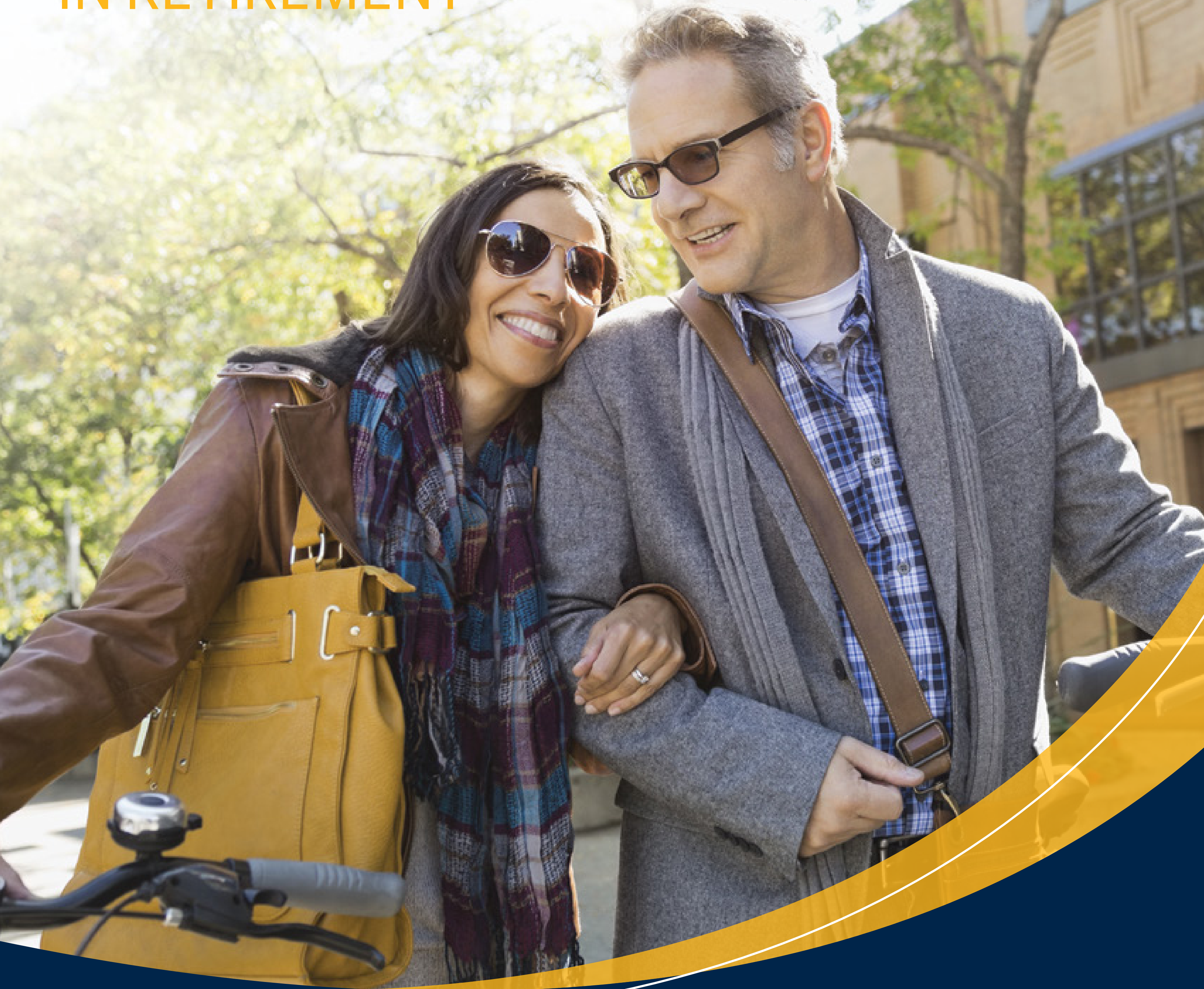
THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY (NORTHWESTERN MUTUAL)

THE VALUE OF INTEGRATING RETIREMENT ASSETS:

CREATING A RELIABLE INCOME IN RETIREMENT



90-2596 (1016)

Northwestern Mutual®

You save and sacrifice throughout your life to prepare for retirement. When it comes time to enjoy the benefits of that hard work, you may wonder: “How can I help ensure that my retirement nest egg will be enough to last my lifetime?”

That’s a great question. Whether you’re young and have many years ahead of you to save or retirement is right around the corner, it’s assuring to have a plan in place for a lifetime of income.

When most people think about saving for retirement, investing in the stock market is often what comes to mind first. However, the unpredictability of it can have a significant impact on your success. Another unknown is the number of years you will need your savings to last. Both of these variables make it challenging to develop a sound plan for retirement.

YOU CAN’T CONTROL HOW LONG YOU LIVE

You may have an idea of how many years you have to save for retirement, but what you don’t know is how long you’ll need it to last. Today’s increased life expectancies make it difficult to determine that with any certainty.

For instance, you may need retirement income to stretch well into your 90s or longer. Ensuring you have the retirement income and assets needed for a longer than anticipated retirement may mean becoming more conservative with your spending or making unwanted lifestyle changes.

With today’s increased life expectancies, a 65-year-old couple has a:

45% chance that one of them will live to age 90, and an

18% chance of one of them living to age 95

Source: https://personal.vanguard.com/us/insights/retirement/plan-for-a-long-retirement-tool

YOU CAN'T CONTROL OVERALL MARKET TRENDS DURING RETIREMENT

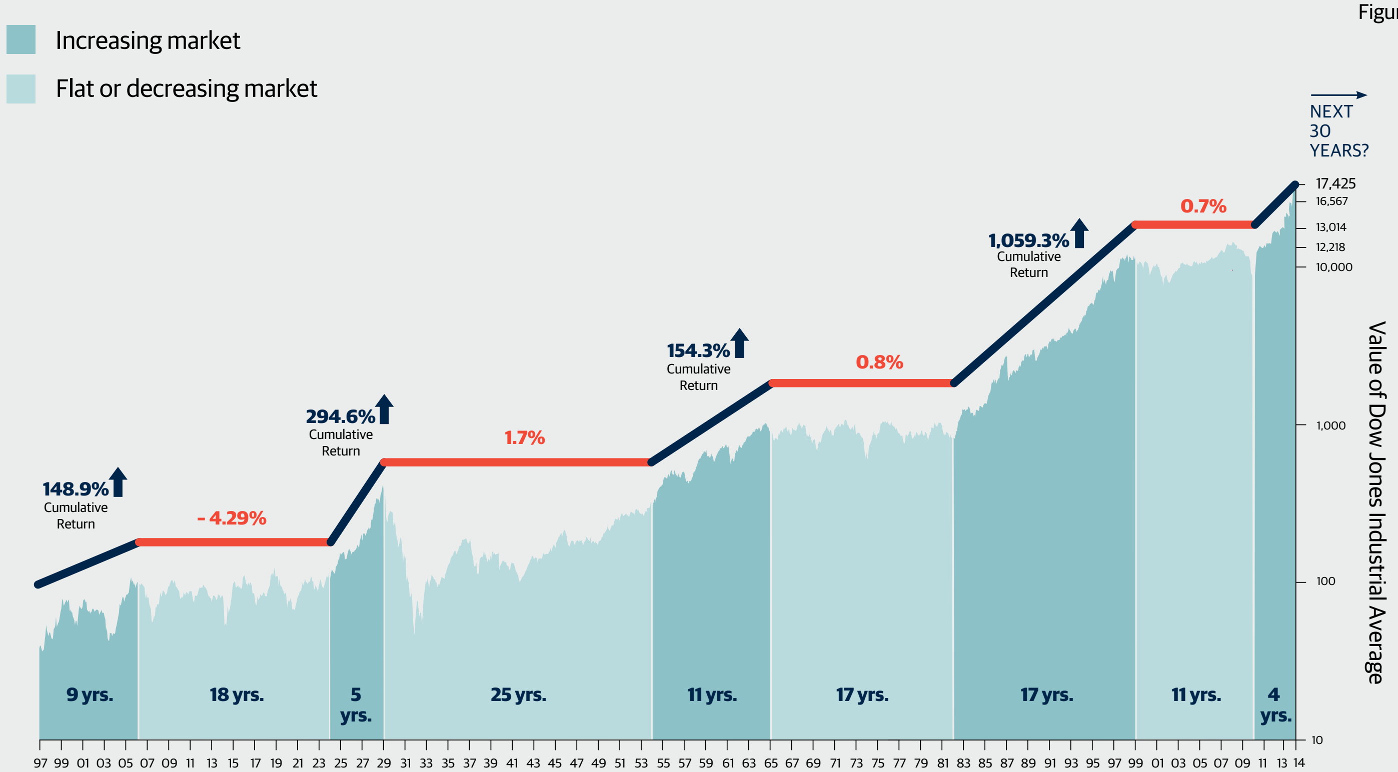
History has shown that the market moves in cycles. Over the past 115+ years, there have been four significant increasing and four decreasing or flat markets [Figure 1]. While exposure to the markets has historically provided the most favorable returns over the long term, the unknown of how the market will perform throughout your retirement, and how it will affect your nest egg along the way, makes retirement income planning challenging.

An increasing market at the beginning of retirement likely means your investments are better positioned to maintain income throughout. Alternatively, there is a greater risk of running out of money during retirement if there is a prolonged flat or decreasing market at the beginning.

The timing of market fluctuations, also known as sequence of returns, can have a profound impact on your wealth and the ability for your savings to last as long as needed. Experiencing a relatively flat or decreasing market in the years just prior to your retirement, or right after it starts, could force you to sell assets when share prices are low, resulting in fewer shares to rebound and overall a much smaller nest egg during retirement.

Dow Jones Average Historical Trends 1897-2014

Figure 1



Dow Jones Industrial Average (DJIA) provides one view of the US stock market and economy. The DJIA is an unmanaged index that cannot be invested directly in.

The source of historical DJIA is the Federal Reserve Bank of St. Louis.

Source: Graph created by Northwestern Mutual using data from dowjones.com. Logarithmic graph of the DJIA from January 1897 through December 2014. Performance displayed represents past performance, which is not a guarantee of future results. This graph shows the monthly close of the Dow Jones Average since 1897 with blue indicating the up markets and red indicating the flat/down periods. This is for illustrative purposes only and not indicative of any investment.

THE IMPACT OF LONGEVITY AND MARKET PERFORMANCE

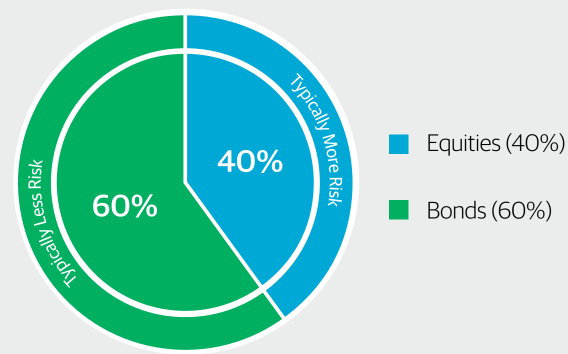
Traditional investments, such as equities and bonds, are an important part of a retirement portfolio since they have historically helped to provide favorable long-term growth.

However, as mentioned, the unpredictability of the investment markets and variability of longevity may not provide the certainty you're looking for in retirement. In order to help achieve more confidence in planning for more certain retirement income, let's explore a study conducted by Michael Finke, PhD, CFP®, dean and chief academic officer at The American College. Dr. Finke's research, commissioned by Northwestern Mutual, examines the effects of different approaches to creating retirement income and the probability for success of each.

He began by exploring an investments-only strategy. He used a $2 million investments-only portfolio with a 40 percent equity allocation and 60 percent allocation in bonds [Figure 2]; and he assumed a desired real annual income of $80,000 after tax, which represents the generally accepted withdrawal rate of 4 percent (see page 10 for assumptions). After analyzing thousands of market scenarios and life expectancies, he concluded that with an investments-only strategy a retiree would have a nearly 30 percent chance of running out of money during retirement [Figure 3].

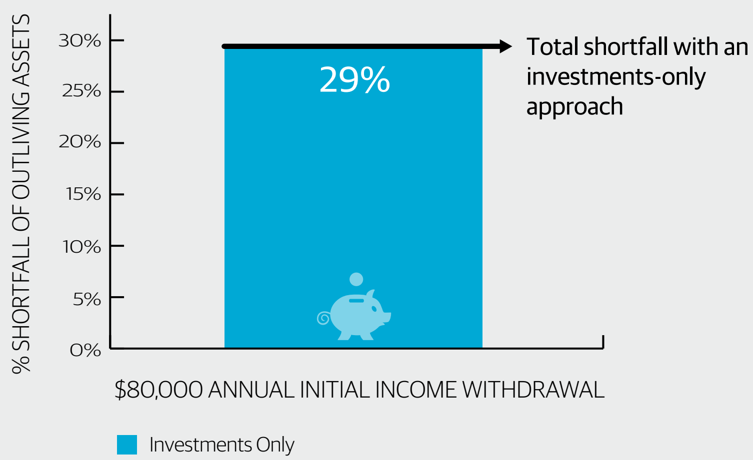
ASSET CLASS MIX: Investments Only

Figure 2



RETIREMENT INCOME SHORTFALL

Figure 3



Key Takeaway:

- 29% chance of outliving your assets with an investments only approach

Based on 4% withdrawal rate. Key assumptions are summarized on page 10.

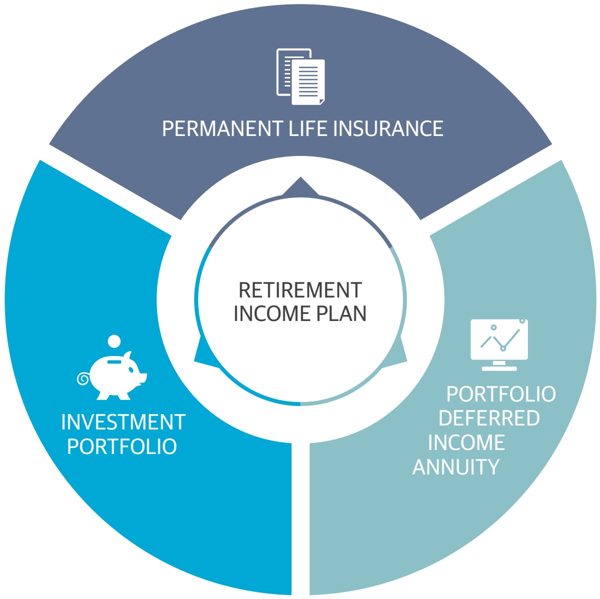
All investments carry some level of risk, including the potential loss of principal invested. No investment strategy can guarantee a profit or protect against loss.

Investors fall within a wide range of risk tolerances, and there is a variety of asset class models available to choose from depending on your preference. If you consider yourself a more aggressive investor, then the sequence of your investment returns might pose an even higher risk. Conversely, if you are more conservative, longevity might pose a higher risk for you. Regardless of your determined asset mix, the combination of these two risks will have a significant impact in whether or not you outlive your retirement income and assets.

EXPLORING AN INTEGRATED APPROACH

A nearly 30 percent chance of an income shortfall is significant. In an attempt to find a better solution, Dr. Finke explored the results of a more integrated approach to generating retirement income. It incorporates two products offered by Northwestern Mutual: permanent life insurance[1] and a Portfolio Deferred Income Annuity,[2] along with a retiree's investments. Dr. Finke's research, "The Value of an Integrated Retirement Income Approach," analyzed several thousand outcomes, representing variations in market performance and life expectancy for a number of hypothetical retirees.

The research validates that an integrated approach helps provide a more efficient and predictable income in retirement than an investments only strategy.



INCORPORATING THE STABILITY OF PERMANENT LIFE INSURANCE ALONG WITH INVESTMENTS

Permanent life insurance is often overlooked when determining assets available for retirement. In addition to supporting legacy needs through its death benefit, over time it provides liquidity in the form of tax-deferred, stable cash value. This cash value can be accessed when needed to hedge against exhausting your investment portfolio during a period of market volatility.[3] The combination of protect and grow,[4] along with its flexibility, makes permanent life insurance a unique and important addition to a retirement income strategy.

In addition, there is a minimum guaranteed cash value with permanent life insurance that may become an important part of your retirement strategy since the investments used in the study have no guarantees.

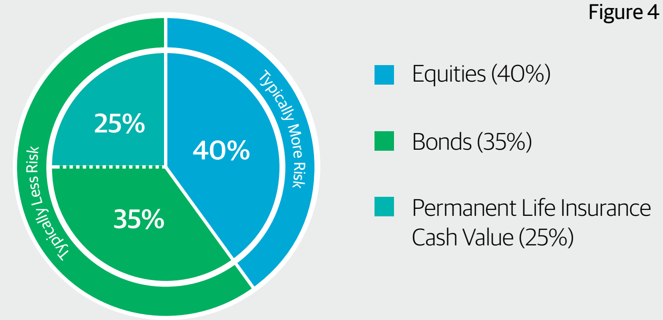
In addition to the important protection that permanent life insurance provides before retirement, the cash value that builds over time can serve as a useful source of income in retirement. Dr. Finke's research shows that having permanent life insurance cash value [Figure 4] at retirement provides a safer after-tax retirement income than the same amount held in bonds [Figure 5].

PERMANENT LIFE INSURANCE:

- Offers lifelong death benefit to meet legacy needs
- Can provide liquidity during later years
- Offers guaranteed and stable cash value
- Provides reliable, tax-deferred growth

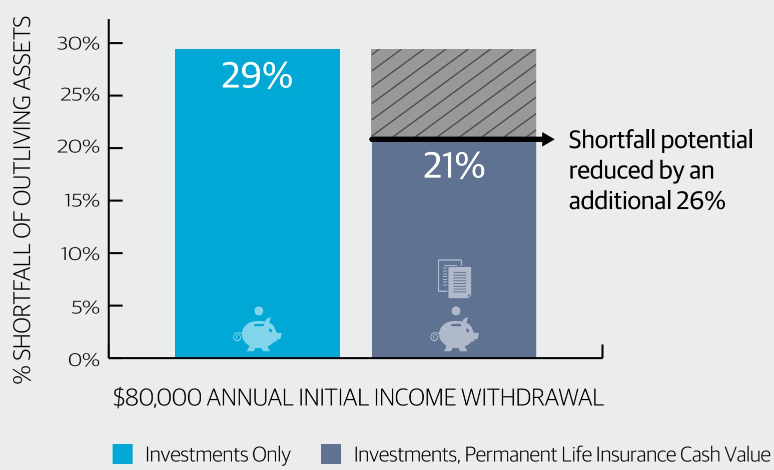
ASSET CLASS MIX: Permanent Life Insurance and Investments

Figure 4



RETIREMENT INCOME SHORTFALL [5]

Figure 5



Key Takeaway:

- The potential of outliving your assets is reduced by an additional 26% when a portion of your assets are held in permanent life insurance cash value rather than the same amount in bonds.

Based on 4% withdrawal rate. Key assumptions are summarized on page 10.

All investments carry some level of risk, including the potential loss of principal invested. No investment strategy can guarantee a profit or protect against loss.

INTEGRATING INCOME ANNUITIES, PERMANENT LIFE INSURANCE AND INVESTMENTS

Dr. Finke's final step in studying an integrated approach to retirement income was the addition of Northwestern Mutual's Portfolio Deferred Income Annuity (PDIA)[6] with permanent life insurance and an investment portfolio [Figure 6]. He concluded that combining products this way helps reduce the chance of outliving your income during retirement by almost 45 percent when compared with an investments only approach [Figure 7].

The PDIA, an exclusive product of Northwestern Mutual, was specifically designed to provide guaranteed income that can't be outlived with the potential for growth through dividends. No matter what happens in the market, you can be certain that the amount of income your PDIA provides will never go down,[7] and you'll continue to receive income for as long as you live, even if all your other assets are depleted.

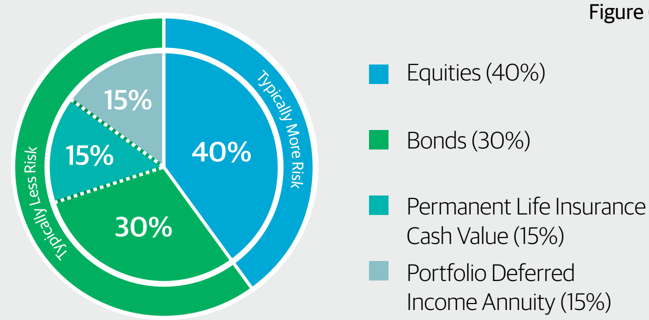
In the study, Dr. Finke again assumed the same 4 percent withdrawal rate when combining a PDIA with permanent life insurance and traditional investments. The result is an efficient retirement strategy that can allow you to confidently maintain your spending each year of retirement while also reducing your chance of outliving your money.

PORTFOLIO DEFERRED INCOME ANNUITIES:

- Deliver guaranteed income that you cannot outlive
- Provide a foundational income to help meet essential living expenses without impact from market fluctuations
- Offer potential for income growth through dividends

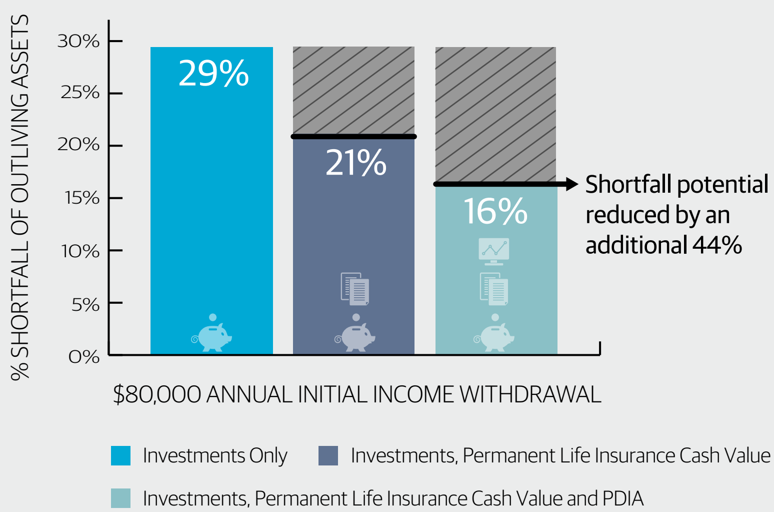
ASSET CLASS MIX: Permanent Life Insurance, Portfolio Deferred Income Annuity and Investments

Figure 6



RETIREMENT INCOME SHORTFALL [8]

Figure 7



Key Takeaways:

- By adding a Portfolio Deferred Income Annuity the potential of outliving your assets is 44% less than with an investments-only approach.
- With this integrated approach, even if all of your other assets are depleted, you will continue to receive annuity income for the rest of your life.

Based on 4% withdrawal rate. Key assumptions are summarized on page 10.

All investments carry some level of risk, including the potential loss of principal invested. No investment strategy can guarantee a profit or protect against loss.

THE VALUE OF INTEGRATING RETIREMENT ASSETS

INVESTMENT PORTFOLIO	PERMANENT LIFE INSURANCE	PORTFOLIO DEFERRED INCOME ANNUITY
• Provides potential for growth and additional source of income • Can provide a hedge against inflation	• Offers lifelong death benefit to meet legacy needs • Can provide liquidity during later years • Offers guaranteed and stable cash value • Provides reliable, tax-deferred growth	• Delivers guaranteed income that you cannot outlive • Provides a foundational income to help meet essential living expenses without impact from market fluctuations • Offers potential for income growth through dividends*
RETIREMENT INCOME PLAN		

*Dividends are not guaranteed

ACHIEVING YOUR LEGACY GOALS

Once you feel good about the financial path you're on, you can start to think about your legacy and what it means to you. For some, it means leaving money behind for their family and friends. To others, it means leaving a financial contribution to their favorite charity or nonprofit. Regardless of how you define it, having a guaranteed death benefit is often a key component to achieving your legacy goals.[9]

In addition to evaluating success for retirement income, Dr. Finke studied the impact on leaving a legacy with each approach. His research showed that in addition to providing steady income in retirement, adding permanent life insurance and a PDIA to your retirement portfolio also offers higher expected legacy amounts than an investments-only approach. In fact, the research showed a legacy amount being on average six times higher with an integrated approach than an investments-only scenario when you reach your early 90s. This means you no longer have to make a choice between enjoying your retirement or meeting your legacy goals.

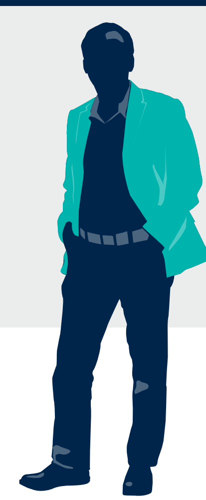
START EARLY AND STAY ON TRACK

If you're in your 20s, 30s or 40s:

It's never too early to start your financial plan, so take advantage of the fact that you have time on your side. Now could be a good time to purchase permanent life insurance to cover your immediate risks while positioning yourself well for your future.

If you're in your 40s, 50s or 60s:

This is a good time to evaluate whether you're on track to meet your retirement income goals and think about allocating some of your conservative assets or the bond portion of your asset mix to a Portfolio Deferred Income Annuity for guaranteed income for life.



Planning for your retirement is an uncertain journey. So whether you are just starting to save or are about ready to embark on retirement, when it comes to meeting retirement income goals, no single source of income is ideal for all conditions.

Combining the reliability of permanent life insurance's cash value and the guaranteed lifetime income of a PDIA, with an investments portfolio, can help manage the unpredictability of market returns, improve the chances that your retirement savings will last as long as you need, and increase the amount you can leave your loved ones after you pass away.

To learn more about how an integrated retirement income strategy can help address your personal goals, contact a Northwestern Mutual financial representative.

ABOUT THE RESEARCH

Assumptions used in Dr. Finke's simulations:

- Investment portfolio consisting of investing in a hypothetical corporate bond portfolio minus 1 percent in fees and sales-related costs (net return of 3 percent) and a hypothetical long-duration Treasury bond portfolio (net return 2.5 percent). Rates of returns are hypothetical and not intended to represent or project returns for any specific bond or treasury.

- A whole life, permanent 90 Life insurance policy issued by Northwestern Mutual on a 35-year-old male, premier (non-smoker) risk class, receiving the 2016 Dividend Scale Interest Rate (DSIR)[10] of 5.45 percent. Assumes dividends, which are generated by the policy, are then used to purchase paid-up additions to the policy, increasing both life insurance cash value and death benefit over time. Life insurance scenarios reflect the election to a "paid-up" permanent policy at age 65 and utilize the surrender of additions when income is taken.

- The client has reached age 65 with $2 million in net worth. The baseline client holds the $2 million in a combination of taxable and tax-qualified investment accounts from which he or she withdraws assets to provide a stable income.

- The use of the 2012 Individual Annuity Mortality Tables developed jointly by the Society of Actuaries and American Academy of Actuaries to simulate the distribution of retirement lifespans, and updated asset return data to simulate future returns on fixed income and risky assets.

- All retirees use the common 4 percent rule to generate income in which they begin by spending 4 percent of initial retirement assets at age 65 (4 percent of $2 million = $80,000 the first year pre-tax). Each subsequent year the retirees' spending increases by the rate of inflation and is withdrawn from the investment portfolio.

- All the individuals retire on their 65th birthday and will experience a random lifetime with a distribution based on the 2012 Annuity Mortality Tables.

- When a client withdraws from the baseline investments portfolio, the annual amount is withdrawn from the initial balance at the beginning of the year. The simulations continue to withdraw an increasing inflation-adjusted spending amount up to and beyond the point at which assets are depleted.

- The individual purchases the annuity when he or she is 55 years old and starts to collect the benefits at age 65. It is assumed that income payments do not continue after the annuitant's death.[11]

Michael Finke, Ph.D., CFP®, held the positions of professor and Ph.D. coordinator in the Department of Personal Financial Planning at Texas Tech University at the time the research was conducted. He is currently the dean and chief academic officer at The American College.

"The Value of an Integrated Retirement Income Approach," the published results of the study, is available on nm.com.

1 Permanent life insurance is defined as whole life policies that offer guaranteed level premiums, guaranteed death benefit and guaranteed cash value.

2 Refers to *Select*™ Portfolio Deferred Income Annuity, which provides guaranteed income that lasts as long as the annuitant lives and can increase through potential dividends (dividends are not guaranteed). It does not refer to a deferred annuity (fixed and variable) that has a withdrawable cash value.

3 Each method of utilizing a policy's cash value has advantages and disadvantages and is subject to different tax consequences. Surrenders of, withdrawals from and loans against a policy will reduce the policy's cash surrender value and death benefit and may also affect any future dividends paid on the policy. Before taking any policy loan a policyowner should consult with his or her financial representative, as there may be other ways to meet a financial need that are more appropriate under the circumstances.

4 Neither the existence of nor the amount of a dividend is guaranteed on any policy in any given policy year. Some policies may not receive any dividends in a particular year or years even while other policies receive dividends. Decisions with respect to the determination of divisible surplus and the allocation of divisible surplus as dividends are at the discretion and sound business judgment of Northwestern Mutual's Board of Trustees. There is no guaranteed specific method or formula for the determination or allocation of divisible surplus. Accordingly, Northwestern Mutual's approach is subject to change.

5 Figure 5 illustrates non-guaranteed values based on 2016 dividend scale(s) for the depicted insurance and product(s). Illustrated values are not estimates or guarantees of future results. Potential for retirement income shortfall increases with the inclusion of insurance product(s) if the insurance product(s) are assumed to perform only at policy guarantees (i.e., assuming no dividends are ever paid).

Spending Goal (Real)	Shortfall % with Guaranteed Amounts (no dividends)		% Improvement of Permanent Life Insurance and Investments vs. Investments Only
	Investments Only	Permanent Life Insurance and Investments	
$80,000	29.03%	34.60%	-19.18%

6 The PDIA has no cash value. Once issued, it cannot be terminated (surrendered), and the original premium paid for the annuity is not refundable and cannot be withdrawn. In addition, it is not possible to exchange the PDIA for another annuity, except as permitted under the Exchange Option Amendment, which is included on certain annuities purchased with non-tax-qualified funds.

7 Income could go down on certain joint life plans that feature reduced payments upon the death of one of the joint annuitants.

8 Figure 7 illustrates non-guaranteed values based on 2016 dividend scale(s) for the depicted insurance and product(s). Illustrated values are not estimates or guarantees of future results. Potential for retirement income shortfall increases with the inclusion of insurance product(s) if the insurance product(s) are assumed to perform only at policy guarantees (i.e., assuming no dividends are ever paid).

Spending Goal (Real)	Shortfall % with Guaranteed Amounts (no dividends)			% Improvement of Permanent Life Insurance, PDIA and Investments vs. Investments Only
	Investments Only	Permanent Life Insurance and Investments	Permanent Life Insurance, PDIA and Investments	
$80,000	29.03%	34.60%	30.80%	-6.09%

9 The terms "legacy" and "legacy goals" should be understood to mean a bequest; a gift of personal property by law, specifically the gift of money in the form of a death benefit and/or an investment portfolio.

10 Northwestern Mutual's dividend scale interest rate for unborrowed funds for most traditional permanent life insurance policies reflects the investment performance of the applicable managed assets net of taxes and any contribution to surplus. The rate is used for the determination of the interest component of a policy's dividend. The majority of Northwestern Mutual's life insurance dividend payout is a result of its industry-leading persistency, favorable mortality costs and diligent expense management.

11 55-year-old male, sex-distinct rates. Single Life, $250,300 premium payment, $1,184.86 guaranteed monthly income payment with the Deferral Period Death Benefit selected. First payment date is November 2025.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market. With fixed income securities, such as bonds, interest rates and bond prices tend to move in opposite directions. When interest rates fall, bond prices typically rise; and conversely, when interest rates rise, bond prices typically fall. This also holds true for bond mutual funds. When interest rates are at low levels, there is risk that a sustained rise in interest rates may cause losses to the price of bonds or market value of bond funds that you own. At maturity, however, the issuer of the bond is obligated to return the principal to the investor. The longer the maturity of a bond or of bonds held in a bond fund, the greater the degree of a price or market value change resulting from a change in interest rates (also known as duration risk). Bond funds continuously replace the bonds they hold as they mature and thus do not usually have maturity dates and are not obligated to return the investor's principal. Additionally, high-yield bonds and bond funds that invest in high-yield bonds present greater credit risk than investment-grade bonds. Bond and bond fund investors should carefully consider risks such as interest rate risk, credit risk, liquidity risk and inflation risk before investing in a particular bond or bond fund.

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