Summer 2016

RetireOnTarget® Newsletter

6 Must-do's for successful retirement savers.

Saving for retirement may seem complicated. Maybe because it's an area of your life that you just don't think about that often. So, let's keep things really simple and focus on the basics of a successful retirement saver.

1. **Develop the mentality of a saver.** This means living within your means and budgeting retirement savings as an expense — like your mortgage or rent payment. Once you start saving and you see your balance grow, it becomes energizing. Also avoid racking up "bad debt" — such as credit card balances — which makes saving for retirement easier.
2. **When offered, capture your employer's full matching contribution.** It's just too valuable to pass up. For example, if your employer offers a match up to the first 5% of your pay, your minimum contribution should be 5% or more.
3. **Educate yourself.** Education helps you take control. Take some time to learn about investing and the options in your plan, Social Security, budgeting, etc.
4. **Develop a written retirement savings plan.** It's easiest to work backwards. Start out with the age you'd like to retire and your income goals at retirement. Use RetireOnTarget® — retirement planning software — to help you determine how much you need to save from each paycheck now to hit those written goals. If you're unable to save enough right now, your plan should include your strategy — like increasing your contribution 1% per year. Include milestones, an investment strategy and a re-balancing schedule. Update your plan at least every 3 years or if your life changes in a big way — marriage, divorce, new job, children, etc.
5. **Stick to your plan.** Resist making changes to your plan based on short-term economic or market news. If your plan is sound, you need to stick with it and remind yourself it's a long-term plan.
6. **Keep your retirement savings invested for your retirement.** Be cautious about taking loans or other withdrawals from your retirement plan, and when you switch jobs avoid cashing it in. Options include moving it to your new plan, a tax-free rollover IRA, or if allowed, leaving it invested in the old plan. You put a lot of effort into saving those dollars for retirement so keep your money invested.

You don't have to be a mathematician, investment professional or actuary to properly fund a comfortable retirement. Simplicity, common sense and persistence go a long way.

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Have questions? Contact the Investor Guidance Center at 800.999.8786 Monday through Friday, 8:00 a.m. to 5:00 p.m., CT.

Is a Roth 401(k) right for you?

Chances are that your plan offers you a Roth 401(k) option in addition to a traditional 401(k) option. The traditional 401(k) provides that great up-front tax deduction for the amount you save each year, but you'll pay taxes on the money when you start withdrawing it. The Roth 401(k) gives you no immediate tax deduction, but you'll get your income tax-free at retirement if you follow the rules. It's that trade-off of getting smaller, immediate benefits versus larger, longer-term benefits. So, which one is right for you?

It's not just about the math.

Wouldn't it be great if you could pull out your calculator, enter a few numbers, and know if you should be contributing to a Roth or traditional account? However, the uncertainties of life make this an impossible exercise. Who knows what the tax rates will be when you retire? Or, how much will you be able to save over your lifetime? What about the impact of retirement income on Social Security or Medicare when you retire? You may have heard that if you'll be in a lower tax bracket in retirement, a traditional 401(k) is better. Or if you're in a higher tax bracket in retirement, go for the Roth 401(k). But who really knows what tax bracket you'll be in unless you're just a few years from retirement?

Careful considerations.

It's clear that there is no easy path to a right or wrong decision. Here are a few considerations for you. First, if your employer offers a match it will always be in a traditional account. So, if your employer offers a 100% match up to 3% and you contribute 3% to a Roth 401(k) account, you'll have equal amounts in both your Roth and traditional accounts. Second, if you're young and at the beginning of your career (and currently in a lower tax bracket), the Roth is probably right for you. Next, if you're a high income earner now and you can't contribute to a Roth IRA, the Roth option of your 401(k) plan is one way to set aside "Roth" dollars. Lastly, it's probably a good idea to hedge your bets and consider having some money in Roth 401(k) and some in a traditional account. That approach will give you more flexibility to control your taxable income in retirement. An example may be that if you are nearing an income threshold that may increase the cost of your Medicare, than you can dip into your Roth and keep your income below a certain level.

There is no easy straight-forward answer to which one is right for you. While Roth 401(k) use is increasing, on average 12% of participants save on a Roth basis when it's available.* We believe the advantages of a Roth merit higher usage and you should consider a Roth for your account if you haven't already.

*2016 Aon Hewitt Universe Benchmarks Survey

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At what age are people retiring?

The Social Security Act was signed into law by President Roosevelt on August 14, 1935. It was a social insurance program designed to pay retired workers age 65 or older a continuing income after retirement.

But it was a different time. The Great Depression of the 1930s had erased so much of American's wealth, this was compounded by bank failures, and poverty rates among senior citizens exceeded 50%[1]. The average life expectancy in 1935 was 61 years. Most people were not even living long enough to cash a Social Security check. Retirement as we know it today barely existed; most people worked until they died. Social Security was really more of a longevity program for people who lived past their normal life expectancy, and not a retirement income program for the masses.

Let's fast-forward to today. Baby Boomers are reaching age 65 in droves with 8,000 expected every day until 2030. They are healthier than previous generations. The average life expectancy is now about 79 years[2]. But for someone retiring at age 65, their life expectancy increases to over age 84. On average, they expect to fund a retirement lasting over 19 years.

So surely people must be extending the age at which they retire. Studies[3] show that today's workers expect to work longer and retire at an older age. Nearly 70% of workers expect to retire at age 65 or older (6% don't expect to ever retire).

But these expectations differ dramatically from the actual decisions of retirees. *In 2015 the average age of retirement for American workers is only 63 years old*[4]. Based on historical life expectancies, this retirement age is really young and people are setting themselves up to fund a retirement lasting over 20 years, often without enough savings.

Choose your retirement age thoughtfully.

So, looking at the facts, age 63 is the normal retirement age today. Consider bucking the trend and decide what the right retirement age is for YOU. If you've saved enough and you want to retire, go for it. If you're close to retirement but you'd like to feel a bit more financially secure, wait a few years. If you have a job that you absolutely love, why retire at all?

Advantages to continue working at older ages:

- Keeps you healthier, active and engaged
- Increased Social Security benefits, those claimed at age 70 are 76% greater than those at age 62
- Gives you more years to continue saving and paying down debts

1 The Social Security Dilemma, Javier Escamilla,

2 CDC, National Center for Health Statistics

3 Employee Benefit Research Institute, 2016, Retirement Confidence Survey

4 SmartAsset, 2015, analysis of Census Bureau data

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Retirement investing: Lessons from the first half of 2016.

The stock market started 2016 with a thud. The spiral downward that started in late 2015 was continuing. By mid-February, the Dow was down over 10% from the start of the year. Oil prices continued to fall, corporate earnings reports looked dismal, and Brexit was raising fears of European/worldwide economic slowdowns.

Everything seemed negative and bear market forecasters were strutting around saying "I told you so."

Then something happened. The markets stopped going down and we started to see more up days than down days. Before long, and in spite of the pessimism, the markets had erased the earlier losses and the Dow is up 6.44% for the year on August 23rd. That's over a 17% gain in about 6 months. If you would have gotten out of the market at the low point in February, you would have locked in your losses and missed the run-up over the last 6 months.

While all this was going on, there never seemed to be a compelling reason why the market was falling for the first part of this year or why it suddenly turned around and stampeded liked a bull for the last 6 months.

What does this mean for retirement investors? It's a great reminder that it's nearly impossible to forecast the future direction of the market. Market timing (choosing when to be in the market and when to get out) rarely works. When it does, any success is usually attributable to short-term luck that seldom holds over the long run.

So, make sure you have a solid investment strategy and know that you are investing for the long-term. Investing for retirement is a marathon, not a sprint. Let the markets and time work for you and don't let your emotions get in the way.

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- Aug. 25, 11 a.m. CT

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