

INVESTOR INSIGHTS SERIES

Retirement, death and taxes

Are investors prepared for the inevitable?

Despite short-term economic and political uncertainties presented by today's markets, investors must still address the certainties of death, taxes and the inevitability of retirement funding when laying out long-term financial plans. Retirement takes on particular weight in the 21st century as investors assume a greater share of the obligation for funding an income stream to last decades after work life ends and providing a financial legacy to future generations.

Where once individuals might have relied on an employer pension, government benefits, and personal savings to provide a stable source of retirement income, that model may now be on shaky ground. Modern demographics and economics challenge public retirement systems to provide income benefits for a rapidly growing elder population and force many employers to off-load long-term funding liabilities by transitioning from defined benefit plans to defined contribution plans.

As a result, 78% of individual investors worldwide believe the responsibility to fund retirement is increasingly landing on their shoulders. Our survey finds that many are taking a positive step forward in fulfilling this obligation by saving an average of 12.1% of their annual income toward retirement.

Almost half of investors include hopes for receiving an inheritance as part of their retirement funding plan.

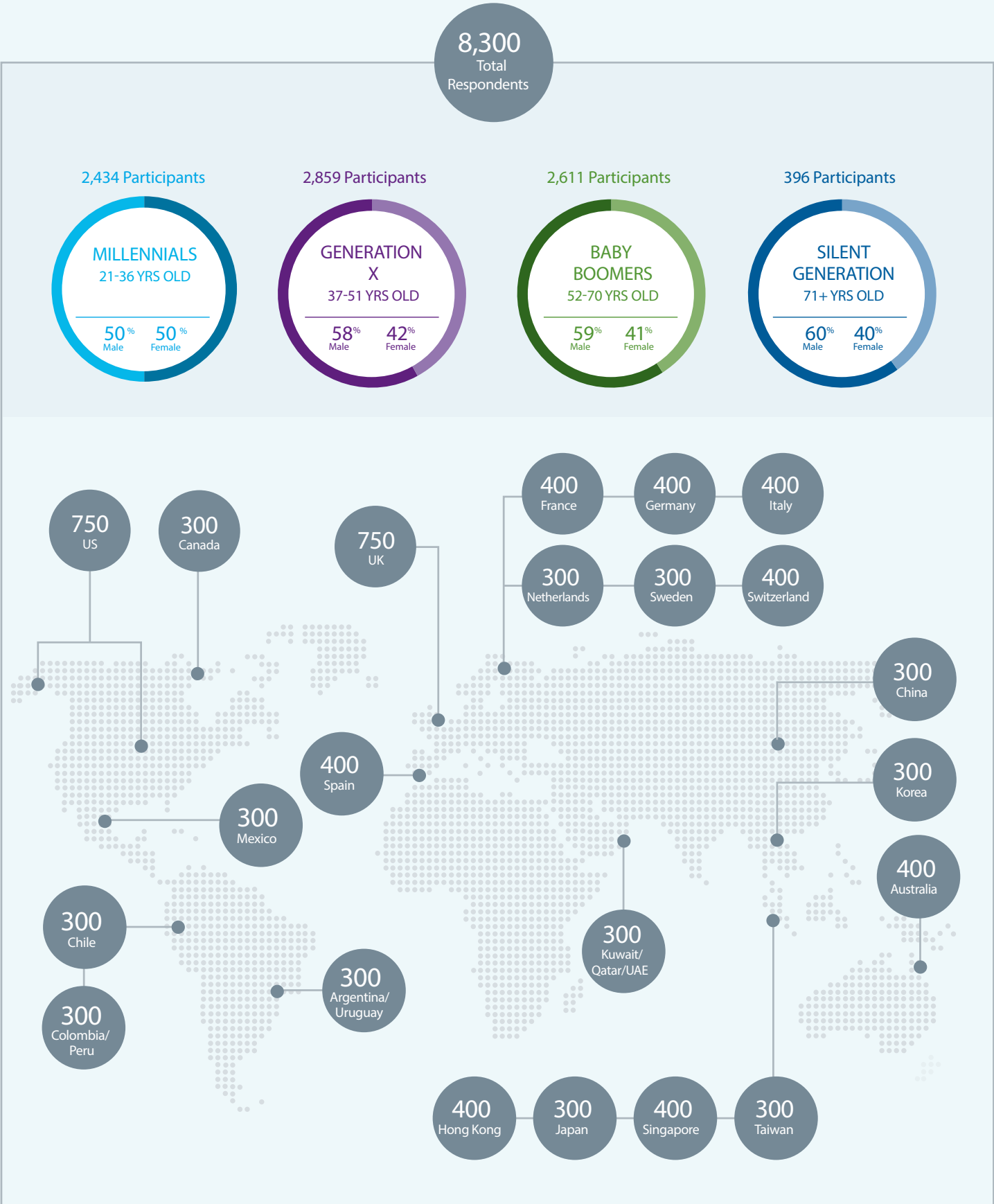
44% of investors say they need professional help with taxes.

Six in ten investors have not taken the basic planning step of making out a will.

ABOUT THE SURVEY

Natixis Investment Managers surveyed **8,300 investors globally** in **February and March of 2017**, with the goal of understanding their views on the markets, investing and measuring progress toward their financial goals. Investors from **26 countries** are represented in this, the **eighth annual survey** of individual investors.

An online quantitative survey of **41 questions** was developed and hosted by CoreData Research. Each of the 8,300 individual investors had minimum net investable assets of US \$100,000 (or Purchase Price Parity [PPP] equivalent).



This may not be enough: Past surveys have shown that investors underestimate their income needs, anticipating that they will need to replace only 64% of their current income in retirement¹ – a figure that is well short of the 80% often recommended by experts.

But ensuring a successful third act in their financial lives may require more than putting money into retirement plans. Later-stage life planning presents very specific challenges: turning savings into income, addressing health and long-term care costs, minimizing taxes, and ultimately managing assets accumulated over a lifetime to ensure there is an estate to be left to heirs.

We see three key areas where investors may need to take action to ensure financial security later in life:

- Setting realistic goals for retirement saving and spending
- Implementing effective tax strategies for managing lifetime wealth
- Making explicit estate plans to provide a meaningful legacy to their heirs

It's been said that the only certainties in life are death and taxes. But now, as individuals are accountable for a greater share of post-work income, retirement is a third certainty that must be factored into long-term financial success.

Retirement reality check

On the surface, investors worldwide appear to have retirement in their sights and are stepping up to address this critical long-term financial objective. We get a consistent picture of retirement from the 8,300 individuals, representing 26 countries, who make up our survey population. On average they anticipate retiring at age 62 and plan to live 23 years in retirement.

Investors appear to be filling in the basic factors needed for retirement planning, with 69% believing they know how much income they will need and 68% believing they know how much they need to save. But not all investors may be putting the numbers together accurately.

As expected, there is a significant generational split on the number of investors who believe they know how much to save. Some 65% of Millennials and 69% of Generation X investors say they have taken this step, which is encouraging as these investors are further out from their actual retirement date. What is most surprising is that three in ten Baby Boomers have not yet made this critical calculation. This may present significant challenges as the oldest Boomers turn 71 years old this year, an age that puts them well past most mandatory retirement dates and,

in the US, triggers tax consequences on retirement savings in qualified accounts.

This trend becomes more alarming in examining the number of investors who say they have estimated their retirement expenses. While 66% of our overall population report taking this important step, 27% of those who are already in retirement have not yet done so. Failure in this endeavor may mean these individuals come up short and run out of assets to fund their full retirement needs.

Plan participation

For millions of individuals worldwide, achieving a financially secure retirement begins with the simple step of participating in a workplace retirement plan. It is encouraging to see that two-thirds of investors globally have taken this step, but that number drops to six in ten among investors in the US. The highest level of plan participation within our survey base comes from investors in Chile (89%) and Australia (82%), two countries where participation is mandatory for individuals and employers alike.

A majority of those in our survey may participate in a workplace retirement plan, but are they saving enough? Some experts suggest that individuals may need to save as much as ten times their annual salary by the time they reach retirement age to achieve financial security. We find that three-quarters of investors agree that they have a general idea of how much they need to save for retirement, but only 15% agree strongly, indicating many could still have reservations about the validity of their estimates. More precise planning may be needed to ensure they will have the assets to last the nearly quarter century that investors anticipate living in retirement.

From accumulation to distribution

While workplace savings are vital to generating a stable income in retirement, they are only one piece of the picture for most investors. Individuals anticipate they will need to tap multiple funding sources when it comes time to turn retirement assets into retirement income. Investors most frequently cite personal retirement savings (90%) as a funding source. The need for self-reliance is further reflected in their weight placed on personal investments (79%), their spouse's or partner's retirement savings (63%) and liquidation of personal assets such as a primary home or a business (51%). Completing the three legs of the stool are workplace savings (76%) and government programs such as Social Security (70%).

Investors anticipate tapping into multiple sources of funding for retirement

Investors cite the importance of the following sources of funding

	MILLENNIALS	GENERATION X	BABY BOOMERS	SILENT GENERATION
Personal retirement savings	89%	91%	92%	86%
Other personal investments (individual stocks and securities, mutual fund account, etc.)	79%	80%	79%	74%
Workplace retirement plan	77%	76%	74%	78%
Government programs such as public pensions or Social Security	64%	72%	75%	77%
Spouse/partner's retirement savings	69%	63%	58%	53%
Sale of primary residence or business	58%	52%	47%	40%
Inheritance	60%	50%	40%	36%
Contributions from my children (cash, living space, etc.)	51%	40%	32%	29%

But beyond the traditional funding sources, we find a surprising number of investors also believe their family will play a significant role in their retirement funding plan. Almost half (49%) are counting on an inheritance for retirement funding, while four in ten also believe they can count on contributions from their children – whether cash or living expenses – in their plan.

In many cases, relying on inheritance for retirement income is not a reliable strategy as many assume that the previous generation has been effective in executing their own retirement income plans – especially when investors themselves rank the three biggest threats to their retirement security as long-term care and healthcare costs (27%), not saving enough (18%) and government benefits not providing enough (15%). Add to this the potential effects of inflation (14%) and outliving assets (11%) and an inheritance may not be such a sure thing.

The drag of taxes

Paying taxes may be one of the great certainties of life, but there are strategies available to investors that can help minimize the tax drag on those assets going into and coming out of retirement savings.

Overall, taxes are top of mind for investors with 72% reporting that they consider the tax consequences of their investment decisions. But a large number of individuals worldwide are vexed by the process, with more than four in ten investors (44%) saying they need professional help in managing investment taxes. Despite the need for advice, one in five investors say their advisor is not offering help with taxes and should. This should be an important consideration for financial professionals, as 23% of investors say the ability to deliver on this critical issue is one of the top factors they consider in choosing an advisor.

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At a time when individuals are concerned about the value they obtain from fees paid to their advisor, taxes should also be a pressing consideration. Over time, this tax drag can have a significant impact on investment earnings.

In Canada, where top rate taxpayers can lose more than half of their investment income to taxes, we find that investors are acutely aware of the need to more effectively manage tax drag on their portfolio.

Overall, Canadian investors believe that the taxes on their investment income have the same, or greater, impact on their returns than advisor fees.

Respondents in a separate pulse survey of 500 Canadian investors conducted in April 2017 clearly express the impact of taxes on their investments. Almost six in ten (58%) Canadians estimate that taxes on their portfolio account for more than 5% of their annual tax bill. This includes 24% who say investment taxes add up to more than 15% of their bill and 6% who say it's more than 30%.

Overall, Canadian investors believe that the taxes on their investment income have the same, or greater, impact on their returns than advisor fees. Yet only 54% of those surveyed report their financial advisors have spoken to them about the impact of taxes on their investments.

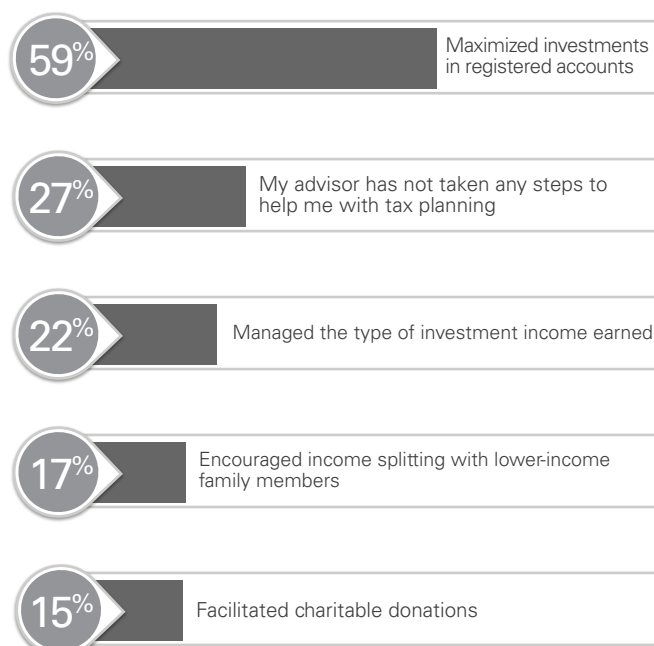
Advisors in Canada have a wide range of tax planning tools at their disposal to help reduce clients' tax bills, but few investors report their advisor has gone beyond contributions to registered accounts. Six in ten (59%) say their advisor has helped them maximize investments in registered accounts, but only a small number of clients say their advisor has implemented other strategies:

- 27% say their advisor has done nothing to help them manage taxes.
- **Just 22%** of investors say their advisor has focused on managing the type of investment income they earn.
- 17% say their advisor has explored income splitting with lower-income family members.
- 15% say their advisor has helped facilitate charitable donations.

Investors are so desperate for tax relief that 58% overall and 62% of high-net-worth investors say they would be willing to change advisors to get more help with managing taxes.

In search of tax planning tools

Canadian investors cite the methods their advisor has implemented to help them reduce their tax bill

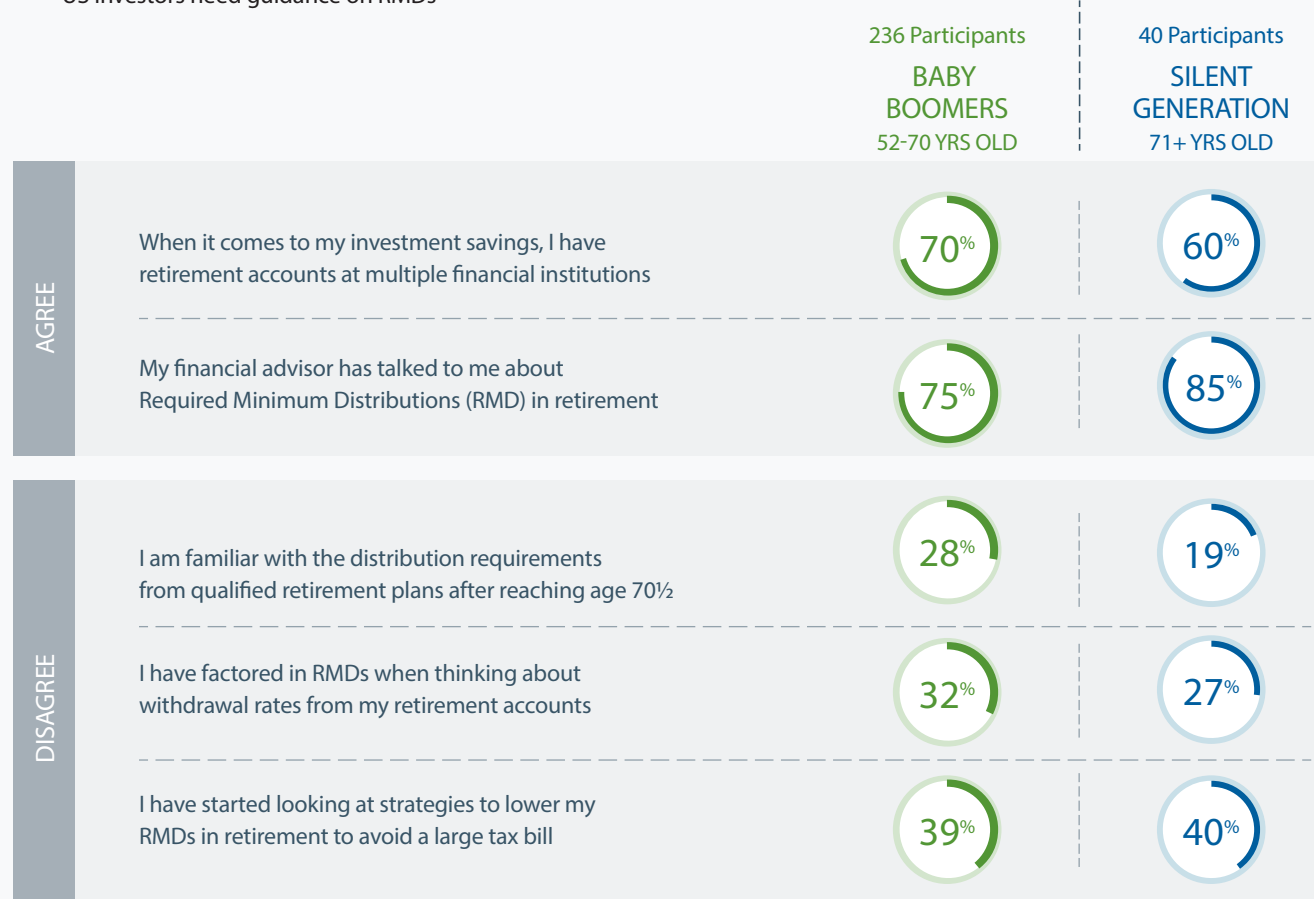


Managing the tax consequences

A separate look at US investors demonstrates the need to make tax management a conscious part of the process in retirement savings and distribution planning. Many individuals may already have a solid grasp of the requirements for making contributions to tax-qualified retirement plans like 401(k) plans and certain individual retirement accounts (IRAs). But for a rapidly growing number of Americans who reach the age of 70½, the tax consequences of taking money out of these plans present a whole new set of challenges.

Many qualified plans are set up to provide a vehicle for tax-deferred savings, which means contributions, up to prescribed limits, are made on a pre-tax basis, reducing the annual tax bill of participating savers. But distributions out of qualified accounts are taxable events, and at some point, the government wants to recoup its tax revenue. As a result, tax-qualified savings come with provisions for required minimum distributions (RMDs). They set out minimum amounts that individuals will have to take out on an annual basis, based on their life expectancy and other factors.

US investors need guidance on RMDs



Planning for these events is critical: Failing to take enough out of an account can trigger penalties. Taking too much out and spending it instead of saving it could mean running out of assets to fund retirement. This takes on particular significance in 2017 as the first of 70 million members of the Baby Boomer generation reached age 70½ in 2016 and as of April 1, 2017, must begin taking RMDs. Given what's at stake, it's no wonder that 64% of respondents report that their financial advisors have spoken to them on the subject and 60% have already factored RMDs into their withdrawal plans.

While the overall numbers look promising, they do not show the whole picture. In segmenting the results by age, we see that 28% of Baby Boomers and 19% of World War II generation investors say they are not familiar with RMDs, while almost a third of boomers and over one-quarter of World War II investors have not factored RMDs into their financial plans.

Implementation of distribution strategies for qualified retirement assets will be an important consideration for many investors trying to meet two critical financial planning objectives: managing assets to ensure a stable retirement income and preserving wealth to ensure a legacy for their heirs.

One of the key challenges for many investors in planning distributions from retirement accounts is a question of asset location. Seven in ten Americans report that they have retirement accounts at multiple financial institutions, which can make it difficult to implement a cohesive income strategy that factors in requirements for distributions on all qualified assets.

As a result, financial advice in retirement takes on new dimensions: The challenges in managing retirement income evolve into strategies for preserving assets and ultimately leaving an inheritance.

Estate planning

Estate planning is a keystone in the financial third act for investors worldwide. More than three-quarters of the investors we surveyed plan to leave an inheritance, including 81% of those over the age of 71. But it is those who believe they won't pass assets on who highlight the challenges many will face in fulfilling this goal: 51% of those investors do not believe they will pass assets on, while 39% say they plan to spend all of their assets in their lifetime. Further, more than half of investors tell us they have not taken the basic step of writing their plans for distributing wealth in a will.

Whether running out of money is a conscious choice or a function of retirement costs, the possibility for missing the mark should be more closely considered by those on the receiving end. Forty-five percent of investors tell us they expect that they will be the beneficiary of an inheritance. More surprisingly, half of investors tell us they are counting on assets that they may inherit as a source of their own retirement income.

Regardless of whether they succeed in leaving – or getting – an inheritance, the investors in our survey want to impart wisdom about money to their children and want professional help in achieving this goal. Globally, two-thirds of investors say they want their advisor to speak with their children about savings and investing. This open communication may be the critical step forward in setting expectations and establishing sound financial habits that can help children address their own retirement planning needs.

Advice is needed in planning for the inevitable

Overall, we find that investors understand the value of professional advice and want help in addressing the issues that pose the greatest threat to retirement security. First and foremost, investors (47%) want their financial advisor to help them better understand the risks of investing. But they also want professional help with tax planning (44%), budgeting (28%), long-term care planning (28%), estate planning (27%), and managing debt (25%).

Two-thirds (67%) of investors say they want their advisor to speak with their children about savings and investing.

Each of these issues can be a critical factor in determining lifelong financial success. We see that younger investors in particular value what a professional brings to the table. While they may just be starting out in life, 74% of Millennial investors in our survey believe financial advice can help them achieve long-term financial goals. Even though many may now just be starting the process of saving for retirement, we see that many Millennials see the need for professional help extending beyond their working years, as 69% believe they will still need financial advice once they reach retirement.

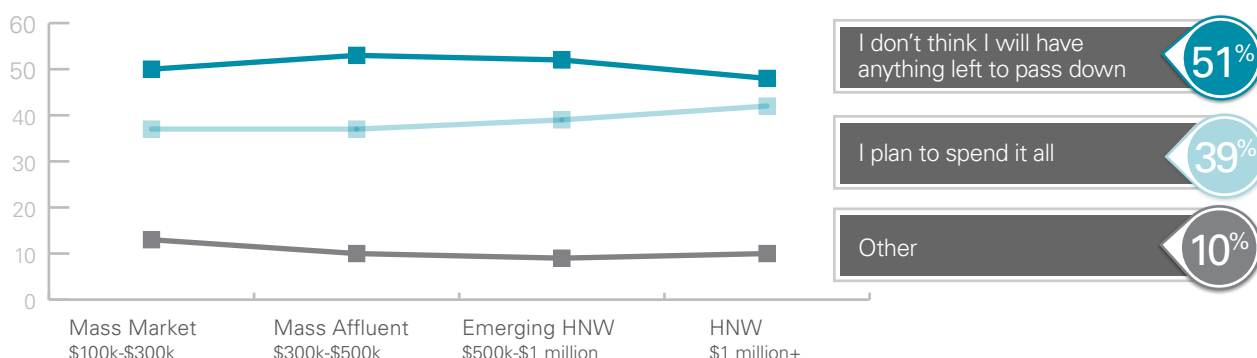
This may be food for thought for the 45% of retirees who say they do not need financial advice. Overall, we find that the retired population in our survey say they feel financially secure and believe their investment knowledge is strong. Nearly half of those who go it alone say they are confident in their own abilities, but looking at the complex process of managing taxes, converting assets into income, and setting out estate plans, they may do well to heed the wisdom of youth.

The Estate Planning Dilemma

Investors may be leaving their wealth transfer plans to chance



Of the 23% not planning on leaving an inheritance, why?



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