LSA Demo Company

A SIDE-BY-SIDE ANALYSIS

Lump Sum vs. Pension Analysis

Prepared for a Plan Participant

You've been offered a choice: **keep your pension's guaranteed income**, or **take it as a one-time lump sum** you invest yourself. This report runs **both** through the rGPS-AI engine and grades each, so you can see what each does to your plan and decide how best to proceed.

KEEP THE PENSION	TAKE THE LUMP SUM
A+	A+
$3,000/mo for life	**$380,000** once
guaranteed income	rolled to an IRA you invest

Income-parity break-even: the lump would need to earn about **9.5%** a year to match the pension's annual income. That's a demanding return to rely on for life — an edge to the guaranteed pension.

Effective date: July 27, 2026 ▪ Planning horizon from 2026. Estimates for educational purposes — not investment, tax, or legal advice. Both options are graded by the same actuarially-reviewed rGPS-AI engine on identical assumptions; only the pension-vs-lump choice differs.

Pension vs. Lump Sum

Both choices, graded by the same engine — here's what each does to your plan.

WHAT YOUR ANALYSIS SHOWS

Keeping your pension grades higher

The grades are close, so the deciding factor is value: the lump would have to earn about **9.5%/yr** just to match the pension — more than a careful retiree should count on. Keeping the guaranteed income is the stronger call.

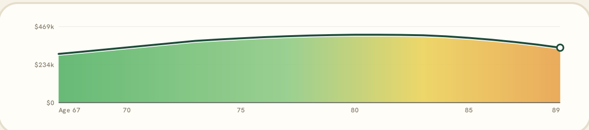
The election is yours to make — this analysis is educational and does not tell you which option to choose.

A+

Keep the Pension

Very Strong · $3,000/mo

HIGHER GRADE

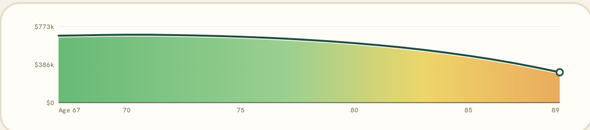


Lasts to age 89 with about $263,378 left

A+

Take the Lump Sum

Very Strong · $380,000 once



Lasts to age 89 with about $229,626 left

*Each curve is that option's savings balance over time (green→gold health gradient; a red band below $0 means income no longer covers spending). Break-even: the lump must earn about **9.5%**/yr to match the pension.*

WHAT THIS MEANS FOR YOU

- Overall, **keeping the pension** grades **A+** vs **A+** — the guaranteed income does more for your plan here.
- The lump would need to earn about **9.5%** a year to match the pension's income — a demanding return to count on for life.
- Keeping the pension: **lasts to age 89 with about $263,378 left**. Taking the lump: **lasts to age 89 with about $229,626 left**.
- Keeping removes market & longevity risk on that income; taking keeps flexibility for large one-time needs and leaves any balance to your heirs.

PLAN A

Keep Your Pension

Your pension continues — $3,000 a month, guaranteed for life.

A+	$3,000/mo	12.6 yrs	—
RGPS GRADE	GUARANTEED INCOME	RESERVE (YEARS)	SAVINGS RUN OUT

What this plan does. It continues what you have. You receive $3,000 a month for as long as you live, no matter what markets, interest rates, or inflation do.

- **Your lifetime income is guaranteed.** Markets fluctuate; your benefit stays steady. You can count on it for as long as you live.
- **Nothing to manage.** You don't have to invest or oversee a large lump sum, or worry about how well someone else manages it.
- **Backed by large institutions** with legal obligations to keep payments coming — a low-effort, predictably reliable choice.
- **The trade-offs:** no flexibility for large one-time needs, and the income ends at death (subject to any survivor benefit) rather than leaving a balance to heirs.

REPORT CARD

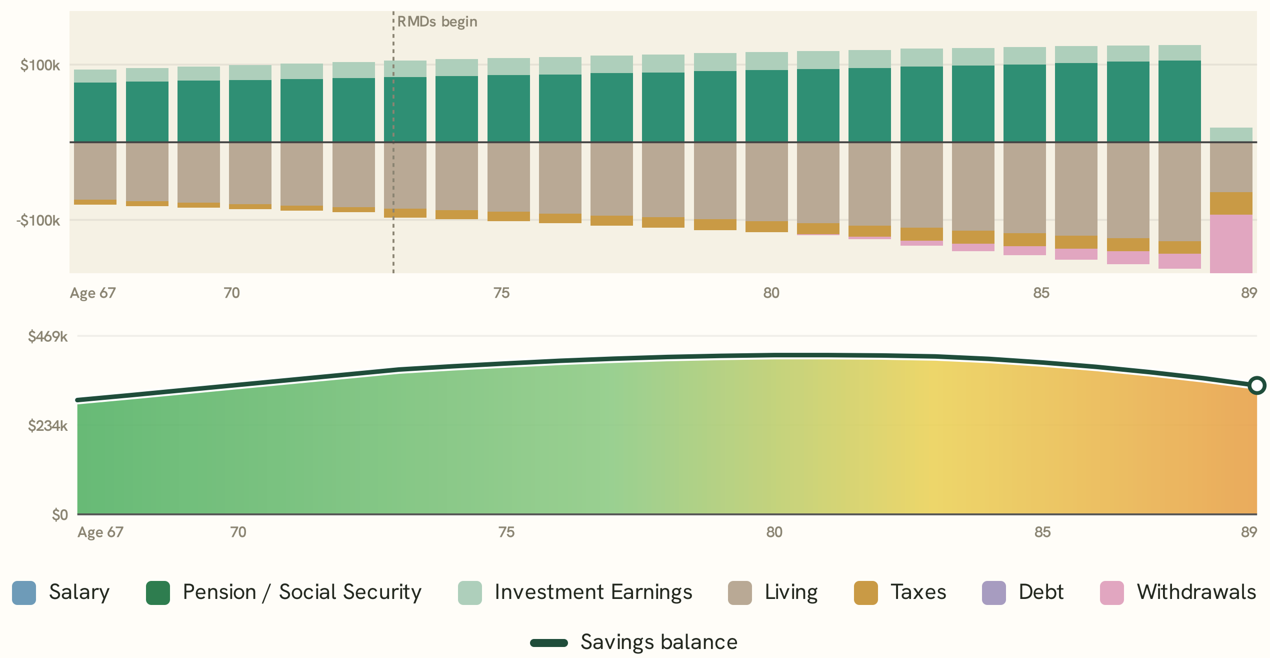
A+	**Overall grade**
A+	Under "normal" circumstances
A+	If you live an extra long lifetime
A+	If you have high medical expenses, including long-term care
A+	If you have inferior returns and live an extra long lifetime

See the attached Explanatory Notes for what each set of circumstances means.

A+ Keep the Pension — Your Journey

Retirement Health Score · Very Strong

Your retirement looks healthy. Income covers most expenses, savings last beyond age 89, and the plan still has an estimated $263k remaining.



Milestones: RMDs begin **73**

Savings balance = money in − money out, added up year after year. Below $0 means income no longer covers spending.

BIGGEST RISK

A longer-than-expected lifespan or higher late-life care costs are the main things to watch.

YOUR RETIREMENT STORY

1. You are retired at age 67.
2. Guaranteed income (Social Security / pension) supports your spending.
3. Your plan lasts beyond age 89, with about $263k still remaining.

Where the Money Goes

The same expenses, broken out by category — with medical and long-term care shown separately.

Year	Housing & Home	Everyday Basics	Discretionary & Events	Debt & Financial	Income Taxes	End of Life	Medical (excl. LTC)	Long-Term Care	Total
2026	$49,200	$14,616	$10,584	$0	$5,864	$0	$0	$0	**$80,264**
2027	$50,253	$14,981	$10,849	$0	$5,959	$0	$0	$0	**$82,042**
2028	$51,352	$15,356	$11,120	$0	$6,068	$0	$0	$0	**$83,896**
2029	$52,498	$15,740	$11,398	$0	$6,171	$0	$0	$0	**$85,806**
2030	$53,694	$16,133	$11,683	$0	$6,256	$0	$0	$0	**$87,765**
2031	$54,941	$16,537	$11,975	$0	$6,322	$0	$0	$0	**$89,774**
2032	$56,242	$16,950	$12,274	$0	$10,940	$0	$0	$0	**$96,406**
2033	$57,600	$17,374	$12,581	$0	$11,381	$0	$0	$0	**$98,935**
2034	$59,016	$17,808	$12,896	$0	$11,806	$0	$0	$0	**$101,526**
2035	$60,493	$18,253	$13,218	$0	$12,233	$0	$0	$0	**$104,198**
2036	$62,035	$18,710	$13,548	$0	$12,637	$0	$0	$0	**$106,930**
2037	$63,643	$19,177	$13,887	$0	$13,367	$0	$0	$0	**$110,075**
2038	$65,321	$19,657	$14,234	$0	$13,624	$0	$0	$0	**$112,836**
2039	$67,072	$20,148	$14,590	$0	$13,877	$0	$0	$0	**$115,687**
2040	$68,899	$20,652	$14,955	$0	$14,090	$0	$0	$0	**$118,596**
2041	$70,806	$21,168	$15,329	$0	$14,328	$0	$0	$0	**$121,631**
2042	$72,795	$21,698	$15,712	$0	$16,456	$0	$0	$0	**$126,661**
2043	$74,871	$22,240	$16,105	$0	$16,614	$0	$974	$0	**$130,804**
2044	$77,038	$22,796	$16,507	$0	$16,685	$0	$974	$0	**$134,000**
2045	$79,299	$23,366	$16,920	$0	$16,733	$0	$974	$0	**$137,292**
2046	$81,658	$23,950	$17,343	$0	$16,757	$0	$974	$0	**$140,682**
2047	$84,121	$24,549	$17,777	$0	$16,683	$0	$974	$0	**$144,103**
2048	$0	$0	$0	$0	$29,409	$11,566	$52,673	$0	**$93,649**

About the Long-Term Care column. It shows **$0** — long-term care is not assumed in this illustration. We don't bake in a nursing-home allowance for care you may never need or a policy you may never buy. If you have a policy you can treat its premium as a cost, and you can enter expected caregiver costs in the app; long-term-care risk is also stress-tested separately in the "high medical" scenario. On the next page these same amounts are folded into the "Medical & Care" column.

Year-by-Year Cash Flow

The detail behind your grade — most-likely scenario. Each row is a 12-month period.

Year	Savings / Investable (start of yr)	Work	Social Sec., Pensions, Annuities	Investment & Other	Living Expenses (excl. medical)	Medical & Care	Net Cash Flow
2026	$300,000	$0	**$76,800**	$16,500	$80,264	$0	$13,036
2027	$313,036	$0	**$78,430**	$17,217	$82,042	$0	$13,605
2028	$326,640	$0	**$79,491**	$17,965	$83,896	$0	$13,560
2029	$340,200	$0	**$80,578**	$18,711	$85,806	$0	$13,482
2030	$353,682	$0	**$81,692**	$19,453	$87,765	$0	$13,379
2031	$367,062	$0	**$82,835**	$20,188	$89,774	$0	$13,249
2032	$380,310	$0	**$84,006**	$20,917	$96,406	$0	$8,516
2033	$388,827	$0	**$85,206**	$21,385	$98,935	$0	$7,656
2034	$396,483	$0	**$86,436**	$21,807	$101,526	$0	$6,717
2035	$403,199	$0	**$87,697**	$22,176	$104,198	$0	$5,675
2036	$408,874	$0	**$88,989**	$22,488	$106,930	$0	$4,548
2037	$413,421	$0	**$90,314**	$22,738	$110,075	$0	$2,977
2038	$416,399	$0	**$91,672**	$22,902	$112,836	$0	$1,737
2039	$418,136	$0	**$93,063**	$22,997	$115,687	$0	$374
2040	$418,510	$0	**$94,490**	$23,018	$118,596	$0	–$1,087
2041	$417,423	$0	**$95,952**	$22,958	$121,631	$0	–$2,721
2042	$414,702	$0	**$97,451**	$22,809	$126,661	$0	–$6,401
2043	$408,301	$0	**$98,987**	$22,457	$129,830	$974	–$9,360
2044	$398,941	$0	**$100,562**	$21,942	$133,026	$974	–$11,496
2045	$387,445	$0	**$102,176**	$21,309	$136,318	$974	–$13,806
2046	$373,639	$0	**$103,831**	$20,550	$139,708	$974	–$16,302
2047	$357,337	$0	**$105,526**	$19,654	$143,129	$974	–$18,923
2048	$338,414	$0	**$0**	$18,613	$40,976	$52,673	–$75,036

Reading the table. "Net cash flow" is income minus expenses for the year; a negative figure is simply the amount drawn from savings. The final row is a partial year: recurring income and everyday spending end, while one-time end-of-life medical and funeral costs appear. The change in savings from one year to the next won't always equal net cash flow exactly, because savings also reflect underlying growth and other non-cash adjustments. Living Expenses combines necessary, discretionary, debt and tax outflows — the category split is on the preceding "Where the Money Goes" page. The Medical & Care column there is split into medical and long-term care.

Appendix · Your First Year, Dollar by Dollar

Exactly where your money comes from and where it goes in 2026 — the building blocks behind every later year.

Where your plan starts

Your drawable savings total **$300,000** and your debts total **$250,000**. The plan begins from your **net worth** of **$300,000** — that's your savings after your debts are netted out. If you own a home, 75% of its value is also counted as a last-resort reserve. Your savings themselves are unchanged at $300,000; here your net worth matches your savings.

Money coming in

Social Security, pensions & annuities	**$76,800**	Guaranteed income that arrives every year.
Investment income	**$16,500**	Interest, dividends, and gains realized from your savings.
Total income	**$93,300**	

Money going out

Housing & home	**$49,200**	Mortgage or rent, property tax, insurance, and upkeep.
Everyday basics	**$14,616**	Food, transportation, utilities, and insurance.
Discretionary & events	**$10,584**	Travel, hobbies, gifts, and any life events you entered.
Income taxes	**$5,864**	Federal (and state, where applicable) tax projected on your income.
Total spending	**$80,264**	

Bottom line for 2026: $93,300 came in and $80,264 went out, leaving about **$13,036** added back to savings.

PLAN B

Take the Lump Sum

Your pension ends; $380,000 is rolled into an IRA you invest and draw from.

A+	$380,000	12.4 yrs	—
RGPS GRADE	LUMP SUM (TO IRA)	RESERVE (YEARS)	SAVINGS RUN OUT

What this plan does. Your pension stops, and in its place $380,000 transfers into an IRA Rollover for you. You can draw the same income the pension would have paid — or more, or less — from the account and its future earnings.

- **Flexibility.** If you face assisted living or nursing care, you're not capped at $3,000/mo — you draw what you need. You can also take less in some years to lower taxes.
- **Upside potential.** Future performance isn't guaranteed, but smart strategies can earn more than the safe minimum, potentially increasing your income over time.
- **Legacy.** The pension ends at death; with a lump sum, the balance of $380,000 can pass to your heirs in a tax-advantaged account.
- **Taxes.** The transfer itself isn't taxed (it's a rollover); you're taxed only on what you withdraw.
- **The trade-off:** you take on the investment and longevity risk the pension would otherwise carry — markets can underperform, and the money must last your full lifetime.

REPORT CARD

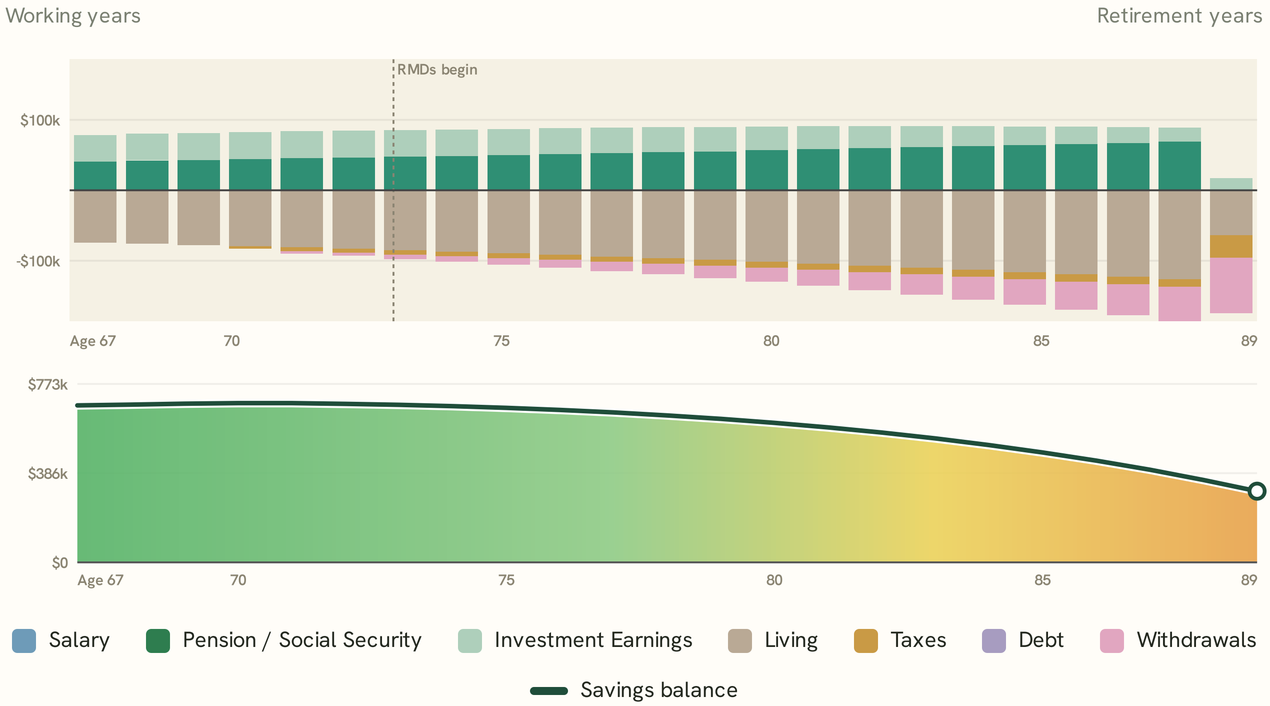
A+	**Overall grade**
A+	Under "normal" circumstances
A+	If you live an extra long lifetime
A+	If you have high medical expenses, including long-term care
A+	If you have inferior returns and live an extra long lifetime

See the attached Explanatory Notes for what each set of circumstances means.

A+ Take the Lump Sum — Your Journey

Retirement Health Score · Very Strong

Your retirement looks healthy. Income covers most expenses, savings last beyond age 89, and the plan still has an estimated $230k remaining.



Milestones: RMDs begin **73**

Savings balance = money in − money out, added up year after year. Below $0 means income no longer covers spending.

BIGGEST RISK

A weak market late in retirement could reduce savings faster than expected, since most income depends on investment returns.

YOUR RETIREMENT STORY

1. You are retired at age 67.
2. Guaranteed income (Social Security / pension) supports your spending.
3. Your plan lasts beyond age 89, with about $230k still remaining.

Where the Money Goes

The same expenses, broken out by category — with medical and long-term care shown separately.

Year	Housing & Home	Everyday Basics	Discretionary & Events	Debt & Financial	Income Taxes	End of Life	Medical (excl. LTC)	Long-Term Care	Total
2026	$49,200	$14,616	$10,584	$0	$488	$0	$0	$0	**$74,888**
2027	$50,253	$14,981	$10,849	$0	$444	$0	$0	$0	**$76,527**
2028	$51,352	$15,356	$11,120	$0	$400	$0	$0	$0	**$78,228**
2029	$52,498	$15,740	$11,398	$0	$3,283	$0	$0	$0	**$82,919**
2030	$53,694	$16,133	$11,683	$0	$5,020	$0	$0	$0	**$86,530**
2031	$54,941	$16,537	$11,975	$0	$5,125	$0	$0	$0	**$88,578**
2032	$56,242	$16,950	$12,274	$0	$6,167	$0	$0	$0	**$91,633**
2033	$57,600	$17,374	$12,581	$0	$6,372	$0	$0	$0	**$93,926**
2034	$59,016	$17,808	$12,896	$0	$6,596	$0	$0	$0	**$96,316**
2035	$60,493	$18,253	$13,218	$0	$6,840	$0	$0	$0	**$98,804**
2036	$62,035	$18,710	$13,548	$0	$7,289	$0	$0	$0	**$101,582**
2037	$63,643	$19,177	$13,887	$0	$7,485	$0	$0	$0	**$104,193**
2038	$65,321	$19,657	$14,234	$0	$7,846	$0	$0	$0	**$107,058**
2039	$67,072	$20,148	$14,590	$0	$8,112	$0	$0	$0	**$109,922**
2040	$68,899	$20,652	$14,955	$0	$8,401	$0	$0	$0	**$112,907**
2041	$70,806	$21,168	$15,329	$0	$8,864	$0	$0	$0	**$116,167**
2042	$72,795	$21,698	$15,712	$0	$9,301	$0	$0	$0	**$119,506**
2043	$74,871	$22,240	$16,105	$0	$9,761	$0	$0	$0	**$122,977**
2044	$77,038	$22,796	$16,507	$0	$10,155	$0	$0	$0	**$126,496**
2045	$79,299	$23,366	$16,920	$0	$10,515	$0	$0	$0	**$130,100**
2046	$81,658	$23,950	$17,343	$0	$10,837	$0	$0	$0	**$133,789**
2047	$84,121	$24,549	$17,777	$0	$11,181	$0	$0	$0	**$137,627**
2048	$0	$0	$0	$0	$31,510	$11,566	$52,673	$0	**$95,749**

About the Long-Term Care column. It shows **$0** — long-term care is not assumed in this illustration. We don't bake in a nursing-home allowance for care you may never need or a policy you may never buy. If you have a policy you can treat its premium as a cost, and you can enter expected caregiver costs in the app; long-term-care risk is also stress-tested separately in the "high medical" scenario. On the next page these same amounts are folded into the "Medical & Care" column.

Year-by-Year Cash Flow

The detail behind your grade — most-likely scenario. Each row is a 12-month period.

Year	Savings / Investable (start of yr)	Work	Social Security	Investment & Other	Living Expenses (excl. medical)	Medical & Care	Net Cash Flow
2026	$680,000	$0	**$40,800**	$37,400	$74,888	$0	$3,312
2027	$683,312	$0	**$42,430**	$37,582	$76,527	$0	$3,485
2028	$686,797	$0	**$43,491**	$37,774	$78,228	$0	$3,036
2029	$689,834	$0	**$44,578**	$37,941	$82,919	$0	**–$400**
2030	$689,433	$0	**$45,692**	$37,919	$86,530	$0	**–$2,919**
2031	$686,515	$0	**$46,835**	$37,758	$88,578	$0	**–$3,985**
2032	$682,530	$0	**$48,006**	$37,539	$91,633	$0	**–$6,089**
2033	$676,441	$0	**$49,206**	$37,204	$93,926	$0	**–$7,516**
2034	$668,925	$0	**$50,436**	$36,791	$96,316	$0	**–$9,089**
2035	$659,836	$0	**$51,697**	$36,291	$98,804	$0	**–$10,816**
2036	$649,020	$0	**$52,989**	$35,696	$101,582	$0	**–$12,896**
2037	$636,124	$0	**$54,314**	$34,987	$104,193	$0	**–$14,892**
2038	$621,232	$0	**$55,672**	$34,168	$107,058	$0	**–$17,218**
2039	$604,013	$0	**$57,063**	$33,221	$109,922	$0	**–$19,638**
2040	$584,375	$0	**$58,490**	$32,141	$112,907	$0	**–$22,276**
2041	$562,099	$0	**$59,952**	$30,915	$116,167	$0	**–$25,299**
2042	$536,800	$0	**$61,451**	$29,524	$119,506	$0	**–$28,531**
2043	$508,270	$0	**$62,987**	$27,955	$122,977	$0	**–$32,035**
2044	$476,235	$0	**$64,562**	$26,193	$126,496	$0	**–$35,741**
2045	$440,494	$0	**$66,176**	$24,227	$130,100	$0	**–$39,697**
2046	$400,798	$0	**$67,831**	$22,044	$133,789	$0	**–$43,914**
2047	$356,884	$0	**$69,526**	$19,629	$137,627	$0	**–$48,472**
2048	$308,412	$0	**$0**	$16,963	$43,076	$52,673	**–$78,786**

Reading the table. "Net cash flow" is income minus expenses for the year; a negative figure is simply the amount drawn from savings. The change in savings from one year to the next won't always equal net cash flow exactly, because savings also reflect underlying growth and other non-cash adjustments. Living Expenses combines necessary, discretionary, debt and tax outflows — the category split is on the preceding "Where the Money Goes" page. The Medical & Care column there is split into medical and long-term care.

Appendix · Your First Year, Dollar by Dollar

Exactly where your money comes from and where it goes in 2026 — the building blocks behind every later year.

Where your plan starts

Your drawable savings total **$680,000** and your debts total **$250,000**. The plan begins from your **net worth** of **$680,000** — that's your savings after your debts are netted out. If you own a home, 75% of its value is also counted as a last-resort reserve. Your savings themselves are unchanged at $680,000; here your net worth matches your savings.

Money coming in

Social Security	$40,800	Guaranteed income that arrives every year.
Investment income	$37,400	Interest, dividends, and gains realized from your savings.
Total income	**$78,200**	

Money going out

Housing & home	$49,200	Mortgage or rent, property tax, insurance, and upkeep.
Everyday basics	$14,616	Food, transportation, utilities, and insurance.
Discretionary & events	$10,584	Travel, hobbies, gifts, and any life events you entered.
Income taxes	$488	Federal (and state, where applicable) tax projected on your income.
Total spending	**$74,888**	

Bottom line for 2026: $78,200 came in and $74,888 went out, leaving about **$3,312** added back to savings.

Your Story

What the grades mean for you, in plain language.

Overall, the analysis is clear: while both options grade highly, keeping your pension edges out the lump sum as the stronger choice. The grades are close, but the numbers show that for the lump sum to match the guaranteed income of your pension, it would need to earn about 9.5% per year—an ambitious target that's hard to count on in retirement. The pension offers more stability and peace of mind.

If you keep the pension, you'll receive $3,000 every month for life, no matter what happens in the markets or economy. This steady income shines in all scenarios, especially the tougher ones like high medical costs or a longer-than-expected life. By the end of your life, your net worth—including home equity—would be around $1,076,034, with your savings and home providing a solid financial cushion. The pension grades as an A+ across the board because it's guaranteed and doesn't depend on investment performance.

Taking the lump sum gives you $380,000 upfront to invest and draw from, which offers flexibility but requires careful management. Over the years, you'd spend down your savings while relying on your home equity to maintain your net worth, which is projected to be $1,046,031 by the end of your life. The lump sum demands consistent investment returns and discipline to avoid running out of money, and it carries more uncertainty since it depends on how markets perform.

The toughest scenario for both plans is a long life combined with weaker investment returns. In real life, this means living well past your expected age of 88 while the markets underperform. Your pension's guaranteed income would remain steady, while the lump sum could struggle to provide enough if returns fall short. This highlights why keeping the pension is the stronger, safer call for your retirement.

The Decision

How the two options compare — and what it means for you.

	Keep the Pension	Take the Lump Sum
rGPS grade	**A+**	**A+**
Guaranteed lifetime income	$3,000/mo	You set your own draw
Flexibility for large needs	Limited	High
Longevity protection	Built in (lasts for life)	You manage it
Market / investment risk	None to you	You bear it
Legacy to heirs	Ends at death*	Balance can pass on
End-of-life net worth (incl. home)	**$1,076,034**	**$1,046,031**
Income-parity break-even	—	9.5% / yr

*Subject to any survivor / joint benefit on your pension. **Key assumptions:** investment return 5.5% · inflation 2.5% · life expectancy age 88 (full list in the Explanatory Notes).

WHAT YOUR ANALYSIS SHOWS

Keeping your pension grades higher

The grades are close, so the deciding factor is value: the lump would have to earn about **9.5%/yr** just to match the pension — more than a careful retiree should count on. Keeping the guaranteed income is the stronger call.

The election is yours to make — this analysis is educational and does not tell you which option to choose.

How to read this report

The grades come from the rGPS-AI engine, which projects your income, savings, and expenses across your lifetime under each choice and stress-tests them (living longer, weaker returns, higher medical costs). **A** = goals met with room to spare ... **F** = a serious problem if it occurs. Full definitions are in the Explanatory Notes.

This is a planning illustration, not advice. It assumes the lump sum is rolled over (tax-deferred) and invested; "taken as cash" would be taxed differently. Your actual result depends on your real returns, taxes, and how long you live. Review with a financial professional before deciding, and remember you can model either choice live in **Explore**. See the Explanatory Notes that follow for definitions and assumptions.

Explanatory Notes

Definitions and assumptions behind this analysis.

Plans

This report outlines two plans that attempt to make good use of the resources and opportunities you have before you. Of course, no plan can guarantee success, and no plan can fully account for all of life's surprises. We strongly urge you to update this analysis periodically. In the meantime:

- The **“Keep the Pension”** plan assumes that the principal factors that determine your finances work out as you initially specified, including continuation of your employer pension plan benefit as is.
- The **“Take the Lump Sum”** plan uses the same assumptions as the preceding plan, except that income from the employer pension plan terminates, and in its place, you receive a lump sum of **$380,000**, which is deposited into a tax-deferred IRA Rollover account.

Report cards

Each plan is given an overall grade, then is further evaluated under five sets of conditions (“Scenarios”) that reflect both “normal” conditions and other concerns you have indicated.

The “Overall grade” is an average of the individual grades for each scenario. The grading system is intended to be similar to a school report card. To be more specific:

A = Goals are expected to be met, with room to spare.
B = Goals are expected to be nearly met, but not quite.
C = Results are expected to fall short of goals, but further adjustments may produce acceptable results.
D = Substantial changes will be needed to bring results and goals in line.
F = This is a recipe for financial disaster if these circumstances occur.

The “normal” scenario is intended to show what would happen under “expected” or “typical” future circumstances. This means expected average future events, with neither good nor bad surprises. Of course, the “Normal” scenario will not occur, because reality always varies from expectations, sometimes by a little, sometimes by a lot. That is why other, less favorable scenarios are also shown. Here are the assumptions that we use in the “Normal” scenario:

1. You live to the expected average age for people of your sex, current age, health, and smoking status: age 88.
2. You use a relatively conservative strategy for your savings and investments: your annual pre-tax return on saved and invested funds is assumed to be **5.5%**.
3. Inflation consistently runs at a moderate rate: the annual inflation rate is assumed to be **2.5%**.
4. Medical costs, unless already higher than average, will gravitate to historical averages: medical expenses tend to increase about 2% for each year of age; annual medical cost inflation will be about 4.5%; extra out-of-pocket medical costs are assumed to be $20,000 per person in the year of death (before inflation); no other long-term medical care costs are assumed in this scenario.

The four stress scenarios — long life, inferior returns, high medical expense, and long life with inferior returns — are described on the next page.

Explanatory Notes (continued)

Report cards — the stress scenarios

The **"long life"** scenario illustrates the consequences if other assumptions are held steady, but you live longer. In most cases, a longer life means an increased financial risk, because your money has to last that many more years. In this scenario, life expectancy of household members is age 100.

The **"inferior returns"** scenario tests the impact of adverse investment experience. Although most people invest more conservatively when they get older, even conservative investments can do worse than expected. Furthermore, adverse market conditions tend to hurt you more if they occur early on, before you have withdrawn and spent much of your savings. Under this scenario, your average pre-tax return on saved and invested funds is lower (compound average annual rate).

The **"high medical expense"** scenario estimates what would happen if medical expenses turn out to be much higher than expected. All assumptions are kept at "normal" levels in this scenario, except: (1) expenses for medical care are multiplied by a factor of 2.0; (2) you are assumed to need 5 years in long-term home health or nursing home care (assumed costs are based on family arrangements, insurance, and your state of residence).

The **"long life and inferior returns"** scenario assumes the following deviations from "normal": (1) each person in the household lives to age 100; (2) your average pre-tax return on saved and invested funds drops (compound average rate).

Social Security

The longer you wait to start taking Social Security, the higher your monthly check will be. The best time to start taking Social Security benefits, therefore, depends on the trade-off between getting more checks vs. getting higher checks. The starting ages shown under each Plan reflect your expected benefit levels and life expectancy. The analysis also takes into account your work plans, since up to Social Security's normal retirement age there is an "earnings test" that can reduce your Social Security benefits. The starting age shown also weighs your overall income, because you can lose some of your benefits to income taxes depending on how much other taxable income you receive.

Medicare

U.S. citizens automatically receive Medicare Part A (hospital insurance) at age 65. They are also eligible for Part B (supplemental medical insurance) at an additional but relatively modest premium. Despite the premiums required for participation in Medicare, the program is heavily subsidized by the U.S. government and is worth signing up for as soon as one is eligible (unless you already have equivalent low-cost coverage available through an employer or elsewhere). Medicare recipients also have the option of using an existing HMO or other care arrangement under Medicare Part C as a substitute for traditional Medicare. If you are already part of a medical plan that you like, or if you are joining a new plan, ask your medical care provider about how they work with Medicare. Medicare members may also sign up for prescription drug benefits under a wide variety of options, collectively called Medicare Part D; which option works best depends on your specific medication requirements, so consider consulting your pharmacist about which is the best fit for you, or visit the Medicare Prescription Drug Plan Finder at medicare.gov.

Explanatory Notes (continued)

Private health insurance

Medical insurance is a prudent financial choice for anyone who is eligible, because otherwise there is a much higher risk of a medical catastrophe turning into a financial catastrophe as well. After age 65, Medicare provides basic coverage for most Americans. So-called “Medigap” policies cover most of the out-of-pocket costs not covered by Medicare, or you can use Medigap Plans K or L to cover catastrophic medical needs only. In general, people over 65 should have such additional insurance, unless they are already otherwise covered as an employee, retiree, or dependent, or already use a Medicare HMO or PPO. Many varieties of coverage are available, and your advisor can help you select one that makes sense for you.

Order of liquidation of assets

The proper order of sale for your assets, as you need to liquidate them, cannot be determined without detailed information about each asset. The following information is general, therefore, and may not be fully applicable to your situation:

- Personal investments and savings, particularly those that do not offer tax advantages, are generally best to use up first (though it's wise to keep some handy in case of emergency). Not having tax benefits, such assets tend to have less long-term pay-off for you. Still, they can be worth holding onto if their pre-tax return is higher, or if they have significant growth potential or other features that are important to you.
- Other forms of real and personal property may be hard to liquidate, and doing so often causes serious inconvenience in other ways. Such assets, therefore, usually fall to the bottom of the list of those to spend.

Assumed investment return

The target investment rate of return is set to recognize that in your older years your investments should be relatively conservative. Although taking more risk is likely to produce higher returns, it also means a greater chance of lower returns, or even of losing some portion of your money. When you are young and still have many years of work in front of you, you can afford to take more chances, because you have the time and are more likely to have the means to make up for bad luck. But in retirement, your chances of covering losses are severely reduced. In general, therefore, you can only afford to take more risk if you can afford to lose money.

- This analysis does not provide specific investment recommendations. Please discuss saving and investment choices with your financial advisor.

Cash-Flow Report — Column Notes

This report assumes that the specified Plan and Scenario occur as described, and that all assumptions and decisions described in the Plan details occur (unless otherwise specified). In addition, it assumes that other events and decisions occur at logical times — for example, that when assets need to be liquidated to cover expenses, assets that are more liquid and less tax-advantaged generally will be used first. Expense projections are based on current expense levels, typical patterns of expense changes that occur with aging, and other assumptions specified for the illustrated Plan and Scenario. The columns shown:

Year — each row represents one 365-day period, the first one starting on the effective date. “The year” refers to such a 365-day period, not the calendar year.

Savings / Investable (start of year) — the estimated drawable household savings and investments at the start of the year. (The engine also tracks *net assets* — savings minus debts — referenced elsewhere in this report.) Because some non-listed events are reflected (the underlying growth in market value of real estate or family businesses, or contributions to retirement plans), as well as debt amortizations that appear as cash expenses but do not affect net worth, the change from one year to the next often does not equal that year's cash flow.

Work — estimated income from employment.

Social Security, Pensions — estimated income from Social Security, pensions, and annuities, whether currently received or anticipated under the Plan. The common element is that they are regular payments from outside institutions that are not dependent on assets owned by the household.

Investment & Other income — income from all other sources. Investment income includes all income earned on savings and investments, whether received in cash or not — capital gains on securities, the growth in tax-advantaged accounts (e.g. IRAs or employer-sponsored plans), and growth in personal property that could be sold someday — plus direct rental or business income. “Other” income means all remaining sources (rents, royalties, alimony, and any miscellaneous items entered). Note that investment income in the first year will generally not match the figure you entered, since we assume assets shift as part of implementing this plan.

Living Expenses — combines what the legacy report split into Necessary, Discretionary, and Financial expenses: housing (mortgage or rent, real-estate taxes, home insurance, utilities), food, clothing, transportation; entertainment, travel, retirement-plan contributions, gifts; and most non-mortgage debt payments, taxes (Social Security taxes on employment income, federal and state/local income taxes, and roughly-estimated estate taxes), and life-insurance premiums. It also includes end-of-life items — a modest funeral allowance (except if prepaid) and any bequests outside the household — net of any life-insurance proceeds payable within the household (which can make a death-year figure negative).

Medical & Care — projected future costs of medical care and medical insurance, including the costs of long-term care and long-term-care insurance, if applicable.

Net Cash Flow — the total of the income columns minus the total of the expense columns. As explained above, the Net Cash Flow often does NOT equal the difference in savings (or net assets) from one year to the next, because the change in assets may include items not listed under income and expenses.