



**RETIREMENT
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RETIREMENT INSIGHTS

SPRING 2010

Easing into Retirement

“In a recent survey, 54% of workers age 65 and older said that they were working because they wanted to, while just 17% said it was because they needed the pay-check.”

Source: Pew, 2009

FOR MOST OF your working life, you've looked forward to the day when you can quit your job and start enjoying retirement. But in recent years, talk of longer life expectancies, uncertain Social Security benefits, declining pension benefits, unknown inflation rates, and low retirement savings made retiring at a relatively young age seem difficult. Then, in the past couple of years, declining investment and home values made it seem even more difficult to retire at any age. More and more people are coming to the conclusion that either retiring later or continuing to work during retirement is necessary.

Working doesn't necessarily mean that you have to stay with your current employer. Rather, many individuals are taking on totally different jobs, which can allow them to try something new, provide more free time by working less, or ensure less stress. Besides the nonfinancial reasons for working, there are several financial reasons:

- ✓ **YOU HAVE MORE TIME TO SAVE.** Each additional year you work is an additional year you can continue to save for retirement. Those age 50 and over have additional means for saving, with annual catch-up contributions of \$1,000 for individual retirement accounts and \$5,500 for 401(k) plans in 2010.
- ✓ **YOU SHORTEN YOUR RETIREMENT PERIOD.** The longer you work, the less time you'll spend in retirement, which means you need less money to fund that retirement.
- ✓ **YOU CAN DELAY SOCIAL SECURITY BENEFITS.** Each additional year you wait to take Social Security benefits, up to age 70, will permanently increase your monthly benefit.

- ✓ **YOU KEEP HEALTH INSURANCE BENEFITS.** One of the most significant costs in retirement is health care, and you can delay those costs by working at a job that provides this benefit.

Some companies are helping employees with

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Is 10% Enough?

A COMMON RULE of thumb when planning for retirement is to save 10% of your gross income during your working years. Since this rule of thumb has been

around for a long time, it's logical to question whether it's still an appropriate guideline. Several trends suggest that it is probably on the low side:

- ✓ **FEWER INDIVIDUALS ARE COVERED BY DEFINED-BENEFIT PLANS.** The 10% guideline anticipated that a retiree would receive a defined-benefit pension as well as Social Security benefits. But a substantial portion of the work force is no longer covered by a defined-benefit pension.
- ✓ **THE SOCIAL SECURITY SYSTEM WILL FACE INCREASING PRESSURE IN THE FUTURE.** By 2037, due to the unprecedented number of baby boomers that will be retiring, benefits will need to be reduced by approximately 25% to equal revenues collected unless changes are made to the system (Source: Social Security Administration, 2009).
- ✓ **LIFE EXPECTANCIES ARE CONTINUING TO INCREASE.** Average retirement ages have been decreasing while life expectancies have been increasing. Currently, at age 65, the average life expectancy is 82 years for a man and 85 years for a woman,

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Is 10% Enough?

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compared to 78 years for a man and 81 years for a woman in 1950 (Source: *Journal of Financial Planning*, August 2008).

✓ **PLANS FOR RETIREMENT HAVE CHANGED.** Another common retirement planning rule of thumb is that you'll need 70% of preretirement income during retirement (Source: *Money*, January 2009). However, that guideline assumed a relatively inactive retirement lifestyle. Increasingly, retirees view retirement as a time to travel extensively or engage in expensive new hobbies.

All these trends point to the fact that future retirees will be responsible for providing more of their income for a longer period of time. Thus, you should consider higher, not lower, savings rates. While 10% of income may sound like a lot of money, consider how many years you expect to work compared to how many years will be spent in retirement. Assume you start working at age 22, work until age 62, and then die at age 82. Thus, you work 40 years and are retired for 20 years — for every two years you work, you need to support yourself for one year in retirement. Contrast the current situation

with a typical scenario in 1950. At that time, the average retiree worked 47 years before retiring for nine years. Thus, that person worked over five years to support one year of retirement.

For many people, then, the answer may be to extend their working years. In the above example, if you wait until age 70 instead of age 62 to retire, you will work for 48 years and be retired for 12 years. Thus, you will work four years for every year of retirement.

These stark realities don't mean that you can't retire, just that you need to plan carefully. Thus, you should start saving as much as possible, as soon as possible, for your retirement. If you'd like to discuss retirement planning, please call. ✓✓



Watch Out for These Estimating Mistakes

WHEN DETERMINING HOW much to save by retirement age, several variables must be considered, some requiring estimates that will span decades. Err significantly on those estimates, and you can end up with little or no money left during the later years of your life. Three of the most significant estimating mistakes to watch out for are:

UNDERESTIMATING HOW MUCH INCOME YOU'LL NEED IN RETIREMENT. Various rules of thumb indicate you'll need anywhere from 70% to over 100% of your preretirement income (Source: *Money*, January 2009). At first glance, it seems like you'll need less than 100%, because work-related expenses, lunches out, expensive clothes, and commuting costs will be gone. But look carefully at your current expenses and how you plan to spend your retirement years before deciding how much you'll need. If you pay off your mortgage, remain in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, you might need less than 100% of your preretirement income. However, if you plan to travel extensively, must pay for health insurance, and carry significant debt, you may find that 100% of your preretirement income is not enough. You need to look closely at your current expenses and planned retirement activities to come up with a reasonable estimate.

UNDERESTIMATING HOW LONG YOU'LL LIVE. Today, the average life expectancy is 82 years for a 65-year-old man

and 85 years for a 65-year-old woman (Source: *Journal of Financial Planning*, August 2008). However, average life expectancy means the woman has a 50% chance of dying before age 85 and a 50% chance of living past age 85. Since you can't be sure which will apply to you, you should probably assume you'll live at least a few years beyond your life expectancy.

OVERESTIMATING HOW MUCH YOU CAN WITHDRAW ANNUALLY FROM YOUR RETIREMENT SAVINGS. With a retirement that could span decades, it's important to withdraw a reasonable amount so you don't deplete those savings too soon. A number of factors can make that a difficult number to calculate. First, as noted above, you can't be sure how long you'll be making withdrawals. Second, inflation over such a long period means you'll have to withdraw increasing amounts just to maintain the same purchasing power. Third, your rate of return on your investments will significantly affect how much you can withdraw annually. When withdrawals are being made, down markets can have a devastating effect on your savings. Especially if a major market downturn occurs early in your retirement, withdrawing an amount that may have been reasonable during an up market may quickly deplete your assets. Thus, it's generally prudent to keep your withdrawal percentage as low as possible, perhaps 3% or 4% of your balance. ✓✓✓

Easing into Retirement

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retirement issues by allowing phased retirement, where hours are gradually reduced until full retirement. One possible advantage of staying with your current employer is that the pay may be higher than if you started over in another profession. If your employer offers a phased retirement program, find out these details before signing up:

- ✓ **HOW WILL PHASED RETIREMENT AFFECT YOUR BENEFITS?** Many pension benefits are calculated based on your earnings in the last few years of your working career. If you don't want to take pension benefits yet, make sure your pension will be calculated using earnings while you worked full-time.
- ✓ **WHAT WILL HAPPEN TO YOUR SALARY WITH REDUCED HOURS?** Will you receive a pro-rata share of your pay, or will a different pay scale be used? Will you be entitled to pay increases in the future?
- ✓ **WILL YOU BE ELIGIBLE FOR HEALTH INSURANCE BENEFITS?** Find out the company's policy regarding health insurance benefits for part-time workers. This will be especially important if you move to part-time status before age 65, since you won't be eligible for Medicare.
- ✓ **WHAT OTHER DETAILS SHOULD YOU INVESTIGATE?** Make sure there is a mutual understanding about your hours. Can you take time off to travel? If you don't like part-time work, can you go back to your full-time job?
If your employer doesn't offer a phased retirement program or you want to try something new, investigate your options before quitting your job. Some factors to consider include:
 - ✓ How do you plan to spend your retirement? If you plan to travel a lot, how will work fit into that schedule? If you plan to split your time between two homes in two locations, how will you be able to work?
 - ✓ What interests you? Would you be happier pursuing a job that takes advantage of skills from your current job, or would you like to try something totally different? Do you need to obtain additional skills or go back to school?
 - ✓ Do you want a job with significant responsibility, or are you trying to reduce the stress in your life?
 - ✓ Are you passionate about an interest or hobby that you may be able to turn into a business? Do you want to start your own business? If so, do you have the financial resources, without risking funds for your retirement?
 - ✓ Is there a cause that is important to you? Is it time to move to the nonprofit sector, finding an opportunity that matters to you on a personal level?

Retirement is in the midst of being redefined once again. The last generation was able to retire to a life of total leisure due to the generosity of company pension benefits and Social Security. But longer life expectancies, less generous benefits, and declining asset values mean that it is time to redefine retirement. What many are seeking is not so much total leisure as more leisure or a more meaningful lifestyle. Many are finding that those goals can be accomplished while still working, with those additional working years providing more financial security. If you'd like to discuss work and its role in your retirement, please call. ✓✓✓

The Need for IRAs

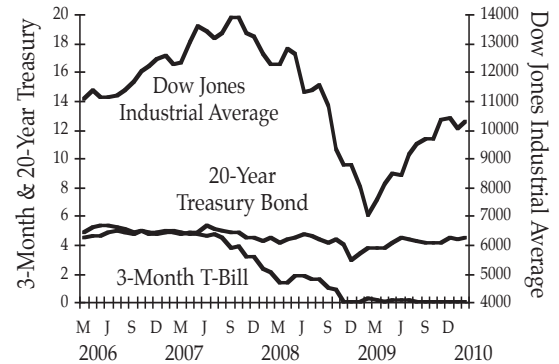
IN SOME WAYS, a 401(k) plan or defined-benefit plan from an employer can provide a false sense of security. You may feel, without analyzing the situation, that you're saving enough for retirement. But the reality is that the plan may not be enough to provide the retirement you had in mind. Thus, you may also want to contribute to an individual retirement account (IRA) for some or all of the following reasons:

- ✓ **YOU'LL PROBABLY NEED THE ADDITIONAL FUNDS FOR RETIREMENT.** Even with Social Security and pension or 401(k) benefits, you'll probably need other savings to fund your retirement. There are a variety of ways to save, but an IRA can be a good alternative for retirement.
- ✓ **YOU'LL LOWER YOUR TAXES.** You can lower your taxes currently by contributing to a traditional deductible IRA or in the future by contributing to a Roth IRA. With a traditional deductible IRA, you receive a tax deduction on your current-year income tax return. When you withdraw the funds in the future, you'll owe ordinary income taxes on the contributions and earnings. With a Roth IRA, you don't receive a current-year tax deduction, but qualified distributions are withdrawn without paying any federal income taxes.
- ✓ **YOU'RE MORE LIKELY TO USE THE FUNDS FOR RETIREMENT.** If you save in a taxable account, it's easy to use the funds for other purposes. However, the government discourages the use of IRA funds for other purposes by assessing a 10% federal income tax penalty when funds are withdrawn before age 59 1/2 (except in certain limited circumstances). That makes it more difficult to withdraw the funds and more likely they'll stay in the IRA.
- ✓ **YOU HAVE A WIDE VARIETY OF INVESTING OPTIONS.** With a 401(k) plan, you typically have a limited number of investment options. However, with an IRA, you can invest in a wide variety of investments. ✓✓✓

Market Data	Month End			% Change	
	Feb 10	Jan 10	Dec 09	YTD	12 Mon.
Dow Jones Ind.	10325.26	10067.33	10428.05	-1.0%	46.2%
S&P 500	1104.49	1073.87	1115.10	-1.0	50.3
Nasdaq Comp.	2238.26	2147.35	2269.15	-1.4	62.4
Wilshire 5000	11453.20	11099.42	11497.41	-0.4	53.2
Gold	1108.25	1078.50	1100.50	0.7	16.4
Silver	15.42	16.12	16.92	-8.9	18.9
				Dec 08	Feb 09
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.00	0.00	0.05	1.84	0.70
3-month T-bill rate	0.10	0.06	0.11	0.05	0.30
20-yr. T-bond rate	4.56	4.42	4.53	3.04	3.80
Dow Jones Corp.	4.22	4.24	4.43	7.16	6.87
Bond Buyer Muni	5.30	5.39	5.40	6.02	5.58

Sources: Barron's, Wall Street Journal Past performance is not a guarantee of future results.

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield March 2006 to February 2010



Sources: Barron's, Wall Street Journal

Finding Money to Save

“Approximately 73% of baby boomers who own IRAs have no intention of converting to a Roth IRA in 2010, despite the elimination of the \$100,000 income limitation.”

Source: USAA, August 2009


EVERYONE KNOWS THAT they should be saving at least 10% of their gross income for retirement, but that can seem like an impossible goal after paying all your bills. However, don't just figure that goal is unachievable without first looking at the after-tax cost.

For instance, assume you earn \$50,000 annually and your employer matches 50 cents for every dollar you contribute to your 401(k) plan, up to 6% of your pay. If you put 6% of your pay, or \$3,000, in the plan, your employer will match 3%, or \$1,500. Your contribution really costs less than 6%, because the money is taken out before income taxes. If you are in the 25% tax bracket, your \$3,000 contribution will save \$750 in taxes, or 1.5% of your pay. So, between your contributions and your employer's match, you will contribute 9% of your pay toward retirement, but it will only cost you 4.5% of your pay.

Made over long periods of time, those levels of contributions can help significantly in funding your retirement. If you contribute \$4,500 annually starting at age 30, you could potentially accumulate \$837,460 by age 65 with an investment return of 8% annually. (This example is provided for illustrative purposes only and is not indicative of the return of a specific investment.) If possible, you should strive to contribute

even larger sums of money. In 2010, the maximum 401(k) contribution is \$16,500, plus individuals over age 50 can make an additional \$5,500 catch-up contribution.

What if you don't have a 401(k) plan at work? Take a look at individual retirement accounts (IRAs). While you won't get an employer match, you can contribute to a deductible IRA, if eligible, with pretax dollars, which reduces your contribution's cost by your marginal income tax rate. In 2010, you can contribute a maximum of \$5,000 to an IRA, and individuals over age 50 can make an additional \$1,000 catch-up contribution. So, if you are in the 25% tax bracket and make a \$5,000 contribution, you'll save \$1,250 in income taxes. Or, you may prefer to contribute to a Roth IRA. While you won't get a current income tax deduction for your contribution, you can make qualified distributions free from federal income taxes.

Please call if you'd like to discuss this topic in more detail. 

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