Janus Henderson
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THE THREE TIERS OF RETIREMENT INCOME

An income strategy for retirees

Introduction

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 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 the cash flow they need.

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.

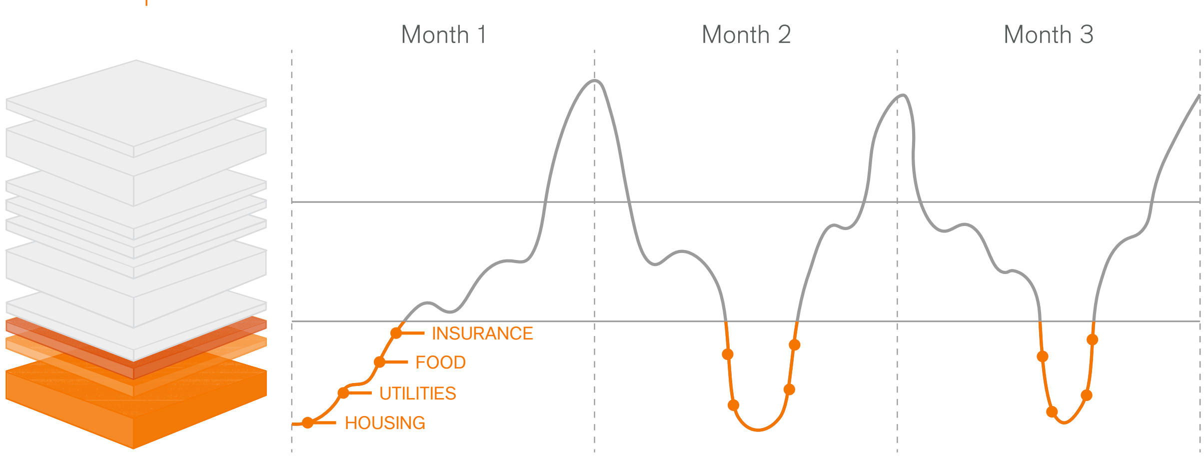
Getting the cash flow needed to meet essential retirement needs

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. If there is a shortfall, it may be wise to use a portion of their existing portfolio to purchase an annuity that will provide the necessary additional monthly income.

Anchor Income Examples:

- Social Security
- Pensions
- Royalties
- Annuities

Tier 1: Anchor Income
Essential Expenses



Tier 2: Cushion Income

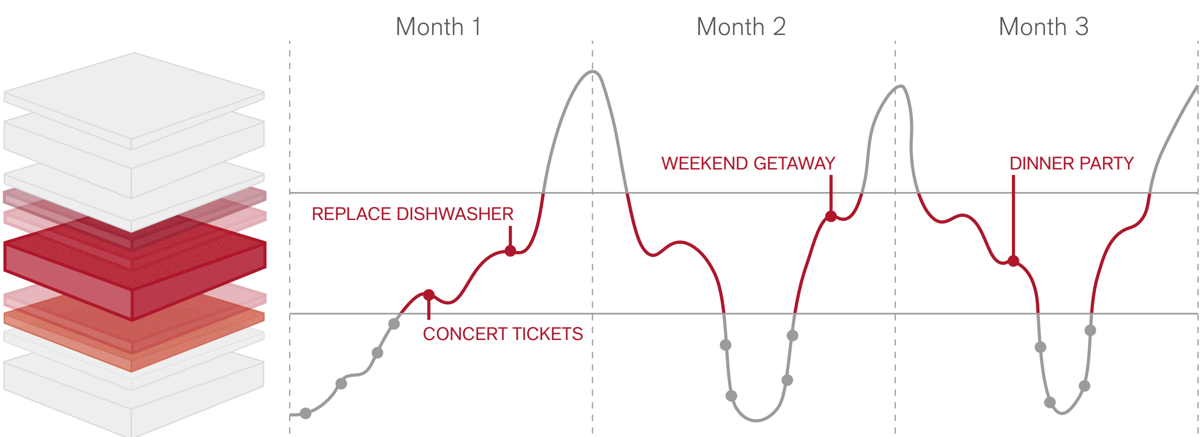
Covering unexpected expenses and income gaps during retirement

The second tier of the Three Tiers of Retirement Income is dedicated to cushion income. These investments can be used to pay unexpected expenses or cover a gap needed to pay essential expenses and discretionary expenses. A good rule of thumb is to allocate at least two years of expected living expenses, in excess of those already covered by anchor income sources outlined in Tier 1: Anchor Income. For example, a couple might decide that they would like $1,000 a month for discretionary expenses. Setting aside enough cash to cover two years of retirement, $24,000 might be allocated to this tier.

Investing to get the cash flow needed

This category of investments consists of defensive income investments such as saving 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 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 augment or refill anchor income, the income needed to meet essential expenses, and cushion income or income needed to meet discretionary expenses.

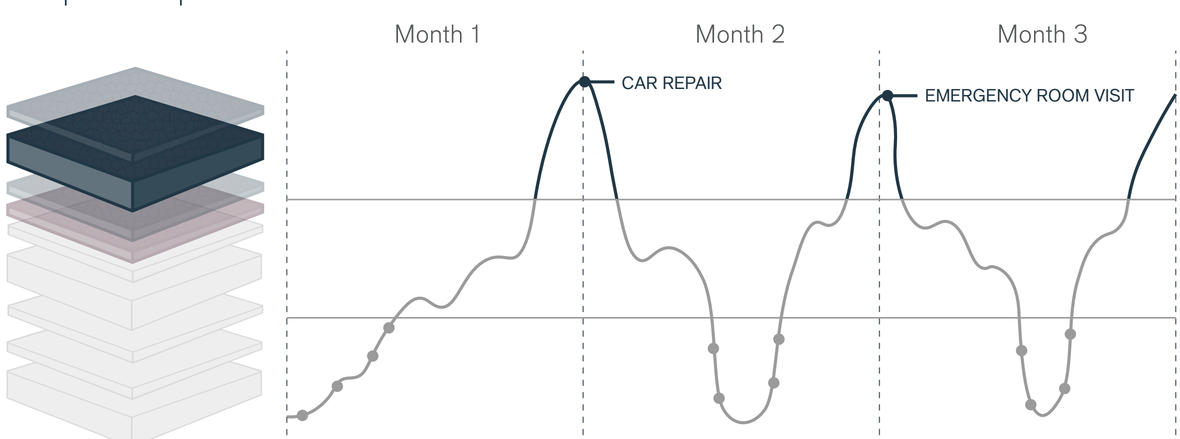
Investing for more income

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 advisor** about how to structure your portfolio uniquely to your retirement income needs.

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The information contained herein is for educational purposes only and should not be construed as financial, legal or tax advice. Circumstances may change over time so it may be appropriate to evaluate strategy with the assistance of a professional advisor. Federal and state laws and regulations are complex and subject to change. Laws of a particular state or laws that may be applicable to a particular situation may have an impact on the applicability, accuracy, or completeness of the information provided. Janus Henderson does not have information related to and does not review or verify particular financial or tax situations, and is not liable for use of, or any position taken in reliance on, such information.

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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