



# Retirement Planning Guide

A lot of news you hear about retirement these days is negative: Social Security won't provide much; you may have to work longer; with longer life spans you may not know if your money will last. It's enough to make you throw your hands up and decide to just worry about it later. But that kind of approach will only make things harder.

Having a retirement free from money woes isn't necessarily about being a millionaire, but rather using the assets you do have wisely and proactively. By identifying what you can control and focusing on that, you can put yourself in better position to have a retirement that allows you to achieve your goals.

This booklet is not intended as professional financial planning advice. Rather it is a guide to get you considering the key issues in retirement. Use it as an introduction to begin the exploration of your retirement options.

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## Retirement Goals

When working on retirement planning, it's important to think about what your retirement will look like. Will you be content to focus on occasionally playing golf and spending quality time with family and friends? Or does your ideal retirement involve lots of foreign travel and dining out at fancy restaurants? When beginning to think about what your financial needs will be in retirement, it can help to write down five goals you would like to accomplish in your golden years. These don't have to be monumental achievements, just what will make you happy. For example one of your goals may simply be to fully relax after decades of hard work. But by starting to think about these types of things, you can begin to build a plan for your retirement around those goals.

## How Much Will You Need?

The traditional rule of thumb with retirement was that you will need 70-80% of your income in retirement to be able to live a comfortable life. However, everyone's situation is different: some people find that they actually spend more money in retirement than they did the last few previous years and others find they are perfectly content to live their mature years modestly with simple pleasures.

Completing a retirement budget is a far more comprehensive way to examine your money needs than simply relying on a percentage of your current expenses. While it can be difficult to project your lifestyle into the future – especially if you are currently many years away from leaving the workforce – begin by using your current budget as a jumping off point. Think about expenses that may be less in retirement - like clothing or gas – and expenses that could be more - like airline tickets or healthcare expenses. Of course, remember to calculate inflation, especially if you are more than a year or two from retirement.

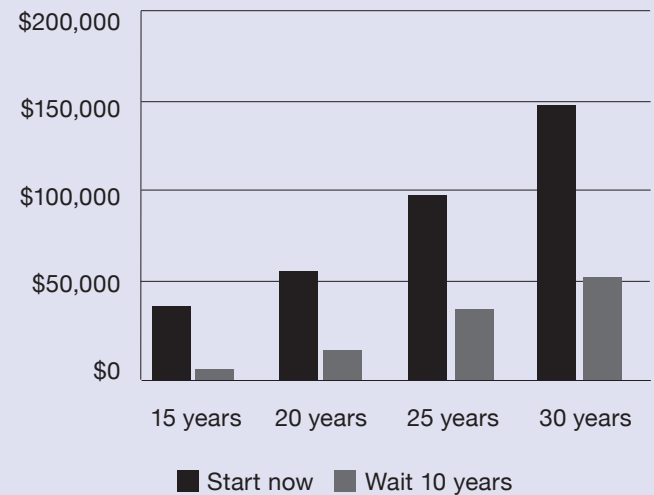
The financial calculators at [www.balancepro.net](http://www.balancepro.net) can help you crunch the numbers. If you are close to retirement and want to see if your budget is realistic, give it a test run for a month.



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## Harness the Power of Time

The chart below reflects a savings plan of \$2,000 a year at nine percent interest.



Knowing you will have enough on a monthly basis to live comfortably is great, but how do you know if it will last? After all, you don't know how long you might live, especially with increasing life spans resulting in retirements of 30 or even 40 years. If you are worried about stretching your dollars over the full length of your retirement, consider meeting with a financial planner and taking one or more of the following steps:

- Complete a budget and stick to it both now and in retirement
- Make conservative withdrawals from retirement plans
- Work longer and delay taking Social Security to increase the amount you get each month
- Work part-time in retirement
- Consider an annuity
- Use assets – such as a home – as a source of income
- Explore longevity insurance
- Invest in financial products that generate dividends
- Invest in bonds as security against dwindling income

## Retirement Income

If you are currently among the gainfully employed, you are used to receiving a regular paycheck each month. In retirement this may be different, since you could have several sources of income making up your monthly “paycheck.” To see what your current retirement paycheck looks like, consider all potential sources of income:

Source	Contact
Social Security	www.socialsecurity.gov
Retirement accounts (401k, 403b, IRA)	Plan administrator
Pension	Employer
Investments	Account administrator
Part-time work	Estimate based on current wages
Home equity loan or reverse mortgage	Estimate home value or equity position
Assets that can be liquidated	Adjust current figures for inflation
Cash value insurance policies	Plan administrator
Annuities	Account administrator
Interest on savings, CDs or bonds	Consult with provider and use financial calculator
Income from rental properties	Adjust current figures for inflation
Inheritance	Consult with benefactor

Add your monthly expected retirement totals from all these potential sources of income to see how your income projection currently sizes up. If this falls short of what you had projected in your retirement budget, look for ways to increase the amount you are currently putting toward retirement or ways to generate extra income during retirement.

## Creating a Retirement-empowering Budget

Doing a budget isn't just about making sure you have enough money to cover your bills month-to-month. It's also about having a plan in place to achieve your life goals. As you complete a budget for your current financial situation, think about your future as a bill that needs to be paid every month. Whether it is \$25 a month or \$500 a month, maximizing your retirement

contributions as a part of your monthly expenses is a very strong plan for giving yourself fewer worries in your later years. Making contributions every month allows you to harness the power of time and use compound interest to really see your investment grow substantially. Someone who is 40 years from retirement and is putting \$100 a month into a retirement fund and seeing normal returns could end up with around \$320,000 dollars in that account by the time they retire.

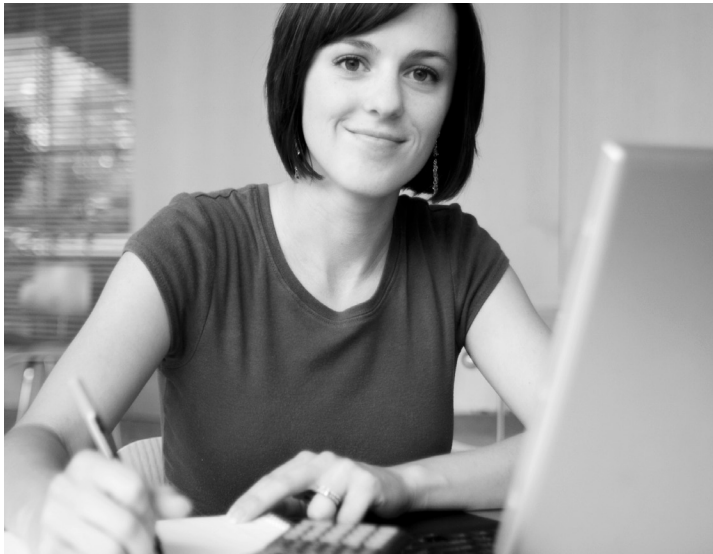
Completing a budget is also great exercise in identifying retirement drainers like high amounts of unsecured debt or a lack of savings. Some of your debts can add value, like a mortgage or student loans. However, debts that aren't producing benefits for you, like perhaps credit card debt or personal loans, can be thought of as a negative investment in your future.

You may be seeing great returns on your retirement investments, but because of your unproductive debts, the net total is that you are actually losing money. As a part of the budgeting process, examine how much of your money each month is going toward paying on debts that aren't bringing you a return. While it is important to always be putting some money toward retirement, it may make sense to dedicate a portion of that money in your budget to first paying off expensive debts.

Another enemy of retirement is insufficient emergency savings. Retirement accounts aren't meant as a safety stashes of cash you can access when unexpected expenses arise, but unfortunately many people use them that way. Rather than sacrificing your retirement money the next time the car breaks down or the furnace stops working, try to build up 3-6 months of your monthly expenses in an emergency savings account to help protect the money set aside for your golden years. This may mean making a few temporary sacrifices in the discretionary spending in your budget, but the decrease in stress down the road will be worth it.



Completing a budget is also great exercise in identifying retirement drainers like high amounts of unsecured debt or a lack of savings.



## Understanding the Retirement Fundamentals

### Start early

Time is one of the biggest advantages you can have in saving for retirement. Unless your retirement is next month, you have the opportunity to take advantage of compound interest. Because the interest you receive from investments or savings is calculated on your running total of deposits plus your past accumulated interest, you have a chance to see even a relatively small amount of money set aside each month add up to a large bundle when you choose to retire.

Someone who is 30 years away from retirement could put \$100 per month into a retirement account, receive a fairly typical 9% return on their investment, and end up with close to \$180,000 for retirement. If that same person waits 10 years to begin investing for retirement, the total saved would only be around \$67,000.



Time is one of the biggest advantages you can have in saving for retirement.

### Use tax-deferred growth

So-called defined contribution plans provided by employers, such as 401(k) or 403(b) plans, allow your retirement savings to be free from taxes while they grow in value. Your investment will only be taxed when you withdraw money from the account. A defined contribution plan also has the benefit of reducing taxable income when you file your return every year. Individual Retirement Accounts (IRAs) also can provide tax benefits. See descriptions of the different plans below for more information.

### Maximize matching contributions

You don't have many chances in life to get free money. But a lot of employers offer just that when they agree to make matching contributions to your retirement savings. Usually these funds are given dollar-for-dollar to a certain amount, or provided as a percentage of your contribution each month. If your employer offers matching contributions, do everything in your power to try to get as much of this free money as possible.

### Diversify

When choosing how to allocate your money among different types of investments, it's important to not put too much of your funds into one type. By spreading your investments among different types of products – stocks, bonds, cash equivalents, etc. – you give yourself protection against major losses by one type of asset class while also providing yourself exposure to potential gains in different areas.

### Grow and protect

In deciding what types of specific investments your retirement funds will go toward, it's important to think about both risk and reward. Some types of investment products, like stocks for example, come with a higher risk of large fluctuations but in turn give you a greater chance for growth. Others are more conservative choices that have little chance for huge growth but are much less likely to vary widely. A prudent retirement investor has a mix in their portfolio of both growth and security.

### Rebalance

If one category of your investments realizes gains disproportionate to the other types of investments in your portfolio, your allocations could get out of balance. For example, if the stocks in your portfolio see tremendous growth while the bonds lag behind, the value of your stocks could grow beyond the original percentage of your portfolio they were intended to represent. This is when it is necessary to contact your retirement plan provider to return each piece of the asset pie back to its original relative size. This process is called rebalancing.

While there is no set consensus on how often you should rebalance your portfolio, the most common suggestions from experts vary from once per quarter to once per year. Other experts advise to rebalance any time your allocations have swung five percent in any direction. Many retirement funds automatically rebalance your allocations for you, so check with your

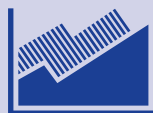


fund's administrator for more information. If you need to manually rebalance your settings, make sure you are aware of any fees charged for making these kinds of changes.

### **Dollar cost averaging**

If you have a significant amount of money invested in stocks, you likely keep a pretty close eye on what the market is doing. When it goes up, you probably have a positive feeling about continuing to contribute money to equity investments. However, when stocks go down, it can make you want to pull your money out quickly. If these emotions get the better of you, the net effect is that you consistently buy stocks when they are relatively high-priced and then abstain from buying them when they are priced lower. Using this method will mean that the average price of the stocks you have bought will always be higher.

There is a way to combat this emotional “chasing the market” type of trading, though. Dollar cost averaging means that when beginning an investment strategy, you decide on a period of time for which you will commit a consistent amount of money to be invested at regular intervals. Using dollar cost averaging is a way to take a “bigger picture” approach to your investing that can in the end give you much better value for the money you have invested and help you avoid the pitfalls of reactionary investment choices.



...take a “bigger picture” approach to your investing...

## **Types of Retirement Savings Plans**

You have several different choices for how to invest your money for retirement. You don't have to pick just one, and in fact, many people use a combination of different types of plans to achieve their retirement savings goals.

### **401(k) or 403(b)**

These retirement plans allow you to take advantage of tax-deferred growth since neither contributions nor growth are taxed. Taxes aren't taken until you withdraw money from the account. Many employers also provide matching contributions that are essentially free money added to your retirement account. There are restrictions on contribution amounts and penalties for early withdrawals. If



your employer allows you to control the investment choices for your plan, you can decide which mix of different types of investments you want your particular plan to put money into.

### **Traditional IRA**

This type of Individual Retirement Account lets you invest pre-tax income that will also grow tax-deferred. Depending on your income, filing status and other factors, you may be able to deduct your contributions to a Traditional IRA on your tax return. Like a defined contribution plan, there are limits on what you are able to contribute. If you are 50 or older, you may be allowed to make catch-up contributions beyond the normal limits. You are able to make any type of investment you like, as long as it is allowed by the custodian (usually a financial institution or brokerage) of the account. Generally speaking there are no requirements for making contributions to a Traditional IRA, but any distributions taken before age 59.5 are subject to taxes and a 10% penalty, unless the distribution meets certain conditions.

### **Roth IRA**

Unlike a Traditional IRA, under which your contributions are taxed upon withdrawal, in a Roth IRA your contributions are taxed. Withdrawals can thus be taken tax-free. Like a Traditional IRA, the gains made by your investments are not taxed. Many people who feel they may be in higher tax bracket when they retire than they are now find that a Roth IRA is a good fit for their needs. In order to contribute to a Roth IRA, you or your spouse must have earned income. Direct contributions to a Roth IRA can be withdrawn tax-free at any time.

## Annuity

Annuities are issued by insurance companies and are designed to grow in value and then pay out a stream of guaranteed monthly payments in retirement. They are usually considered an option after 401(k) or IRA options have reached maximum contributions. Drawbacks can include the high fees and lack of flexibility often associated with annuities.

## Brokerage account

While investment accounts opened with brokerages can give you greater flexibility with accessing your money and making investment choices, they lack the tax advantages of other retirement savings options and thus are usually not a top choice for this type of savings goal.

## Self-employed Plans

If you are your own boss planning for retirement may take a little extra work, but there are some very beneficial options for you too. Below are a few of the most popular choices. *(For specific questions about any of these options, contact your employer or a financial planner.)*

### Individual 401(k)

As the name implies, the Individual 401(k) – sometimes called the Solo 401(k) – is similar to the retirement plan offered by employers. However, this plan is only for sole proprietors who have no employees. Like IRAs, the Individual 401(k) comes with Traditional or Roth options. This plan also has the benefit of allowing you to borrow money against your savings.

### SEP IRA

A Simplified Employee Pension, or SEP IRA, is a way for business owners to receive the same advantages for their business that would ordinarily be provided through a Individual Retirement Account. If the business owner has employees, the employees receive the same benefits as the owner under the plan. The employer receives a tax deduction for plan contributions.

### SIMPLE IRA

A Savings Incentive Match Plan for Employees, called a SIMPLE IRA for short, requires businesses owners to contribute once it is opened but is discretionary for any employees. This plan requires certain contributions by the employer on behalf of the employees.



## Asset Allocation

Once you have decided what type of plan you will use to harbor your retirement nest egg, it's time to choose what types of investments will make up your plan.

When choosing where you will invest your money, it is important to think about the time window you have until retirement. If you have more than 20 years until retirement, it is essential that your portfolio have the ability to grow significantly in that time. For that reason, you should be willing to take on some risk of periodic fluctuations in exchange for the long-term growth of your money. If you have a shorter time horizon, say 5 years until retirement, you need to have a greater level of security in your investments to make sure you don't get caught in a major downswing in your investments just as you are about to retire. Most people do a mix of stocks, bonds, cash equivalents and other choices to give themselves diversity and exposure to growth opportunities.

Below are some popular investment choices that can help you build a retirement investment plan with both growth and protection.



When choosing where you will invest your money, it is important to think about the time window you have until retirement.



### **Stocks**

Stocks, sometimes also called equities, give you an ownership interest in a company. For this reason, there has traditionally been great potential for growth with stocks as the economy grows and companies flourish over time. The trade-off with investing in stocks is that there is a greater likelihood of dramatic swings in value in the short-term. However, the best argument for investing in stocks is that they have historically far out-paced inflation in any large period of time. For this reason, stocks should always be on your retirement savings menu.

### **Bonds**

When you invest in bonds you are lending money either to a company or to the government. In exchange for this loan, you get interest paid to you at predetermined times and amounts. This offers more safety than stocks, which can vary greatly in value. But the downside here is the lack of growth potential. Bonds are often thought of as a way to temper the effect of tempestuous investments. Generally speaking, bonds are another standard choice for retirement savings because of their nearly guaranteed returns.

### **Cash and cash equivalents**

Certificates of Deposit (CDs), money market funds, money market funds or treasury bills tend to be among the safest investments you can make but also generally offer the lowest returns. Since the returns are so modest, there is a risk that your investment doesn't grow as much as the rate of inflation. In other

words, when you are ready to start taking out your money, the value of your account hasn't grown as much as the cost of the common goods and services you will need to spend that money on. However, since many cash equivalent investments are insured by the government and losses are rare, this asset class can be a good choice when you are looking to preserve money in the months leading up to your retirement date.

### **Mutual funds**

If you're like most people and want to protect your retirement money by diversifying your investments, a mutual fund could be a solid choice for your needs. Since mutual funds are designed to spread your money among different types of investments, you automatically get exposure to varying types of products. This variety can be within an asset class or across assets classes.

For example, you can choose a stock mutual fund that will invest in different types of companies, such as energy, technology, pharmaceutical, mining, etc. Or you can choose a mutual fund that divides your monthly investment among stocks, bonds, cash equivalents and other asset classes. The money you put into a mutual fund, which is pooled with other investors, is managed by a professional as a single investment product. You can request a prospectus to see how a particular mutual fund has performed in the past.

Now that you know some of the popular options for retirement investments, how do you know how to make your allocation choices? Usually the most important factor is your retirement time frame. If you are decades away from retirement, you have time to ride out the ups and down of the stock market in exchange for the likely continued growth in stock investments. You might consider an aggressive mix of investments such as 75% in stocks, 15% in bonds and 10% in cash equivalents. Once you get closer to retirement, a conservative blend of 25% stocks, 25% in bonds and 50% in cash equivalents could better suit your desire for protection.



If you're like most people and want to protect your retirement money by diversifying your investments, a mutual fund could be a solid choice for your needs.





## Monitoring Your Accounts

Naturally you will want to check your retirement accounts periodically to see how your money is progressing toward your retirement goals. It is wise to make sure your allocations are still appropriate for your time frame, that your investments are still balanced correctly among the different asset classes, and that you are sticking to your original plan for investing. This can be a lot of work to do on your own, but luckily there are retirement accounts that are set up to do this for you.

Retirement accounts or mutual funds with a target date allow you to choose your plan based on your anticipated retirement year. As you get closer to retirement, a target date plan automatically moves your investments to more conservative choices. This saves you the trouble of having to remember to make the adjustments on your own from year-to-year. It's still a good idea to review the account every six months, but at least you don't have to worry about figuring out new allocations.

Another helpful feature of certain retirement plans is an automatic rebalancing. This comes in handy since your allocations can get out of whack if they are just left alone. Think of it like this: Let's say you are in a phase of your retirement when you want to have 70% of your investments in stocks, 20% in bonds and 10% in cash equivalents. However, your investments in the

latter two haven't been doing so well, while the value of your stock investments has gained significantly such that now, stocks actually make up a total of 80% of the money you have invested. This doesn't match with your current allocation plan since you wanted to have 70% of your investments in stocks. Rebalancing your account would require you to move some of your gains in stocks into your bond and cash equivalent allocations to "rebalance" your investment choices. While you can do this on your own, you will likely find it much easier to use a plan that does this automatically.

If you have a set amount of money that you put into a retirement plan each month and you don't tinker with your allocations, you are using dollar cost averaging. As mentioned above, dollar cost averaging means that you invest the same amount of money each month in a particular asset class no matter the current value of those investments. For example, if you are putting \$100 per month into stocks, you put that same amount into stock in the same companies regardless of whether the prices of those stocks has risen or fallen. In the long-run this lets you buy more shares at a lower average price. Dollar cost averaging guards against the natural tendency to put less money into a particular investment when prices have fallen and more in when prices have risen. This micromanaging of your investments, often called "chasing the market" can do much more damage to your retirement than if you simply exercise patience and stick to your original plan.

## Getting Help

When your financial future is at stake, there truly are no bad questions. And with the complexity of many retirement planning issues, there are bound to be queries that fall outside of your current areas of knowledge. There is no shortage of people who will be glad to answer any questions you have about obtaining your retirement goals. Your financial institution, the counselors at BALANCE and professional financial planners can help you turn your money into an engine for a financially healthy retirement.