PLANING YOUR GOLDEN YEARS

A Step-by-Step Retirement Guide

Planning Your Golden Years

Some quick facts about retirement

- Most Americans aim to retire by age 67
- Currently, Social Security benefits replace about 40% of an average wage earner's income after they retire
- Financial advisors say retirees need 70% or more of their pre-retirement earnings to live comfortably
- But the median retirement savings for Americans age 55-64 is just $107,000, which equates to a monthly payment of just $310

Defining your path to retirement

While most experts recommend that workers should start saving for retirement in their 20s, the reality is that most people start actively saving and investing much later. This means that once the average person starts to pay attention to their retirement, they're already behind on the key saving milestones that experts recommend.

Still, no matter where you are in your life right now, you can start a retirement saving strategy that will help you reduce the need to work in your golden years. The key is to get started as soon as possible and plan strategically based on your goals.

In this light, the first step in retirement planning needs to focus on defining what you want in your golden years.

Ask yourself these questions

- What age do you plan on retiring?
- How many years does that give you to save?
- Do you plan on retiring fully or will you continue to work?
- If you plan on working, what kind of work do you want to do?

- Do you plan on moving somewhere else once you retire?
- How much do you want to travel during retirement?
- How important is it to continue living on your own independently?

While many assume that they'll want to quit working entirely once they reach retirement age, it often happens that someone continues working to at least some degree. Many choose to do so to stay active and to save their funds for those later years where they may decide to stop working completely.

So, consider all these questions carefully. If you have a spouse, discuss your goals together. Your answers will help determine how aggressively you need to save.

Common sources of retirement income

Another key step in retirement planning is to understand where you may receive income from during retirement.

Social Security

Social Security benefits are intended to replace a percentage of a worker's pre-retirement income based on their lifetime earnings. If you're a W-2 worker, every paycheck deducts a percentage of what you earned for Social Security.

Through the years, as you work and pay taxes, you earn "credits" based on your earnings.

- You can earn up to a maximum of 4 credits per year
- Typically, you need 40 credits to qualify for benefits
- Thus, you must work a minimum of 10 years to qualify

- Your benefits will depend on the number of credits you earned

You can start taking **full retirement benefits** by age 66 if you were born before 1960 or age 67 if you were born after 1960. However, you can start to receive benefits for retirement as early as age 62. However, the earlier you start taking benefits, the less you'll have throughout your retirement! You can also choose to delay taking any benefits even after you reach retirement age, up to age 70.

Social Security benefits get paid out in monthly disbursements, typically using direct deposit to your checking account.

Retirement fund disbursements

Most people will need more money than Social Security benefits to live comfortably during retirement. Thus, you save in various retirement plans, such as:

- 401(k)
- 403(b)
- Traditional or Roth IRA

We'll talk more about these specific plans later, but you can begin taking funds from these plans, generally at age 59½, without facing penalties. You are required to start taking **required minimum distributions** by age 70½ if you were born before July 1, 1949, or by age 72 if you were born after Jun 30, 1949.

Retirement funds can be taken out in lump sums or as periodic distributions. You can generally select whether you receive disbursements monthly or quarterly.

Pension withdrawals

While most pension plans have been replaced by employer-sponsored retirement plans, such as a 401(k), many

government workers and even some private-sector employees may also have a pension. The full retirement age will be defined in your plan and you can generally start taking early withdrawals by age 62.

Pension withdrawals are also generally set for periodic distributions, either monthly or quarterly.

Earned income during retirement

The last major source of retirement income will be earnings that you receive for work you may be doing. Even maintaining a part-time income or receiving compensation for work such as professional consulting can reduce the need to take money out of your retirement assets. It can also delay when you need to start using your Social Security benefits, ensuring larger monthly payments when you do start to receive benefits.

Saving for retirement

Now that you understand where your retirement income will come from, you can start effectively planning on how you will save.

Retirement goals: How much should you have saved?

The amount you need to have saved depends on what you plan to do during retirement. Still, there are some general milestones by age that can serve as a guide:

- By **age 35**, you should have savings **equal to your gross (pre-tax) annual salary**
- By **age 45**, you need **three times** your gross annual salary saved
- By **age 55**, you should have **five times** your gross annual salary
- By **age 65**, you should have **eight times** your gross annual salary

If you are behind these milestones, don't give up! It just means you need to be more proactive about saving and get started as soon as possible.

Step 1: Enroll in your employer-sponsored retirement plan

The most useful tool that most people can use to save money for retirement is their employer-sponsored retirement plan. The most common plan is the **401(k)**, although public employees commonly have a **403(b)**. There are other plans, such as a **SIMPLE IRA**, but those are less common.

These plans work in effectively the same way:

1. You choose a percentage of your annual salary that you wish to contribute.
2. The money is withdrawn from each paycheck (pre-tax).
3. The money you have saved is invested, typically in mutual funds.
4. Your savings grows over time with compound interest, meaning what you earn on the investments gets reinvested to earn more.

Employer matching

One of the biggest advantages of an employer-sponsored plan is that most employers offer **matching**. This means that your employer matches the contributions that you make with extra money that they contribute.

A common match structure is that **an employer will contribute 50 cents for every dollar you contribute, up to 6% of your annual salary**.

This is essentially "free money" of your retirement. So, at a minimum, you want to aim to contribute that maximum match amount. This will help greatly in getting the most funds possible to invest.

Investing

Getting money into your employer-sponsored plan is only the first part of setting up the plan. You also need to choose how the money in your account is invested. You can allocate percentages of your retirement assets into various mutual funds. Different funds will have different rates of return.

Choosing the right ways to invest your retirement funds is essential. You should learn about the funds available and take time to educate yourself on how to invest properly.

You should also have a plan advisor through your employer, who will provide consultations. **If you have not talked to the plan advisor, ask your HR department for their contact information, and make an appointment to discuss your plan**.

Contribution limits

Each year, the IRS sets a maximum limit you can invest in employer-sponsored retirement plans. This is the maximum amount that you can contribute to your plan in that year. In 2020, the maximum amount for 401(k) and 403(b) plans was $19,500.

If you are over age 50, you are allowed to contribute more to your plan with "catch-up contributions." The 2020 limit for catch-up contributions was $6,500.

Automatic enrollment

It's worth noting that many employer-sponsored plans now have automatic enrollment. Your employer may enroll you automatically and begin deducting elective deferrals from your

paychecks once you become eligible for the program.

You may elect not to be enrolled or to change the deduction amount. However, it's recommended that you enroll as soon as you're eligible.

Step 2: Setting up individual retirement accounts (IRAs)

If you do not have an employer-sponsored plan OR you want to supplement that plan with additional savings, you can use an **Individual Retirement Account (IRA)**.

There are two basic types of IRAs available:

1. **Roth IRAs** are the most common. You contribute after-tax dollars, but your money grows tax-free. After age 59½, you can make tax- and penalty-free withdrawals.
2. **Traditional IRAs** have pre-tax contributions and earnings are tax-deferred. Withdrawals are taxed as income.

These accounts work largely the same as employer-sponsored plans. You designate certain percentages of the assets in the account to specific funds. The money grows based on the funds you choose. Then those earnings are rolled into the assets so they can continue to grow.

Contribution limits

IRA accounts also have a maximum annual contribution limit. In 2020, the maximum contribution limit was $6,000. The catch-up contribution for IRA plan contributors over age 50 was $1,000.

Step 3: Reviewing plan statements

No matter what type of retirement accounts you have, you will receive **retirement account** statements each quarter.

The statement will show:

1. The current balance of your account
2. Estimated monthly disbursements in retirement based on that amount
3. The average rate of return on your investments
4. Balance by quarter
5. A summary of your investments

It's important to check these quarterly statements to see where your retirement savings stand. You should compare the amount you have saved with the retirement goals provided earlier in this publication.

If you see you are behind…

In this case, you may want to consider increasing your contribution amount to one or more of your retirement accounts. You may also want to talk to a financial advisor about changing the way your assets are allocated to improve the rate of return.

Step 4: Meet with a financial advisor at least once per year

Whether you have an advisor through your employer-sponsored plan, or you hire a financial advisor independently, they will always provide one free consultation each year. It’s in your best interest to meet with them every year.

This will allow you to check in on how the advisor thinks your retirement savings are progressing. You can adjust and manage your investments based on current economic conditions. They can also advise you if you need to start contributing more.

This annual checkup is essential to make sure you're on track to reach your retirement goals. Too often, people make the mistake of saving without managing their investments. This leads to a lower rate of return, which means slower growth.

You will have more money available in retirement to do what you want if you actively work with your advisor to manage your investments!

Choosing the right financial advisor

When hiring a financial advisor independently, there are a few things to keep in mind. First, not all financial advisors are created equal. You need to understand what a specific individual or brokerage provides in their advisement services.

In general, you want to find an advisor that holds a **fiduciary duty**. This means that they must advise you based on your best interests, rather than on commissions they may make from specific recommendations.

You may also want to ask about certification. Certified Financial Planners (CFPs) must go through extensive training to receive their certification. Not all investment managers and advisors are CFPs. Working with a CFP can give you confidence that you're receiving the best advice possible from a certified expert.

Step 5: Adjusting your strategy as you get closer to retirement

As you get closer to your target retirement age, you may need to refine your retirement and investment strategy.

For example, for investments, you generally want to reduce your risk as you age, meaning you invest in less risky investments and funds. These may have a slower rate of growth, but you are less likely to face losses, which can be essential if you are a few years out from retiring.

Catch up contributions

Another change you may make after age 50 is to start accelerating your contributions. This is especially important if you started saving later.

With catch-up contributions, you can exceed the maximum contribution limit on various types of retirement accounts. Thus, you can save more than the standard annual limit contribution limit.

For example, in 2020, the maximum 401(k) contribution was $19,500 and the limit for a Roth IRA was $6,000. So, the most someone in their 40s who had both accounts could contribute in 2020 would be $25,500.

However, someone in their 50s could contribute an extra $6,500 to their 401k and an extra $1,000 to their Roth IRA, for a total annual contribution of $33,000.

More tips for retirement planning

Retirement accounts are not the only way you can save ahead of retirement.

Investments

Having a diverse investment portfolio outside of your

retirement accounts allows you to earn **passive income**. Having investments like stocks that can grow steadily over a long period and other investments like bonds, can provide extra security that you will have the means to live comfortably throughout your retirement.

If you want to start investing outside of your retirement accounts, take some time to educate yourself. You can find free and paid investment courses online. You can also join an investing club, which will help you learn and grow alongside other investors like you. And, of course, always talk to your financial advisor.

Health Savings Accounts (HSAs)

A Health Savings Account (HSA) is another type of long-term savings tool that can be extremely beneficial in the right circumstances. It offers the most tax advantages out of any savings product – you make pre-tax or tax-deductible contributions, you don't pay taxes on the earnings of your investments, and the withdrawals are tax-free. It's the only tool that offers this triple tax advantage.

However, to get an HSA, you must be enrolled in a high-deductible health insurance plan. This high deductible means you may pay significant amounts of money out-of-pocket for healthcare expenses and procedures. You need to be financially stable and have adequate cash flow to cover medical expenses before you consider this option.

It’s also important to note that an HSA is different from a Flexible Spending Account (FSA). A flex spending account allows you to set aside a set amount of money that you can draw from to cover healthcare expenses throughout the year. However, at the end of the year, you lose any funds you may have left in the account. It also does not grow as an investment.

By contrast, an HSA can hold funds indefinitely and grows as an investment over time.

Minimizing debt ahead of retirement

Another key retirement planning step that's often overlooked as people approach retirement is to minimize debt as much as possible. People in retirement are generally living on a lower fixed income comprised of Social Security benefits and retirement disbursements.

The last thing you want to do with limited income is spend it covering debt payments, particularly those for high-interest rate credit card debt. With this in mind, you need to take steps to pay off as much debt as possible before you retire.

Tips for paying off unsecured debt

- Balance your budget so you can avoid using credit cards to cover everyday purchases
- If you are carrying balances on your credit cards, develop a strategy to pay them off, such as paying off each account, starting with the one that has the highest APR.
- You may also consider consolidating the debt, where you combine multiple balances at the lowest possible interest rate, so you can pay it off quickly.
- If you're having trouble paying off credit card debt on your own, consider nonprofit credit counseling. You can call **1-800-210-3481** for a free debt and budget evaluation from a certified credit counselor.

Tips for managing your mortgage

Depending on how long you've lived in your home, you may be nearing the payoff date of your mortgage by the time

you retire. This is an ideal situation because it dramatically decreases the risk of foreclosure. You only need to cover insurance and property taxes each year to keep your home.

Another advantage of having a mortgage that's almost or fully paid off is that you maximize the amount of equity you have in your home. Equity is the home's current value minus the remaining balance owed on the mortgage. If the home is fully paid off, then you have the most equity available.

This can be highly beneficial because, after age 62, homeowners have a unique, low-risk way to access equity known as a **reverse mortgage**. These products do not have monthly payments. Instead, the balance is paid when the last homeowner dies or sells that property.

Reverse mortgages can provide a vital additional source of income for homeowners living on a limited fixed income. Make sure to speak with a HUD-certified housing counselor if you're considering a reverse mortgage. They can help you understand the benefits and risks and assess which type of reverse mortgage is best for your specific financial situation.

What to expect as you retire

Depending on your plans for your golden years, your life may change dramatically or very little as you transition into retirement.

First, you'll need to decide how that transition will go. Very few people these days go into full retirement all at once. Instead, you may gradually transition into retirement, working fewer and fewer hours.

If you have been with your employer for a while and you are nearing retirement age, you may want to discuss this transition. Your employer may allow you to transition to a part-time schedule or work more hours from home. You may also be able to stay on as a consultant after you stop working and getting a paycheck.

What age you start this transition and how quickly it proceeds depends on you!

It's worth exploring what options you have so you can retire on your terms. You may also choose to leave your career and pick up part-time hourly work. This will keep you busy and provide extra income, usually without having the stress of your chosen career field.

Taking disbursements from Social Security and retirement accounts

Here are some key ages to remember as you decide how to retire:

AGE	EVENTS
50	You can start making additional catch-up contributions to your employer-sponsored and individual retirement accounts
59½	You can start making penalty-free withdrawals from your retirement accounts, including a 401(k), 403(b), and IRA

62	• You can start taking money out of most pensions • You can start receiving Social Security retirement benefits; however, doing this early will decrease the size of the payments you receive • You can also qualify for a reverse mortgage if you own your home as your primary residence and wish to borrow against its equity
65	• You can qualify for Medicare and if you work for a company with less than 20 employees, you are required to sign up
66-67	• You can start taking your full retirement benefits out of Social Security, but you are not required to
70	• You must start taking Social Security disbursements; waiting until this age will increase the money you receive each month
70½ -72	• You must start taking required minimum distributions (RMDs) from most retirement accounts, including 401(k), 403(b), traditional IRA, SIMPLE IRA (there are no RMDs for Roth IRAs)

What you need to know about Medicare

Healthcare is a critical concern as you grow older. People age 65 and older are eligible for health insurance through Medicare. It's essential to understand how it works so you can manage the financial aspect of your healthcare effectively.

Medicare has four parts:

- **Part A** is hospital insurance, which includes all inpatient hospital care, skilled nursing facilities, and hospice and home health care. There is typically not any monthly premium; as long as you worked at least 10 years, it should be free.
- **Part B** is medical insurance, which covers outpatient and Medicare equipment, and preventive services. This is optional and requires you to pay a monthly premium.
- **Part C** is called "Medicare Advantage" and is offered by private insurance companies approved by Medicare. It covers Part A and B, and some plans cover Part D.
- **Part D** is a prescription drug plan available to everyone enrolled in Medicare. You choose a specific drug plan and then pay a monthly premium based on that choice.

Signing up for Medicare or getting it automatically

If you are already receiving Social Security benefits when you turn 65, you will be signed up for Part A and B automatically on the first day of the month when you turn 65.

If you aren't receiving Social Security benefits, then you will need to sign up. The best time to do that to avoid penalties is the Initial Enrollment Period. It starts three months before you turn 65 and continues for four months after. Signing up before

you turn 65 ensures your coverage begins immediately. Part A will be free and Part B requires you to pay a monthly premium.

You want to sign up promptly at age 65 unless you are still working! Otherwise, you can wind up paying a **late enrollment penalty**. This is not a one-time penalty. You'll pay it the entire time you are enrolled on every part that you didn't sign up for when you first became eligible.

What if you're still working?

If you are still on your employer-sponsored health insurance plan, then you qualify for an exception to the late enrollment penalty rule. However, you may want to carefully consider whether you stay enrolled in your company's plan or switch to Medicare.

You may choose to enroll in part of Medicare, such as Part A, but then remain on your employer's insurance for everything else. You will need to compare the costs carefully to decide what you want to do.

Once you retire, you will need to sign up for Medicare promptly.

A note on HSA contributions

When you sign up for Medicare (any part) you will no longer be able to make contributions to a Health Savings Account (HSA).

More tips for managing your finances during retirement

1. Make sure to always maintain a budget and review it frequently, so you can avoid using credit cards to cover daily purchases.
2. Be careful about using credit cards to help friends and family by making purchases for them or adding them as authorized

users on your cards; this is one of the most common causes of credit card debt problems after retirement.

3. Also avoid cosigning loans for family or friends, as they may leave you holding the bag if they fail to make the payments.
4. Be extra cautious about giving out your personal information and account information. Many scams target seniors! Medicare scams are especially common.

What will be taxed?

Not all the income you receive during retirement will be taxed.

- **Social Security** benefits may be taxed, but generally only if you have substantial income besides Social Security benefits; even so, you will only pay taxes on a percentage of your benefits
- **401(k) and other employer-sponsored retirement account** withdrawals are taxed as income
- **Traditional IRA withdrawals** are also taxed as regular income
- **Roth IRA withdrawals** are tax-free as long as you're over age 59½
- **HSA withdrawals** are tax-free if the money is used to pay for qualified medical expenses; however, if the money is not used for qualified medical expenses, then that portion counts as taxable income

Retirement account withdrawals are taxed based on the income tax bracket that you fall into in the year the withdrawal is made.

Tips for Required Minimum Distributions (RMDs)

Not everyone will need money from retirement accounts to cover living expenses when they reach age 72. Factors like the number of accounts you have, whether you are still working, and other passive income you may have from investments, could mean that you don't need that money.

However, you will still be required to take that money out. The amount is calculated based on the remaining balance in the account at the end of the previous year divided by life expectancy based on IRS calculation tables.

If you don't need the money to cover living expenses, here are some smart ways to use that money:

- Use it to build your emergency fund, so you can cover any unexpected expenses that may arise. Your emergency fund can never be too big in retirement!
- You can use RMDs to travel and check items off your bucket list
- If you donate it to charity, you can avoid paying taxes, up to an annual limit of $100,000
- You can contribute it to a "Grandparent 529" college savings plan for your grandchild; in some states, these contributions may be tax-deductible
- Buying extra life insurance can be highly beneficial, especially to help you family avoid burial and funeral costs
- You can pay tuition or for qualified medical expenses for a family member without worrying about gift taxes
- You can invest it, so it continues to help you earn passive income

Investing the money and saving it is often the wisest choice. As life expectancies continue to increase thanks to medical advances, retirement funds need to last longer. Anything you can do to make those dollars stretch and continue growing for you will be crucial.

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