



Retirement Planning throughout Your Life

After working 40 or 50 years, you could find yourself retired for another 20 or 30 years. To support yourself without a job for 20 or 30 years, you should probably be planning for retirement during your entire working life. However, your concerns and strategies for retirement will change as you age. Consider these tips:

In Your 20s

While you may just be getting started in your career, don't squander the long time period before retirement that can help your retirement funds grow and compound. Some strategies to consider include:

✓ **Start saving for retirement now.** Saving even small amounts can help you accumulate significant sums by retirement age. For instance, if you invest \$2,000 per year from age 25 to age 65 in a

tax-deferred account earning 8% annually, you could potentially accumulate \$518,113 by age 65. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment vehicle.)* Try to save at least 10% of your income, but if you find that difficult to do, at least start saving something. Get in the habit of saving at a young age, before you get used to spending all your income.

✓ **Investigate different retirement savings vehicles.** If your employer offers a 401(k) plan, start contributing as soon as you can. You should at least contribute

enough to take full advantage of any matching contributions offered by your employer, which can significantly increase your savings. For instance, assume you earn \$50,000 per year and your employer matches 50 cents on every dollar of contributions up to 6% of your salary. If you contribute 6%, you will make a contribution of \$3,000 and your employer will contribute \$1,500. If your employer doesn't offer a 401(k) plan, contribute to an individual retirement account (IRA), either traditional or Roth. Investigate the differences to determine which is better for your situation.

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Distributing Personal Possessions

Organizing and planning an estate is not a simple process. Dealing with major assets may be so time-consuming that you don't even think about your personal possessions, leaving distribution decisions up to your heirs. But disputes over personal possessions are more apt to cause conflict. Some items to consider include:

- ✓ **Take time to think about who should receive treasured personal possessions.** You might want to detail your wishes in a separate letter to your heirs to prevent disagreements.
- ✓ **Ask your heirs what possessions are important to them.** Otherwise, you may inadvertently give a treasured possession to one heir without realizing its importance to another heir.
- ✓ **Devise a method for heirs to distribute personal possessions.** You probably won't want to decide how every personal possession should be distributed. After you have determined how to distribute your most valued possessions, detail a method for heirs to distribute the rest of your possessions. It can be as simple as having heirs take turns selecting items or flipping a coin if more than one person is interested in an item. ○○○



Retirement Planning

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In Your 30s

Typically, even though your income is rising, your expenses are also growing as you buy a home and start a family. However, don't lose sight of retirement, since you still have significant time before retirement to help your retirement funds grow. Consider these tips:

✔ **Start thinking about retirement.** Give some thought to how you want to spend your retirement and how much it will cost. While you may feel that retirement is too far away to gauge these things, putting a rough price tag on your retirement and calculating how much you need to save can provide significant motivation in saving for that retirement.

✔ **Devise strategies to keep saving.** Look for ways to remain committed to saving, even as your expenses are increasing. For instance, whenever you receive a raise, put some of it into your 401(k) plan so you don't get used to spending that money. Before incurring a large new expense, such as a new car or home, look at the impact the additional expense will have on your retirement.

In Your 40s

While you still have quite a while before retirement, it's time to get serious about saving for retirement. Especially if you haven't saved much during your 20s and 30s, you need to really commit to



saving for retirement. Some tips to consider include:

✔ **Save the maximum in your 401(k) plan.** Don't make excuses; just make sure you are saving the maximum in your 401(k) plan. Also look at saving in an IRA.

✔ **Review your investment strategy.** Take a look at all your investments, both inside and outside of retirement accounts. Does your strategy make sense, and will it help you reach your retirement goals?

In Your 50s

Retirement is no longer that far away. It's time to assess where you stand and whether your retirement plans are realistic. Consider these tips:

✔ **Look seriously at your retirement plans.** Make sure you have an accurate assessment of how much money you'll need in retirement and compare that to your estimated retirement income sources. If you are short, consider revising your plans. You may need to work longer, scale back your retirement plans, or save more.

✔ **Take advantage of catch-up contributions.** In addition to making the maximum contributions to 401(k) plans and IRAs, take advantage of catch-up contributions once you turn 50. In 2010, you can make a \$5,500 catch-up contribution to your 401(k) plan, if permitted by the plan, and a \$1,000 catch-up contribution to an IRA.



✔ **Try to ratchet up your savings.** By now, hopefully, some of your larger expenses will be behind you, such as funding a child's college education, and you can divert those sums to your retirement savings.

In Your 60s and Beyond

This is the period when people typically transition from a working life to retirement life. Some strategies to consider include:

✔ **Finalize your retirement plans.** Go through your expenses and expected retirement income sources one more time to make sure you haven't forgotten anything. Determine when you can start drawing retirement benefits, such as Social Security, Medicare, and pension plans. Before you leave your job, make sure the timing is right, and you'll be able to comfortably support yourself during retirement.

✔ **Plan before withdrawing your retirement savings.** Before you start withdrawals from your 401(k) plans and IRAs, consider all relevant factors. You don't want to drain those funds too quickly.

✔ **Consider working on at least a part-time basis.** Even if you think you have sufficient funds for your retirement, consider working at least part-time during the early years of your retirement. This will help keep you active, while also supplementing your retirement savings. It is better to work now than to find out late in retirement, when your health may not permit you to work, that you have run out of retirement savings.

To ensure adequate retirement savings, you need to plan for retirement throughout your life. Please call if you'd like help with this process. ○○○

Advice on Saving for Your Child

Your child has finally finished college and started his/her first full-time job. What is the most important financial advice you can give?

Participate in your 401(k) plan as soon as you are eligible. The quality of your child's retirement will largely be determined by the amount of money he/she saves, and a 401(k) plan is a great place for him/her to start. Before marriage, a new home, or other obligations consume his/her entire paycheck, get him/her into the habit of saving. Because the contributions are deducted before he/she even sees his/her paycheck, it's a great way to get him/her into the habit of saving on a regular basis.

Having trouble convincing him/her this is a good strategy? Perhaps some numbers will make the point. Assume your child starts contributing to his/her 401(k) plan at age 25, contributing \$6,000 per year (substantially below the maximum contribution in 2010 of \$16,500), with matching employer contributions of \$3,000. If he/she earns a hypothetical 8% annually, he/she could have a balance of \$2,331,509 at age 65, before the payment of any taxes. What if he/she waits until age 35 to start contributing? At age 65, the balance could be \$1,019,549, still a substantial amount, but \$1,311,960 lower than if he/she started at age 25. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment vehicle.)*

What if your child still isn't convinced? Consider reimbursing him/her, as part of your annual gift tax exclusion, for any 401(k) contributions. You can reimburse the entire amount or offer to make a partial reimbursement.

Don't let your child procrastinate because there are too many

decisions to be made. Just encourage him/her to start contributing, reassuring him/her that none of the decisions are permanent. He/she can review contribution levels, investment choices, beneficiary designations, and other matters at a later date.

If your child has the option to contribute to a regular 401(k) plan or a Roth 401(k) plan, suggest contributing to the Roth 401(k). Employer-matching contributions will still be made to a regular 401(k) plan, but your child's contributions

can go to the Roth 401(k). Your child won't get a current tax break for contributions made, but he/she will owe no taxes on the contributions or any earnings when withdrawals are made.

What if your child doesn't have a 401(k) plan at work? Encourage him/her to contribute to an individual retirement account (IRA). Although contributions are limited to \$5,000 in 2010 compared to \$16,500 for 401(k) plans, IRAs are still a good way to save for retirement. ○○○

Clamping Down on Spending

If you're trying to increase savings, remember that savings are directly tied to spending — the less you spend, the more you have to save. Some tips to help clamp down on spending include:

✓ Analyze your spending for a month. Are you surprised by how much you spend on dining out, groceries, entertainment, or clothing? Give serious thought to your purchasing patterns, looking for ways to reduce spending.

✓ Go over major expenditures also. When was the last time you comparison shopped your auto or homeowners insurance? Have you checked mortgage rates lately to see if you should refinance? Have you reviewed strategies to reduce your income taxes?

✓ Make a spending plan and put it in writing. Budget for all major expenditures and resolve not to purchase items that aren't in your budget.

✓ Throw out your credit cards (or at least hide them for a while). Most people find it more difficult to spend cash than to charge a purchase. So, for the next couple of months, make sure to only purchase items with cash.

✓ Don't purchase items over a fairly low dollar amount on your first shopping trip. How often have you purchased something on impulse, only to realize when you got home that you really didn't need it? To control those impulses, compare price and value on your first shopping trip. Then go home, think about whether you really need the item, and purchase it on another trip. Often, you will find that you realize you don't even need to make the purchase.

✓ Think carefully before making major purchases. Often, upkeep and maintenance can add significantly to your costs. Consider a less-expensive car or a used car. Keep your car for four or five years instead of getting a new one every two or three years.

✓ Figure out the maximum amount you can afford for a house and then buy one substantially less expensive than that. Not only will you save on your mortgage payment, other costs associated with owning a home will be lower. Living well within your means is one of the best ways to find money for saving.

Please call if you'd like help in this area. ○○○

Your Stock Allocation

Some factors to consider when deciding how much to allocate to stocks include:

✓ **Your risk tolerance** — The advantage of including both stocks and bonds in your portfolio is that when one category is declining, the other category will hopefully offset this decline. For instance, in 2008, the Standard & Poor's 500 (S&P 500) returned -37%, while long-term government bonds returned 25.9%, and intermediate-term government bonds returned 13.1%.*

✓ **Your time horizon** — The longer your time horizon for investing, the more risk you can typically tolerate in your portfolio, since you have more time to overcome any significant downturns in your portfolio. Certainly, individuals with short time horizons, perhaps five years or less, should be very cautious about how much to allocate to stocks. But as your time horizon lengthens, you can theoretically add a higher stock mix to your

asset allocation.

✓ **Your return needs** — Your need to emphasize income or growth is likely to change over your life. When you are trying to accumulate significant assets for a goal far in the future, you may want to allocate more of your mix to stocks. However, when your needs for a predictable income stream become more important, such as when retirement approaches, you may want to allocate more to bonds.

Once you decide how much to allocate to stocks, you need to ensure that you diversify within the stock category. ○○○

* Source: *Stocks, Bonds, Bills, and Inflation 2010 Yearbook*. The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. Investors cannot invest directly in an index. Past performance is not a guarantee of future results. Returns are presented for illustrative purposes only and are not intended to project the performance of a specific investment.



Keep Your 401(k) Plan on Track

✓ **Increase your contribution rate.** With investment values down and future stock market returns uncertain, you need to boost your savings to help increase the value of your 401(k) plan. Strive for total contributions from you and your employer of approximately 10% to 15% of your salary.

✓ **Rebalance your investments.** You can't just select your investments once and then ignore your plan. Review your allocation annually to make sure it is close to your original allocation.

✓ **Don't raid your 401(k) balance.** Your 401(k) plan should only be used for your retirement. Don't even think about borrowing from the plan for any other purpose. You don't want to get in the habit of using those funds for anything other than retirement.

✓ **Seek guidance.** It is important to manage your 401(k) plan carefully to help maximize your future retirement income. If you're concerned about the long-term impact of the recent market declines, call for a review of your 401(k) plan.

Rebalancing, asset allocation, and diversification do not assure a profit or protect against loss in declining financial markets. ○○○

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Financial Thoughts

Although almost 40% of U.S. households own an individual retirement account (IRA), only 15% made contributions in 2008 (Source: Investment Company Institute, 2010).

In a recent survey on financial literacy, 70% of those surveyed rated their financial literacy as high or very high. However, fewer than 25% of those respondents could answer a simple question about bond prices, while 50%

demonstrated knowledge of the principles of risk. When asked if they comparison shopped for loans, only 50% of auto loan holders and 37% of credit card holders said they looked at other offers. Over one-third of homeowners did not investigate other mortgage offers (Source: FINRA, 2010).

A significant portion of health insurance costs are being shifted to retirees. Only 45% of large companies subsidize retiree health care

coverage, a steady decline over the past 20 years. The average annual cost that a pre-65 retiree family must pay is \$10,548, roughly three times the amount paid by active employees for similar coverage. Only 22% of companies offer subsidized retiree coverage to future retirees coming into the company now as new hires (Source: Towers Perrin, 2009). ○○○