WHEN IT COMES TO
SAVING FOR RETIREMENT:

Discover the keys to growing your wealth

(they may not be what you think they are).

WORK SMARTER, NOT HARDER

For decades, conventional wisdom has held that the key to having enough income in retirement is to work more, earn more, save more. As a result, many Americans think they'll reach their financial goals if they just work harder and longer. They mistakenly believe that adding to their bottom line always requires more effort, energy and time.

While a good work ethic helps build a solid foundation for financial stability, there are other methods for growing your wealth. Allocating your money into a variety of financial products and accounts can help build your net worth and provide sources of income for your retirement. In other words, with smart savings strategies, you put your money to work for you.

However, common beliefs about saving for retirement have made many people hesitant to get started. They might think:

You should only start investing for retirement when you have a lot of money. Many investors think they need large sums to make investing worthwhile. However, saving even small amounts can add up over time.

You've waited too long to start saving. It's never too late to start saving money for retirement. Many savings tools — including IRAs and 401(k)s — offer catch-up provisions for older savers.

You don't need to save — you'll just keep working. You may plan to stay at your job as long as possible, but sometimes life sends you in other directions. Layoffs, your health or caring for someone you love may lead you to a different retirement date than you had originally planned.

Many tools are available to save for retirement — the key is finding the right tools for you. Read on to learn more about the different types of retirement savings vehicles and how you can get started with smart savings.

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It's not how much money you make, but how much money you keep,
how hard it works for you and how many generations you keep it for.

~Robert Kiyosaki

WHAT IS *YOUR* RETIREMENT DREAM?

Historically, retirees relied on three sources for funding retirement: Social Security, corporate pensions and personal savings. In 2019, however, the Social Security Administration's trustees projected that the program's reserve fund would be depleted by 2035 and that benefits would have to be reduced then if Congress didn't take action.[1]

And with fewer employers offering pensions, it's falling increasingly on Americans to rely on savings and investments to fund their retirements. That's not great news for most American workers. According to a 2019 study, only 23% of American workers are very confident that they have enough money for a comfortable retirement.[2] As a result, more of us will work longer, with two out of three pre-retirees saying that work will be one source of their retirement income.[3]

You may have a picture in mind of what retirement will mean for you: Cheering your grandchildren on at ball games. Traveling and seeing the world. Volunteering at your local library or helping out in a classroom. No matter what activities make up your retirement, you'll need income to create the lifestyle you've envisioned.

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Do not put all your eggs in one basket.

~Miguel Cervantes, Don Quixote

When it comes to planning for retirement income, it’s best to start with the basics. What expenses will you need to cover? These costs include housing, utilities, food, transportation and health care. After identifying how much income you need to cover the essentials, think through the kind of lifestyle you want to lead. How much will you need for things like hobbies, travel and entertainment?

While it’s always good to have a vision for how your retirement will look in an ideal world, unknown and unexpected events can throw a wrench into even your best plans. Taxes, market volatility, inflation and other potential roadblocks could keep you from achieving the type of retirement you’ve worked for — if you’re not prepared.

Maybe you’re looking for that extra chunk of income to help you feel more confident about the unexpected. Or maybe you started saving late and need to ramp up your asset growth. Incorporating different retirement savings vehicles into your financial strategy could help you accumulate assets and possibly even allow you to retire sooner than you think you can.

CHOOSING THE RIGHT SAVINGS VEHICLES FOR YOU

Every type of financial vehicle has its own unique characteristics, including how it grows, how it's taxed and what it's used for. When setting up a retirement strategy, your financial advisor will begin by looking at two parts: how money goes in and how it comes back out.

During the accumulation phase, you're putting money away for later. Many financial vehicles have rules about how the money goes in. For example, 401(k) s are funded with pretax money, while individually owned stocks or mutual funds are paid for with after-tax money.

After you retire, you move out of accumulation and into the distribution phase, when you start taking money out of the accounts. These accounts also have rules about how the money comes out. For instance, once you start taking withdrawals from your 401(k), that money is taxed. But that may not be the case with other financial investments for which you've already paid taxes.

While not every financial tool is right for every portfolio, a solid retirement savings strategy generally employs a mix of financial vehicles with different characteristics. Let's take a look at some of the most common types.

EMPLOYER-SPONSORED PLANS

Instead of pensions, most companies offer an employer-sponsored plan, possibly referred to as a 401(k), 403(b) or thrift savings plan (TSP), depending on where you work.

In these plans, the employee usually has money automatically withdrawn from each paycheck and deposited into an account on his or her behalf. Sometimes, the employer will match a portion of the employee's contribution. The plan offers certain investment options — such as stocks or mutual funds — and the employee's total contribution is invested into the option of his or her choosing. The value of the account fluctuates as the values of the investments change.

Employer-sponsored plans may also be referred to as deferred compensation plans and are designed to be a source of regular monthly income after an individual retires. These types of plans are tax-deferred, meaning they are funded with money that hasn't yet been taxed. Individuals *defer* paying taxes on the money until they start taking it out.

Because these plans are intended to be used for retirement, there are penalties for taking early withdrawals. Be prepared to pay an additional 10% in income tax on the amount of the withdrawal if you take money out before age 59 ½.

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Traditional IRA vs. Roth IRA

	Traditional or Rollover IRA	Roth IRA
CONTRIBUTIONS	Funded with pretax dollars	Funded with post-tax dollars
DISTRIBUTIONS	Taxed at time of withdrawal	Not taxed at time of withdrawal
INCOME LIMITS	No	Yes
AGE LIMITS	Yes	No
REQUIRED MINIMUM DISTRIBUTIONS (RMDS)	Yes	No

TRADITIONAL IRA AND ROLLOVER IRA

An IRA shares similar features to employer-sponsored plans. It is funded with pretax money and allowed to grow tax-deferred, and taxes are owed on withdrawals as they are made by the investor. There are no income limits to a traditional IRA. After leaving a job, you can move your money that accumulated in an employer-sponsored account into a rollover IRA without creating additional tax liability.

Like an employer-sponsored plan, an IRA offers investment options for you to choose from, based on your goals and risk tolerance. Your money is invested into the option of your choosing, and the account value fluctuates as the market moves.

You must start taking required minimum distributions (RMDs) from an IRA when you turn age 72, and taxes are due on RMDs. The RMD is calculated based on the account balance on Dec. 31 of the previous year and your age. The RMD must be taken by Dec. 31 of each year, or penalties of 50% of the required withdrawal amount will be owed.[4]

ROTH IRA

Although it may sound the same, a Roth IRA works differently from a traditional or rollover IRA. A Roth IRA is funded with money that has already been taxed, and no taxes are owed on the money when you begin withdrawals from a Roth IRA.

While a traditional IRA has no income limit, there are income limits for contributing to a Roth IRA. There are also no required minimum distributions with a Roth IRA.

You can make contributions as long as you want to traditional or Roth IRAs. Under the old law, contributions to traditional IRAs weren't allowed after age 70 ½, but the age limit was removed when the Secure Act passed in 2019.

Categories of Annuities

Types of Annuities

IMMEDIATE	Guaranteed payments begin right away
DISTRIBUTIONS	Premiums are allowed to accumulate interest, and payments begin at a future date

Types of Deferred Annuities

FIXED	Provide a steady, guaranteed interest rate for a specific number of years
VARIABLE	Potential higher growth on your premium, at the cost of greater risk
FIXED INDEX	Combines some characteristics of fixed and variable annuities

ANNUITIES

Annuities are not investments — they are insurance contracts — but they are one of the oldest types of financial vehicles, dating back to the early days of Rome. They've been around in their current form since 1759, when they were first introduced in America. While they've undergone substantial changes in more than two centuries, annuities' basic premise is the same: An individual makes a payment or payments to an entity in exchange for a promise of a lifetime of payments. Annuity promises and guarantees are backed by the financial strength and claims-paying ability of the issuing carrier.

There are two categories of annuities: immediate and deferred. With immediate annuities, the insurance company provides a series of guaranteed payments that begin right away. With deferred annuities, you make one or multiple payments over a longer period of time, allowing your premium to accumulate interest.

Deferred annuities include three general types:

Fixed Annuities

Traditional fixed annuities provide a steady, guaranteed interest rate for a specific number of years, specified at the time of the contract. Since you know up front what rate the fixed annuity will be earning, calculating how much income it might provide in retirement is fairly straightforward. Fixed annuities also provide some liquidity of your money; owners of fixed annuities can typically withdraw 10% of an annuity's cash value without penalty if they're over age 59 ½.

Variable Annuities

While variable annuities are a bit more complex than fixed annuities, they also can possibly provide higher growth on your premium — at the cost of greater risk. Owners of variable annuities can choose market-linked subaccounts in which to invest their premium funds, and the values of those funds rise and fall with the market. Unlike fixed annuities, which have a guaranteed interest rate, variable annuities don't have this guarantee. However, many variable annuities do offer riders that provide a guaranteed stream of income or a minimum account value, usually based on a hypothetical rate of growth.

Fixed Index Annuities

Fixed index annuities (FIAs) combine some characteristics of both fixed annuities and variable annuities. An FIA earns interest credits on your principal, up to a certain amount, based on an external market index such as the S&P 500. When you buy an FIA, you do not own any shares of stock or participate directly in the stock market or index. Instead, FIAs credit interest to your annuity based on a formula that decides how additional interest credits based on the performance of the index is calculated and credited to your contract value. The formula is determined by the insurance company and outlined in your annuity contract.

While the core benefit of fixed annuities is guaranteed interest credited to your principal, and the core benefit of variable annuities is the potential for higher growth, FIAs offer protection of principal from losses due to market fluctuations while also offering the potential to provide higher interest earnings than traditional fixed annuities.

Because they're designed to provide retirement income, interest earned on all annuities is tax-deferred, so no taxes are owed on the growth until you receive payments or take withdrawals. Keep in mind that withdrawals will reduce the annuity's value, and surrender charges may apply, depending on your contract. All annuity withdrawals are subject to tax at ordinary income rates, and you may owe an additional 10% if you take a withdrawal before age 59 ½.[5]

Annuities can be complicated to understand, but they can also be a viable part of a retirement savings strategy. An array of annuities is available to choose from, and your financial advisor can help you determine whether an annuity is right for your financial goals and which one might fit in your retirement savings plan.

LIFE INSURANCE

As with annuities, life insurance guarantees are backed by the financial strength and claims-paying ability of the issuing carrier.

Life insurance's primary purpose is to provide a death benefit. For that reason, it is frequently overlooked as a savings vehicle, but it can be an important part of a financial plan.

There are two primary types of life insurance: term and permanent. With term life insurance, you pay premiums for a predetermined amount of time, usually 10, 20 or 30 years. If you die while the insurance is in place, your beneficiaries receive a predetermined sum. However, if you outlive your term, the policy simply goes away. Because it doesn't accumulate cash value, a term life insurance policy isn't a good tool for savings. However, it can be beneficial for those who want to protect their families at a lower cost.

Permanent life insurance, however, can accumulate a cash value. In addition, it provides a guaranteed death benefit, making it a possible solution for two problems: family protection and savings for the future. As with annuities, life insurance guarantees are backed by the financial strength and claims-paying ability of the issuing carrier.

There are four types of permanent life insurance: whole life, universal life, variable life and variable universal life. Each type offers the ability to accumulate a cash value, but how that cash value builds is distinctly different.

Whole Life

A whole life policy earns interest at a fixed, predetermined rate. Premiums are level, so you pay the same amount as long as the policy is active. Part of your premium goes toward the cost of maintaining your policy, and the other part goes toward your cash value. While whole life policies carry little to no risk, they also don't offer much opportunity for significant growth.

Universal Life

Similar to a whole life policy, premiums are split between cash value and costs of the policy. However, premiums and death benefits are adjustable. The cash value of a universal life policy has an interest rate that moves up and down in relation to current market interest rates. With a universal life policy, you can choose to use the cash value to pay your premiums or simply let it accumulate for future use.

Variable Life

A variable life insurance policy works similarly to a whole life policy, with one major difference: Premiums are invested in subaccounts available within the policy. While this allows for potential cash value growth, you can also lose value depending on market performance.

Variable Universal Life

Variable universal life combines aspects of both universal life and variable life. The death benefit and premiums are adjustable, and the cash value is invested in the subaccounts available within the policy. Like variable life, policyholders have the opportunity for growth yet also take on the potential to lose value.

Is a life insurance policy right for you? Maybe — but which type works best for you? Your financial advisor can help you explore your life insurance options and find the type of policy that works best for you, both now and in the future.

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> **Know what you own, and why you own it.**
>
> **~Peter Lynch**

INVESTMENTS

When saving for retirement, most people immediately think of retirement plans such as 401(k)s and IRAs — but don't discount the power of using non-retirement investments to grow your savings. When you invest, you put the money you've worked so hard to earn back to work for you.

While investing can involve more risk than other types of financial tools, it also unlocks the potential for greater reward. Consider this: From its start in 1926 through 2018, the S&P 500 (one American stock market index) has averaged annual returns of 7%, adjusted for inflation.[6] However, the idea of "risk" causes some people to shy away from investments, especially as they get closer to retirement. Although you'll never completely eliminate risk, you can reduce it in a variety of ways:

Diversify. Smart retirement planning is built on the philosophy of "don't put all your eggs in one basket." Likewise, smart investing employs diversification, or choosing to allocate money to different investment types (such as mutual funds or bonds) or different investment options within one type (stocks of multiple companies, for example). Diversifying gives balance to your portfolio; when you put all your money into one investment, you increase your exposure to risk.

Choose investments that fit your goals. How much risk should you have in your portfolio? The answer varies for every individual. Your personal risk tolerance is determined by a variety of factors, including number of years to invest, your current financial picture and your sense of how much risk you can handle without feeling anxious. An investment that might work for your friends or loved ones might not work for you, because risk tolerances vary widely.

Focus on the bigger picture. Some investors try to predict when the market will rise or fall, making investment decisions based on short-term trends or emotions. Investors who choose investments based on their financial goals and stay the course reduce their risk and increase the potential for long-term reward.

Investing offers benefits in addition to providing potentially higher returns. Funds are accessible when you need them, providing liquidity that isn't available through 401(k)s, annuities or IRAs. You can also choose specific companies or funds to invest in if you want to support their mission. Also, you can leave non-retirement investment accounts untouched as long as you want, unlike retirement accounts, which require you to start taking distributions at age 72.[7]

Retirement planning is all about finding balance and creating flexibility — and owning a variety of asset types provides options for your future. However, figuring out where to start can be an overwhelming prospect for many individuals. Your financial advisor can help you determine your risk tolerance, identify your specific financial goals and determine which financial tools can help you get there.

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When you invest, you put the money you've worked so hard to earn back to work for you.

LET'S GET STARTED

No matter where you are in your professional life — retired or working toward retirement — saving for retirement can help you pursue the retirement of your dreams. The first step is to understand some of the savings options available to you and get an idea of how they work.

The next step is to pinpoint which financial tools can work together to achieve your goals, both now and in the future. Your financial advisor can help you recognize potential roadblocks to your goals as well as create a strategy that helps you meet them. Whether you're already in retirement or just starting to consider it, a trusted financial advisor can help put investments to work for you. Call now to schedule a meeting and get the answers you need. Let's start working today to build the life you want tomorrow!

[1] Steve Goldstein. MarketWatch. April 22, 2019. “Social Security costs to exceed revenue next year, trustee report shows.” https://www.marketwatch.com/story/social-security-costs-to-exceed-revenue-next-year-trustee-report-shows-2019-04-22. Accessed July 23, 2019.

[2] Employee Benefit Research Institute. April 23, 2019. “2019 Retirement Confidence Survey.” https://www.ebri.org/docs/default-source/rcs/2019-rcs/2019-rcs-short-report.pdf?sfvrsn=85543f2f_4. Accessed June 12, 2019.

[3] Ibid.

[4] IRS. June 18, 2019. “Retirement Topics – Required Minimum Distributions (RMDs).” https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds. Accessed July 23, 2019.

[5] IRS. Aug. 1, 2019. “Topic Number 410 Pensions and Annuities.” https://www.irs.gov/taxtopics/tc410. Accessed Aug. 1, 2019.

[6] J.B. Maverick. Investopedia. May 21, 2019. “What is the average annual return for the S&P 500?” https://www.investopedia.com/ask/answers/042415/what-average-annual-return-sp-500.asp. Accessed June 20, 2019.

[7] IRS. June 18, 2019. “Retirement Topics – Required Minimum Distributions (RMDs).” https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds. Accessed July 23, 2019.

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