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Retirement Basics

What Do You See When You Imagine Retirement?

This hypothetical example of mathematical principles is used for illustrative purposes only and does not represent the performance of any specific investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Actual results will vary. Rates of return will vary over time, particularly for long-term investments. Investments with the potential for higher rates of return also carry a greater degree of risk of loss.

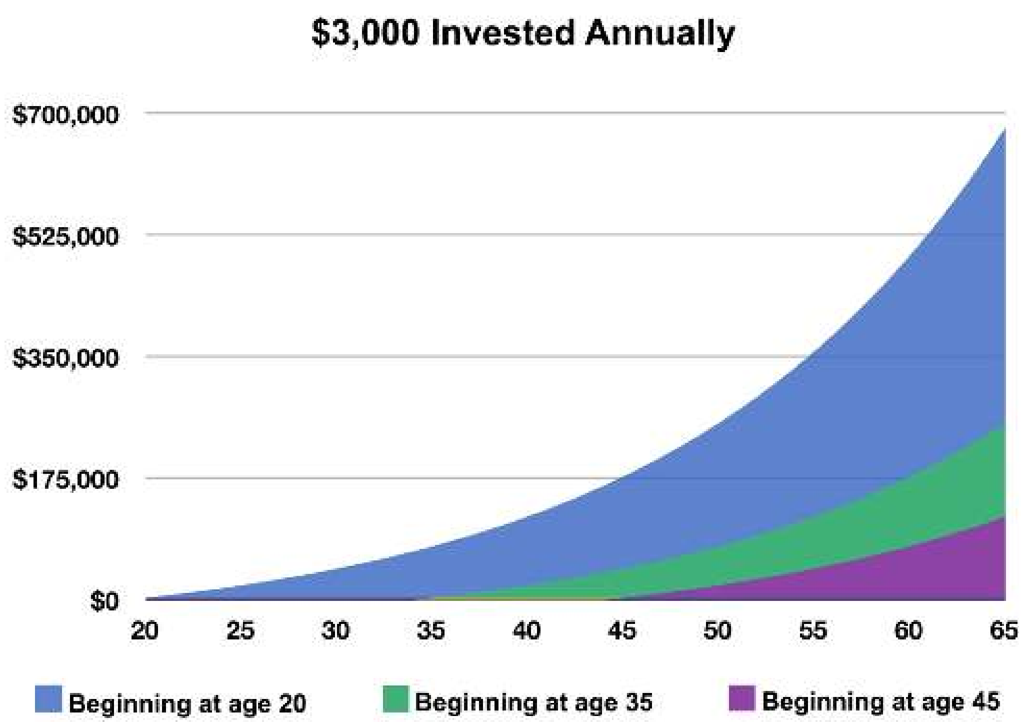
Americans are living longer, healthier lives than ever before, which means retirement could take up a full third of your life. That's why your retirement assets will have to do more for you over a longer period of time.

Many of us look forward to retirement as a reward for a lifetime of hard work; we see an opportunity to spend time with loved ones, pursue hobbies, and travel. Some of us will start new careers. Others will go back to school.

The one thing that we have in common is the fact that we all want to be financially independent. And that makes *planning* for retirement essential.

Start planning and investing now

Because retirement may be many years away, it's easy to put off planning for it. The longer you wait, however, the harder it is to make up the difference later. That's because the sooner you start, the more time your investments have to grow, and a few years can make a big difference in how much you could potentially accumulate.



Consider how much a $3,000 annual investment could accumulate assuming a 6% annual return (which cannot be guaranteed), beginning at three different ages.

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There are three keys to funding a comfortable retirement:

1. Determine your needs: Examine the factors that will influence your personal situation, assess the financial resources available to you, and calculate a retirement savings goal.
2. Develop an investment strategy: Invest strategically and strive to reduce exposure to risk while pursuing portfolio gains.
3. Preserve your nest egg: Adjust your portfolio when necessary and consider risk protection to help safeguard assets.

Determine Your Needs: Basic Questions

Factors that influence your retirement income needs

The amount of money you will need to live comfortably throughout your retirement depends on a number of factors specific to your personal situation.

- Retirement age
- Length of retirement
- Health-care needs
- Inflation
- Lifestyle

When do you want to retire?

Have you given any thought to when you'd like to retire?

Although you can retire anytime, you'll probably want to consider the fact that you won't be able to start collecting Social Security retirement benefits until age 62, and won't be eligible for health coverage through Medicare until age 65.

Also keep in mind that you can't always control the age when you will retire. Consider the possibility that you might be unable to continue working because of poor health or changes at your company.

How long should you plan on retirement lasting?

The answer is important because the earlier you retire the shorter the period of time you have to accumulate funds, and the longer the period of time those funds will have to last.

A 65-year-old American in average health can generally expect to live for another 15 to 20 years, perhaps even longer. Keep in mind, though, that life expectancy has increased over the years, and is likely to continue to do so.

For that reason, it makes sense to plan for a retirement period that lasts for 25 years or more.

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Note: *Although you can elect to receive Social Security retirement benefits beginning at age 62, you can't receive full benefits unless you wait until full retirement age. This can be age 66 to 67, depending on the year you were born.*

How will you pay for health care?

Longevity relates to the costs of health care. Health-care costs have increased at a faster rate than general inflation in three out of the last four years, and fewer employers offer health benefits to retired workers.

If Medicare benefits remain at current levels, a 65-year-old couple who retire today may need about $296,000 to pay their health-care expenses in retirement.[1]

How much will things cost in the future?

Inflation, or the rise in consumer prices over time, is another important factor that could affect the amount you will need to save for retirement. For example, a $50 bag of groceries could cost $121 in 30 years, assuming a 3% average annual inflation rate.

Because inflation makes it more expensive to buy the things you need to live comfortably from day to day, it can effectively lower the value of your savings from year to year.

What kind of retirement do you want?

Can you describe the retirement lifestyle you'd like? Does it include extensive travel? Expensive hobbies or philanthropic endeavors? Do you imagine yourself living in your current home, downsizing to a smaller home, or perhaps purchasing a vacation home?

Would you like the opportunity to provide financially for children or grandchildren, or even your own parents, during your retirement years?

Depending on your lifestyle, you may need anywhere from 70% to 100% of your pre-retirement income to live comfortably in retirement.

1 Source: Employee Benefit Research Institute, 2022 (assumes they don't have employer-paid health insurance)

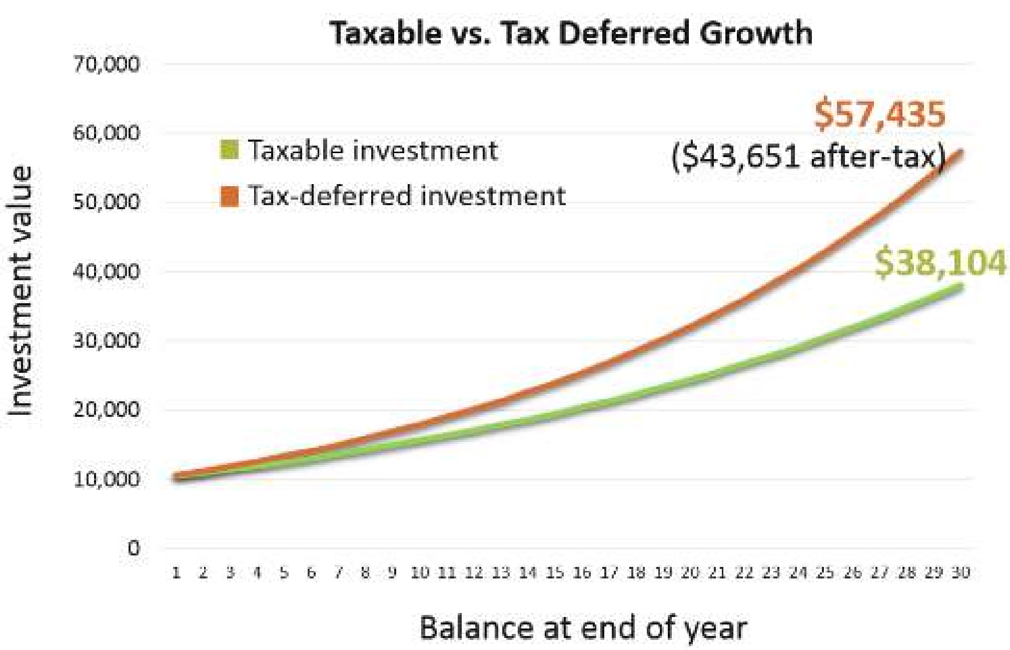
The Advantages of Tax Deferral

A convenient way to accumulate funds for retirement is to take advantage of special tax-deferred retirement savings vehicles, including employer-sponsored savings plans and IRAs.

A 401(k) plan and similar employer-sponsored plans can be powerful savings tools because your contributions typically come out of your salary pre-tax, reducing your current taxable income, and grow tax deferred until withdrawn. Also, 401(k) plans often include employer matching contributions, which, if offered, would make 401(k)s a wise choice in saving for retirement. If you don't contribute enough to receive the full match, you essentially forego the chance to invest extra money.

Traditional IRAs are investment accounts that, like 401(k)s, feature tax-deferred earnings growth and a lower potential income-tax obligation if you qualify for tax-deductible contributions. And like a 401(k), funds aren't taxed until withdrawn. Roth IRAs [and Roth 401(k)s] don't permit tax-deductible contributions, but they allow you to make tax-free withdrawals, provided certain conditions are met.

The next few pages of this guide provide more details on each of these retirement-savings options.



This chart illustrates the hypothetical growth of a $10,000 lump-sum investment earning 6% a year (which cannot be guaranteed) and a 24% income tax rate. The example assumes that any taxes due are paid with account assets.

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Withdrawals from tax-deferred accounts prior to age 59½ will be subject to a 10% penalty tax, unless an exception applies. Non-qualified withdrawals from Roth accounts may be subject to both income taxes and the 10% penalty.

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401(k) Plans and IRAs

401(k) plans

The 401(k) plan has become one of the most popular types of employer-sponsored retirement plans, and for good reason. If you participate in a 401(k) plan at work, you should try to take full advantage of it. In 2022, you can contribute up to $20,500 of your compensation to a 401(k) plan. If you're age 50 or older, you can make an additional "catch-up" contribution of $6,500. If your 401(k) plan allows Roth contributions, you can split your contributions between pretax and after-tax Roth contributions in any way you want, provided the total contributions don't exceed the maximum allowed.

IRAs

An individual retirement arrangement (IRA) is a personal savings vehicle that offers specific tax benefits. There are two types of retirement IRAs: traditional IRAs and Roth IRAs. Both allow you to contribute up to $6,000 a year (in 2022), and individuals age 50 and older can make additional $1,000 "catch-up" contributions.

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Traditional IRAs

Practically anyone can open and contribute to a traditional IRA. The only requirement is that you have taxable compensation. The question is whether or not you can deduct your contributions.

If neither you nor your spouse is covered by a 401(k) or other type of employer-sponsored retirement plan at work, you can generally deduct the full amount of your annual contribution. If one of you does participate in such a plan, your ability to deduct contributions depends on your modified adjusted gross income (MAGI) and your income tax filing status. You may qualify for a full deduction, a partial deduction, or no deduction at all.

Can you deduct your traditional IRA contribution for 2022?

If you participate in an employer-sponsored retirement plan, use this table to find out. If your spouse participates, but you do not, special rules apply.

Filing status	Ability to deduct contribution phased out if your MAGI is in this range:	You cannot deduct your contribution if your MAGI is:
Single or head of household	\$68,000 to \$78,000	\$78,000 or more
Married filing jointly	\$109,000 to \$129,000	\$129,000 or more
Married filing separately	\$0 to \$10,000	\$10,000 or more

Distributions from a traditional IRA

Distributions from a traditional IRA are subject to federal income tax. However, no tax applies to any portion of a distribution that represents nondeductible contributions made to the IRA.

In addition to federal income tax, you may have to pay a 10% premature distribution tax if you're under age 59½ at the time of the distribution, and do not qualify for another exception.

Roth IRA distributions are free from federal income tax if you satisfy the five-year holding period and the distribution is made:

- *After you reach age 59½, or*
- *As a result of a disability, or*
- *To pay first-time homebuyer expenses (up to $10,000 lifetime from all IRAs), or*
- *As a result of your death*

Roth IRAs

Whether or not you qualify for a Roth IRA depends upon your filing status and MAGI. You may be able to make a full contribution to a Roth IRA, a partial contribution, or no contribution at all. (See table below.)

Unlike a traditional IRA, all contributions to a Roth IRA are made with after-tax dollars — you don't get a deduction for your contributions.

If your filing status for 2022 is:	Roth IRA contribution reduced if MAGI is:	No Roth IRA contribution allowed if MAGI is:
Single or head of household	At least $129,000 but less than $144,000	$144,000 or more
Married filing jointly	At least $204,000 but less than $214,000	$214,000 or more
Married filing separately	More than $0 but less than $10,000	$10,000 or more

Distributions from a Roth IRA

If you meet certain conditions, your withdrawals from a Roth IRA will be completely free from federal income tax. To qualify, you have to satisfy a five-year holding period, and you generally have to reach age 59½ before making the withdrawal. Even if you haven't reached age 59½, you also qualify for tax-free treatment if you satisfy the five-year holding requirement and make the withdrawal either because of a disability or to pay certain first-time homebuyer expenses. Even nonqualified distributions get special tax treatment: distributions are considered to come from contributions first, and from earnings last. Distributions that represent a return of contributions are free from federal income tax. After you've received all of your contributions back tax free, any further distribution will represent earnings, and will be subject to income tax, and — if you're under age 59½ — to the additional 10% premature distribution tax, unless an exception applies. (Note that special rules may apply when a traditional IRA has been converted to a Roth IRA.)

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Annuities

What is an annuity?

An annuity is a contract between you and an insurance company. Annuities vary when it comes to the details, but they share the same general characteristics: you invest money (either a lump sum or a series of premium payments) with a life insurance company and, in exchange, the insurance company promises to make payments to you or to a named beneficiary at some point in the future (for example, upon your retirement). Bear in mind, though, that any return, whether guaranteed or not, is only as good as the insurance company that offers it. Any promises and guarantees made by the insurance company are entirely dependent on the insurer's ability to meet its financial obligations.

Like 401(k)s and IRAs, earnings in an annuity grow tax deferred. However, unless an annuity is held within an employer-sponsored retirement plan or IRA, premium payments are made with after-tax dollars — you don't get a tax deduction as you might with a traditional IRA. An annuity may provide a death benefit to your heirs, and there's no limit on the amount you can contribute. Note, however, that insurance features such as a death benefit are generally accompanied by higher costs.

Annuity distributions

When you take distributions from an annuity, you pay tax on the portion that represents earnings at ordinary income tax rates. An additional 10% premature distribution tax may also apply if withdrawals are made prior to age 59½, although some exceptions apply. It's also worth noting that, unlike 401(k)s and traditional IRAs, you don't have to start taking required minimum distributions from an annuity after you reach age 72.

You generally have a number of options to choose from in terms of how you receive distributions from an annuity. Typically, the annuity contract allows you to withdraw a percentage of your annuity's value as needed, or you can convert the annuity into a series of payments that will continue for the rest of your life, or for the lifetimes of you and your spouse. (Note, however, that the guarantee is limited to the claims-paying ability and financial strength of the insurance company.) Finally, you need to understand that annuities typically impose a surrender fee or charge in addition to other fees and charges if you withdraw an amount greater than the free withdrawal amount as stated in the contract.

Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force.

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Calculating Your Goal

You can use this worksheet to help determine how much money you may need to fund the retirement lifestyle you have envisioned. The factors on the following page will help you complete the calculations.

	Example	You
1. Expected retirement age	67	______
2. Estimated length of retirement	25	______
3. Current annual income	$ 75,000	$______
4. Percentage of income desired in retirement	80 %	______%
5. Annual income desired in current dollars *(line 3 times line 4)*	$ 60,000	$______
6. Estimated annual Social Security income in current dollars	$ 30,000	$______
7. Expected annual pension income in current dollars	$ 0	$______
8. Income needed from savings and investments in current dollars *(line 5 minus lines 6 and 7)*	$ 30,000	$______
9. Income needed from savings and investments in future dollars *(line 8 times Factor A)*	$ 112,005	$______
10. Estimated amount you should strive to save by retirement, in future dollars *(line 9 times Factor B)*	$ 1,950,354	$______
11. Amount you have saved already	$ 150,000	$______
12. What your savings might grow to by the time you retire *(line 11 times Factor C)*	$ 1,198,215	$______
13. Amount you still need to save by the time you retire *(line 10 minus line 12)*	$ 752,139	$______
14. Amount you need to save each year *(line 13 times Factor D)*	$ 8,574	$______

The hypothetical example shown assumes a 40-year-old who plans to retire at 67 and spend 25 years in retirement. It is used for illustrative purposes only and does not represent any specific investment. Even though this example uses a hypothetical 8% rate of return, remember that rates of return will vary over time, particularly for long-term investments. Actual results will vary.

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Calculating Your Goal: Factors

Years Until Retirement	Factor A	Factor C	Factor D	Expected Life Span After Retirement	Factor B
5	1.2763	1.4693	0.1705	5	4.5797
6	1.3401	1.5869	0.1363	6	5.4172
7	1.4071	1.7138	0.1121	7	6.2303
8	1.4775	1.8509	0.0940	8	7.0197
9	1.5513	1.9990	0.0801	9	7.7861
10	1.6289	2.1589	0.0690	10	8.5302
11	1.7103	2.3316	0.0601	11	9.2526
12	1.7959	2.5182	0.0527	12	9.9540
13	1.8857	2.7196	0.0465	13	10.6350
14	1.9799	2.9372	0.0413	14	11.2961
15	2.0789	3.1722	0.0368	15	11.9379
16	2.1829	3.4259	0.0330	16	12.5611
17	2.2920	3.7000	0.0296	17	13.1661
18	2.4066	3.9960	0.0267	18	13.7535
19	2.5270	4.3157	0.0241	19	14.3238
20	2.6533	4.6610	0.0219	20	14.8775
21	2.7860	5.0338	0.0198	21	15.4150
22	2.9253	5.4365	0.0180	22	15.9369
23	3.0715	5.8715	0.0164	23	16.4436
24	3.2251	6.3412	0.0150	24	16.9355
25	3.3864	6.8485	0.0137	25	17.4131
26	3.5557	7.3964	0.0125	26	17.8768
27	3.7335	7.9881	0.0114	27	18.3270
28	3.9201	8.6271	0.0105	28	18.7641
29	4.1161	9.3173	0.0096	29	19.1885
30	4.3219	10.0627	0.0088	30	19.6004
31	4.5380	10.8677	0.0081	31	20.0004
32	4.7649	11.7371	0.0075	32	20.3888
33	5.0032	12.6760	0.0069	33	20.7658
34	5.2533	13.6901	0.0063	34	21.1318
35	5.5160	14.7853	0.0058	35	21.4872
36	5.7918	15.9682	0.0053	36	21.8323
37	6.0814	17.2456	0.0049	37	22.1672
38	6.3855	18.6253	0.0045	38	22.4925
39	6.7048	20.1153	0.0042	39	22.8082
40	7.0400	21.7245	0.0039	40	23.1148

Assumptions:

- Factor A: 5% inflation rate
- Factor B: 3% real rate of return
- Factor C: 8% return on investment
- Factor D: 8% discount factor

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How Much Risk Can You Stand?

This quiz will help you assess your own ability to withstand risk.

Risk Tolerance Quiz

Which of the following investments do you feel most comfortable with?

a. Certificate of deposit
b. High-grade corporate bond
c. Growth stock

Of the following stocks, which do you feel would most suit your needs?

a. A conservative utility stock that pays high dividends but offers little chance for long-term growth
b. A "blue chip" stock that offers the potential for modest dividends and growth
c. An aggressive small-company stock that pays no dividends but offers great potential for long-term growth

What have you traditionally considered most important from your investments?

a. Safety
b. Conservative growth
c. Maximum growth

You just made a $100,000 investment. The following amounts represent the estimated best-case and worst-case scenarios after one year. Which range of possible outcomes would you prefer?

	best case	*worst case*	*possible gain/loss*
a.	$104,000	$96,000	$ 4,000
b.	$108,000	$92,000	$ 8,000
c.	$112,000	$88,000	$12,000

Which statement most closely resembles your feelings about risk?

a. I am not willing to take risks with my investments.
b. I am willing to take limited risks with my investments.
c. I am willing to take substantial risks with my investments.

- 10 points for every "a" answer
- 20 points for every "b" answer
- 30 points for every "c" answer

50-80: You are a relatively low-risk investor. You are mostly concerned with the preservation of your capital and the potential for current income. You are not willing to risk your capital for greater potential returns.

90-110: You are generally conservative, but you recognize the need to consider growth-oriented alternatives. You may be willing to take modest risk to earn above-average, long-term results.

120-150: You may be a relatively high-risk investor. You are mostly concerned with long-term appreciation, and you may be willing to take on more risk to earn greater long-term potential returns.

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