Your Retirement Goal Checklist

Retirement has often been viewed as an end to a working career, but today's retirees and pre-retirees are more likely to see it as a new beginning.

In a survey of Americans aged 45 and older, 57% described retirement as a new chapter in life — an opportunity to explore new options and pursue their dreams.

Source: Yahoo! Finance, May 6, 2013

Whether retirement is many years away or right around the corner, it might help to envision your expectations for the future. Here are five key questions to consider:

- When do you want to retire?
- Do you want to stop working completely, or would you prefer to work part-time or in a different career?
- Where do you want to live?
- What activities do you look forward to enjoying?
- What level of medical expenses do you expect?

What Kind of Lifestyle Do You Hope to Enjoy?

Hopes and Aspirations

Percentage of nonretired Americans who expressed the following hopes and aspirations for retirement (multiple responses allowed)

31% Exercising or playing sports

17% Buying a new car or other expensive item

12% Starting a business

12% Living abroad

12% Further education

12% Writing a book

11% Learning a foreign language

34% Working in some capacity

31% Learning new skills/hobbies

59% Spending more time with friends & family

Source: usnews.com, March 1, 2013

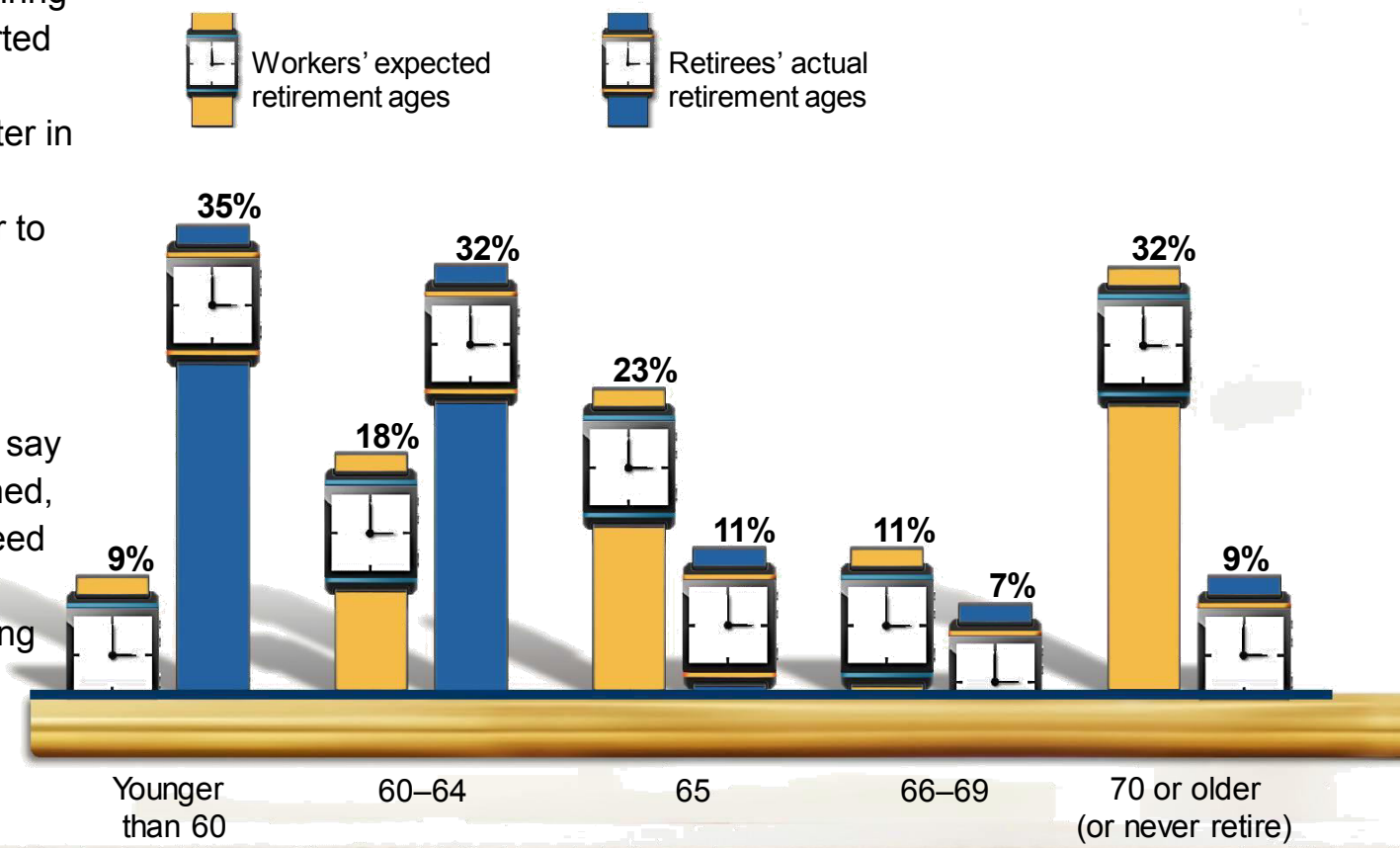
With the freedom of retirement, the possibilities could be almost limitless. But keep in mind that some retirement activities cost more than others, and develop your savings strategy appropriately.

When Will You Retire?

The age when you retire is a fundamental starting point for determining your retirement needs. If you are planning to retire in the next 10 years or so, you may already have a target date in mind. If retirement is further down the road, it might be difficult to identify a specific timeline — but it's never too early to consider the challenges and opportunities that come with different retirement ages.

Current workers typically anticipate retiring at a later age than what is actually reported by retirees (see chart). People are living longer and staying healthy and active later in life. But many people may need to work longer to build assets after a late start or to make up for investment losses.

It's also important to consider the possibility that your career could be cut short at any time. Almost half of retirees say they left the workforce earlier than planned, with many citing health problems, the need to care for a family member, changes in required job skills, or company downsizing and workplace closure.

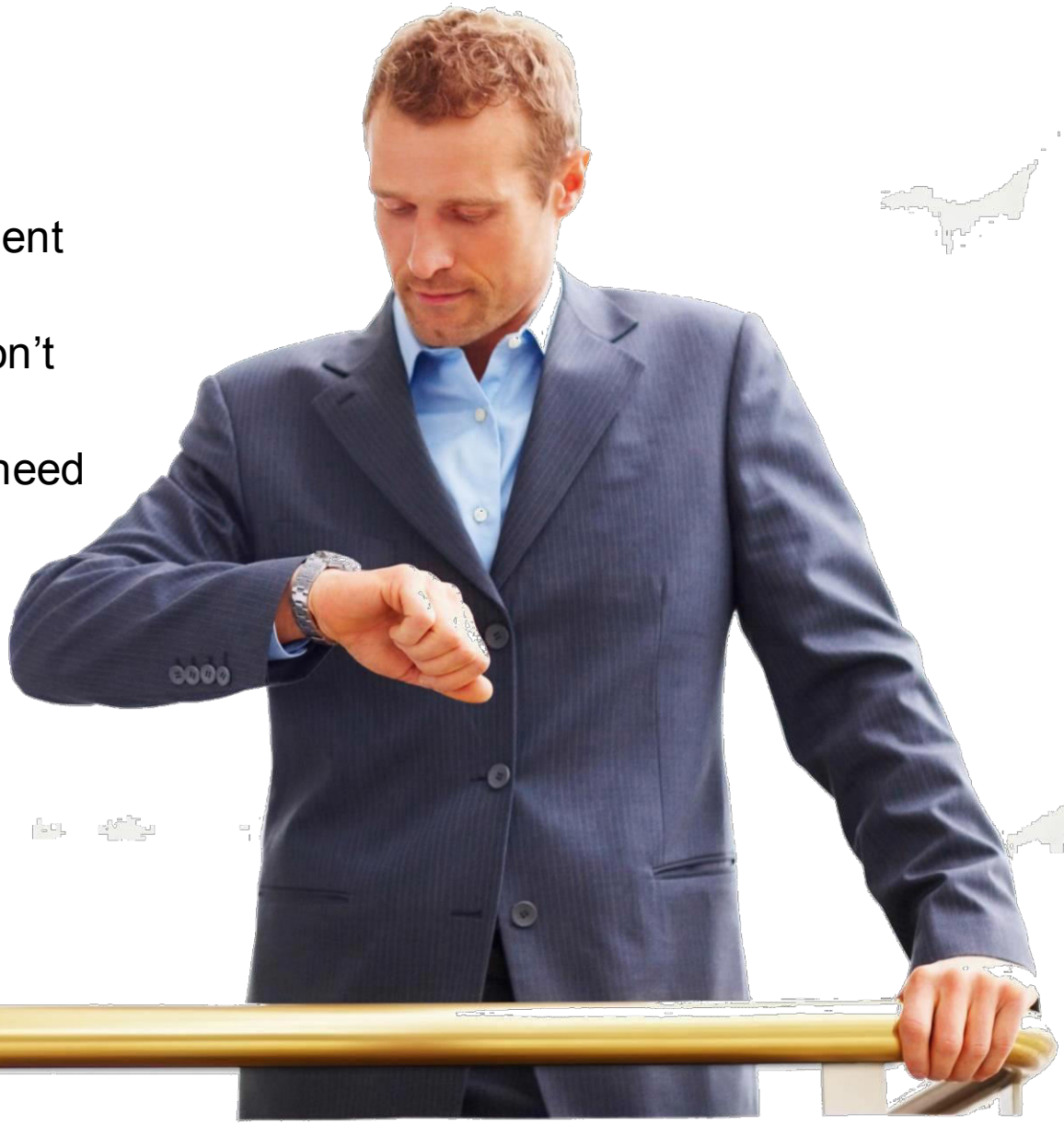


Source: Employee Benefit Research Institute, 2014

Early, Late, or Somewhere In-Between

Retiring early could be a rewarding experience, but it typically requires a more aggressive saving and investment strategy in order to accrue sufficient assets in a shorter period of time. Don't forget that the earlier you retire, the longer your retirement savings may need to last.

Retiring later could give you a longer period of time to build your assets. But even if you are able and willing to work longer, you might be in a stronger position if you use an earlier target date for planning purposes.



Timing of Retirement and Social Security

Social Security benefits could be a key component of your retirement strategy. You may want to consider how your claiming age could affect the size of your benefit.

Age 62 — You will receive a benefit that is permanently reduced by 25% to 30% (depending on birth year), and your benefit may be further reduced if you continue to work.

Full retirement age (66 to 67, depending on birth year) **—** You will receive your full benefit (Primary Insurance Amount), and any earnings from working will not affect your benefits.

Age 70 — For each year you delay filing after reaching full retirement age, your benefit will increase by about 8%. At age 70, you would receive your maximum benefit.

Tip: If you're married, your claiming age could affect your partner's Social Security spousal and survivor benefits.

Social Security Expectations

It is generally wise not to place too much emphasis on Social Security in your retirement planning. The income you might receive is intended to supplement retirement savings, not to replace it. And Social Security faces serious fiscal challenges. The most recent trustees' report indicates that, unless Congress takes action, the program will be able to pay current benefits only through 2033. At that time, it might be able to pay about 77% of scheduled benefits. To estimate your monthly Social Security benefit, go to **socialsecurity.gov/estimator/**.

Average Monthly Social Security Benefit

$1,328

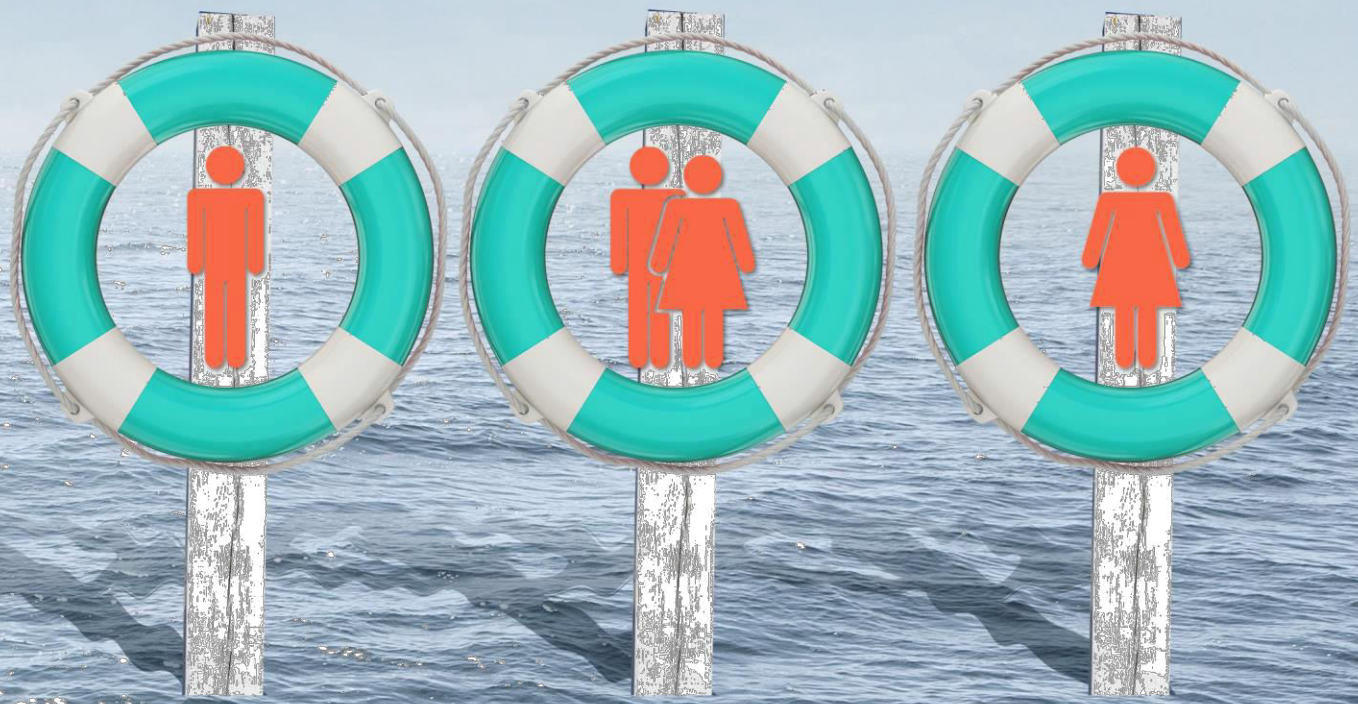
Retired Worker

$2,176

Married couple, both receiving benefits

$1,274

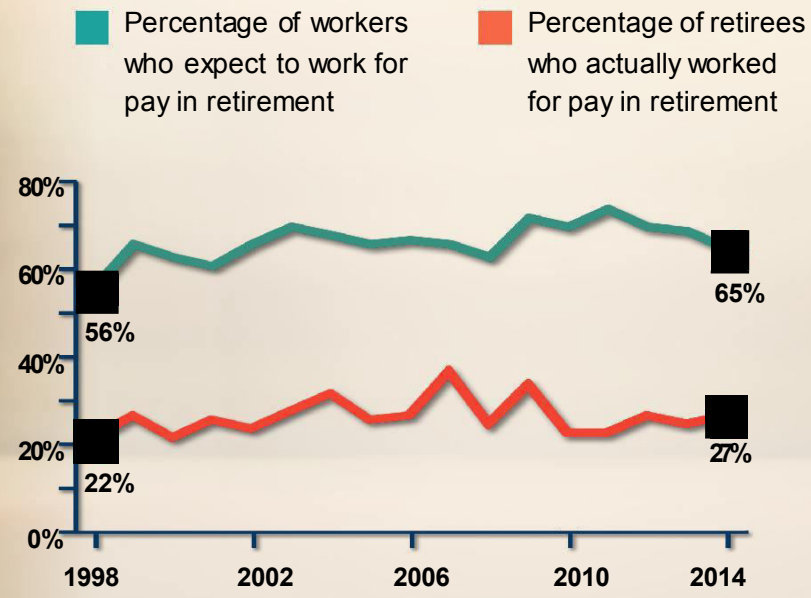
Widow receiving survivor benefits



Source: Social Security Administration, 2014

Will You Continue to Work?

Retirement has traditionally meant leaving the workforce altogether, but 65% of workers expect to continue working for pay in retirement. However, there is a large disparity between workers' expectations and the actual experiences of retirees.



Source: Employee Benefit Research Institute, 2014

It might be wise to look at the potential for working in retirement as a bonus rather than a necessity.

Here are a few ideas to consider.

Part-time work could be pleasant after a long career of working full-time.

Consulting could be an option if you have skills or knowledge that you can market on a freelance basis.

Starting your own business is a popular retirement dream. (Be careful about investing capital that you may need to live on in retirement.)

A second career could be exciting if you have the opportunity.

Sixty-two percent of retirees who returned to work did so to remain "mentally active."

Source: onwallstreet.com, June 5, 2014

Where Will You Live?

Owning a home can be a smart financial decision for many reasons, and you may have a valuable asset when you retire. But don't place too much emphasis on your home value in your retirement planning. Housing prices are unpredictable, so selling your home should be an option, not a requirement, when you retire. Here are some ideas to consider.

Cost of Living

Your money might go further in some cities and states than in others, so do your homework before relocating. Take into account not only the cost of housing, food, and utilities but also taxes. States have different rules for taxing pension and Social Security income. Property taxes and sales taxes may vary not only by state but by county.

Cost-of-living index for selected U.S. cities
(U.S. average = 100.0)

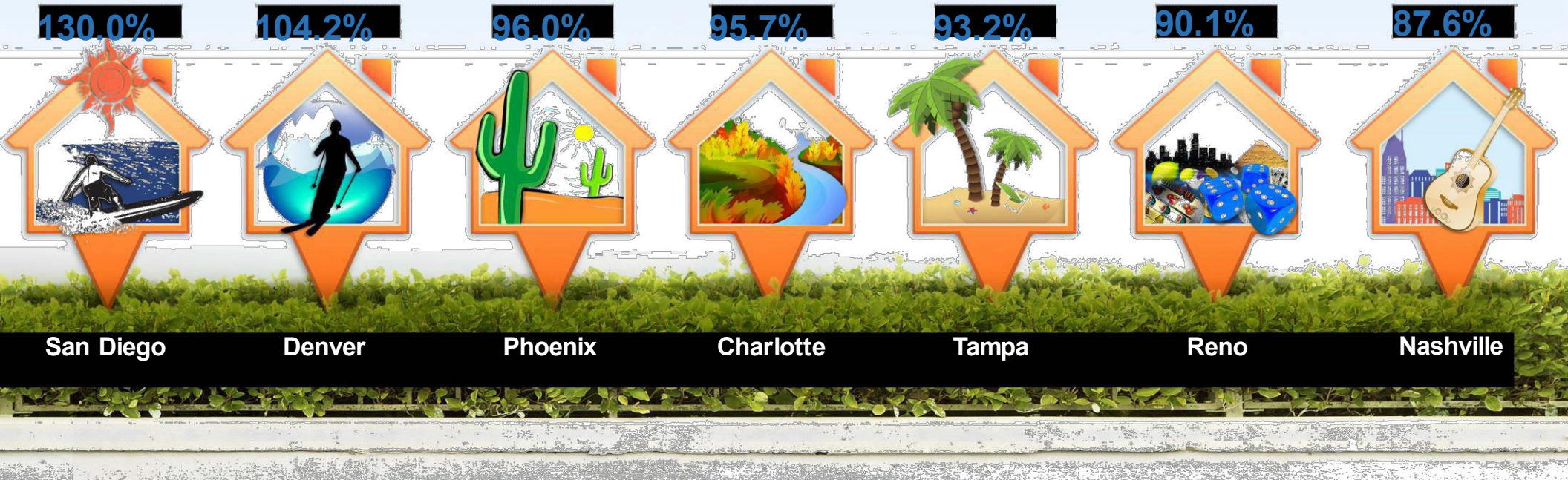
Aging in Place

In a 2012 study, nine out of 10 Americans aged 60 and older said they intended to live in their current homes for at least the next five to 10 years.[1] If you have paid off your mortgage by the time you retire, staying in your home may be a cost-efficient option. You might use the money you once spent on your mortgage to travel and/or remodel your home. Keep in mind that you may need more help to maintain a large home and yard as you age.

[1] National Council on Aging, 2012

Downsizing

Selling your home to buy a smaller, less expensive one could make life simpler and enable you to add some of your home equity to your retirement assets. Of course, this assumes that market conditions are conducive. If you do downsize, there are many options for where you might live: a small house or condo closer to your children and grandchildren; a vacation-style home on the beach, in the mountains, or on a golf course; a home in a college town with cultural activities; a home in a retirement community; or even a home in a foreign country.

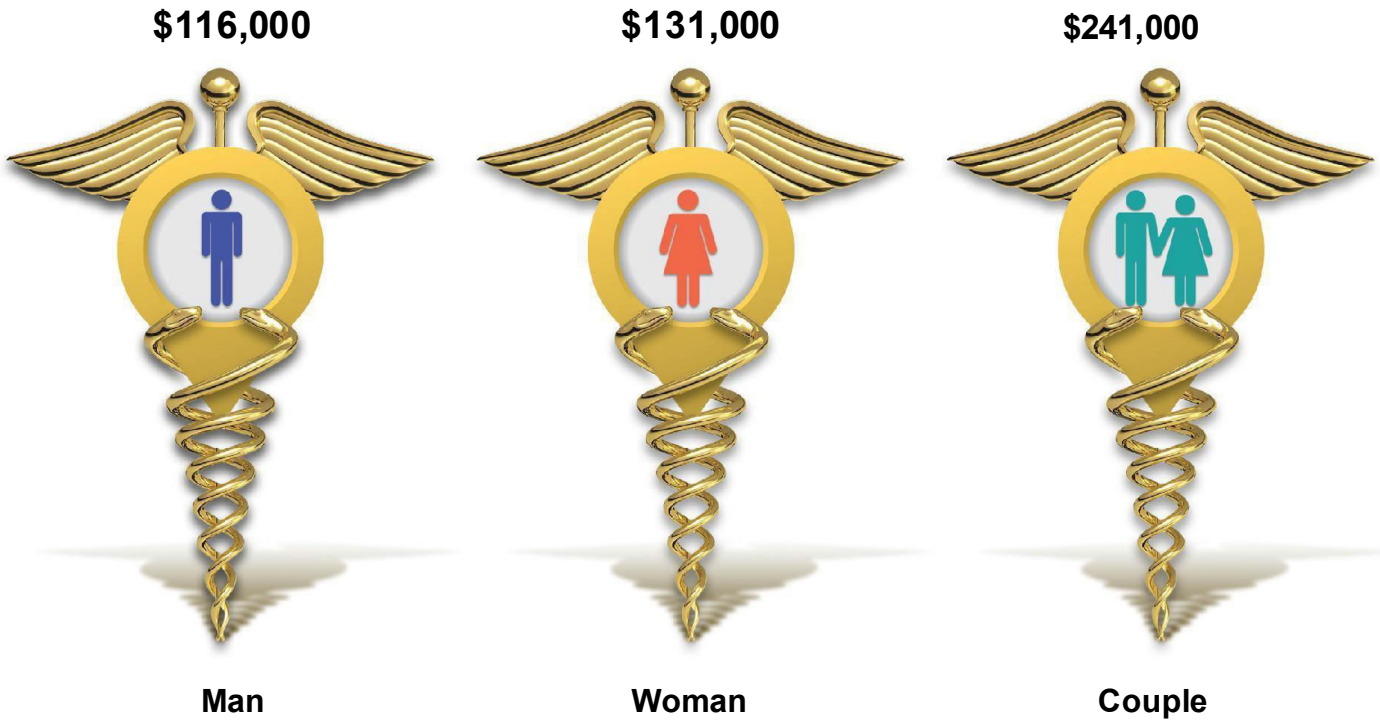


Health Expenses in Retirement

It's estimated that a 65-year-old couple who retired in 2014 might need $241,000 to meet their medical expenses throughout retirement. Although health-care inflation has slowed, the total cost could be higher by the time you retire.

Medicare offers valuable benefits, but retirees still have some out-of-pocket costs, including premiums, deductibles, copays, and prescription drug expenses not covered by Medicare. Then there are costs for uncovered services such as vision and hearing exams, eyeglasses, hearing aids, and dental care.

How much would you need to save for medical care?



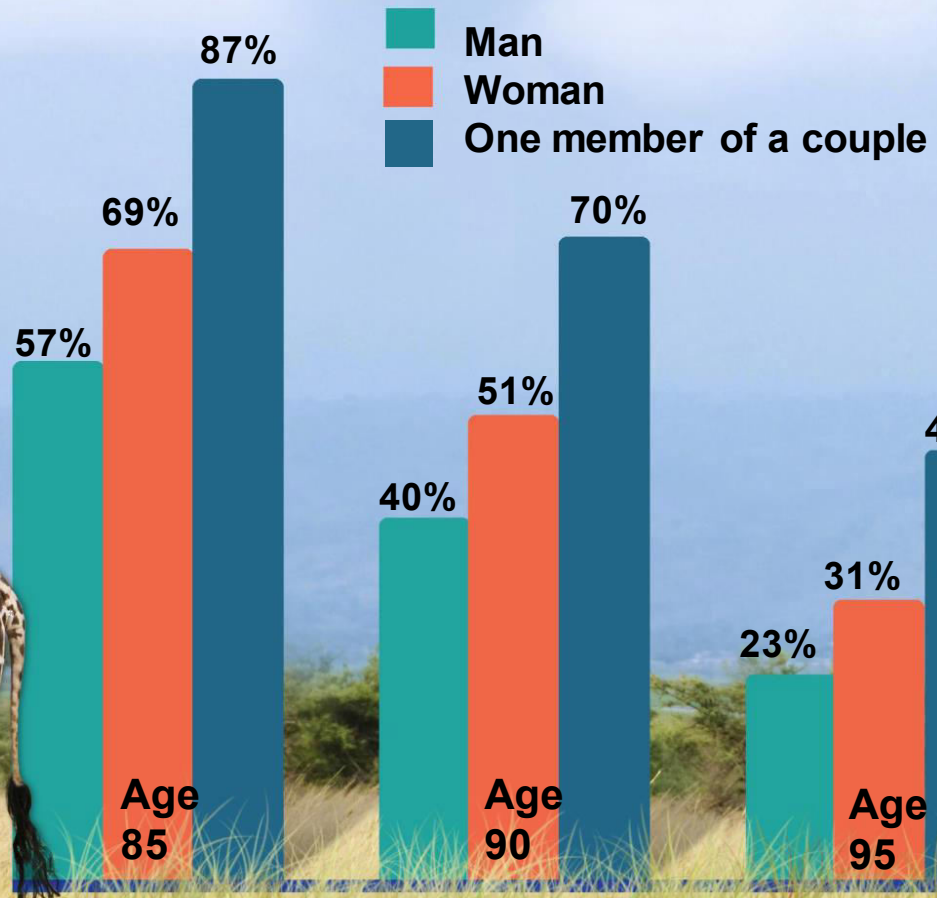
These are the savings amounts needed to have a 90% chance of meeting retirement medical expenses at age 65 in 2014. Assumes median prescription drug expenses and Original Medicare coverage with Medigap insurance and Medicare Part D.

Sources: Employee Benefit Research Institute, 2014; Centers for Medicare & Medicaid Services, 2014

Will Your Assets Last Throughout Your Lifetime?

With increasing life expectancies, there is a good chance that you will spend 20 or more years in retirement. Your retirement savings strategy should include the possibility of a long life.

Probability that a healthy 65-year-old will live to the following ages:



Source: Society of Actuaries, 2014

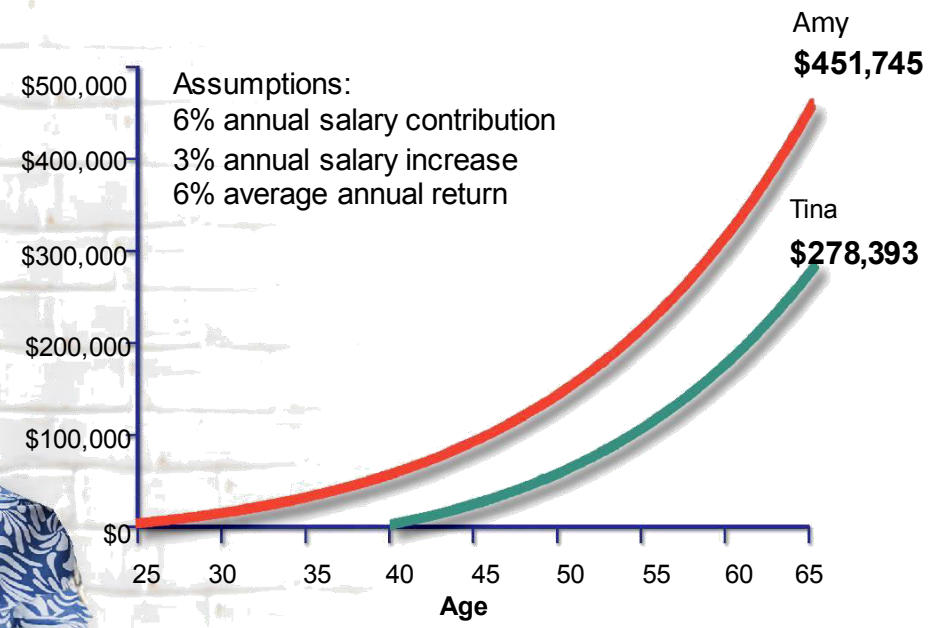
Establishing a Savings Strategy

There is no great mystery to saving for retirement. If possible, start as early as you can and save as much as possible throughout your working career. Of course, life is often unpredictable, and your earnings must cover competing needs and wants. But keeping the basic principle in mind — save as much as you can as early as you can — may help you stay on track. For some people, procrastination could be the greatest enemy toward building retirement savings.

Advantage of an Early Start

Amy begins saving at age 25 and earns a $30,000 salary.

Tina begins at age 40 with a $60,000 salary. At age 65, Amy's savings total would be more than 60% higher than Tina's total because Amy started saving 15 years earlier.



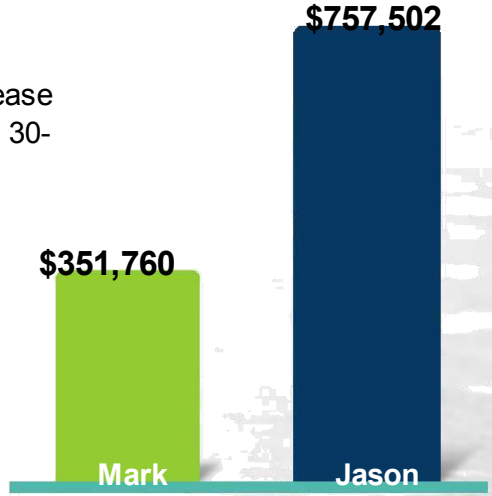
What Percentage of Salary Should You Contribute?

Financial professionals often suggest that you save at least 15% of your salary throughout your career. For those who start late, higher contribution rates may be necessary. Remember that if you are behind schedule, any savings increase is better than none. Many employer-sponsored plans offer an option to have your contribution rate increased automatically each year, typically by 1%, which could make a big difference over time.

The Power of 1%

Mark and Jason are hired at the same time with a $50,000 starting salary, and they both start contributing 6% to their retirement plans right away. Mark maintains the same 6% contribution level throughout his career, whereas Jason increases his contributions by 1% annually until he is contributing 15% of his income each year. After 30 years, Jason would have accumulated more than twice as much as Mark.

Assumptions:
3% annual salary increase
6% average annual return 30-year time frame



These hypothetical examples of mathematical compounding are used for illustrative purposes only and do not represent the performance of any specific investment. They assume a monthly deferral of salary and monthly compounding of earnings. Fees, expenses, and taxes were not considered and would reduce the performance shown if they were included. Actual results will vary.

How Much Do You Need to Save?

A common guideline is that you may need to replace 70% to 80% of your pre-retirement income. This typically assumes that you will have paid off your mortgage, will be in a lower tax bracket, will no longer be saving a percentage of your income for retirement, and will not have work-related expenses such as commuting and business clothing.

Of course, the amount you need to save will depend on many other factors, such as:

- Years in retirement
- Income sources
- Lifestyle desired
- Medical expenses

Retirement-Needs Analysis

Only 44% of workers have tried to calculate how much they would need in order to live comfortably in retirement. It's probably not surprising that those who have calculated their needs typically have higher savings goals than those who "guess." Moreover, workers who have done a retirement-needs calculation tend to be more confident in their ability to achieve their goals.

Source: Employee Benefit Research Institute, 2014

Your financial professional can help you develop a comprehensive and systematic retirement-needs analysis. Here's a simplified example to help get you started. Try it with your own numbers.

1. Annual retirement income desired	$70,000
2. Subtract expected retirement income from other sources such as Social Security or a pension	– $25,000
3. Income you need to generate from savings and investments	$45,000
4. Savings needed to provide desired income for 20 years *(line 3 x 15)**	$675,000
5. Savings needed to provide desired income indefinitely *(line 3 ÷ 0.03)**	$1,500,000

*Assumes a 3% after-tax rate of return; the 20-year factor is rounded.

This hypothetical example is used for illustrative purposes only. Rates of return will vary over time, particularly for long-term investments. Investments seeking to achieve higher rates of return involve a higher degree of risk. Actual results will vary. There is no assurance that working with a financial advisor will improve investment results, but a professional who focuses on your overall objectives can help you consider strategies that could have a substantial effect on your long-term financial situation.

Tax-Advantaged Retirement Accounts

Sixty-eight percent of U.S. households have tax-advantaged retirement savings accounts. These accounts generally fall into two categories: IRAs and employer-sponsored plans such as a 401(k) and a 403(b).

The Power of Tax Deferral

1. When you contribute to a tax-deferred account, you might be able to contribute more without reducing your cash flow because of the current-year tax savings.

2. Your pre-tax contributions and earnings have the opportunity to accumulate tax deferred, potentially increasing long-term

Contributing to a tax-deferred account has two key advantages that may help you accumulate more for retirement savings growth.

Even though you will be liable for income taxes when you make withdrawals from a tax-deferred account, you might be in a lower tax bracket when you retire. You should consider your investment time horizon, risk tolerance, and income tax brackets, both current and anticipated, when making investment decisions.

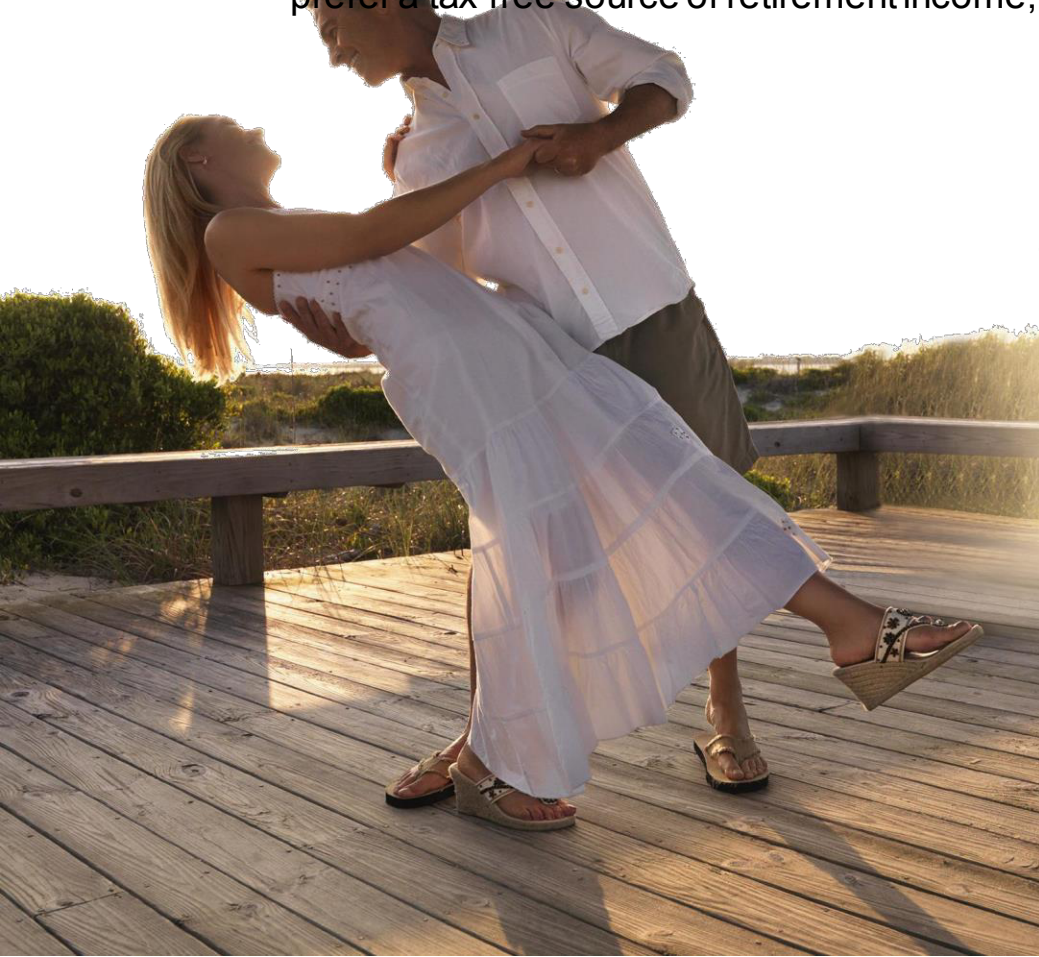
Typically, a 10% federal income tax penalty may apply to distributions from a tax-deferred account prior to age 59½.

This hypothetical example is used for comparison purposes only and does not represent any specific investments. Investment fees and expenses are not considered and would reduce the results shown if they were included. Lower maximum tax rates for capital gains and dividends, as well as the tax treatment of investment losses, could make the taxable investment return more favorable, reducing the difference in performance between the accounts shown. Rates of return will vary over time, especially for long-term investments. Actual results will vary.

Individual Retirement Accounts (IRAs)

IRAs typically have more investment options than employer-sponsored plans. However, IRAs have lower federal contribution limits: $5,500 *combined* annual limit, or $6,500 for those 50 and older (in 2014 and 2015). If you file a joint return, you and your spouse can each make an IRA contribution even if one spouse has no earned income, as long as joint earned income exceeds the combined annual contribution. You have until the April 15 tax filing deadline to make IRA contributions for the previous tax year.

There are two basic types of IRAs: traditional and Roth. If you want a current-year tax deduction and expect to be in a lower tax bracket in retirement, a traditional IRA might be an appropriate choice. If you prefer a tax-free source of retirement income, you might contribute after-tax dollars to a Roth IRA.



Roth IRA Conversions

Assets in a traditional IRA (or in a former employer's retirement plan) can be converted to a Roth IRA to benefit from tax-free distributions in retirement. The amount converted is taxable as ordinary income in the conversion year, which might move you into a higher tax bracket. Although the tax liability could be significant, under current law (and if all conditions are met), the Roth account will incur no further income tax liability for the rest of your lifetime or the lifetimes of your account beneficiaries, regardless of how much growth the account experiences.

Almost 3 out of 10 American households own at least one traditional IRA

About 1 out of 6 owns at least one Roth IRA

Many households own both

Source: Investment Company Institute, 2014

Traditional IRA	Roth IRA
Anyone under age 70½ who has earned income (from wages) may contribute to a traditional IRA.	No age restrictions, but you must have earned income (from wages) to contribute to a Roth IRA.
No income eligibility phaseouts except those discussed below regarding deductibility of contributions.	Income eligibility phaseouts to contribute to a Roth: $116,000–$131,000 for single filers in 2015 $183,000–$193,000 for joint filers in 2015
Contributions are generally tax deductible. But if you are an active participant in an employer-sponsored retirement plan, the deduction is phased out at higher income levels: $61,000–$71,000 for single filers and $98,000–$118,000 for married joint filers in 2015.	Contributions to a Roth IRA are not tax deductible.
Distributions are taxed as ordinary income.	Qualified distributions after age 59½ and meeting the five-year holding requirement are tax-free.
You must begin taking required minimum distributions for the year in which you turn 70½.	If you are the original IRA owner, you are not subject to required minimum distributions.

Withdrawals from either type of IRA prior to age 59½ may be subject to a 10% income tax penalty, with certain exceptions, including the owner's death or disability; a first-time home purchase (up to a $10,000 lifetime maximum); qualified, unreimbursed medical expenses exceeding 10% of AGI (7.5% of AGI for individuals aged 65 and older through 2016); and qualified higher-education expenses.

Employer-Sponsored Retirement Plans

Employer-sponsored retirement plans such as Section 401(k), 403(b), and 457 plans offer higher contribution limits than IRAs. In 2015, you can contribute up $18,000, plus an additional $6,000 if you are 50 or older.

You generally contribute a percentage of your salary using pre-tax funds (or after-tax funds to a Roth account), and you don't have to pay current taxes on contributions or any earnings until you take withdrawals in retirement. Employers may offer to match a percentage of your employer- plan contributions with additional funds.

Distributions from tax-deferred employer-sponsored retirement plans are taxed as ordinary income. (Roth employer plan distributions are tax-free.) Withdrawals taken prior to reaching age 59½ may be subject to a 10% federal income tax penalty. Generally, required minimum distributions (RMDs) must begin from employer-sponsored plans for the year in which you reach age 70½.

More than 73 million Americans actively participate in employer-sponsored defined-contribution plans such as 401(k), 403(b), and 457 plans.

Source: American Benefits Council, 2014

Rollovers

If you leave your employer, you can generally keep your vested assets in your former employer's plan as long as your account meets minimum balance requirements (typically $5,000). You may also have an opportunity to move the assets to a new employer's plan, to roll them over to a traditional IRA, or to convert them to a Roth IRA.

If you choose a traditional IRA rollover, be sure it is executed correctly to preserve the tax- deferred status of the funds. To avoid current taxes, penalties, and withholding, you can generally arrange a direct rollover (also called a trustee-to-trustee transfer) by contacting the administrators of your old employer-sponsored plan and your IRA.

Building Assets Through Investment

Investing your retirement savings offers the potential for growth, but it also involves risk. Your risk tolerance may depend on your personal preference, your overall financial situation, and the timeframe you have before retirement.

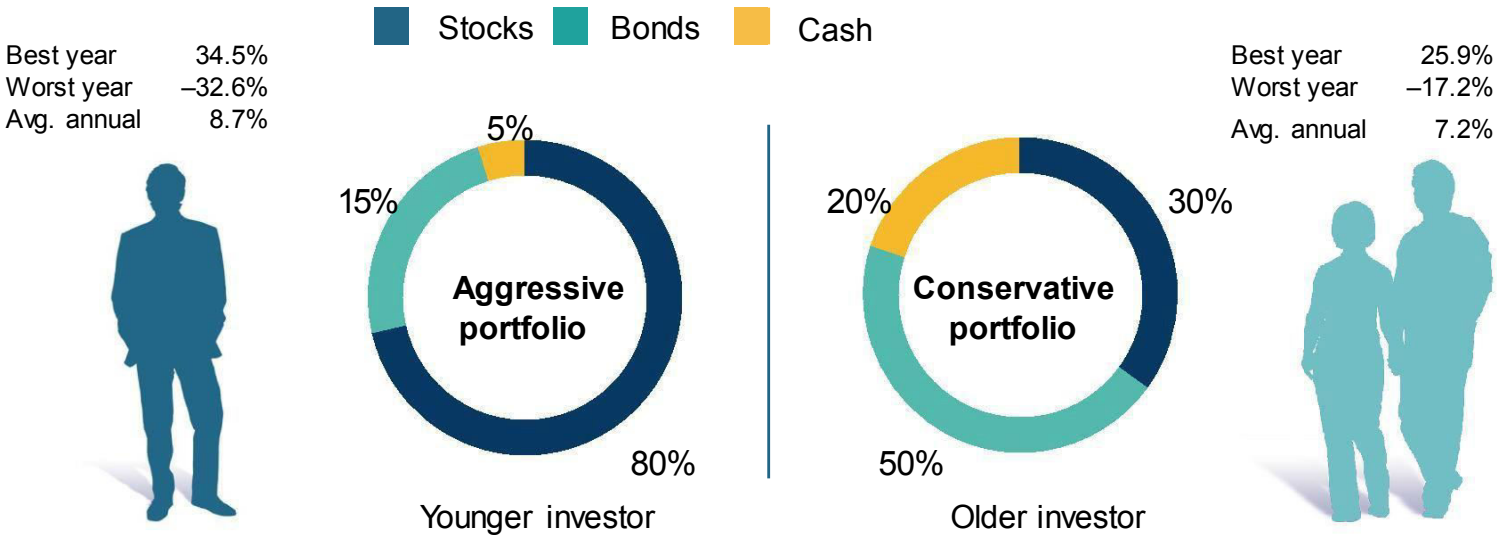
A typical approach is to invest more aggressively earlier in your career and gradually shift to more conservative investments as you approach retirement.

Keep Expectations in Check

Because your financial strategy depends on the performance of your investments, it's important to be realistic about the return your portfolio may yield from one year to the next. Inflated expectations may cause you to fall short of your goals.

As you can see from the 20-year performance below, the aggressive portfolio experienced a 32.6% loss in its worst-performing year, compared with a 17.2% loss for the conservative portfolio. Younger investors who experience losses during their accumulation years may have a better opportunity to recover. However, losses experienced as you approach retirement could have a significant impact on the longevity of a retirement portfolio.

Sample Portfolio Performance, 1994 to 2013



This hypothetical example is used for illustrative purposes only. The returns shown do not include taxes, fees, and other expenses typically associated with investing. Past performance is no guarantee of future results. Actual results will vary.

Source: Thomson Reuters, 2014, for the period 12/31/1993 to 12/31/2013. Stocks are represented by the S&P 500 composite total return; bonds by the Citigroup Corporate Bond Composite Index; and cash alternatives by the Citigroup Three-Month Treasury Bill Index. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. T-bills are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. The return and principal value of an investment in stocks and bonds fluctuate with changes in market conditions, and, when sold, these securities may be worth more or less than the original investment amounts.

Overcoming Retirement Challenges

Like many of life's journeys, the road to retirement is seldom smooth. In fact, nine out of 10 people aged 50 to 70 report that they have experienced at least one "derailer" that put them off-track in saving for retirement.[1]

Here are four potential setbacks with suggestions on how to get back on track.

Saving too little or too late

If you are behind schedule, remember that any savings increase is better than none. You may need to adjust your lifestyle and spending in order to save more for retirement.

Handling market volatility

Though a declining market can be scary, markets tend to be cyclical, and the wisest approach may be to keep making regular savings contributions regardless of market conditions. Remember that all investments are subject to market fluctuation and the potential for loss.

Experiencing a traumatic event

A job loss, unexpected medical expense, death of a loved one, or divorce might make it difficult to save for retirement. Having an emergency savings account could put you in a stronger position. Try to avoid tapping your retirement savings before retiring, especially tax-deferred IRAs and 401(k)s.

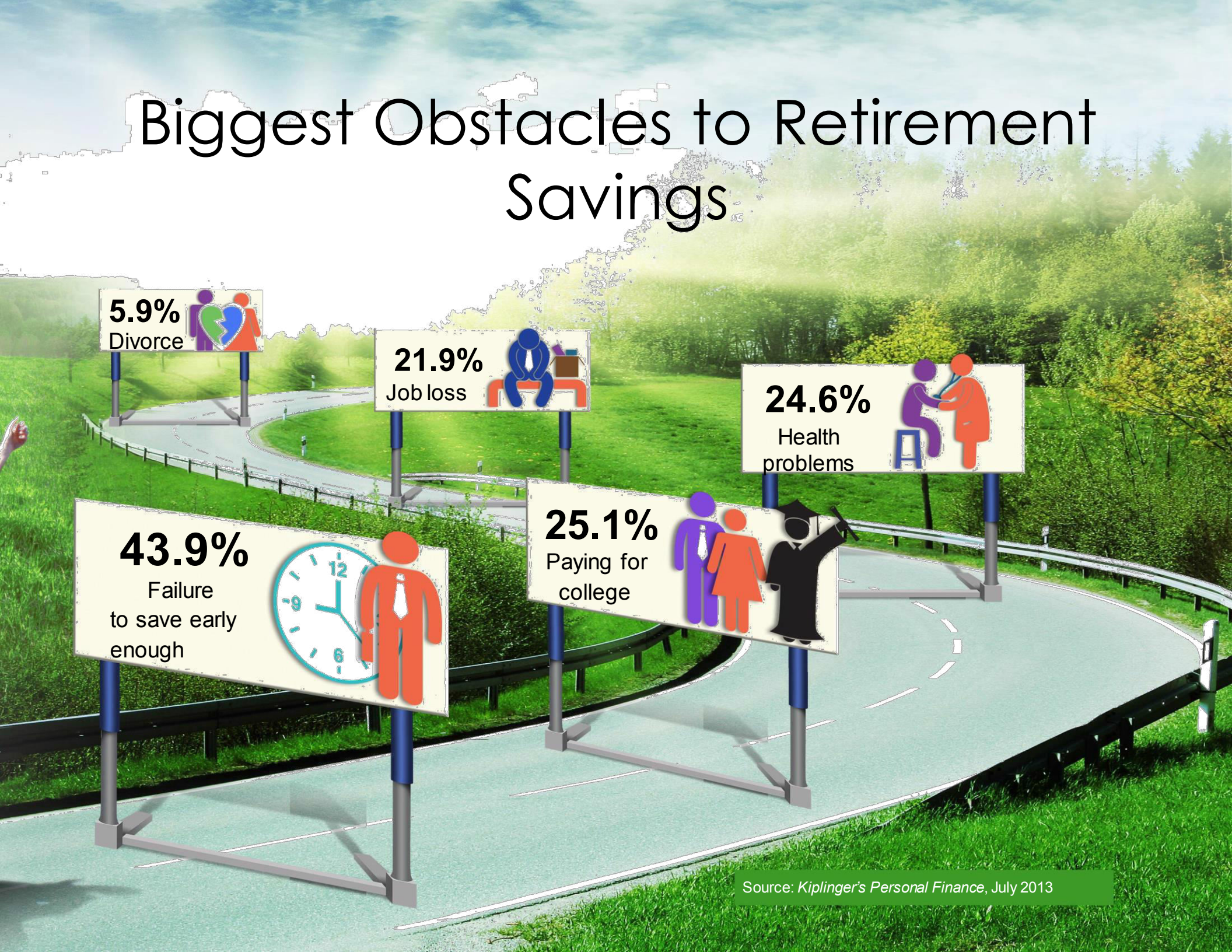
Balancing college and retirement

According to one survey, 15% of parents have stopped saving for retirement to pay for their children's educational costs.[2] A variety of college funding options are available, but there is no "scholarship" for retirement. The key is to balance your children's needs with your own retirement goals and find an appropriate strategy.

1 DailyFinance.com, May 14, 2013

2 *U.S. News & World Report*, March 4, 2013

Biggest Obstacles to Retirement Savings



Source: *Kiplinger's Personal Finance*, July 2013

Preparing for retirement requires commitment, perseverance, and a plan. Taking the appropriate steps today could help make your retirement vision a reality.

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