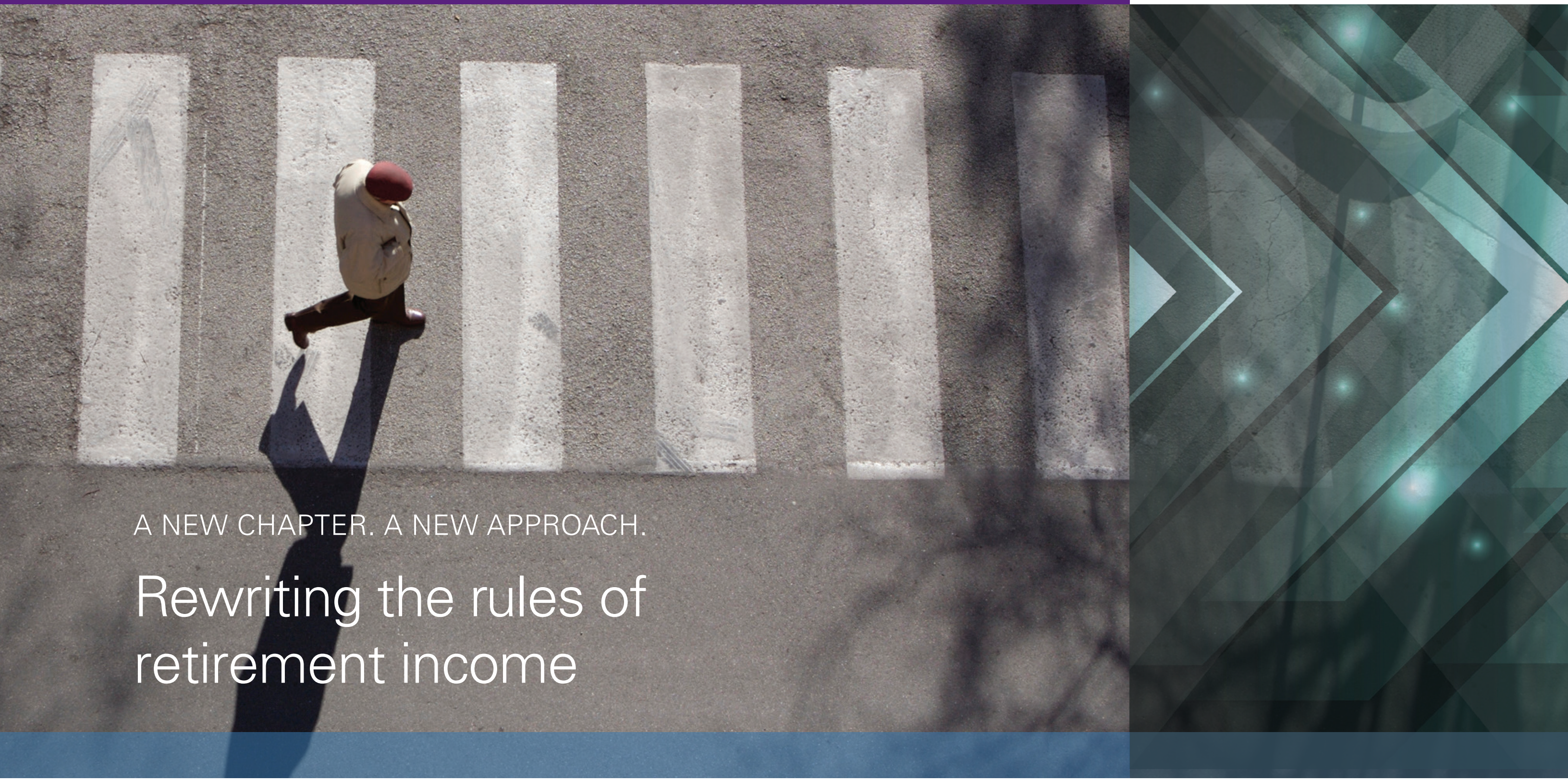


A NEW CHAPTER. A NEW APPROACH.

Rewriting the rules of retirement income

Each generation thinks it's different. So what does that mean for the next generation of retirees? People retiring today have completed the first half of the assignment: accumulating a retirement nest egg. But they may not be as prepared as they would like for the second half: turning that lifetime of savings into monthly income.

Individuals planning to live on their retirement savings have their work cut out for them. With interest rates in record low territory, generating sufficient income from a bond fund or money market account may not be a realistic option.

According to data from the Natixis Durable Portfolio Construction Research Center, 43% of investors surveyed say they have little or no knowledge about investment strategies that produce stable income.[1] And why should they? Investors who have been saving for retirement throughout their career haven't needed to think about investing to fund daily living expenses.

On average, investors believe they'll need 63% of their pre-retirement income in retirement – far short of the 75%–80% used in many planning scenarios.[1]

1 Natixis Global Asset Management, Global Survey of Individual Investors, February 2015. Survey included 7,000 investors in 17 countries. Out of the 7,000 respondents, 750 are U.S. investors.

Retirement spending: rewriting the rules

At Natixis, we see the transition to retirement as a time of shifting priorities. As the era of accumulating assets winds down, individuals' expectations for their investment portfolios begin to change. Generating a monthly income to cover living expenses becomes the dominant concern. Instead of **"How much can I make?"** the question becomes **"How can I make it last?"**

CHANGING MINDSET IN RETIREMENT

RISK FACTORS	WHEN YOU'RE **SAVING** ...	WHEN YOU'RE **SPENDING** ...
Main income source	Regular paycheck, some savings	No paycheck; Social Security, savings
Time frame	Long time horizon for saving	Money may not last through retirement
Health	Illness is generally transitory	Greater chance for long-term illness
Cost of living	Varies by life stage	More likely to be fixed
Price inflation	Can be offset by wage inflation	May not be offset by investment returns
Market volatility	Positive: buy assets at low prices	Negative: sell assets at low prices

Five principles for funding life in retirement

Many of the approaches used during the savings years still apply, such as diversifying investments to help limit risk, but there are also new considerations to address. We divide them into five principles, which we'll examine in greater depth:

1. **Determine spending requirements**
2. **Match funding with expenses**
3. **Plan for a new set of risks**
4. **Be strategic about taxes**
5. **Stay engaged and flexible**

1

Determine spending requirements

Research indicates that the vast majority of investors believe they know how much income they'll need to live comfortably when they stop working. But in reality, individuals frequently underestimate their future expenses.

Our surveyed investors believe they'll need an average of about 60% of their final salary to live on when they retire.[1] But applying averages or rules of thumb can be dangerous since individual circumstances can vary so widely.

Creating realistic projections about spending requirements is the foundation of a successful retirement funding plan. It's helpful to break the process into smaller steps:

Step 1 – Envision your retirement lifestyle

Some people picture retirement as a time to relax, downsize and catch up on projects at home. For others it's a time to travel the world and take up new hobbies. In most cases, world travelers will need more income than homebodies.

Step 2 – Document your most recent spending patterns

Start by gathering any hard evidence, based on your expenses over the past few years. Data from personal budgeting software or online banking and credit card sites can provide valuable information. Tax returns and paystubs are also useful. Looking back several years should also help account for seasonal differences in utility or maintenance costs.

Step 3 – Give special thought to infrequent but predictable one-time expenses including:

- Periodic capital purchases, such as vehicles, technology, appliances and recreational equipment
- Anticipated home improvement projects or repairs
- Down payments or initiation fees
- Children's or grandchildren's education expenses
- Potential rent increases, if you rent
- Relocation costs, if you move

Step 4 – Create a rough annual budget

If possible, determine whether your expenses over the next few years are likely to be higher or lower than the past few years, based on the lifestyle you envision. Remember to factor in:

- Club memberships
- Travel plans
- Insurance and healthcare costs
- Housing/home maintenance/property taxes
- Outstanding debt
- Extended family responsibilities

Once your annual expenses are tabulated, dividing by 12 will give you a sense of the monthly cash flow you will need to create.

WILL YOUR EXPENSES REALLY BE LOWER WHEN YOU RETIRE?

POTENTIAL EXPENSE	LOWER IF...	HIGHER IF ...
Health insurance	You maintain this benefit when you leave your job	You need to purchase insurance or Medigap coverage or you no longer have a pre-tax healthcare spending account
Transportation	Commuting costs were high	Commuting costs were low or subsidized
Travel/vacation	You travel less than when you worked	You travel or vacation more
Dining out	You have less time or inclination to eat out	You have more time and inclination to eat out
Domestic services	You'll attend to most of these chores yourself	You pay for housecleaning, yard work, dog walking, etc.

2 Match funding with expenses

Retirement "income" is a misnomer. With interest rates languishing near record lows, most investors will not be able to generate enough "income" from investment interest to cover their living expenses.

The key challenge is how to fund both current expenses and a long-term retirement. This requires matching available funding sources with spending requirements, on an ongoing and sustainable basis.

Take a page from the pension playbook

Individuals in retirement face the same problem that the managers of large pensions face: how to match available funding to current and future expenses. In the pension world it's known as "liability-driven investing" or LDI. Pension plans have historically relied on LDI to make sure their retirees' accounts are properly funded.

For individual investors, it's not far off from managing a budget that compares the amount coming in through a paycheck with the amount going out to expenses.

MATCH ANTICIPATED FUNDING WITH ANTICIPATED SPENDING

1. **Start** with any fixed sources of monthly revenue, such as a pension, rental income, Social Security or wages from part-time employment.
2. **Compare** the projected monthly income with anticipated monthly expenses – there could be multiple scenarios.
3. **Calculate** the monthly required income from savings to cover any shortfall.
4. **Consider** consulting with a financial or tax planner to account for the effects of inflation and taxes, particularly for assets held in tax-deferred accounts such as IRAs and 401(k)s.

GIVE SOME THOUGHT TO THE RETIREMENT WILD CARDS

UPSIDE

- Children become self-supporting
- Inheritances
- Windfalls
- Property sales
- Loan or other debt payoffs
- Mortgage payoff
- Income/fees from part-time work

What differs in retirement is the need to forecast an income stream when the “salary” isn’t a given and the time frame could be several decades.

Income could be coming from multiple sources – investments, distributions from tax-qualified plans, Social Security – and there are also more unknowns, including health. So the goal for investors is to estimate and project the income needed for each year in the future, based on what is known in the present.

That means coming up with an honest appraisal of which expenses must be covered (the needs) and which would be nice to have (the wants). Many people find it beneficial to model several different scenarios to see how the numbers work out.

And finally, spend some time thinking about the wild cards – events you can’t predict which would likely carry more weight in the absence of a paycheck. You may want to create additional upside and downside scenarios that factor them in.

59% of investors **surveyed worry** about long-term care costs not covered by insurance.[1]

DOWNSIDE

- Need for assisted living or nursing home care
- Lower than expected price for property sales
- Health problems
- Lack of inheritance due to long-lived parents
- Ongoing support for grown children
- Loss of income/fees from part-time work

1 Natixis Global Asset Management, Global Survey of Individual Investors, February 2015. Survey included 7,000 investors in 17 countries. Out of the 7,000 respondents, 750 are U.S. investors.

3 Plan for a new set of risks

Individuals restructuring their investment portfolios to provide income may find they need to address a different set of risks. Heightened fear of losing money is one of the greatest challenges for most retirement investors. This worry can make it more difficult to keep emotions out of investment decisions.

In addition to the traditional risk considerations related to market volatility and interest rates, retirees also need to guard against outliving their assets or losing the ability to maintain a desired lifestyle. A successful retirement spending plan addresses the added risks of longevity, inflation and the sequence of returns.

Losing money matters more

In retirement, the nest egg is no longer a future hypothetical sum of money. It's a reservoir of assets that can be drawn upon for daily living expenses. But in most cases there is no set number of years for how long the resource needs to last. An effective strategy should have a capital protection component because there is more to lose and less time to recover it.

- **When you're saving** – A 10% loss on a $200,000 portfolio is $20,000 – tough, but recoverable through market action and continued contributions to a retirement plan. Investors can work longer, contribute more or take more risks to pursue a future goal – the endpoint is controllable.

- **When you're spending** – A 10% loss on a $2 million portfolio is $200,000 – more money, and more difficult to recover in the absence of ongoing contributions to the account. Monthly expenses come due regardless of market conditions, further drawing down the account – and the endpoint is unknown.

Inflation matters more

Dollars accumulated over the years retain their nominal value, but life becomes more expensive due to inflation. Even modest levels of inflation can erode a portfolio's value, as the chart shows, reducing each dollar's purchasing power. Building a level of inflation protection into a retirement strategy is essential.

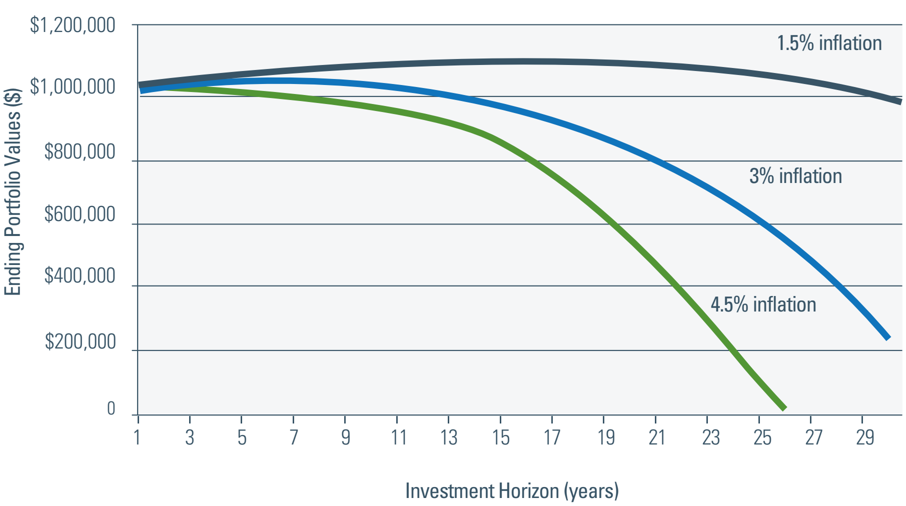
In addition to inflation, many baseline living expenses are higher for older people, making it increasingly difficult to live on a "fixed" income:

- Insurance premiums generally go up with age (health, life, disability, long-term care).
- Technological must-haves like cable TV, internet service and cell phones rarely go down in price, with monthly fees and constant upgrades required.
- Increases in food, fuel and utility costs may be harder to take in stride.
- Prescription drugs and other medical costs may account for a greater percentage of income.

And finally, some expenses just don't go away – the mortgage may be paid off but property tax bills can still increase.

EVEN "AVERAGE" 3% INFLATION CAN ERODE PURCHASING POWER OVER TIME

$1,000,000 PORTFOLIO GROWING AT 5% ANNUALLY, WITH 4% ANNUAL WITHDRAWALS



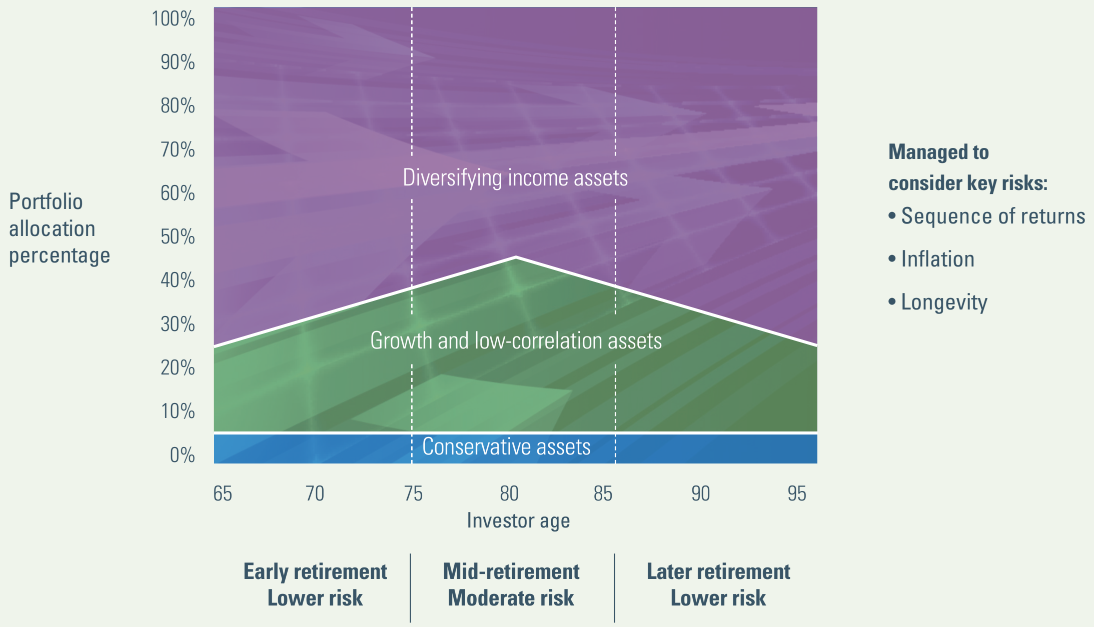
Source: Natixis Global Asset Management. Chart is for illustrative purposes only.

Sequence of returns matters more

Financial markets will always have their ups and downs. Investors who are saving for retirement can take advantage of market lows by purchasing additional shares at "bargain" prices when asset prices are depressed. But the opposite is true in retirement spending, when investors withdrawing money from an account in a down market could be forced to sell shares for a lower price. The order of up and down market periods is known as the "sequence of returns."

ADAPTIVE RETIREMENT INCOME GLIDEPATH℠

CHANGES IN ASSET ALLOCATION OVER A 30-YEAR RETIREMENT



Source: Natixis Global Asset Management. Chart is for illustrative purposes only.

No one can control this sequence, but one of its effects can be that *money lost early in retirement is harder to recover*. That's why a well-crafted investment plan should have measures in place to minimize the likelihood that this will happen. One solution is to use what we call the Adaptive Retirement Income Glidepath℠, an asset allocation strategy that evolves over time to help manage risk and provide opportunities for return. Unlike more traditional retirement allocations that grow consistently more conservative over time, this strategy:

- Keeps overall portfolio risk low in early retirement to help limit potential losses when withdrawals are just beginning.
- Increases the risk profile in mid-retirement to pursue returns to help protect against inflation.
- Reduces overall portfolio risk later in retirement to preserve capital and prepare for transitioning assets to the next generation.

Other best practices to minimize sequence risk include:

- Active management to control risk and reduce drawdown at the total portfolio level.
- Optimizing portfolio allocations to take advantage of non-correlated returns and manage volatility so investors don't have to sell stock funds at depressed prices.
- Managing performance to a defined volatility target, so investors can feel more confident that any losses should stay within a pre-determined range.

84% of financial advisors surveyed say risk is a more important consideration than return for retirement investors.[2]

2 Natixis Global Asset Management, Global Survey of Financial Advisors, September 2014. Survey included 1,800 financial advisors in 10 countries. Out of the 1,800 respondents, 300 are U.S. financial advisors.

4 Be strategic about taxes

Today's generation of retirees is the first to rely heavily on their own "tax-deferred" savings to provide retirement income. But the special tax treatment offered by traditional 401(k) plans and IRAs is not a free lunch.

Contributions invested "pre-tax", which lower taxable income during the earning years, are allowed to grow tax-deferred until the money is withdrawn. Withdrawals from these plans, including Rollover IRAs, are fully taxable as income. That's why a thoughtful retirement spending strategy needs to account for taxes.

Diminished spending power due to income taxes should be familiar turf for anyone who has ever received a paycheck. But unlike a paystub, 401(k) and IRA statements show the gross amounts of retirement savings – not the bottom line.

Location, location...

Of course not all accumulated savings are in tax-deferred accounts. Withdrawals from certain life insurance policies are tax-free, as are distributions from Roth IRAs, in most cases. This is because contributions to Roth IRAs and Roth 401(k)s are made with dollars that have already been taxed.

Many investors also maintain taxable brokerage or investment accounts. Taxes on investment income and realized gains are paid each year with federal returns, so any withdrawals are not subject to additional taxation.

Optimizing asset placement across different accounts (tax-deferred, tax-exempt and taxable) is known as asset location. The basic idea is to put less tax-efficient assets (taxable fixed-income or high turnover strategies that generate short-term gains) in tax-favored accounts and more tax-efficient assets, such as muni bonds or low turnover strategies, in taxable accounts.

Taxing implications

The tax impact of withdrawals from qualified retirement plans, including IRAs and IRA rollover accounts, should not be underestimated. One of the incentives for maximizing contributions to these plans has always been that an investor's tax bracket will likely be lower in retirement. But the most successful retirement investors may find this isn't the case. In the 30% bracket, a $2 million IRA could have a value closer to $1.4 million after taxes. There are other tax considerations as well.

Your **portfolio-generated retirement paycheck** may have one unfortunate similarity with your working paycheck: it is likely to be disappointingly small after taxes are taken out.

ASSET LOCATION MATTERS

Every situation is different, so it makes sense to consider the tax implications for each type of investment.

Account type	Tax implications	Rationale
1. RMDs from Traditional IRAs and 401(k)s, if over age 70½	Taxable as regular income; subject to penalty if not taken	Legal requirement
2. Taxable accounts	No taxes on withdrawals, and there may be opportunities to offset any capital gains with losses.	Allows tax-advantaged accounts to keep growing.
3. Discretionary distributions from Traditional IRAs/401(k)s or Roth IRAs/401(k)s	Traditional IRA distributions are taxable as regular income; distributions from Roth accounts are generally not.	Maintain flexibility to vary the mix of withdrawals from year to year, depending on spending requirements and tax brackets.

Natixis Global Asset Management does not provide tax advice. Please consult with a tax professional prior to making any investment decision.

For Traditional IRAs or rollover accounts:

- Money withdrawn before age 59½ is fully taxable and generally subject to a 10% early withdrawal penalty.
- No additional contributions are allowed after age 70½.
- Starting at age 70½, investors are required to make taxable withdrawals known as Required Minimum Distributions (RMDs) each year or incur stiff penalties.

For Roth IRAs or rollover accounts:

- There are no age restrictions on additional contributions.
- There are no withdrawal requirements or RMDs.
- Contribution amounts can be withdrawn tax-free at any time.
- Account earnings can generally be withdrawn tax-free if the account has been open for five years or more but there are a variety of rules, so it's best to check with a tax advisor.

With all these moving parts, it makes sense to work closely with your investment and tax advisors. They can help identify the opportunities and the pitfalls, and create a plan to optimize your after-tax, spendable income.

70% of investors surveyed do not consider tax implications important in investing.[1] However, 88% of financial advisors surveyed are concerned about the effect of taxes on their clients' investments.[2]

1 Natixis Global Asset Management, Global Survey of Individual Investors, February 2015. Survey included 7,000 investors in 17 countries. Out of the 7,000 respondents, 750 are U.S. investors.

2 Natixis Global Asset Management, Global Survey of Financial Advisors, September 2014. Survey included 1,800 financial advisors in 10 countries. Out of the 1,800 respondents, 300 are U.S. financial advisors.

5

Stay engaged and flexible

Achieving personal funding goals is an ongoing process. The first challenge is to create a plan that balances lower-risk assets for short-term expenses and higher-risk assets to help build long-term financial security.

Some of the basics have been covered here, but many people find it beneficial to work closely with financial and tax professionals as their plans become more concrete. This type of consultation may be even more important for "do-it-yourself" investors who may not have used a financial advisor as they were building their retirement savings.

Financial advisors can act as a coach or a sounding board in addition to offering advice on investment products and strategies. They bring a depth of experience that can provide valuable perspective when market conditions change course. Every retirement funding plan is a work in progress that should be evaluated regularly and modified as priorities and circumstances change. Many investors find that maintaining a strong working relationship with an advisor provides access to support and information they might not otherwise have.

AVOIDING THE PITFALLS
EACH INVESTOR IS DIFFERENT, BUT SOME MISTAKES ARE MORE COMMON THAN OTHERS IN PLANNING FOR RETIREMENT SPENDING. HERE ARE OUR TOP FIVE:

1. Setting a withdrawal rate that is too high
In the absence of a fixed rate investment return, it's smarter to underestimate withdrawals to avoid drawing down an account faster than necessary.

2. Neglecting or underestimating market volatility
Up and down markets can cause investors to lose money as well as the confidence to stay invested to pursue long-term goals.

3. Ignoring the long-term effects of inflation
The historical inflation rate has been about 3% a year. At that rate, the cost of living doubles every 24 years. If inflation spikes to 6%, prices would double in just 12 years.

4. Emphasizing yield at the expense of safety and growth
In today's low-yield world, income-oriented investors are going to need to explore other ways to generate cash flow.

5. Ignoring or underestimating the tax bite
Being strategic about taxes can increase retirement "take-home pay."

Putting it all together

Investors and their advisors need to understand the specific challenges associated with funding a secure retirement and put a plan in place that can:

- Address the specific retirement goals of each individual, couple or family
- Actively match available resources with required or desired spending
- Use lower-risk assets as a match for short-term and recurring expenses
- Use higher-risk assets to pursue capital appreciation to build long-term financial security

FUNDING A SECURE RETIREMENT: NEXT STEPS

FOR INVESTMENT FIRMS
Understand the new needs and put products and programs in place

FOR INVESTMENT PROFESSIONALS
Start having discussions with clients and educating yourself on suitable investment products and strategies

FOR INDIVIDUAL INVESTORS
Commit to being an informed advocate for funding your life in retirement

▶ For more information speak to your investment professional or visit **durableportfolios.com.**

Inflation: The rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. Central banks attempt to stop severe inflation, along with severe deflation, in an attempt to keep the excessive growth of prices to a minimum.

Liability-Driven Investment (LDI): A form of investing in which the main goal is to gain sufficient assets to meet all liabilities, both current and future.

RMD: A required minimum distribution is the amount the federal government requires you to withdraw each year – usually after you reach age 70½ – from retirement accounts, including Traditional IRAs, simplified employee pension (SEP) IRAs and SIMPLE IRAs, as well as many employer-sponsored retirement plans.

Roth IRA: An individual retirement account allowing a person to set aside after-tax income up to a specified amount each year. Both earnings on the account and withdrawals after age 59½ are tax-free.

Sequence of Return or Sequence Risk: The risk of receiving lower or negative returns early in a period when withdrawals are made from the underlying investments. The order or the sequence of investment returns is a primary concern for those individuals who are retired and living off the income and capital of their investments.

Volatility: The range of variation in the value of a security.

NATIXIS GLOBAL ASSET MANAGEMENT

Natixis Global Asset Management ($890.0 billion AUM[3]) is a subsidiary of Natixis, the corporate, investment management and financial services arm of Groupe BPCE. The firm ranks as one of the largest asset management companies in the world with more than 20 investment managers in the Americas, Europe and Asia.[4] NGAM's multi-affiliate structure provides a single point of access to specialized professionals with unique insights and diverse approaches to investing. The firm's hallmark is a consultative approach based on listening and understanding clients' needs. It goes beyond products to create comprehensive investment solutions for institutions, intermediaries and individuals.

It's called **Better Thinking for Modern Markets**® and it helps clients around the globe make the most of complex markets.

3 Net asset value as of December 31, 2014. Assets under management (AUM) may include assets for which non-regulatory AUM services are provided. Non-regulatory AUM includes assets which do not fall within the SEC's definition of 'regulatory AUM' in Form ADV, Part 1.

4 Cerulli Quantitative Update: Global Markets 2014 ranked Natixis Global Asset Management, S.A. as the 16th largest asset manager in the world based on assets under management as of December 31, 2013.

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