REINVENTING Retirement
YOUR RETIREMENT PLANNING NEWSLETTER
3rd QUARTER 2011

Kickoff Play

Putting together a game plan for your retirement

For many, football season means bundling up… tailgates… and gathering around the TV with friends and family for exciting live action. It is also a good time to pencil out some goals and a game plan for your retirement.

The 5-Step Retirement Playbook

1: Protect the quarterback

The most important player on the field is you. If you are put on the disabled list or change jobs, you still need to meet your fixed expenses such as housing and health insurance. Take steps now to protect yourself. Build a six- to eight-month emergency or rainy day fund. If you have a family and dependents, you should also consider having some form of life insurance.

2: Keep an eye on the goal line

When do you hope to retire? How many years will you spend not working? What do you want to do once you retire? In addition to imagining what life could look like in retirement, also consider the costs of taking up a new hobby or traveling. Remember that you are more likely to live longer and enjoy a more active lifestyle than your parents.

While setting goals, it's critical that you understand your opponent. The biggest obstacles to a secure retirement may be (1) not having enough money to retire comfortably, and (2) delaying the decision to start saving. Experts suggest that it will take 75-90 percent of your pre-retirement income to maintain the same standard of living once you stop working. Depending on your desired retirement lifestyle, you may need to increase or decrease this amount. So, the sooner you start to save, the longer your money has to grow. It is never too early, or too late, to start.

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3: Field your best players

Retirement planning takes teamwork from your "A" players, who are committed to helping you succeed. Here's the top roster:

	Your Employer	Internal Revenue Service	Your Retirement Plan
Scouting Report: *Player strengths*	By sponsoring a pre-tax savings plan, your employer gives you all the motivation you need to get in the game.	Thanks to Uncle Sam, retirement account earnings that have not previously been taxed are tax-deferred. This means you pay taxes on these earnings only when they are withdrawn[1] from your plan.	Your plan itself offers a range of investment options to meet your needs, whether your needs are growth, income or preservation of principal.
Play Card: *Moving the ball down the field*	Your company's payroll department directs the money that you contribute to your plan straight from your paycheck into your account.	While your money stays invested inside the plan, it can earn more than if taxes were taken out each year. Plus, your account earnings are reinvested, which means you have the potential to earn even more money on your returns. (This is called "compounding," which is like money earning more as it piles on top of itself.)	Depending on the number of years you have until retirement, your financial goals and your risk tolerance, you can use the investments in your plan to create a diversified strategy.
Key Benefit	Since you won't see the payroll deduction, odds are that you won't even miss it.	Since you pay no current federal income tax on the pre-tax amounts you contribute to your account, your retirement account has the potential to grow faster than if you had to pay taxes on that money.	By making it easy to contribute, stay invested and generate income once you retire,[1] your plan can help you cross the goal line.
Need More Coaching? *Help is available*	Your plan administrator (usually HR) can explain your plan benefits, eligibility and options.	Get general information on the tax treatment of retirement plans at www.irs.gov/retirement.	Visit your plan provider's website or request educational materials from your HR department.

1 Withdrawals from qualified plans prior to age 59½ may be subject to a 10% IRS penalty. Account values are subject to income tax upon distribution.

4: Manage the clock

In planning for retirement, time is your biggest ally. A dollar invested in your 20s can grow far larger than the same dollar invested later in life, thanks to the power of time and compounding. As you enter your 30s and 40s, you likely will have competing uses for your income, including a mortgage or saving for your children's education.

Although it's easy to get distracted when so many needs compete for your money, stay focused on your retirement plan. Children can get financial aid or loans for college, but you can't borrow for retirement. Remember:

- **Plow in more savings.** In your 50s and 60s, your major expenses, such as mortgage and child-rearing, should begin to wind down. Consider investing the extra dollars that may free up into your retirement plan.
- **Play "catch up."** Workers age 50 or over can put more dollars into their retirement plan once they've maximized regular contributions. (This is known as the "catch up" amount and for 2011 it is $5,500 if your plan has this feature.)
- **Hire a financial coach.** A financial advisor or planner can help put together a retirement income strategy, including giving you a good sense for how much you can expect to withdraw once you retire.
- **Play 'til the whistle blows.** Once you've retired, you may want to keep some of your money invested in stocks. With potentially 20 years or more in retirement, inflation can eat away at your nest egg. Although past performance cannot guarantee future results, stocks historically have beaten the rate of inflation. However, their returns vary to a much greater degree than other types of investments such as bonds or cash.

5: Winning on or off the field

Whether you choose to retire or keep working, it's important to develop a retirement game plan now so that you have more options later. Retirement can be an exciting time to go back to school, volunteer, or simply take a breather and play golf. Whatever life you envision, the important thing is to keep mentally, physically and socially active so that you get maximum enjoyment from your retirement years.

Stabilize Your Income with the Three-Point Stance

Factor in all major sources of retirement income when projecting your monthly needs

After decades of accumulating a robust nest egg, you need to switch sides to a new mindset: income planning. For the same reason that football players line up using a three-point stance, many retirees want a comfortable, stable income as a major goal in retirement. It keeps them from getting knocked down!

Lining up income with your expenses

In projecting your retirement income needs, it helps to (1) prepare a realistic household budget and (2) understand what types of expenses you'll have once you stop earning a regular paycheck.

- Fixed expenses are ones you have little to no control over.
- Discretionary expenses are the ones you have a great deal of control over.

Types of Expenses

Fixed *Limited control over*	Discretionary *Lots of control over*
Mortgage or rent	Eating out
Taxes (income and property)	Entertainment
Car payments, gas and maintenance (if applicable)	Travel
Health insurance	Sports and hobbies
Food	Gifts
Utilities	Shopping

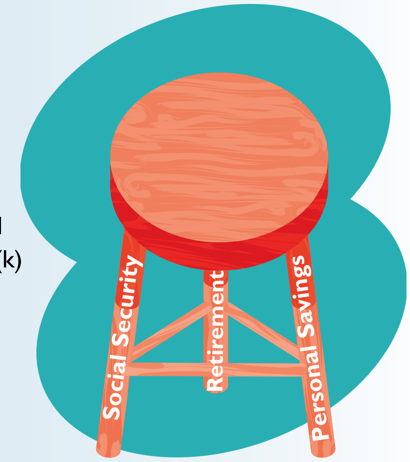
Obviously, you should plan to cover all your must-have expenses before you consider spending on nice-to-have items. You'll also need to factor inflation into your expense projections: certain sectors of the economy, such as health care, have historically had rates of inflation much higher than the core rate of inflation.

How much to withdraw[2]?

Retirement brings with it many unknowns, including how much you can spend each month from your various retirement income sources: Social Security, retirement plan and personal savings. Withdrawal amounts depend on how much you've saved, the expected return of your current investments and your age, among other factors. Much recent research has focused on what percentage of account value retirees can take each year so that the money won't run out over 30 years or so. Some experts suggest that 2.5 to 4 percent is a sustainable withdrawal-rate range in the early years of your retirement, assuming your investments are appropriately diversified.[3] Depending on the size and health of your nest egg and the growth rate of your expenses, you may be able to adjust this rate in future years.

Social Security • Retirement • Personal Savings
The Three-Legged Stool

When identifying sources of retirement income, financial planners sometimes refer to the "three-legged stool" of Social Security, pension/401(k) and personal savings. Weakness in any one leg can cause your retirement to topple.



Order of withdrawals

Deciding which of the three legs of the stool to spend first depends to a great extent on tax laws. Most people know that delaying taking Social Security payments until age 70 may mean higher payments later; they may not realize that Social Security income may be taxable for many recipients at ordinary tax rates, which are currently set at a maximum of 35 percent.

Remember that tax issues and IRS rules on qualified plan distributions can be very complicated. For example, although your money can grow tax-deferred inside a 401(k) or pension account, once you take a withdrawal, the entire distribution is hit with your ordinary income tax rate and possible penalties if you're under age 59½. On the other hand, selling stocks you hold in a taxable account (such as a brokerage account) means that only your capital gains will be taxed at the current maximum of 15 percent. Some think it's best to take money first from regular taxable investment accounts and let tax-deferred accounts continue to grow.

Not everyone agrees with this strategy, though. Depending on your circumstances, some think it makes sense to take out money from your IRA and 401(k) before spending down your taxable assets. "The idea is to let the assets that will be taxed at the lowest rate accumulate for the longest time," says Robert C. Carlson, author of *The New Rules of Retirement: Strategies for a Secure Future*. For example, if you think income tax rates will be higher in the future, you may want to spend down your taxable assets sooner. Consider enlisting the assistance of online tools, or retaining a financial planner to tailor the order of withdrawals to your specific needs and tax situation.

2 *Withdrawals from qualified plans prior to age 59½ may be subject to a 10% IRS penalty. Account values subject to income tax upon distribution. This discussion is not intended to show the performance of any fund for any period of time or fluctuations in principal value or investment return. Periodic investment plans do not ensure a profit nor protect against loss in declining markets.*

3 *Tom Lauricella, "Why Your Nest Egg May Not Last,"* Wall Street Journal, *March 27, 2011.*

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Housing downturn affects retirement preparedness

Nearly everyone agrees that the mortgage-driven crisis of 2008-2009 took a serious toll on the economic well-being of Americans. But how did the downturn affect retirement preparedness for the nation's workers in real terms? A January 2011 study[4] from the Employee Benefit Research Institute ran the numbers and found that, "Depending largely on age and income, between 4 and 14 percent of Americans who otherwise would have had adequate income to cover basic expenses in retirement became 'at risk' of running short because of the housing and financial crisis of 2008-2009." The study further concluded that to make up these losses, these households would generally need to save between one and four percent more of compensation each year between now and retirement age.

Bottom line? While it usually makes sense to increase contributions to your retirement plan each year, it is especially true for participants directly affected by depressed housing values.

Tools & Techniques

When to claim Social Security benefits

Concerns about Social Security's long-term prospects have prompted more pre-retirees than normal to claim benefits at age 62, the earliest age allowed. You should know that claiming benefits at 62 means that your monthly payout will be permanently reduced by approximately 25 percent from what it would otherwise have been at your full retirement age. Given longer life expectancies, commencing benefits at 62 could cost you tens of thousands of dollars later in life, when Social Security becomes a more important source of inflation-adjusted income. To help you sort through the options, download the free "Social Security Claiming Guide," published by the Center for Retirement Research at Boston College: www.crr.bc.edu

Q & A

What happens to my 401(k) balance if I leave my company?

Your personal contributions to your account (as well as any fully-vested company matching or other contributions) as adjusted for investment earnings or losses, are yours to keep. Should you leave your job for any reason, you can take the money with you and roll it over to another qualified retirement savings plan.

Quarterly Reminder

Fall is a great time to reflect on goals

As 2011 comes to a close, pull out those resolutions you made earlier in the year to see what progress you've made so far. Have you set aside an emergency fund? Started to exercise an hour a day? Started a college fund for a child? Of those financial goals, take note of those you have achieved, and how many more you can cross off your list by the end of the year. Sometimes it's more productive to take smaller steps than it is to shoot for sweeping life changes.

Corner on the Market

Basic financial terms to know

Treasury Inflation-Protected Securities (TIPS)

TIPS are securities issued by the U.S. Treasury that are structured in such a way that they protect investors from the negative effects of inflation. TIPS are considered an extremely low-risk investment since (1) the U.S. government backs them and (2) one component of their value rises with inflation as measured by the Consumer Price Index.

4 *EBRI, "Between 4–14% More U.S. Households 'At Risk' of Running Short of Money in Retirement Due to 2008–2009 Recession," Press Release, January 20, 2011.*

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