REINVENTING Retirement

YOUR RETIREMENT PLANNING NEWSLETTER

3rd QUARTER 2012

Harvesting Your Savings

Here's how your savings can replace your income.

After a lifetime of hard work, you've grown your savings. But just as you've taken care to save and invest, it's just as important to plan for income when it comes time to harvest those assets. You should have an income strategy that takes into account your expected expenses, savings and investment preferences. It's not a complicated process, but it helps to plan ahead of time. Here are a few pointers:

Plan for many more harvest moons

First, you need to figure out how many years of retirement you'll have to plan for. A man currently 65 years old can expect to live to 82 and the average 65-year-old woman will live until 85, according to Social Security Administration (SSA) data. These numbers, of course, are averages, that don't take into account your current health, lifestyle or family history, all of which can increase or decrease your life expectancy. To estimate your life expectancy, visit the SSA's website at www.ssa.gov and fill in your gender and birthday. Or you can take a 10-minute questionnaire at www.livingto100.com for a more precise calculation that factors in your family health history and lifestyle.

Budget for "must haves" and "nice to haves"

Next, you need to prepare a household budget by identifying the expenses you expect to have in retirement. The rule of thumb is that most retirees need roughly 85-90% of their pre-retirement household income to maintain your lifestyle in retirement. The following table can help you identify which expenses are essential and which you have more control over.

ESSENTIAL SPENDING	Current Cost (Annual)	DISCRETIONARY SPENDING	Current Cost (Annual)
Mortgage or rent	$__________	Dining out	$__________
Taxes (income and property)	$__________	Entertainment (movies, theatre, sports events)	$__________
Car payments, taxes, insurance, gas and maintenance	$__________	Travel	$__________
Health insurance	$__________	Hobbies	$__________
Dental, vision, Medicare premiums, prescriptions	$__________	Long-term care (LTC), disability insurance, life insurance	$__________
Groceries	$__________	Gifts (including charitable donations)	$__________
Utilities	$__________	Shopping	$__________
Total Essential	$__________	Total Discretionary	$__________

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Getting the most from your crops

Finally, you can use the accompanying graphic to build a retirement income strategy. Once you've established your budget (Retirement Need), match sources of income to support it. Typically this includes pensions, Social Security and personal savings in the form of 401(k), IRAs, investment accounts and bank accounts (Retirement Savings). The ability of your savings to earn a reasonable rate of return and protect your purchasing power will depend on how you divide your assets among stocks, bonds and cash (Asset Allocation) to generate a blended rate of return from your Target Income Mix. Your Target Income Mix is ultimately what allows you to withdraw your Estimated Monthly Income.

Retirement is an exciting time of life, with virtually endless opportunities to pursue new experiences. Taking a little time today to build a retirement income strategy will make it that much easier when it's time to harvest your savings—and chase your dreams.

Plan Ahead for the "What-Ifs"

An emergency fund anticipates life's little surprises.

By most measures, Mark and Jenny O'Connor's life goals were on track: college loans paid off, they had settled into fulfilling careers, married, had two kids and bought an affordable home in a growing community. But then Mark lost his job as a project manager at a manufacturing company. Although the company severance package was generous, the job market in Mark's industry turned up few leads. The couple felt the loss of Mark's income within several months and they soon were short on cash.

Financial-advice columns bombard you with lists of things to do to achieve financial independence. Pay off high-interest-rate debt. Max out your retirement account. Don't rent, buy a house. But most experts agree that the first thing most families should do—after meeting basic needs and reducing spending—is to start an emergency fund.

What is an emergency fund?

An emergency fund is money that you can quickly access and use only in case of emergency. It's not to be used to buy a new car or a leather recliner for the den! A true emergency is something that threatens your survival, not simply your need to be comfortable. Any situation that puts your ability to pay the mortgage or rent, or put food on the table is an emergency.

How much should I set aside?

There is no one right answer. Do what works for you. Most experts suggest setting aside enough money to cover your mortgage and essential living expenses for two to three months. Others suggest having just $500 to $1,000 set aside is enough to handle most emergencies. On the other hand, if you are a highly paid manager, or are a couple that works in the same industry or company, you may want to sock away nine months to a year's worth of expenses in the bank. Once you have established this cushion, move onto other goals such as saving for retirement or your kids' college education.

How do I get started?

1. **Decide on how big of a fund you need.** Set up an interest-bearing account at a bank of at least $500 to $1,000. Don't carry a cash card tied to the account.
2. **Pay down debt.** Before you add any more to your emergency fund, pay off your credit-card balance or other installment debt.
3. **Over time, build a three- to six-month financial cushion.** Once your debts are paid down or eliminated, you should start building your emergency fund to be able to handle your basic expenses during a real hardship for up to half a year.

Studies show that people who maintain an emergency fund are less likely to accumulate debt, which is essential for anyone saving for retirement or other important long-term goals. But taking this step now, you can reduce the likelihood of one of life's biggest stresses on your family's peace of mind.

Why **Individual Returns Lag** the **Market**

Investor behavior during market downturns is a big factor on performance.

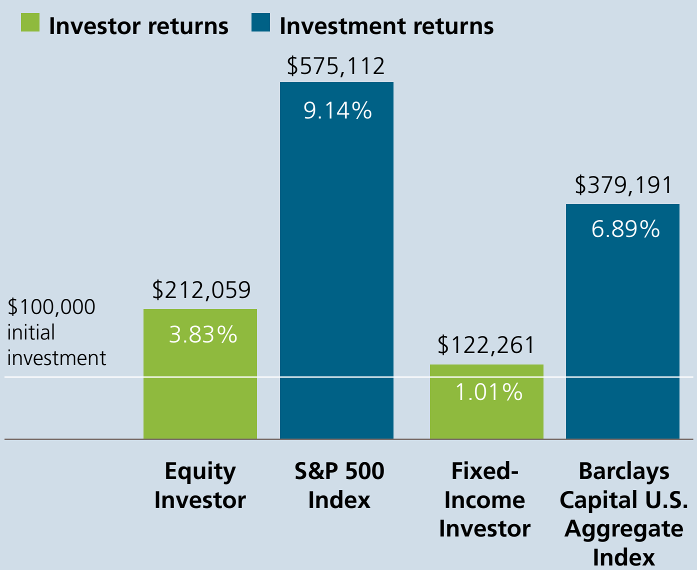
Investors in stocks and stock mutual funds have just endured one of the most challenging decades ever experienced in the U.S. investment markets. Many who panicked and sold everything during the downturn of 2008-09 locked in losses approaching 50%, as measured by the S&P 500® Index.[1] Others who had the fortitude to ride out the storm and held on to their investments fared better.

Why so? A recent industry study by Dalbar, a company that independently tracks financial industry performance, suggests that emotionally driven investor behavior has a bigger impact on success than the market's actual results.[2] Since 1994, Dalbar has studied the effects of investor decisions to buy, sell and switch into and out of stock and bond mutual funds over various timeframes. The results show that average investors earn less than market performance because they tend to get into the market at market highs, and sell at market bottoms, as the following chart illustrates:

THE RETURN FOR THE AVERAGE EQUITY FUND INVESTOR HAS LAGGED THE MARKET

Dalbar Quantitative Analysis of Investor Behavior

Ending values and average annual total returns of a hypothetical $100,000 initial investment for the 20 years ended 12/31/10.



Source: DALBAR (average equity and fixed-income investors data). DALBAR uses data from the Investment Company Institute, Standard & Poor's and Barclays Capital index products to compare mutual fund investor behavior with an appropriate set of benchmarks. These behaviors are then used to simulate the "average investor." Hypothetical investments for the equity and fixed-income investors are based on average annual total returns. Barclays Capital U.S. Aggregate Index represents the U.S. investment-grade fixed-rate bond market. The indexes are unmanaged, and therefore have no expenses.

Emotions can get in the way of making effective decisions about asset allocation, which many financial experts consider to be one of the most important components of retirement success.

Herd mentality may drive poor investment decisions

Market research shows that investors believe there is safety in numbers by moving in the same direction as other investors. This "herd mentality" generally leads to poor investment results, as crowds tend to sell stocks and bonds (or stock and bond funds) when they are low and buy them when high. When markets are very changeable, they will move in sync away from risk and toward safety, and when they perceive that it is safe to get back into the market, they pile back in together, bidding up the prices and causing individual investment returns to fall below that of comparable indexes.

As always, your investments should fit your personal objectives and tolerance for risk. The goal is to generate long-term growth potential by spreading your assets across a spectrum of stock and bond funds that span U.S. and international markets. At the same time, you should resist the urge to sell when markets decline or become volatile, as this decision can quickly erode performance, as well as reduce the money you can spend for your retirement.

1 "Wall Street Ends Back Where It Started," New York Times, December 30, 2011.

2 Source: Dalbar Quantitative Analysis of Investor Behavior (QAIB) Report 2011.

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Planning for health care expenses

Perhaps the most critical expense to account for during a retirement that can last 20 years or more is health care: according to a recent study by Fidelity Investments, a couple aged 65 retiring in 2012 is expected to need an average of $240,000 to pay for medical costs throughout retirement, excluding the cost of over-the-counter medication, long-term care and most dental services.[1]

Tools & Techniques

Social Security payments via debit card

In 2009, the U.S. Social Security Administration (SSA) introduced a debit card that you can use to access your Social Security benefits. With the Direct Express® card program, the SSA deposits federal benefit payments directly into your card account. You can use the card to make purchases, pay bills or get cash at thousands of locations. The Direct Express card is available to anyone receiving Social Security or Supplemental Security Income payments, and you don't need to have a bank account to qualify. www.ssa.gov

Q & A

How much home insurance coverage do I need?

Roughly two-thirds of U.S. houses are undervalued for insurance purposes, according to a 2008 survey from consultant Marshall & Swift/Boeckh. This means these homeowners wouldn't have enough coverage to fully repair or rebuild their houses after a disaster. Basic policies cover the costs of repairing the house, as well as medical expenses resulting from accidents on your property. But many standard policies exclude coverage for damage resulting from flooding, insect damage, windstorms or earthquakes. Most homeowners should choose a replacement-cost plan, that covers the actual cost to repair or rebuild the home with similar materials, rather than one that pays market value. Expanding liability coverage, especially if you have a home-based business, and documenting your personal belongings and valuables, is worth considering as well. Get more tips at www.insureuonline.org.

Quarterly Reminder

Many CDs mature in October

Be on the lookout for notices from your bank about certificates of deposit (CDs) that may be maturing in October. Generally, you will have to provide instructions to the bank if you want to do anything but roll the money over into a new certificate at prevailing interest rates. This could limit your ability to use the money for other purposes, since most CDs carry a hefty charge for early withdrawals.

Corner on the Market

Basic financial terms to know

Early withdrawal penalty

If you withdraw amounts from your IRA or other qualified retirement plan before reaching age 59½, the amount will be subject to ordinary income tax as well as a 10% early withdrawal tax (also called a "premature" distribution), unless one of a number of exceptions applies. The 10% tax is reported on the appropriate line of IRS Form 1040.

1 Assumptions: The couple signs up for Medicare at age 65 and has no employer-provided retiree health insurance. Men are assumed to live for 17 years until age 82, while women are expected to spend 20 years in retirement until age 85. The calculation takes into account Medicare's cost-sharing provisions including deductibles, coinsurance, and other likely out-of-pocket costs for Medicare Parts A, B, and D. Source: Fidelity Investments, May 2012.

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