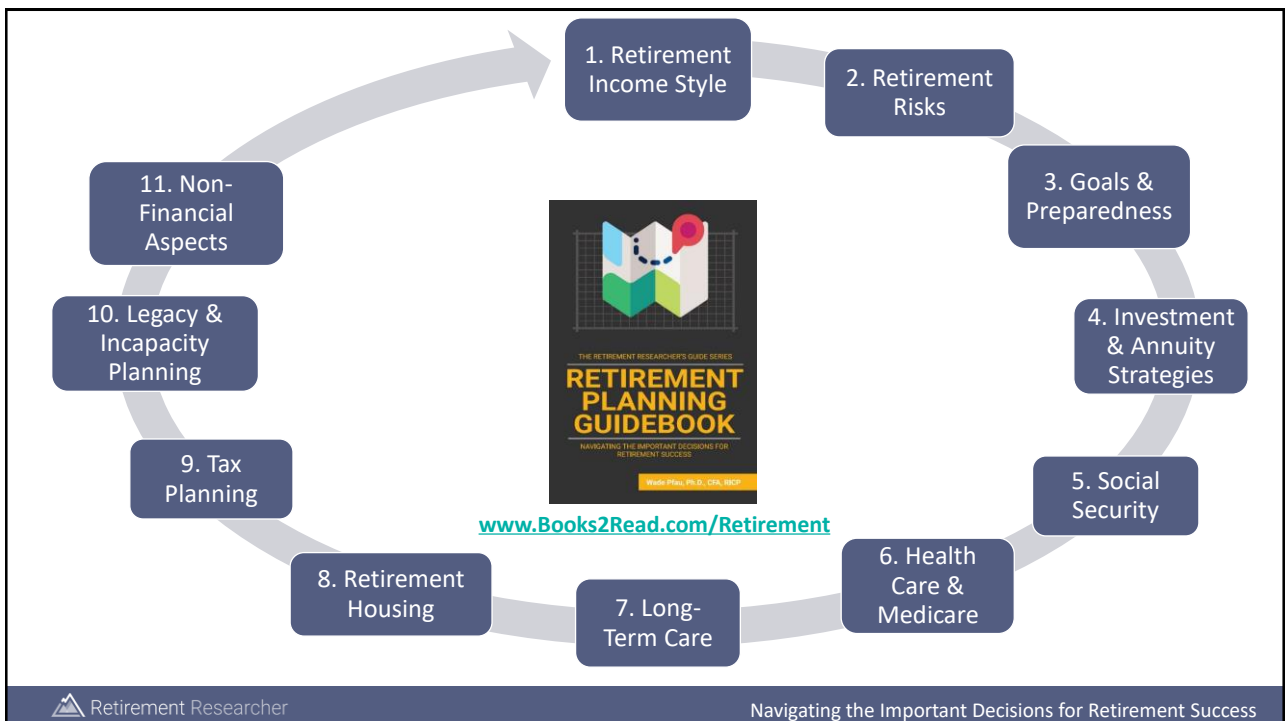
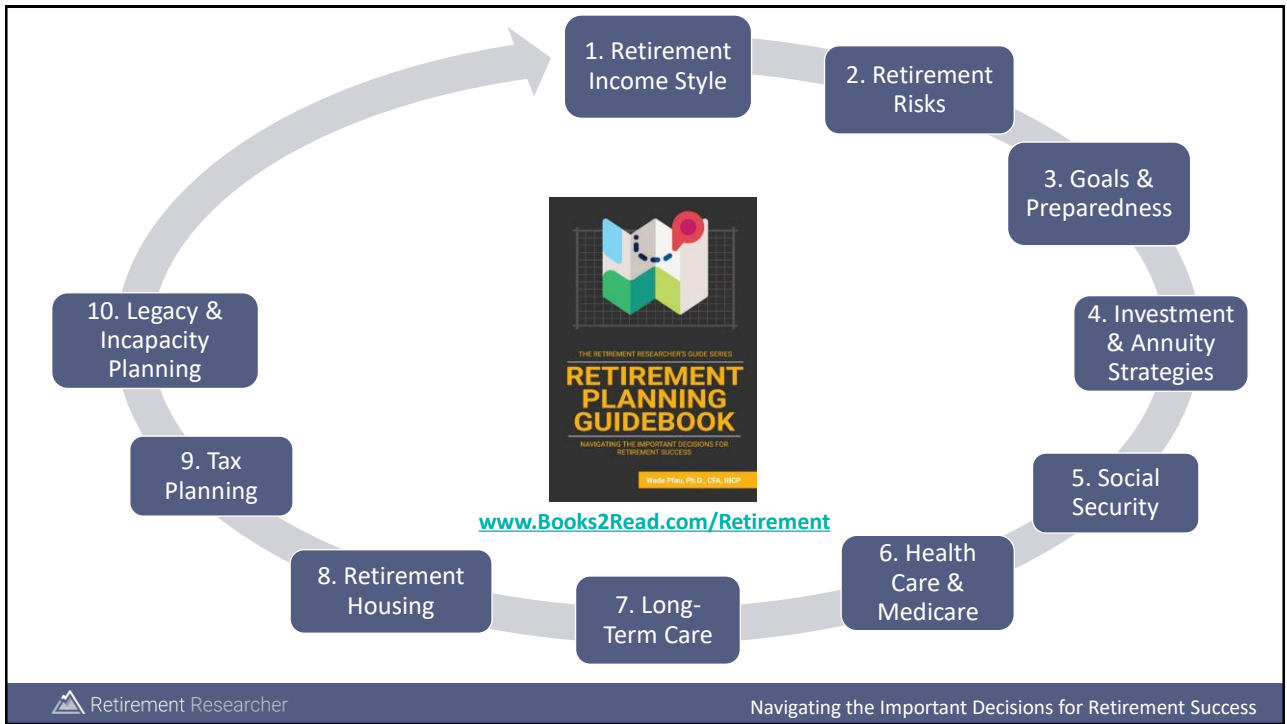
Navigating the Important Decisions for Retirement Success

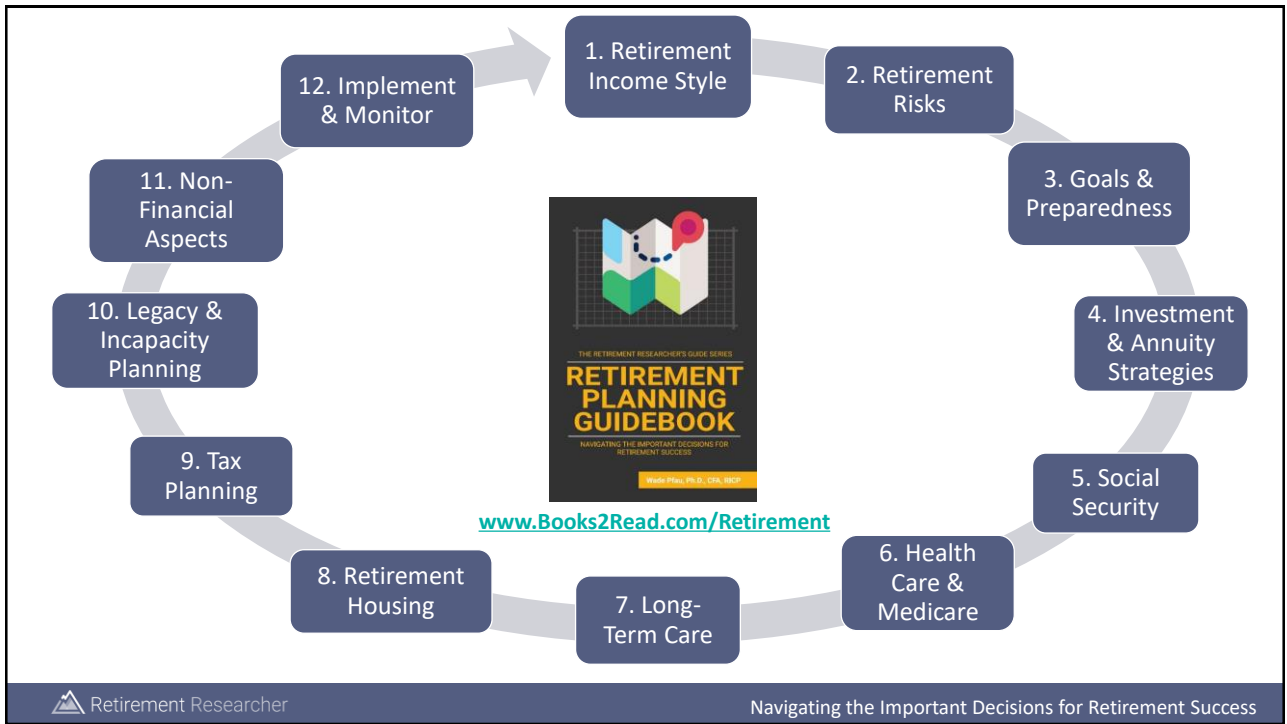




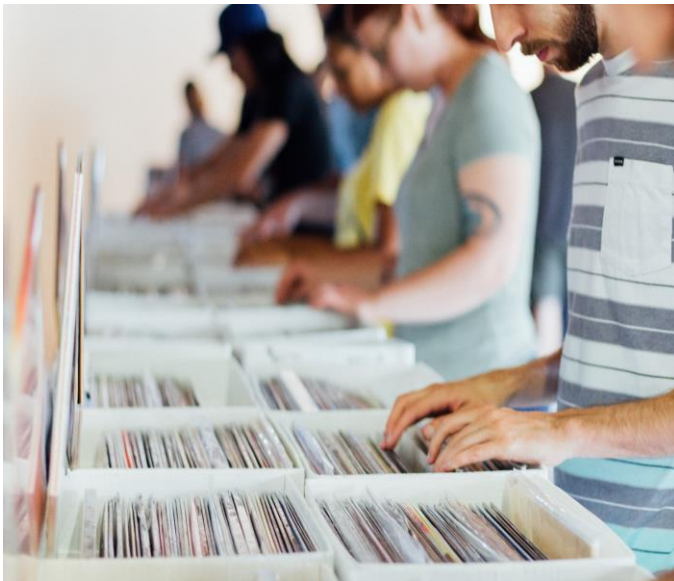
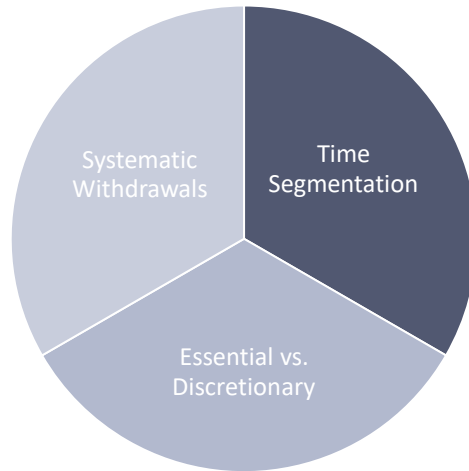






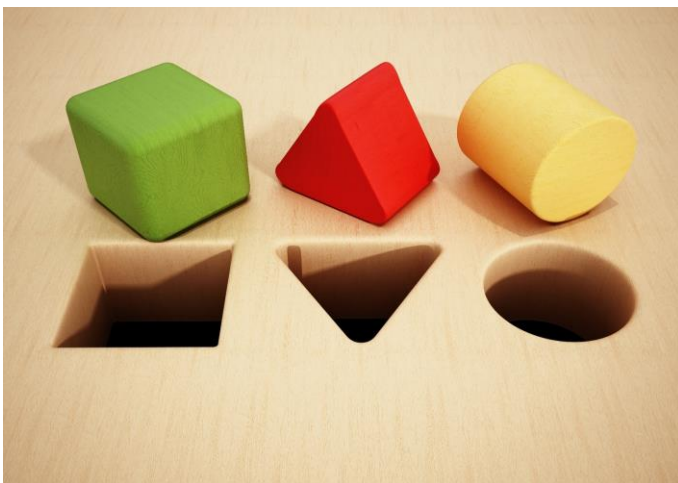


Financial Planning Association - Taxonomy



How do retirees
choose from the
possibilities?

Retirees end up
filtering strategies
based the personal
preferences of
others

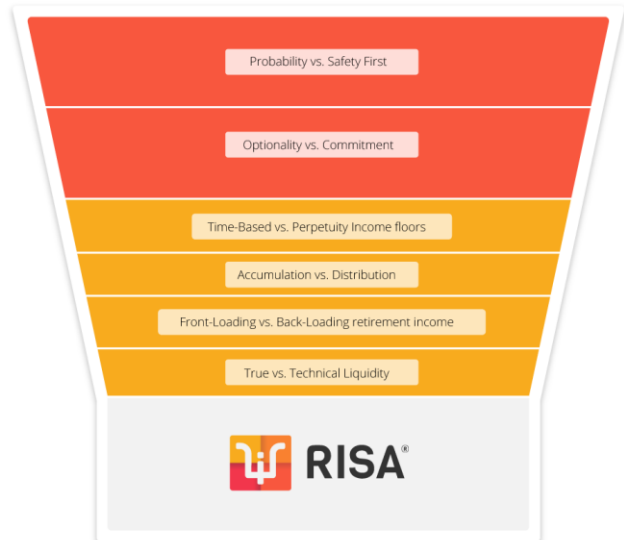


It can be hard
to match up
your style

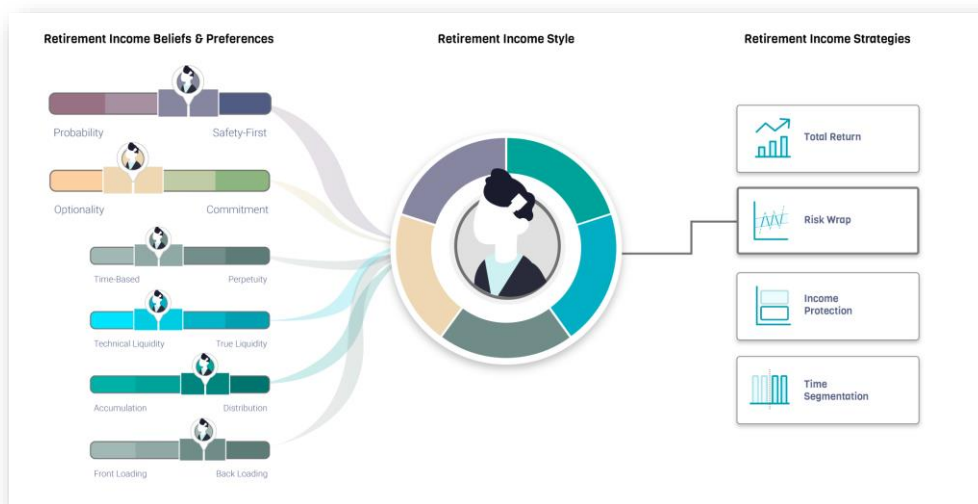
Retirement Income Factors

**Primary
RISA® Factors**

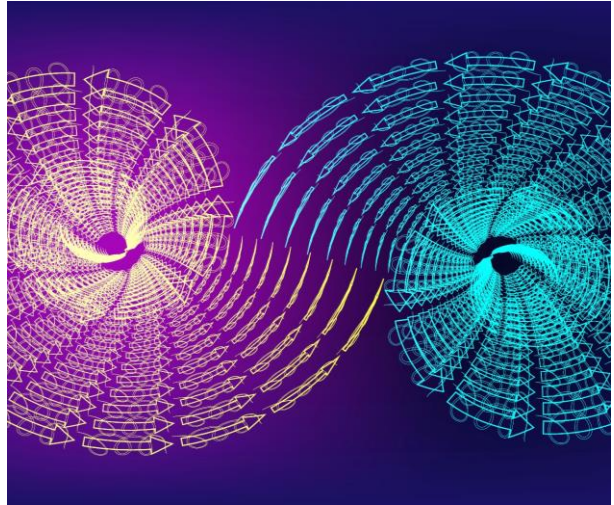
**Secondary
RISA® Factors**



Your style leads to specific strategies



Probability vs Safety-First & Optionality vs Commitment Orientation



How do you like to draw retirement income?

Probability-Based ○○○○○○ Safety-First

Depend on market growth through the **risk premium** for stocks to outperform bonds

Rely on contractually-driven income for safety relative to unknown market outcomes (individual bonds, or **risk pooling** with annuities)

How much plan optionality do you prefer?

Optionality

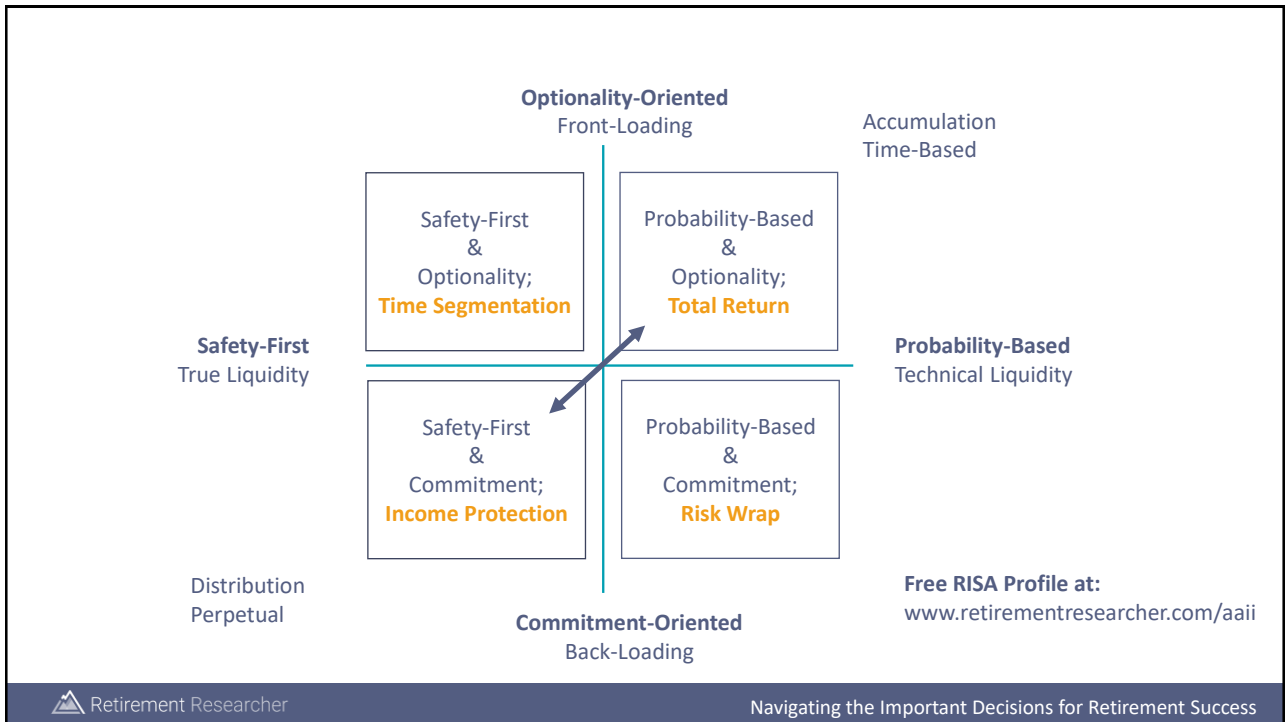


Commitment

Prefer **flexibility** to keep options open and take advantage of new opportunities

Prefer to **lock-in** a solution that solves a lifetime income need

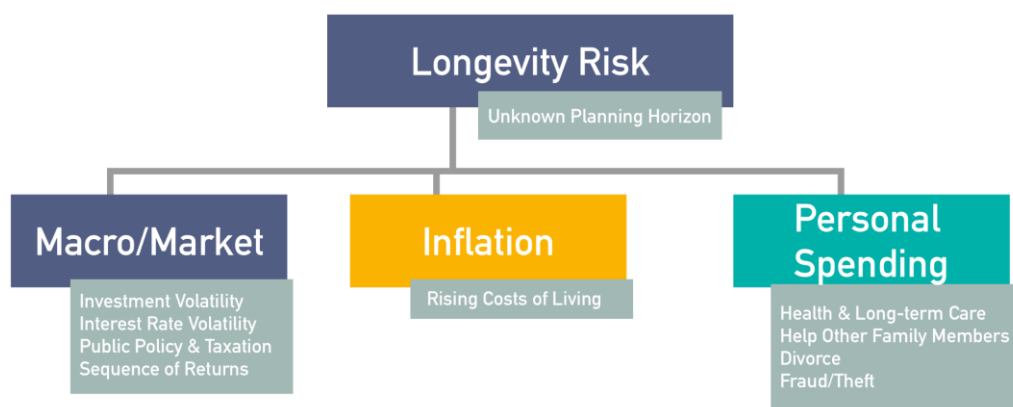




Retirement Risks

- Longevity
- Market volatility and sequence-of-return risk
- Long-term care expenses
- Health care & prescription costs
- Inflation
- Death of a spouse
- Unexpected family responsibilities
- Divorce
- Changing public policy and tax rules
- Business risks for annuities and pensions
- Excess withdrawal risk
- Frailty and declining cognitive abilities
- Financial elder abuse
- Changing housing needs
- Forced early retirement

Key Retirement Risks





The 4 Ls – Financial Goals for Retirement

- **Longevity:** consistent and sustainable spending for core retirement expenses
- **Lifestyle:** maximize annual spending power
- **Legacy:** leaving assets for subsequent generations
- **Liquidity:** maintaining sufficient reserves for unexpected contingencies

$$\text{Retirement Budget} = \text{Longevity} + \text{Lifestyle}$$

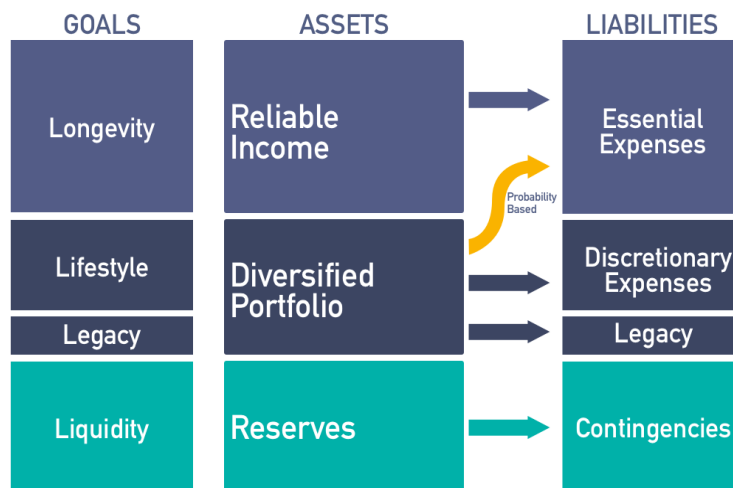
Estimate the Four Ls of Retirement (longevity, lifestyle, legacy, and liquidity)

- ☐ Collect data on spending over the previous few years
- ☐ Use past spending as well as analysis of what will change to develop a baseline retirement budget
- ☐ Organize the retirement budget as essential longevity expenses and discretionary lifestyle expenses
- ☐ Determine legacy goals
- ☐ Create a reserves target by assessing exposure to spending shocks

Calculating the Funded Ratio

- ☐ Build a retirement balance sheet by collecting household finances and determining all assets and liabilities, including the present value for future income and expenses.
- ☐ Calculate the funded ratio as based on planning age and a conservative discount rate.
- ☐ Assess separate fundedness for reliable income, diversified portfolio and reserves.

Retirement Income Optimization Map



Your Funded Ratio Score

Present Value of Assets **\$5,075,229**

Present Value of
Liabilities **\$5,131,081**

99%

Stressed

\$55,851

Stressed Amount



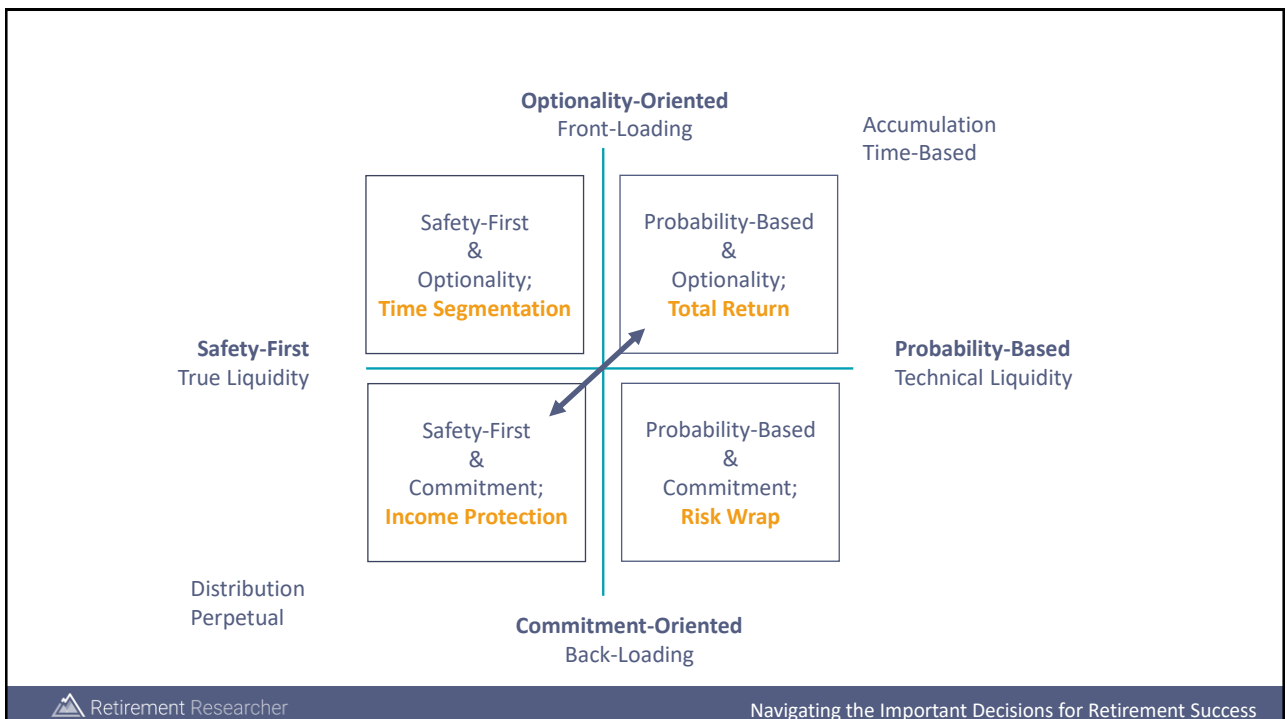
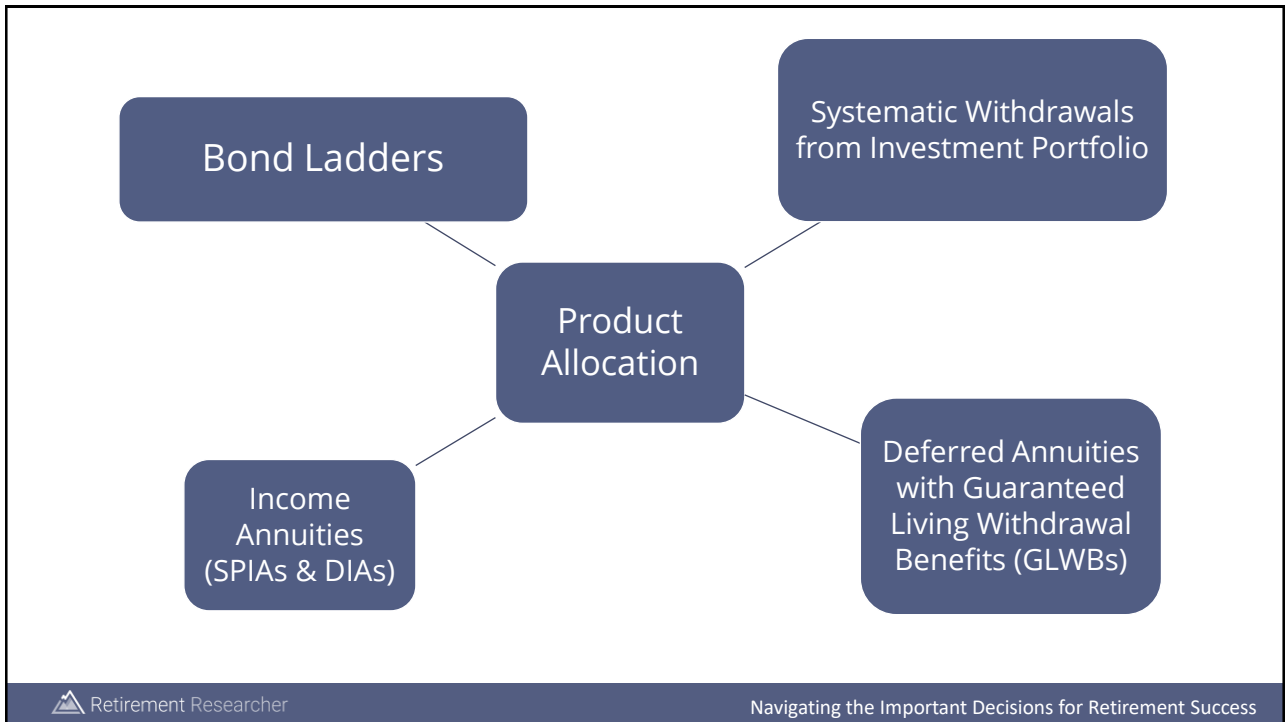
**Address the approach for
core retirement spending
(investments & annuities)**

1. Retirement
Income Style

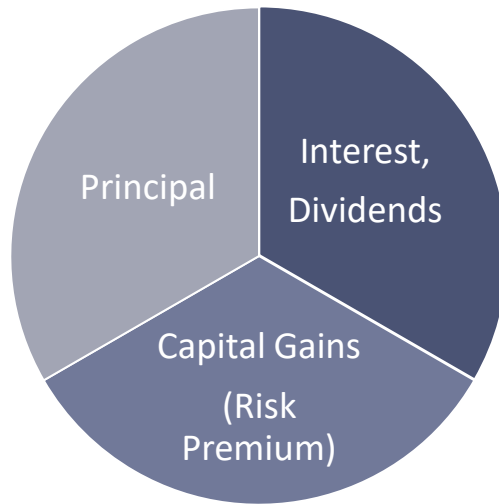
2. Retirement
Risks

3. Goals &
Preparedness

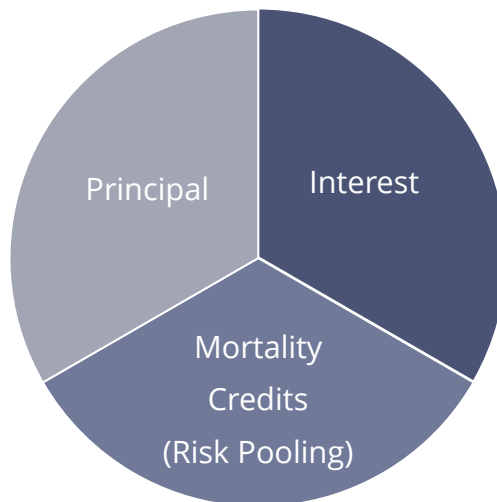
4. Investment
& Annuity
Strategies



Sources of Investment Spending



Sources of Annuity Payments



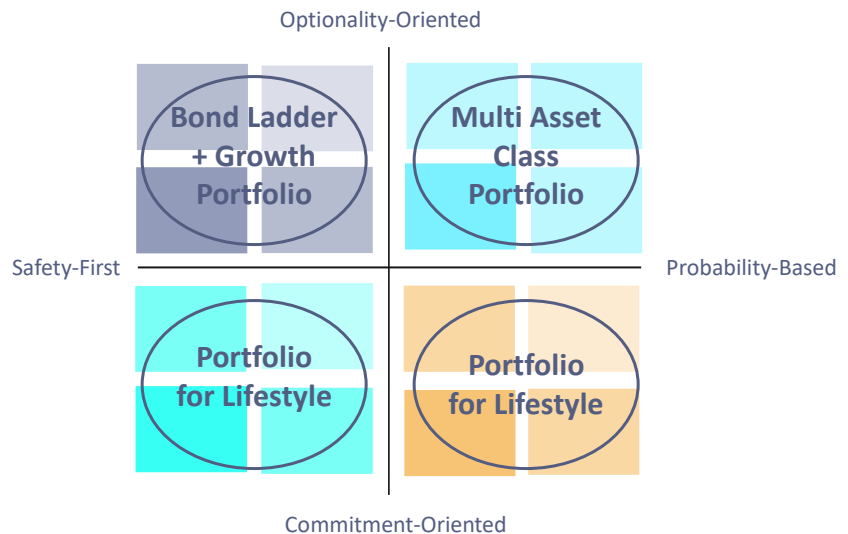
Why the 4% Rule Might Be Too High:

- U.S. historical data is not sufficiently representative
- Low interest rates and high stock market valuations jeopardize retirement spending in ways not tested by the historical data
- The portfolios of real-world investors may underperform compared to the underlying index returns – due to fees, asset allocation choices, or investor behavior
- Moving toward income-investing approaches can increase risks
- Taxes reduce sustainable spending for a taxable portfolio
- There is a desire to build in a safety margin or bequest at the end of the thirty-year time horizon
- Retirement horizon may last longer than 30 years

Why the 4% Rule Might Be Too Low:

- Retirees may reduce their spending with age
- Retirees may build more diversified portfolios
- Retirees may benefit by managing downside risk with structured returns
- Retirees may use bucketing or time segmentation strategies that *might* help manage sequence risk
- Retirees may use a rising equity glide path
- Retirees may have flexibility to adjust spending for realized portfolio performance
- Retirees with sufficient reliable income may have the capacity and tolerance to accept higher portfolio failure probabilities
- Retirees may draw on uncorrelated “buffer assets” from outside portfolio

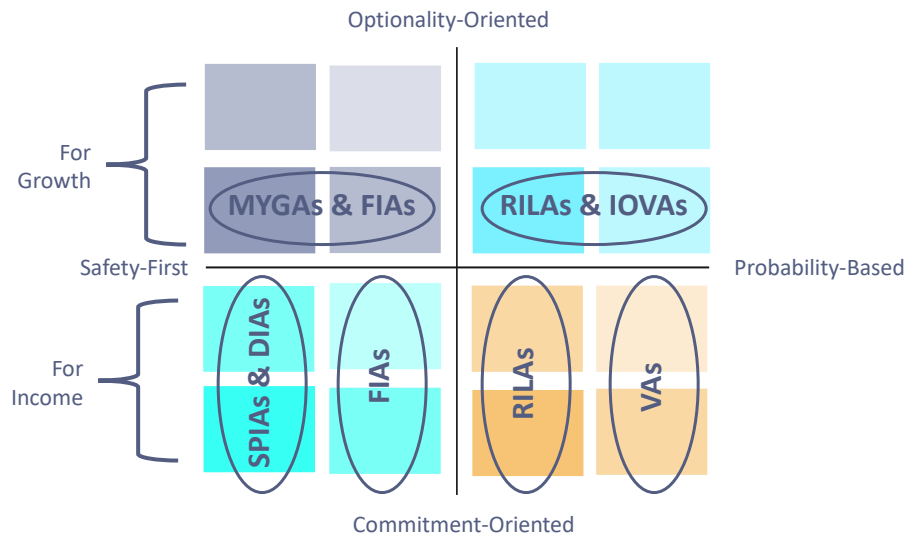
RISA® Style Matrix – Role for Investments



Considering an Annuity?

- Your RISA Profile suggests that your preferences align with income protection and risk wrap strategies.
- You have a gap between available reliable income and your longevity expenses.
- Your risk tolerance limits your comfort with stocks in retirement.
- You have greater longevity risk aversion (back-loading preference). Concerns about outliving retirement assets lead to more relative benefits from annuities.
- You view annuities as a replacement for bonds and are comfortable using a higher stock allocation with remaining investment assets.
- You seek protection from making behavioral mistakes with your investment portfolio, you lack self-control for spending, or you find investments intimidating. Annuities may also protect less financially savvy family members.

RISA® Style Matrix – Role for Annuities



Develop a claiming strategy for Social Security

1. Retirement Income Style

2. Retirement Risks

3. Goals & Preparedness

4. Investment & Annuity Strategies

5. Social Security

Deciding when to claim Social Security is **one of the most important financial decisions** many Americans make

Social Security Action Plan

1. Obtain Your Social Security Statement
2. Understand the assumptions used in the statement
3. Familiarize yourself with the basic claiming philosophies

Social Security Action Plan

4. Collect all the relevant information for claiming
5. Use software to calculate the optimal claiming strategy and compare with other options
6. Build a strategy to support deferring benefits when applicable

Step 1

Prevent identity theft—protect your Social Security number

Your Social Security Statement

Prepared especially for Susan J. Jones

FF F 0001 000000001 01 SP 0.390

SUSAN J. JONES
6300 SECURITY BLVD
BALTIMORE MD 21235

**SOCIAL SECURITY
USA
ADMINISTRATION**

www.socialsecurity.gov

See inside for your personal information →

What's inside...

Your Estimated Benefits 2

Your Earnings Record 3

Some Facts About Social Security 4

If You Need More Information 4

To Request This Statement In Spanish 4
(Para Solicitar Una Declaración en Español)

Check your Social Security Statement at

<http://www.ssa.gov/myaccount>

Social Security Statement – Earnings Record

Your Earnings Record

Years You Worked	Your Taxed Social Security Earnings	Your Taxed Medicare Earnings
1989	1,489	1,489
1990	2,663	2,663
1991	4,483	4,483
1992	6,221	6,221
1993	7,491	7,491
1994	9,224	9,224
1995	11,897	11,897
1996	14,677	14,677
1997	17,434	17,434
1998	20,071	20,071
1999	22,827	22,827
2000	25,588	25,588
2001	27,576	27,576
2002	29,004	29,004
2003	30,772	30,772
2004	33,097	33,097
2005	35,102	35,102
2006	37,501	37,501
2007	39,927	39,927
2008	41,487	41,487
2009	41,446	41,446
2010	42,973	42,973
2011	44,833	44,833
2012	Not yet recorded	

You and your family may be eligible for valuable benefits:

When you die, your family may be eligible to receive survivors benefits.

Social Security may help you if you become disabled—even at a young age.

A young person who has worked and paid Social Security taxes in as few as two years can be eligible for disability benefits.

Social Security credits you earn move with you from job to job throughout your career.

Double check that
your earnings
(up to taxable
maximum)
are shown **correctly**

Step 2

Understanding the Assumptions in your Statement

Social Security Statement assumes:

- Benefit estimates are in today's dollars
- There is no future wage growth in the economy
- There is no future inflation the economy
- Future earnings are fixed at the most recent year's level
- Work continues until the month (or year) before benefit starts (shown for ages 62, full retirement age, and 70)
- The Windfall Elimination Provision and Government Pension Offset are not factored into the statement

Step 3

Understanding Claiming Philosophies

Social Security as Insurance vs. Breakeven Analysis

Step 4

Fact Finding

Social Security Rules to Understand:

- Opportunities for worker benefits, spousal benefits, survivor benefits, ex-spouse benefits, and dependent benefits (spouse, dependent children, dependent parents)
- Applicability of the earnings test when claiming and working before full retirement age
- Exposure to windfall elimination provision and government pension offset
- Those collecting disability benefits should understand the transition to retirement benefits
- Identify possibilities for suspending benefits

Collect Relevant Information for Claiming Decision

- Benefits from your earnings record: spouse & dependents
- Your eligibility for benefits from other's earnings records: spouse, ex-spouse, survivor
- Role of earnings test, windfall elimination provision, government pension offset, disability benefits
- Availability of resources to support delayed claiming
- Dependence on Social Security as reliable income
- Risk tolerance and approach to investing

Strengthened Case for Delaying Benefits

- High earner: benefit lasts for both lifetimes
- Low interest rates
- More worry about outliving assets

Step 5

**Use software to
compare options**

Are the programs providing a different answer?

- Most likely explanation: different longevity assumption... a longer lifetime shifts toward delay
- Different interest rate assumptions
- A difficult case that may not be fully addressed by the software
- Usually not much difference between related strategies coming out near the top (but big difference between best and worst)

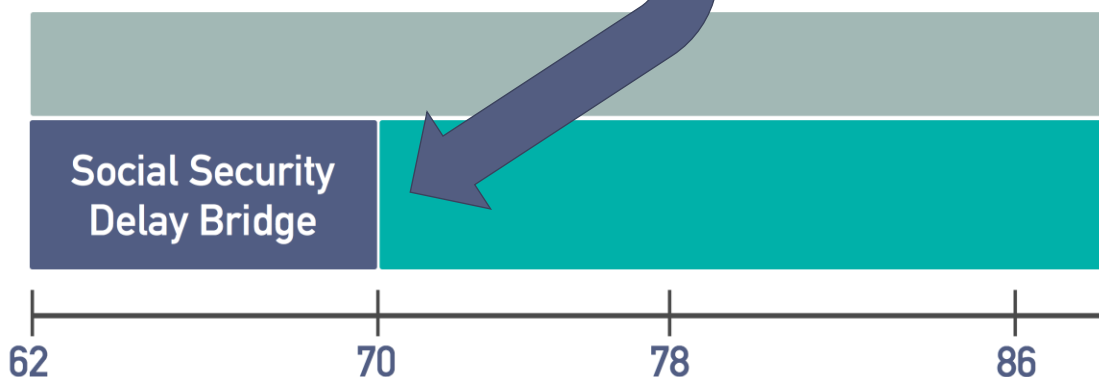
Step 6

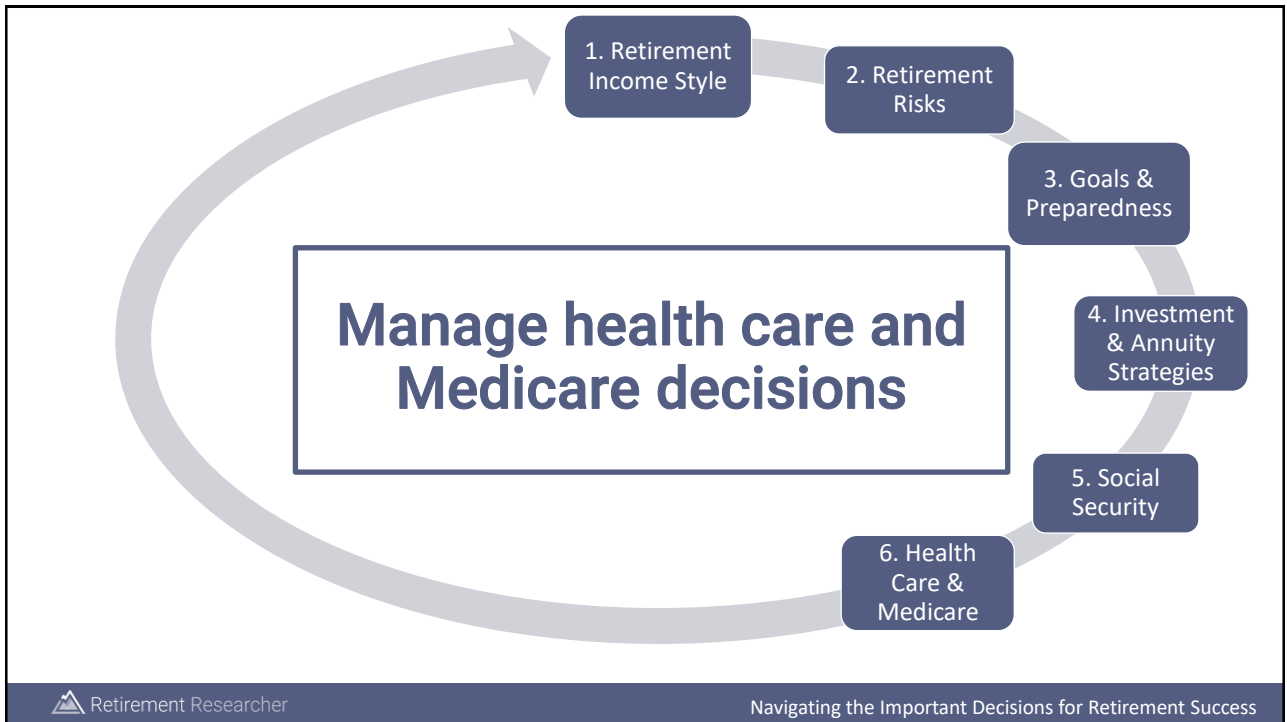
Build a strategy to support deferral

Important aspects of coordination

- Coordinate with investments or other assets in terms of building a Social Security delay bridge
- Coordinate on the tax side to pay less taxes over time by better managing tax brackets
- Coordinate with respect to how Social Security impacts the Retirement CARE Analysis™ by providing more capacity to bear financial risk

Social Security Delay Bridge





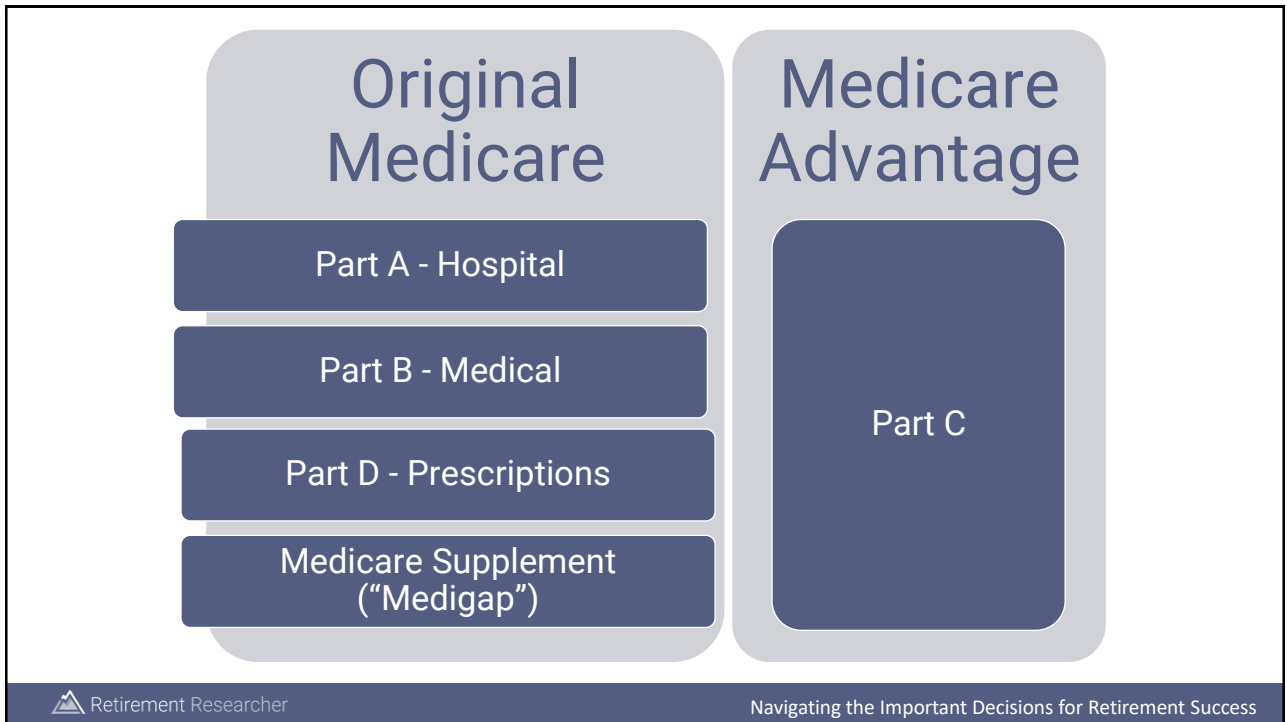
An action plan can be organized into several phases: **before** Medicare eligibility, **at** Medicare eligibility, & **ongoing** decisions

In the years before Medicare eligibility:

- ☐ If retiring before age 65, have a plan for health insurance and managing health costs before Medicare eligibility
- ☐ Coverage may be available through an employer, a spouse's plan, the Affordable Care Act marketplace, other private insurance, retiree health insurance, health share, or COBRA
- ☐ Ensure that spouse & dependents have coverage
- ☐ Develop estimates for baseline health care budget in retirement
- ☐ Decide on a reserves amount to help with higher than anticipated expenses

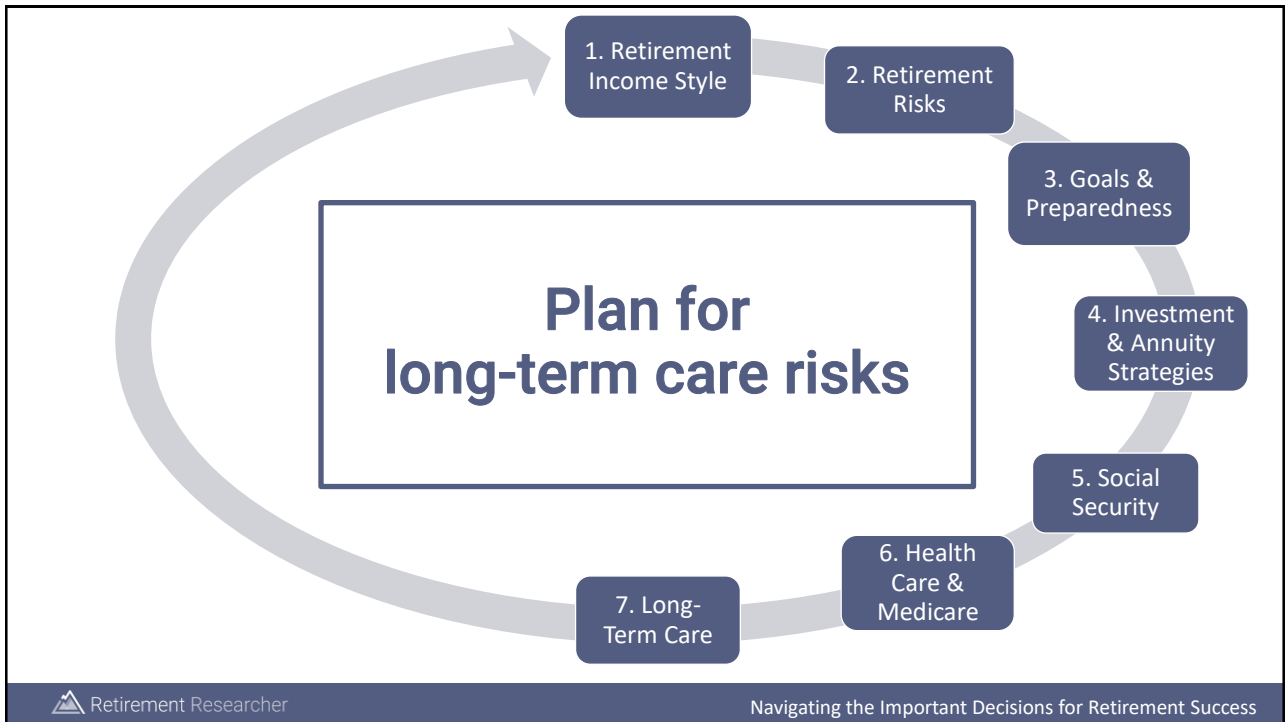
As you reach Medicare eligibility age:

- ☐ If you or your spouse is still actively employed, determine whether your employer health insurance counts as primary insurance after you reach 65
- ☐ If Medicare will become your primary insurance, plan for timely Medicare enrollment to avoid penalties and a lapse in coverage
 - Read *Medicare and You* book at Medicare.gov
 - Choose Original Medicare or Medicare Advantage
 - Choose a Part D drug plan, drug coverage through Medicare Advantage, or "creditable coverage" through other secondary retiree health insurance
 - With Original Medicare, decide whether to purchase a Medicare supplement plan or whether other secondary retirement health insurance can play this role
 - Determine whether there are any impacts from Medicare decisions on any of your other retirement or other employer benefits
 - If thinking to switch from secondary coverage to a supplement later, determine if you will potentially be eligible for special enrollment period
 - Use Plan Finder tool at Medicare.gov/plan-compare



Ongoing annual decisions:

- ☐ Update retirement health care budget and reserve needs based on recent spending and health care usage
- ☐ Maintain a list of prescription drugs to find best drug plan during each open enrollment
- ☐ Check annually during open enrollment (October 15 to December 7) about a new drug plan and other options
 - New Part D prescription plan
 - Medicare Advantage ← → Original Medicare
 - Choose a new Medicare supplement plan with Original Medicare (be aware of underwriting and potential denial)
- ☐ Use preventive care benefits and keep healthy lifestyle



Continuum of Long-Term Care:

- Assistance provided by friends and families
- Home visits from health care aides
- Adult day care centers
- Assisted living
- Continuing Care Retirement Communities
- Nursing homes
- Hospice

Four main long-term care options:

- Self-funding
- Medicaid
- Traditional long term care insurance
- Hybrid insurance products

Note: Not Medicare!

Getting Organized

- ☐ Identify the long-term care options and costs in your community. Consider how other budgeted expenses, such as travel, may be reduced if long-term care is needed. Decide where you would like to receive care. Determine whether CCRCs are a consideration.
- ☐ Understand what your default plan of care will be if you do not take further action. This includes taking an inventory of what you have:
 - traditional long-term care insurance policies
 - permanent life insurance with LTC benefits or other hybrid policies
 - family members who may be willing and able to help
 - reserves that can be earmarked to cover long-term care expenses
 - countable assets that would be spent before reaching Medicaid eligibility

Self-Funding Estimates

- ☐ Identify the potential to self-fund long-term care expenses and the potential impacts this could have on other family members.
- ☐ Identify a reasonable amount of reserve assets to set aside as a funding source for long-term care.
 - Is this amount realistic?
 - How will it be invested?
 - Do any family members expected to provide care understand and accept the obligation?
- ☐ Determine whether Medicaid may be unavoidable as part of a long-term care plan. Consult with an elder law attorney to assist with Medicaid planning as needed.

Insurance Options

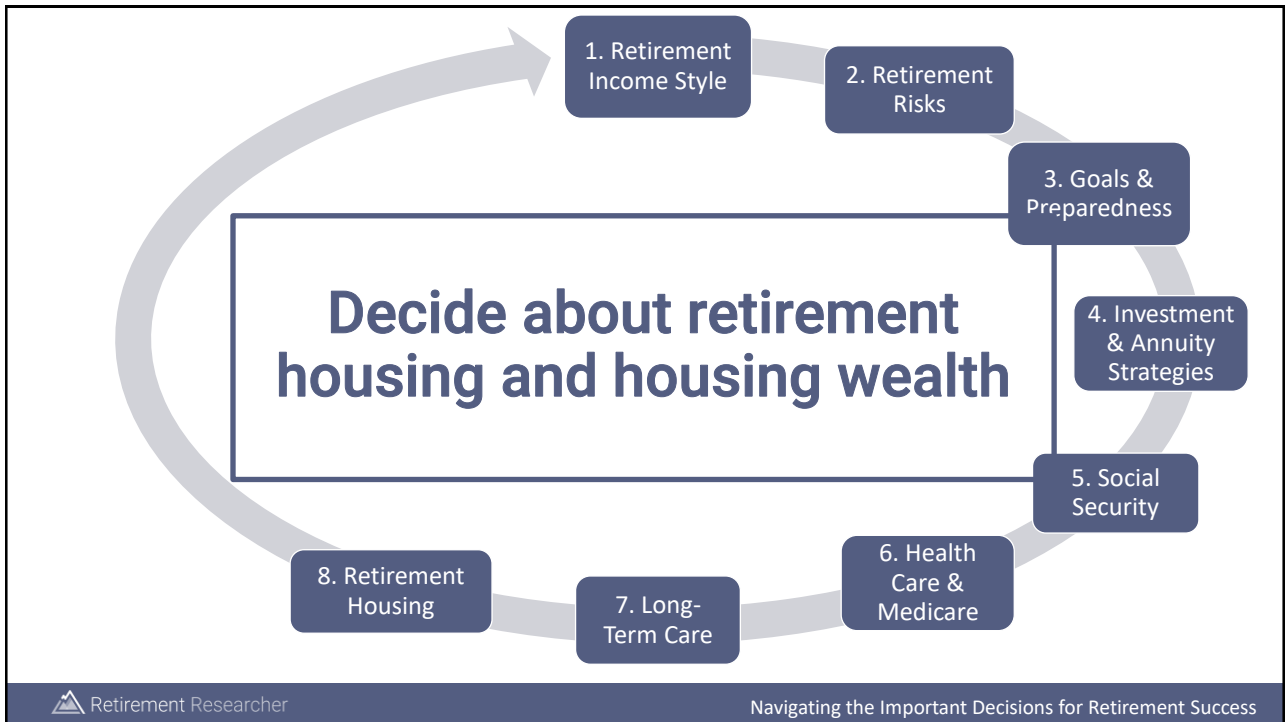
- ☐ If interested to offset some of the spending risk related to self-funding, explore a variety of insurance options.
 - Will your health allow you to qualify for coverage?
 - How much of the long-term care spending risk would you like to offset through insurance?
 - How much of the risk can you afford to offset?
 - Will you pay for coverage with investment assets or through the exchange of existing insurance policies?
 - How much would the coverage lower your need to hold reserves for self-funding while still feeling comfortable?

Insurance Options

- ☐ When considering insurance, determine what make the most sense regarding the tradeoffs between premiums and the periodic benefit amount, total coverage, inflation adjustments, & elimination period?
 - Traditional long-term care insurance may appeal to those who can obtain tax deductions for premiums, may use a partnership plan to provide further asset protection for Medicaid, and wish to include inflation protection riders.
 - Hybrid policies may appeal to those seeking stability for premium amounts, protections for the use-it-or-lose-it aspect, have health issues that make it hard to qualify for traditional insurance, and have existing insurance available that could be exchanged to these policies.

Implementation & Monitoring

- ☐ Provide family members with your written plan for long-term care so they can easily implement it if you are cognitively impaired.
- ☐ Periodically review the plan to make updates or changes.
- ☐ Take care of your health and stay active.



Joseph Coughlin's (MIT Agelab) Three questions for housing and aging

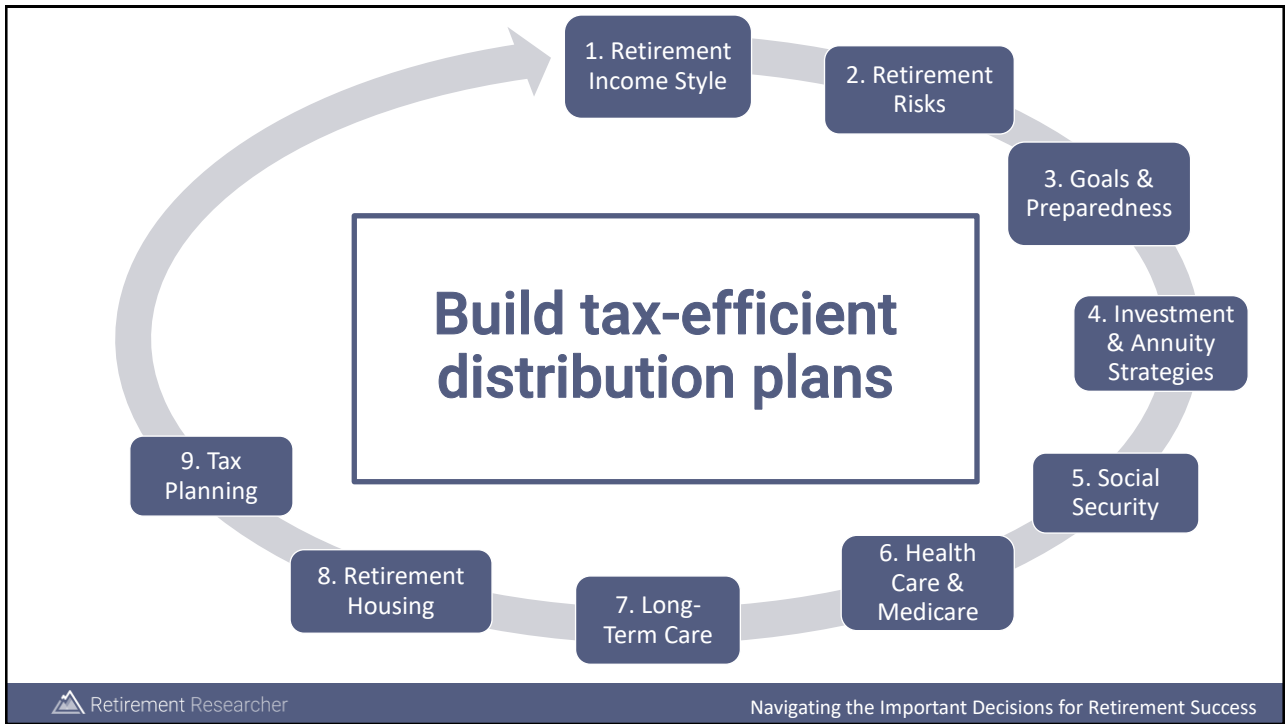
1. Who will change my light bulbs?
2. How will I get an ice cream cone?
3. Who will I have lunch with?

Thinking About Options

- ☐ Identify the aspects of retirement housing that are most important to your decision-making process.
- ☐ Begin thinking about housing options and determine whether moving will be part of the retirement plan.
- ☐ Conduct trials in any new area to make sure that moving there is the right decision.
- ☐ Make housing decisions in anticipation that physical and mental impairments with age.

When Settling Permanently

- ☐ When intending on a more permanent move:
 - The home is affordable and the home-related costs, as well as how they may change with age, are budgeted
 - The home is near family, friends, or a social network
 - The home provides an agreeable climate with the right blend of activities
 - The home is in a location that supports work or volunteer opportunities
 - The home is accessible to health facilities and long-term care opportunities
 - A diverse set of transportation options that do not require driving
 - Home renovations have been made to support aging in place
- ☐ For those owning an eligible home, consider whether there is role for reverse mortgages (HECMs)



Tax Planning is the Popular Topic!

<input type="checkbox"/> Added by you Tax Planning for Efficient Retirement Distributions 106 votes	<input type="checkbox"/> Added by you Housing Decisions in Retirement 11 votes
<input type="checkbox"/> Added by you Sustainable Spending from Investments 67 votes	<input type="checkbox"/> Added by you Legacy and Incapacity Planning 11 votes
<input type="checkbox"/> Added by you Retirement Income Styles and Decisions 42 votes	<input type="checkbox"/> Added by you Medicare and Health Insurance 10 votes
<input type="checkbox"/> Added by you Annuities and Risk Pooling 23 votes	<input type="checkbox"/> Added by you The Non-Financial Aspects of Retirement Success 7 votes
<input type="checkbox"/> Added by you Putting it All Together 16 votes	<input type="checkbox"/> Added by you Retirement Risks 5 votes
<input type="checkbox"/> Added by you Long-Term Care Planning 15 votes	<input type="checkbox"/> Added by you Social Security 5 votes

Planning During Accumulation Phase

- ☐ Understand the basics of the tax code in terms of values for tax brackets, how marginal tax rates work, how taxable income is determined, and the differences between ordinary income tax rates and preferential rates for long-term capital gains and qualified dividends.
- ☐ When saving for retirement, build tax diversification for the asset base by saving with taxable, tax-deferred, and tax-exempt accounts.
- ☐ Understand how to choose between saving in tax-deferred and tax-exempt accounts based on whether the marginal tax rate will be higher now or in the future, and after considering the advantages of having some assets in tax-exempt accounts.
- ☐ Work through asset location decisions to position assets based on their tax efficiency and long-term growth prospects.
- ☐ Determine whether there are other ways to obtain tax advantages, such as with education 529 plans, health savings accounts, tax-advantaged bonds, nonqualified annuities, and life insurance.

	Tax Deduction	Tax Deferral	Tax-Free Distributions
Brokerage Accounts			
IRA, 401(k), & Other Qualified Plans	Yes	Yes	
Roth IRA, Roth 401(k)		Yes	Yes
529 Plans	At state level, in some states	Yes	Yes, for qualified education expenses
Health Savings Accounts	Yes	Yes	Yes, for qualified medical expenses
I-Bonds & E-Bonds		Yes	
Tax Exempt Bonds		Yes	Yes, though interest counts toward Social Security and Medicare premium taxes
Nonqualified Annuities		Yes	
Cash Value Life Insurance		Yes	Yes, when structured properly

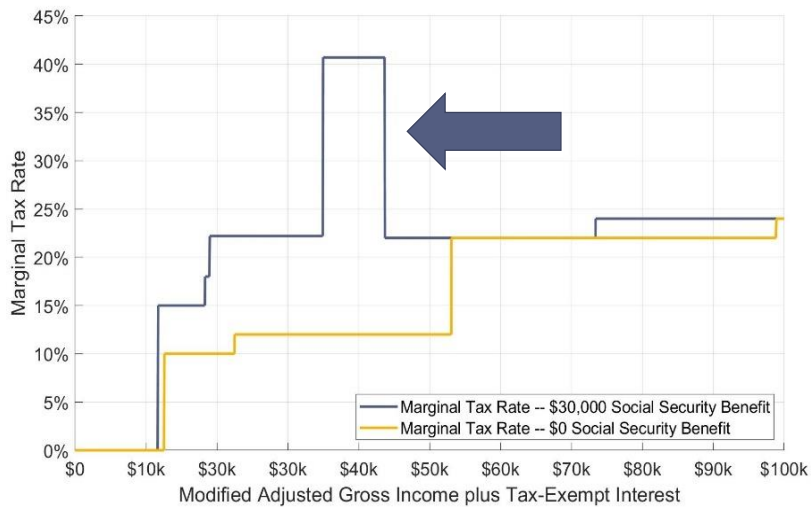
Tax Management During Retirement

- ❑ Understand the rules for taking distributions from tax-advantaged retirement plans, including required minimum distributions, early withdrawal penalties, rules for qualified distributions from Roth accounts, making rollovers and conversions, and managing net unrealized appreciation on any employer stock.
- ❑ Understand withdrawal sequencing strategies based around managing adjusted gross income and using strategic Roth conversions.
- ❑ Identify the impact of the various retirement pitfalls when generating taxable income: Social Security tax torpedo, heightened premiums for Medicare, the loss of subsidies for health insurance, the net investment income surtax, and the impact of pushing preferential income sources into higher tax brackets.
- ❑ Benefits of front-loading taxes in retirement: improve the eventual tax situation for a surviving spouse, manage future tax increases, reduce RMD shocks.
- ❑ Tax-efficient strategies for charitable giving: qualified charitable distributions, deduction bunching for gifts, donor advised funds, and charitable gift annuities.

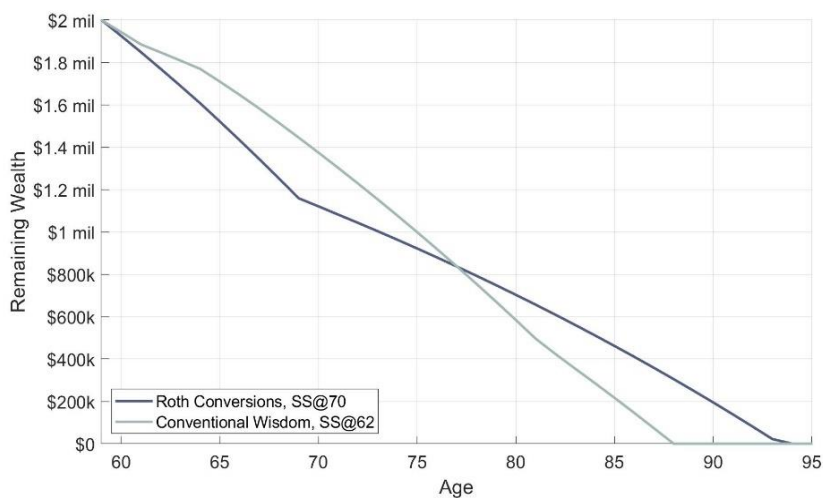
Increases Taxable Income	Income with Preferable Tax Rates	Spending Sources -- Not Taxable Income
Wages and earnings	Qualified dividends	Cost-basis of taxable investments (i.e. principal)
Qualified retirement plan distributions (IRAs)	Long-term Capital Gains	Roth IRA distributions
Short-term capital gains		Portion of nonqualified annuities
Interest		Portion of Social Security benefits
Dividends (nonqualified)		Health savings accounts (qualified)
Portion of nonqualified annuities		Reverse Mortgage proceeds
Portion of Social Security benefits		Cash value of life insurance (cost basis or loan proceeds)
Pensions		
Rental or other passive income		

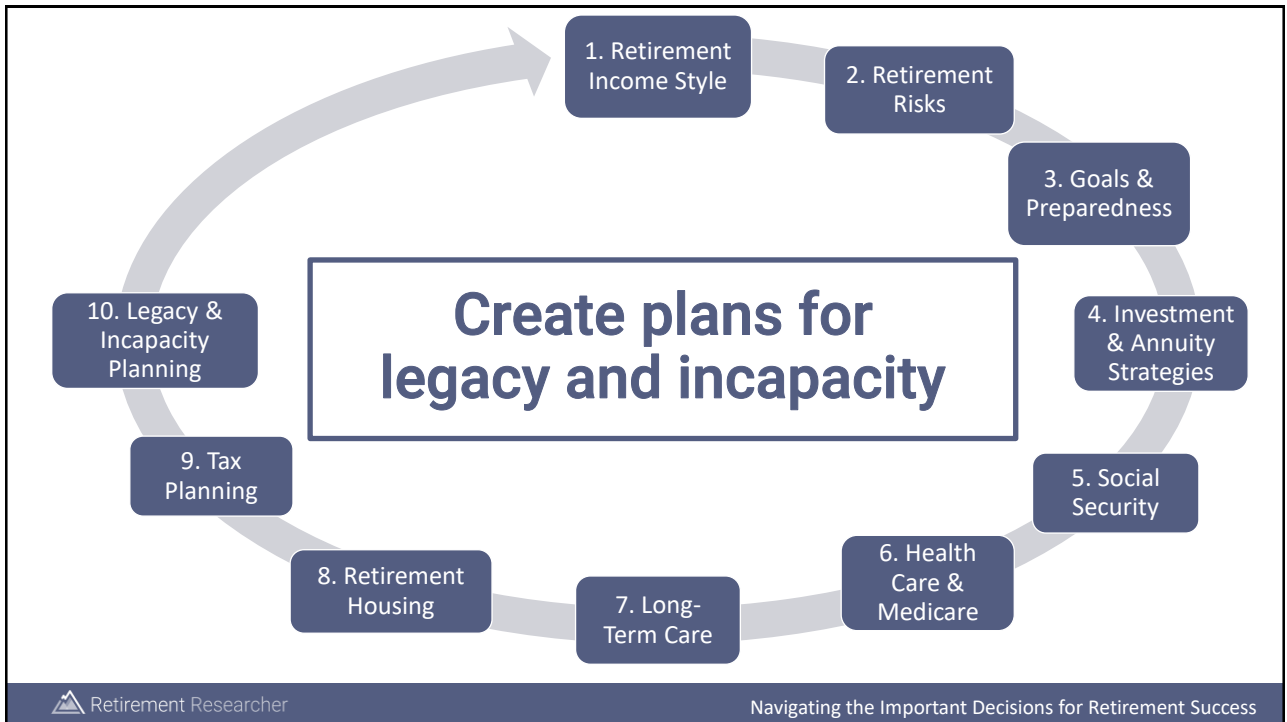
For illustration purposes only

Tax Torpedo for Single Filer with \$30,000 Social Security Benefit



Portfolio Longevity and Tax-Efficient Distribution Strategies Comparing Wealth for Two Retirement Distribution Strategies





Getting Organized

- ☐ Collect personal information
- ☐ Create an inventory with info on all assets and liabilities
 - Account numbers
 - Values
 - Ownership details
 - Existing beneficiary designations
 - Whether asset will be part of the probate estate
- ☐ Assemble information on all insurance policies
- ☐ Assign a durable financial power of attorney
- ☐ Create advance health care directives
 - Living will
 - Health care power of attorney

Key Questions

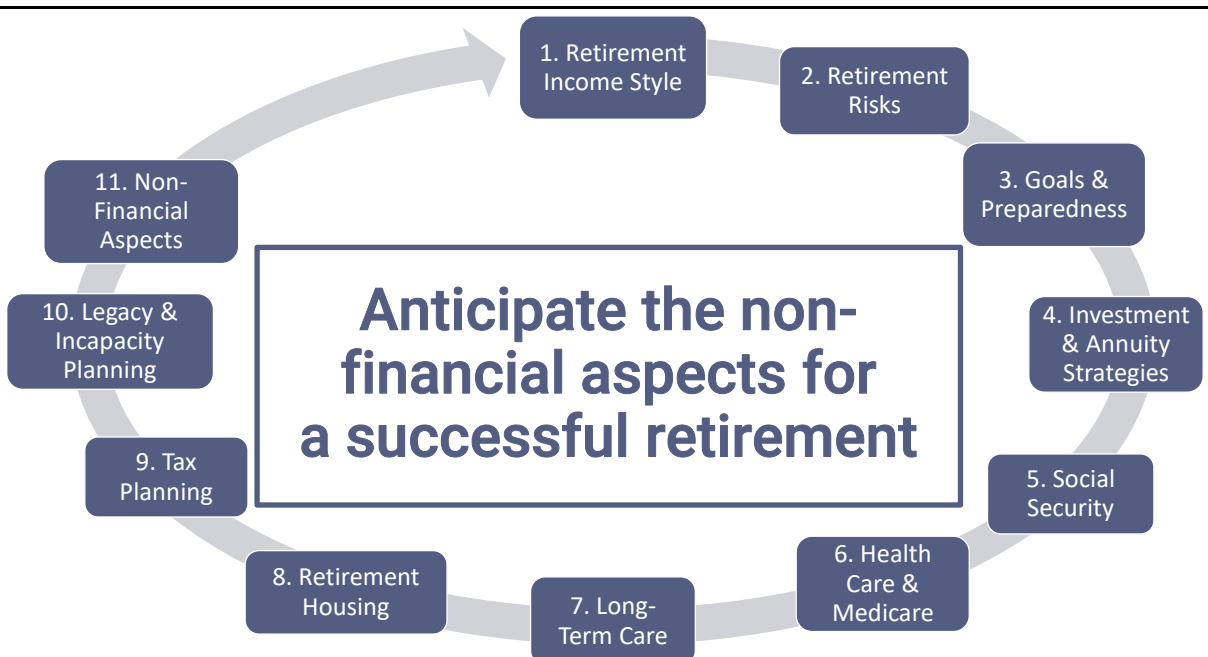
1. Does your family know what course of action you would want them to take?
2. Can your family locate important financial documents they will need?
3. Does your family have the legal authority to access various accounts and make financial decisions?
4. Do you have the beneficiaries updated to meet your current desires for any related financial accounts?

Implement Estate Plan

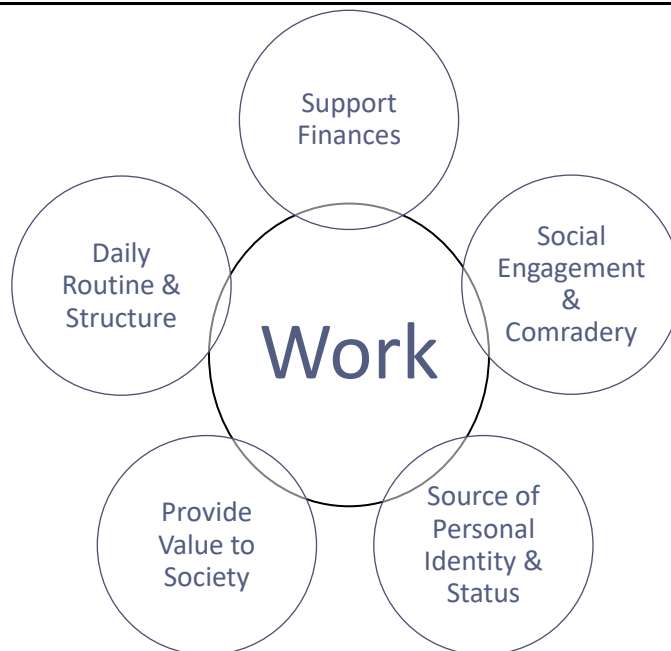
- ☐ Decide how assets should be distributed: who, what, when
- ☐ Write a will (identify executor and guardian for minors)
- ☐ Create and fund trusts if used for incapacity planning, avoiding probate, managing property distribution at death, providing asset protection, and reducing estate taxes
- ☐ Full review of ownership titles and beneficiary designations to ensure they are aligned with your goals and other estate planning documents such as wills and trusts
- ☐ Decide and share final wishes
- ☐ Create letter of instructions for family members, executor, trustees, attorneys-in-fact to help simplify their process by describing your financial situation and wishes.

Following Up

- ❑ Store these documents safely and let the relevant individuals know how to access the information when they need it.
- ❑ Discuss your plans with family members so that everyone knows what to expect and potential conflicts are managed regarding your intentions, the disbursement of assets, access to key documents, and the roles and responsibilities of each person.
- ❑ Review your estate planning at least every several years to see if updates are needed. Certain life triggers that should prompt reviews sooner include:
 - Significant changes to household balance sheet
 - Changes in family: births, deaths, marriages, divorces
 - Move to a new state
 - Changing relationships or death of individuals with key roles
 - Changes in law and tax code that impact the plan

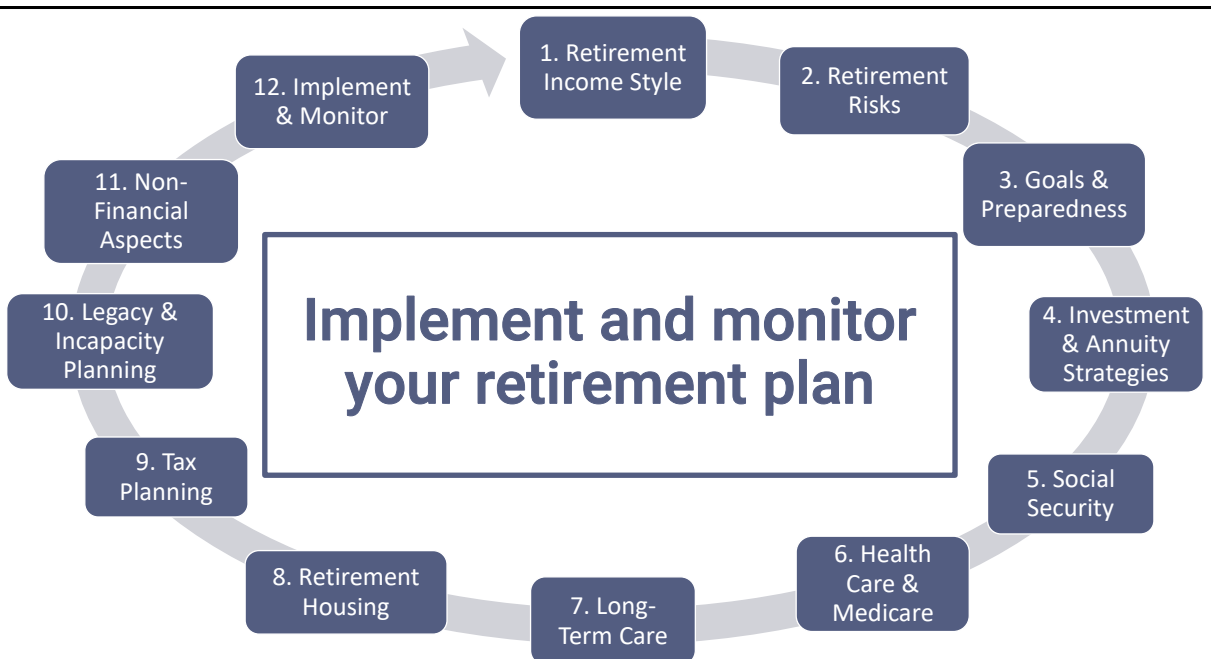


Retiring **to** something,
instead of retiring **from**
something, is a key to finding
success in retirement



Lifestyle Changes for Retirees

Retirement Change	Positive Response	Negative Response
Lose Work Identity and Sense of Purpose	Identify activities or goals that create purpose and passion for retirement to forge a new identity and become who you truly wish to be	Loss of work identity with no alternative interests can lead to depression and worsening health
Increase in Unstructured Time	Opportunity for new pursuits and interests, to be spontaneous, and to focus on health, hobbies, passions, and relationships	Lack of structure and focus leads to boredom and results in increased television watching, internet surfing, or other passive activities
Change in Routines	Focus on developing new routines to provide any needed structure to your days	Retirement is a life transition with the loss of habits and routines that can create great stress and reduced life satisfaction
Increased Time with Spouse/Partner	Opportunity to re-connect and pursue common interests as well as respect a separation for individual pursuits	Time together leads to greater conflict and worsening relationship with potential for grey divorce
Reduced Social Connections Through Work	Use additional time as opportunity to build and enhance relationships	Increased social isolation and loneliness risk depression and worsening health
Health and the Aging Process	Recognize aging as a natural part of life and maintain positive outlook, while also exercising and pursuing activities to support physical and mental health	Less active lifestyle and worsening health status creates a negative feedback loop with stress and depression causing further physical and mental health decline



Getting Started Now

- Get *Retirement Planning Guidebook*
- Determine your RISA Profile
- Organize finances & estate planning
- Social Security claiming & tax planning
- Assessing your financial situation and exposure to retirement risks
- Planning for the non-financial aspects
- Thinking about retirement housing

Decisions at Specific Ages or Moments

- Leaving work: employer benefits, pension & rollover decisions
- Tax planning around opportunities with reduced employment income
- Reaching Medicare eligibility

Ongoing Monitoring

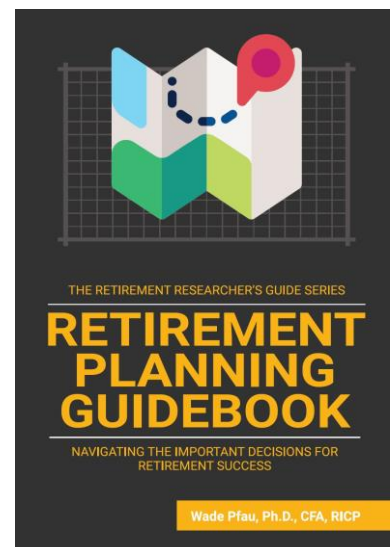
- Annual update: budgets, balance sheet & funded ratio, required minimum distributions, instructions to family
- Review estate and incapacity plan
- Asset allocation & portfolio rebalancing
- Housing, long-term care, & health care

Retirement Planning Guidebook:

Navigating the Important Decisions for Retirement Success

Free RISA Profile at:

www.retirementresearcher.com/aaii



Multi-Asset Management

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