

Retirement Basics

An Overview of the
Retirement Planning Process



When You Imagine Your Retirement, What Do You See?



The Retirement Planning Road Map

Implement Plan

Start Now

Basic Questions

Crunching Numbers

**Tax-advantaged
Retirement Vehicles**

Annuities

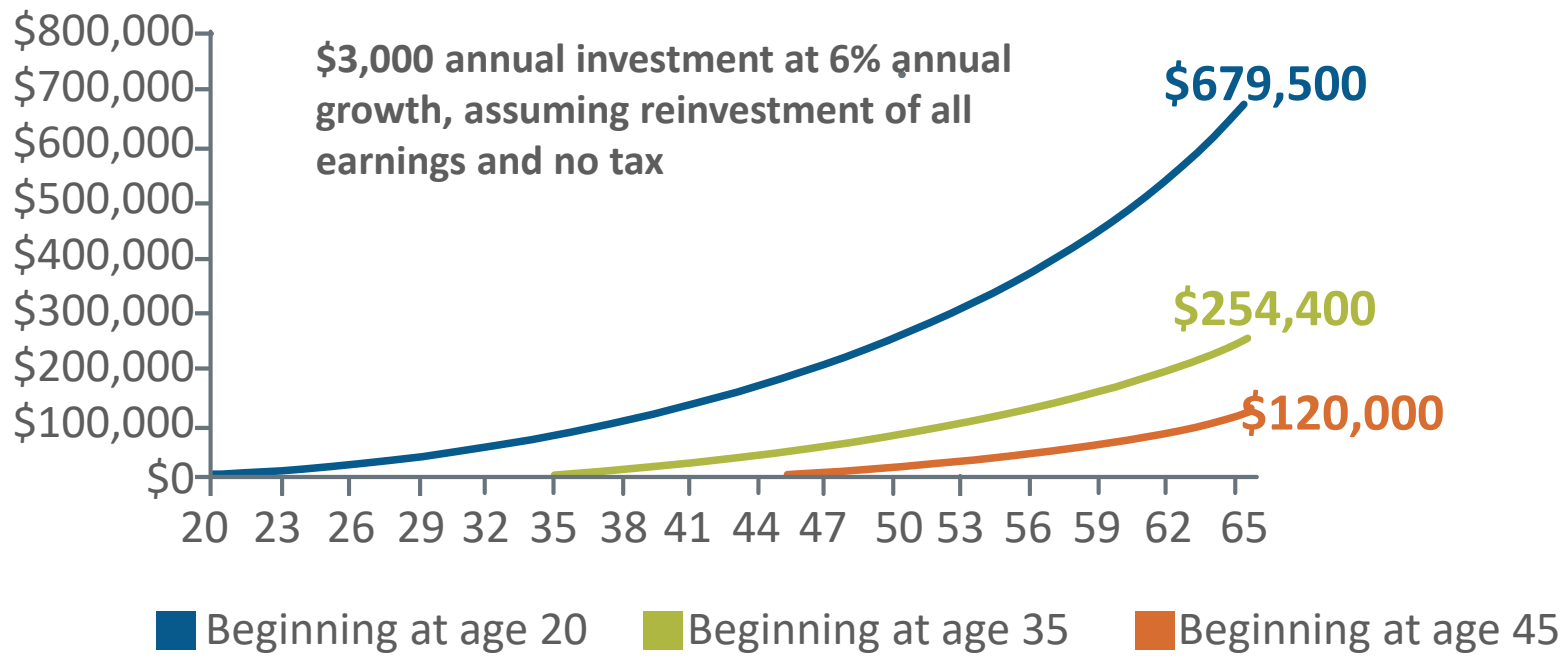
**Investment
Considerations**

**Protect Against
Undue Risk**



Start Now

- Don't put off planning and investing for retirement
- The sooner you start, the longer your investments have to grow
- Playing “catch-up” later can be difficult and expensive



This is a hypothetical example and is not intended to reflect the actual performance of any investment.

Basic Considerations

- What kind of retirement do you want?
- When do you want to retire?
- How long will retirement last?



Basic Considerations – What Kind of Retirement Do You Want?

- Financial independence
- Freedom to travel, pursue hobbies
- Ability to live where you want (e.g., in current home, vacation home)
- Opportunity to provide financially for children or grandchildren



Basic Considerations – When Do You Want to Retire?

- The earlier you retire, the shorter the period of time you have to accumulate funds and the longer those dollars will need to last
- Social Security isn't available until age 62
- Medicare eligibility begins at age 65



Basic Considerations – How Long Will Retirement Last?

- Average 65-year-old American can expect to live another 19.5 years*
- Average life expectancy is likely to continue to increase
- Retirement may last 25 years or more

* NCHS Data Brief, Number 328, November 2018



Crunching the Numbers

- Estimate retirement expenses
- Estimate retirement income
- Identify the “gap”
- Calculate your retirement investment goal
- Account for inflation



Crunching the Numbers – Estimating Retirement Expenses

- General guidelines (e.g., you'll need 60% to 90% of pre-retirement income) are easy but often not helpful
- Think about how your actual expenses will change (e.g., mortgage may decrease, health-care costs may increase)
- Include estimates for special retirement pursuits (e.g., travel, hobbies)



Crunching the Numbers – Estimating Retirement Income

The three-legged retirement income stool:

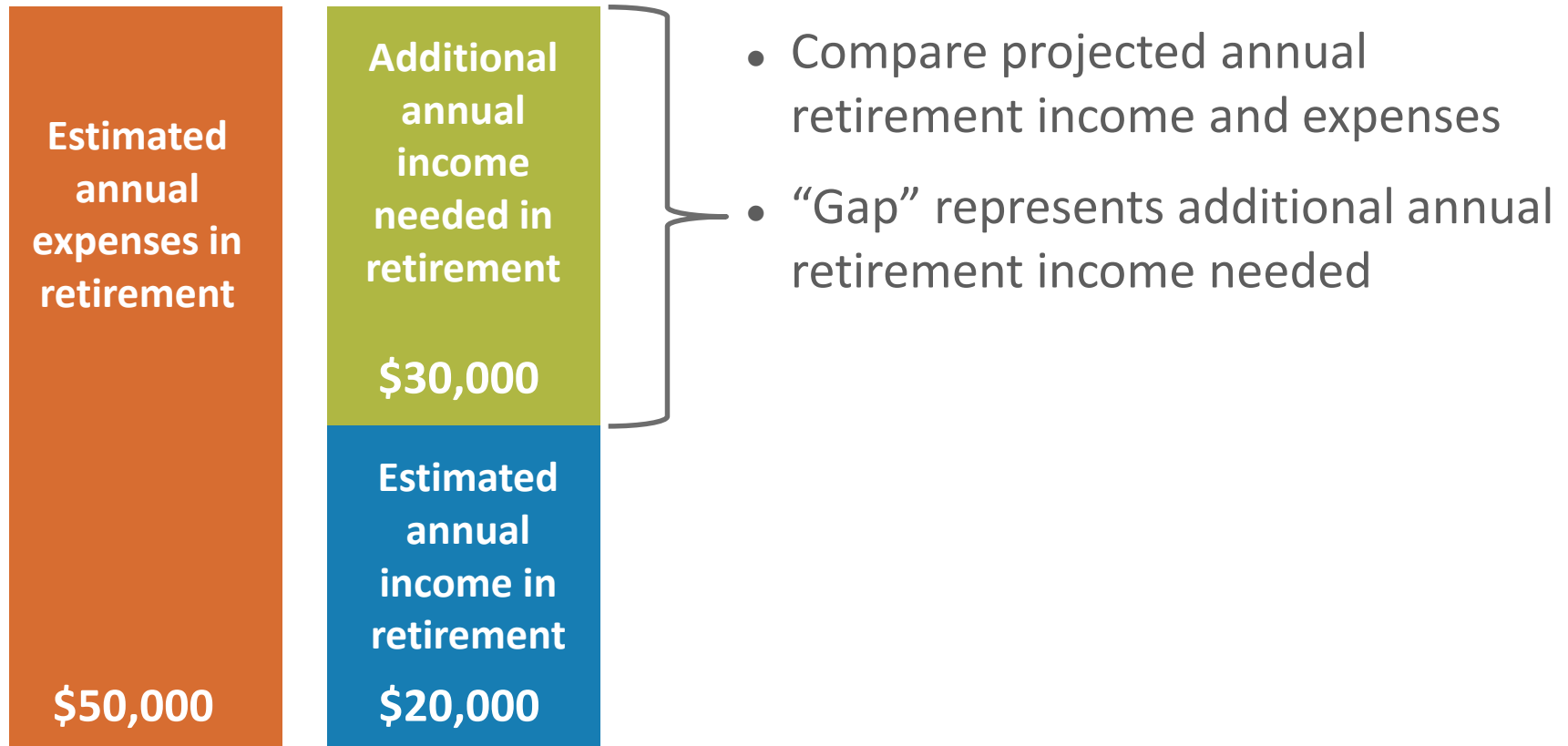
- Social Security
- Traditional employer pension
- Individual savings & investments

An individual born in 1959 who currently earns \$70,000 can expect to receive roughly \$23,000 each year (today's dollars) in Social Security retirement benefits at full retirement age.*

*www.ssa.gov Quick Calculator (accessed February 18, 2019)

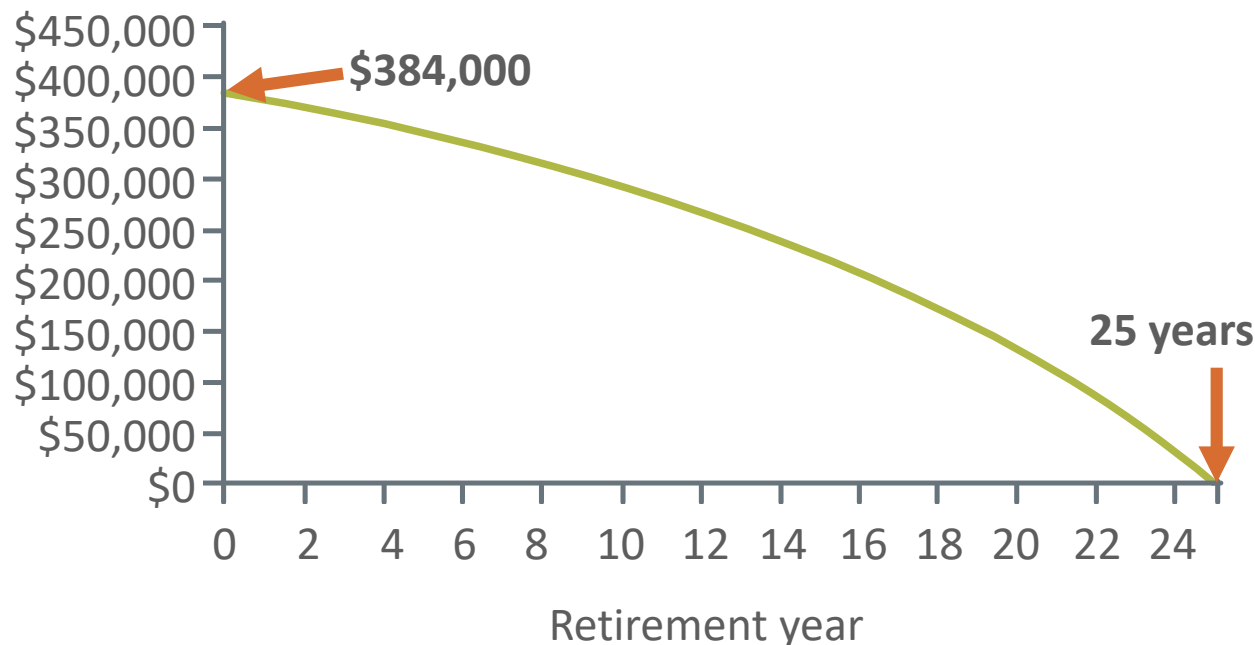


Crunching the Numbers – Identifying the “Gap”



Crunching the Numbers – Calculating Your Retirement Investment Goal

- **Primary investment goal:** accumulate enough money by the time you retire to satisfy your projected shortfall for entire retirement period
- Factor in reasonable rate of return for untapped funds



A \$384,000 lump sum at retirement would allow you to draw \$30,000 each year for 25 years, if you assume that your untapped funds will grow at 6% per year

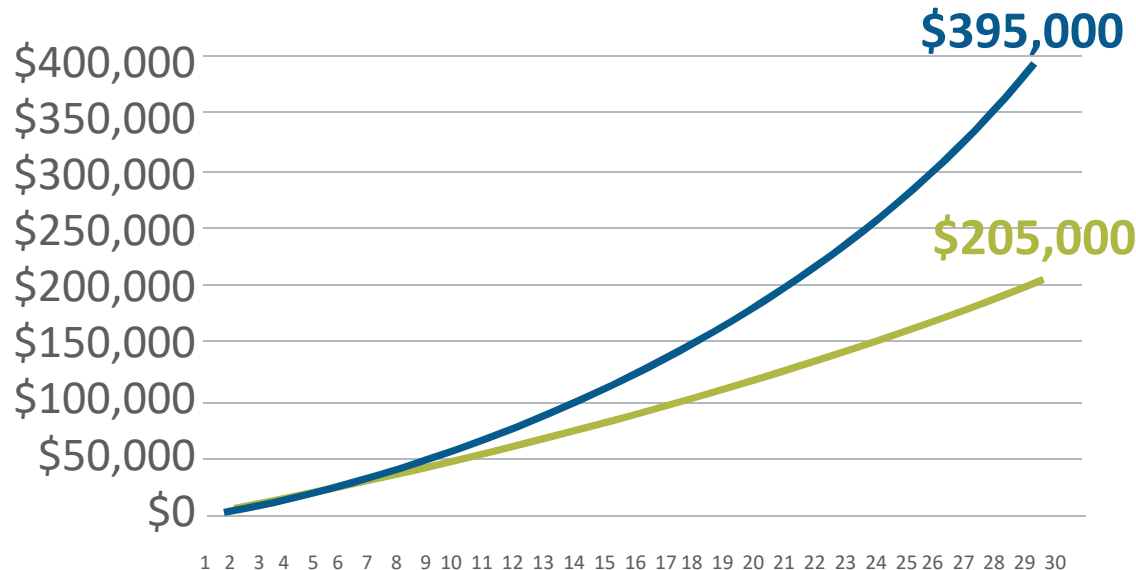
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Crunching the Numbers – Account for Inflation

- Inflation reduces the purchasing power of today's dollars
- Average annual rate of inflation is 2.2% over last 20 years

(Source: U.S. Department of Labor consumer price index data, 2019)

■ Nominal dollars ■ Inflation adjusted



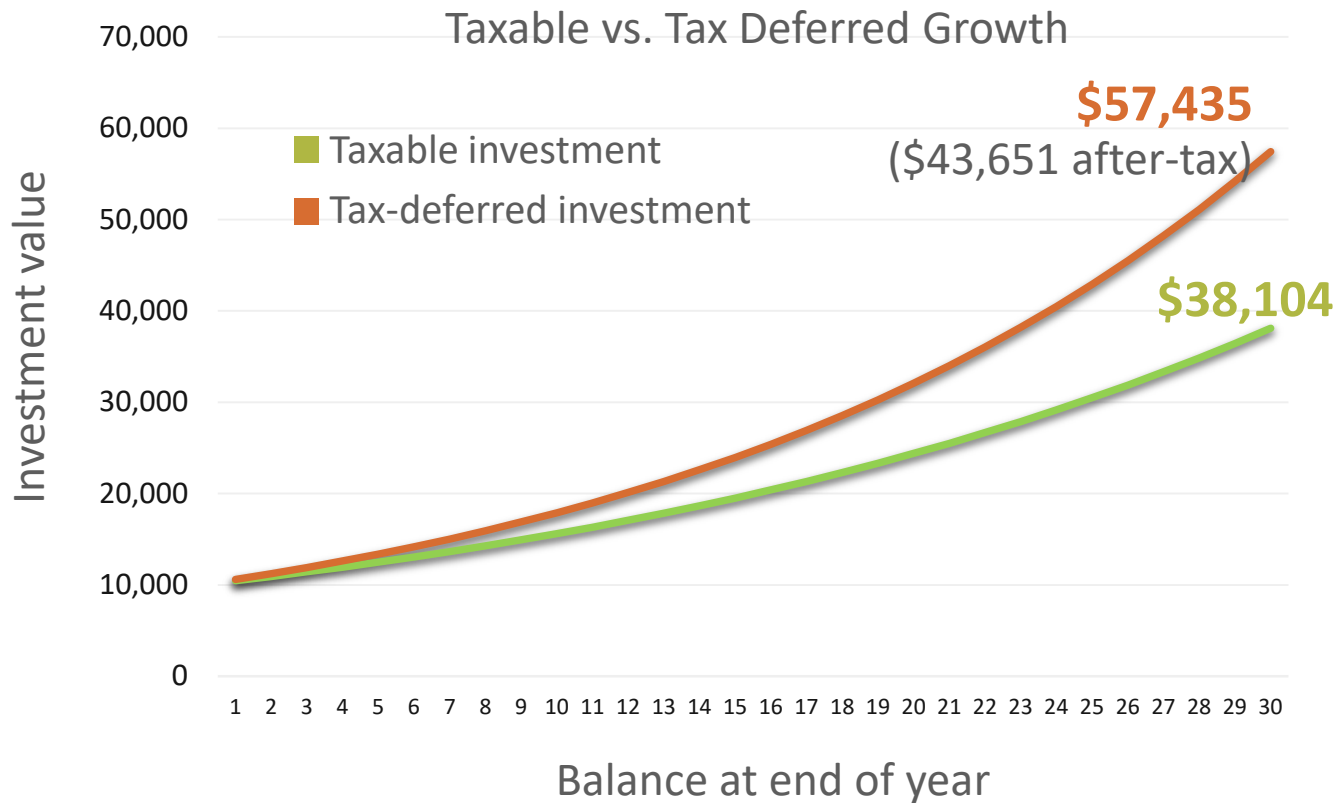
- \$5,000 invested annually
- 6% rate of return
- 2.2% annual inflation

Tax-Advantaged Savings Vehicles

- Tax deferral can help your money grow
- Take full advantage of 401(k)s and other employer-sponsored retirement plans
- Contribute to a traditional or Roth IRA if you qualify



Tax-Advantaged Savings Vehicles – The Value of Tax Deferral

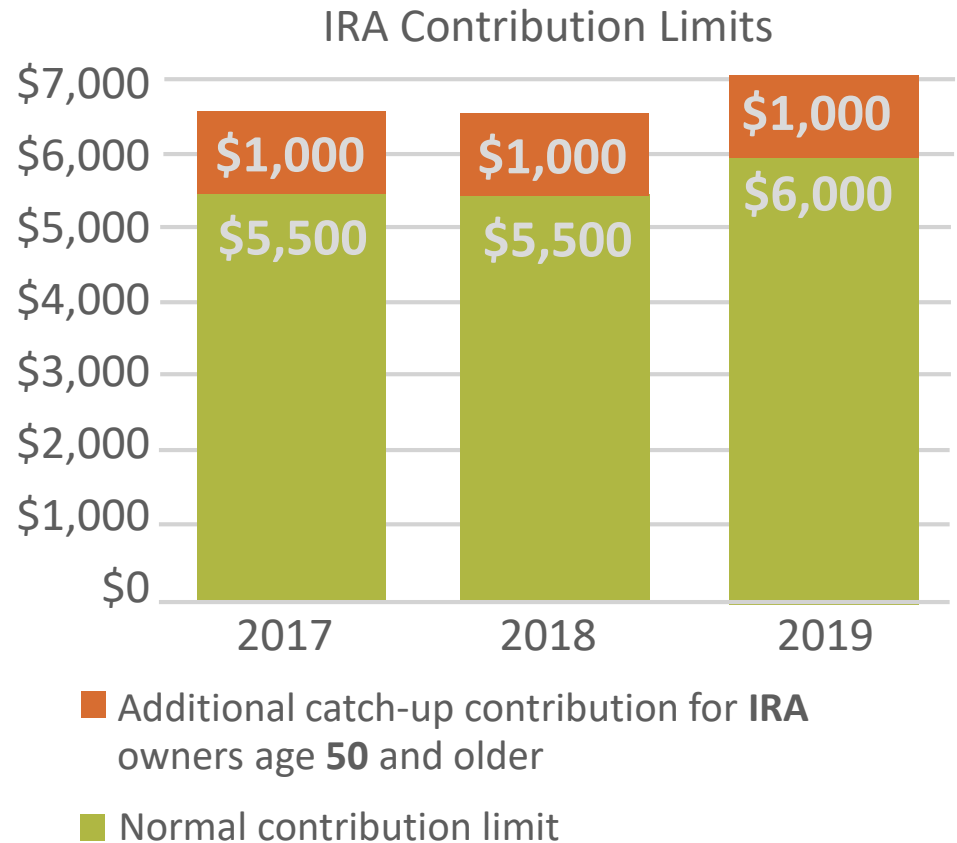


- \$10,000 invested in Year 1
- 6% annual growth rate
- 24% tax bracket
- Taxes paid with account assets

This is a hypothetical example and is not intended to reflect the actual performance of any specific investment. Investment fees and expenses, which are generally different for taxable and tax-deferred investments, have not been deducted. If they had been, the results would have been lower. The lower maximum tax rates on capital gains and qualifying dividends would generally make the taxable investment more favorable than shown in this chart.

Tax Advantaged Savings Vehicles – IRAs

- Traditional IRAs and Roth IRAs
- You can contribute up to \$6,000 (2019)
- Individuals age 50 or older can make additional “catch-up” contribution of \$1,000
- Tax-advantaged features
- Wide range of investment options
- Different qualifications and characteristics



Tax Advantaged Savings Vehicles – IRAs

Traditional IRA

- Must have taxable compensation and be under age 70½
- Contributions deductible?
Depends on:
 - Whether you're covered by an employer-sponsored retirement plan
 - Income and filing status
 - Funds grow tax deferred

Roth IRA

- Ability to contribute depends on income and filing status
- All contributions are after tax (no deduction)
- Funds grow tax deferred

Tax Advantaged Savings Vehicles – IRAs

Traditional IRAs

- Distributions subject to federal income tax
- Generally, distributions made prior to age 59½ are subject to additional 10% premature distribution tax

Roth IRAs

- Qualified distributions are federal income tax free
- 5-year holding requirement, and
 - Age 59½
 - Disability
 - First-time homebuyer expenses
 - Death of account owner
- Nonqualified distributions-- federal income tax and 10% premature distribution tax may apply to earnings portion

Tax Advantaged Savings Vehicles – IRAs

If you can do both, should you make deductible contributions to a traditional IRA or contribute to a Roth IRA?

Roth IRA may make more sense if you want to minimize taxes during retirement and preserve assets for your beneficiaries

Traditional IRA may make more sense if you want to lower your tax bill while you're still working and you expect to be in a lower tax bracket when you retire



Tax-Advantaged Savings Vehicles – 401(k) Plans – Pretax contributions

401(k) Plan Employee Contribution Limits



- Additional catch-up contribution for employees age 50 and older
- Normal contribution limit

- Defer up to \$19,000 of compensation (2019)
- Individuals age 50 or older can make additional “catch-up” contributions of \$6,000 (2019)
- Funds grow tax deferred until withdrawn
- Employer “match” is free money
- Limited to investment options offered by plan
- Distributions made prior to age 59½ (age 55 or 50 in some circumstances) are subject to additional 10% premature distribution tax

Tax-Advantaged Savings Vehicles – 401(k) Plan – Roth Contributions

- Contributions are after tax
- Funds grow tax deferred until withdrawn
- Total contributions (Roth and pretax) up to \$19,000 of compensation, \$25,000 if age 50 or older (2019)
- Qualified distributions are federal income tax free
 - 5-year holding requirement AND
 - Either age 59½ or disabled
- Nonqualified distribution — federal income tax and 10% premature distribution tax may apply to earnings portion
- Treated same as pretax contributions for all plan purposes (withdrawal rules, etc.)

Annuities

- An annuity is an investment contract
 - You invest money in return for insurer's promise to make payments in future (e.g., retirement)*
 - Funds grow tax deferred
 - May provide death benefit (insurance features such as a death benefit are generally accompanied by higher costs)
 - No limit on amount you can contribute
- Distributions subject to ordinary federal income tax on earnings portion
 - Additional 10% premature distribution tax may apply if withdrawals made prior to age 59½ (exceptions apply)
 - No required minimum distributions after age 70½
 - Can elect to convert annuity into guaranteed lifetime income stream*
 - Typically impose a surrender fee in addition to other fees and charges

*A company's promises and guarantees are dependent on the financial ability of the company to meet its obligations.

General Investment Considerations

- Timeline
- Risk/return considerations
 - Inflation
 - Return needed to achieve accumulation goal
 - Risk tolerance
 - Diversification
- Periodically reevaluate



Protecting Against Risk – The Role of Insurance

- Shifts financial risk to insurer
- Working years:
 - Disability income insurance
 - Life insurance
- Retirement years:
 - Health insurance
 - Long-term care insurance



Implementing Your Plan

- Develop your own road map
- Start now
- Invest regularly
- Purchase appropriate insurance coverage
- Review plan on regular basis and adjust accordingly



Thank You



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