Life Guide

So, You're Thinking About Retirement?

The word "retirement" means different things to different people. Regardless of the vision you have for your retirement, it's an event that can produce much satisfaction when you have a blueprint for what a successful retirement will mean to you. Without a plan, however, including an assessment of your retirement readiness, retirement can become a period of anxiety, as you worry about whether your finances can sustain you through a potentially long retirement.

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Are You Ready to Retire?

Whether you're thinking of retiring next month, next year or sometime in the next five years, it makes sense to first gauge your emotional and financial readiness for retirement.

Emotional Readiness

- When you think about retirement, what do you see yourself doing? What will make you happy?
- To what degree do you define yourself through your work? How will you fill the void left when you're no longer working?
- Do you want to continue working during retirement?
- Where do you want to live once you're retired?
- Are there activities you want to build your retirement around? Travel? Hobbies? Volunteer activities? Pursuing educational opportunities in an area of interest to you?
- If you're married, do you and your spouse share a common retirement dream?

There is really no "right" time to retire. Just because you've reached a certain age doesn't mean that you should retire if you're not yet emotionally ready to transition to a new phase in your life. In fact, delaying your retirement can pay substantial financial dividends.

Financial Readiness

Let's take a look at the top five financial risks you'll face in retirement:

- **Outliving Your Assets:** The odds are that you'll live a long time after retiring. That's the good news...the bad news is that you'll need sufficient assets to provide retirement income over a potentially long period of time. The alternative is to risk outliving your retirement income.
- **Inflation:** With inflation, the cost of goods and services increase over a period of time, meaning that you'll need more retirement income in order to keep pace with inflation.
- **Loss of a Spouse:** With longer life expectancies and the tendency to marry men older than they are, women can face a dramatic decline in retirement income at a husband's death.
- **Healthcare Expenses:** While Medicare covers many healthcare expenses, retirees need to be prepared to pay for Medicare-related premiums, as well as expenses Medicare doesn't cover. If you're planning to retire prior to age 65, you'll need a way to pay for healthcare expenses until you become eligible for Medicare.
- **Long-Term Care Expenses:** While there are a variety of long-term care services, ranging from care in the home to assisted living facilities to nursing homes, all of them are expensive. If you or a spouse need long-term care, how will you pay for it?

Any assessment of your financial readiness to retire should take these risks into account, together with an evaluation of whether you can afford the type of retirement you want.

How long can you expect to live after retirement?

Male Life Expectancy	
Current Age	Life Expectancy (in years)
60	20.64
61	19.85
62	19.06
63	18.29
64	17.54
65	16.80
66	16.08
67	15.37
68	14.68
69	13.99
70	13.32
71	12.66
72	12.01
73	11.39
74	10.78
75	10.18

Female Life Expectancy	
Current Age	Life Expectancy (in years)
60	24.08
61	23.27
62	22.47
63	21.68
64	20.90
65	20.12
66	19.36
67	18.60
68	17.86
69	17.12
70	16.40
71	15.69
72	14.99
73	14.31
74	13.64
75	12.98

Source: 2001 Commissioners' Standard Ordinary Mortality Table; based on composite data (combination of smokers, nonsmokers and smoking status unknown); age nearest birthday

While the "typical" man retiring at age 65 can expect to live an additional 17 years and the "typical" woman 20 years, an increasing number of people are reaching age 90 and older. Here are several strategies that you can employ to help avoid running out of assets before you run out of time:

- ☐ **Eliminate Debt:** Before you retire, eliminate all major debt. Otherwise, in order to make debt payments, you may be forced to liquidate assets at inopportune times, such as during a falling market.
- ☐ **Purchase Guaranteed Income:** If your monthly sources of retirement income, such as Social Security and a monthly pension benefit, are not sufficient to pay your anticipated monthly expenses when retired, consider using a portion of your retirement nest egg to purchase an income annuity that guarantees to pay you a lifetime income.
- ☐ **Limit Withdrawals:** It's generally a good idea to limit the amount you withdraw from your retirement nest egg in the early years of your retirement...if you take out too much too soon, you might run out of money in the later years of retirement. It's also important to understand the potential advantages and disadvantages of withdrawing money from tax-advantaged accounts versus taxable accounts, as well as the required minimum distribution rules that apply to tax-advantaged accounts.
- ☐ **Continue Working:** In order to preserve your retirement assets until later in retirement, you may want to continue working on a part-time or consulting basis.

There's an old saying that goes "inflation doesn't retire when you do." How true! Many experts believe that inflation poses the biggest risk to long-term financial security in retirement.

Did You Know

From	To	Based on the Consumer Price Index, the Average Annual Inflation Rate Was:
2008	2013	1.8%
2003	2013	2.4%
1993	2013	2.4%

Consider this...with a 3% inflation rate, what costs $100 today may cost $150 in less than 14 years, meaning that you would need to increase your retirement income over that period of time by 50% just to keep pace with inflation. Failing to consider inflation could result in the gradual erosion of your standard of living after retirement. Strategies to deal with inflation include:

- **Set a "Safe" Withdrawal Rate:** If you'll need to withdraw funds from your investment portfolio in order to supplement other sources of retirement income, carefully consider the percentage you withdraw each year, particularly early in your retirement. As a general rule, retirees may be able to initially withdraw 3% to 4% of their investment portfolio and then increase that dollar amount by an inflation factor (e.g., 3%) each year and stand a good chance of being able to sustain that income stream over a long retirement.
- **Evaluate Asset Allocation Strategies:** There is a tendency among retirees to opt for "safe" investments, such as money market funds and certificates of deposit. A problem arises, however, if these investments are not able to provide the returns you're likely to need in order to fund retirement withdrawals and increase them to reflect future inflation. As a result, you may want to consider allocating a portion of your investment portfolio to equity investments (stocks and/or stock funds), particularly early in your retirement. Since your investment portfolio asset allocations will be influenced by your risk tolerance, do not overlook the risk that inflation poses to your future retirement standard of living in making investment decisions.
- **Create an Emergency Fund:** Set aside three to six months of retirement living expenses in accounts such as money market funds and certificates of deposit. That way you won't be forced to sell stock holdings during a down market. Being forced to sell securities during a down market could affect your portfolio's ability to generate future inflation-adjusted income.
- **Consider an Inflation-Adjusted Annuity:** In addition to providing a lifetime income, the payments from an inflation-adjusted annuity increase to cover a rise in inflation. These annuities come at a price, however, so it's important that you thoroughly understand annuity benefits, costs and potential disadvantages before you make a purchasing decision.

Loss of a Spouse

The death of a spouse can lead to a decrease in the retirement income available to the surviving spouse. Here are some tips to ensure that your surviving spouse will have sufficient income to live on when you're gone.

- ☐ **Take a Financial Inventory:** Make a list of the retirement income sources that will be available before and after the death of each spouse.
- ☐ **Understand Your Pension Benefits:** Some types of retirement plans require that a survivor's benefit be made available to a surviving spouse. In other plans, this is an optional choice. You'll receive a higher monthly income without a survivor's benefit. With this benefit, however, your spouse continues to receive at least a portion of your pension income at your death. It's important that you understand your options and their consequences **prior** to making any decisions.
- ☐ **Understand Social Security Benefits:** When both spouses are alive, Social Security pays a spousal benefit of up to 50% of the retired worker's benefit. Alternatively, the spouse receives his/her own benefit if higher than the 50% spousal benefit. When a retired worker dies, surviving spouses at full retirement age or older receive **either** 100% of the deceased retired worker's benefit **or** their own benefit, whichever is larger. Surviving spouses who are under their full retirement age will receive a reduced benefit. This results in a loss of retirement income to the surviving spouse of either the 50% spousal benefit or the deceased retired worker's benefit.

It's also important to understand that the age at which you elect to begin receiving Social Security retirement benefits impacts on the size of the benefits you and your spouse will receive. If you begin receiving benefits at age 62, your benefit...and the spousal benefit...will be less than if you wait until your full retirement age to begin receiving benefits. If you delay receiving benefits until age 70, your benefit...and the spousal benefit...will be higher.

- ☐ **Check Health Insurance Availability:** If you'll receive health insurance benefits from a former employer after you're retired, check to see if your surviving spouse will continue to receive those benefits. If not, factor the cost of a Medicare supplement plan into your surviving spouse's retirement income needs. Also keep in mind employers that are providing retiree health insurance benefits may discontinue them at any future time.
- ☐ **Consider Long-Term Care Insurance:** Take stock of the potential long-term care needs of you and your spouse. The cost of long-term care services for you could result in a significant reduction in the size of the retirement portfolio available to your surviving spouse.
- ☐ **Evaluate the Uses of Life Insurance:** If you determine that your surviving spouse will need additional funds to maintain his/her standard of living after your death, consider how life insurance could be used to provide those funds. You might also consider selecting the higher pension benefit available without a survivor's benefit, then using life insurance proceeds to provide additional monthly income to your surviving spouse if you die first. Prior to using this technique, however, carefully evaluate the cost of the life insurance and your ability to pay future premiums. For couples with substantial assets, life insurance proceeds might also be used for estate planning purposes.

The rising cost of healthcare in the United States can pose a risk to a financially-secure retirement. While it would be nice to believe that healthcare cost increases are a temporary phenomenon, that's not the case. The cost of medical care has outpaced inflation for the past 20 years and predictions are that healthcare costs will continue to increase faster than inflation. ***The time to plan for your future healthcare needs is now...before you retire.***

- ☐ **Original Medicare:** Medicare is the federal health insurance program that covers most people age 65 and older. The Original Medicare program consists of Part A, which provides hospital insurance and is free if you paid Medicare taxes, and Part B, which is medical insurance that helps cover the costs of doctors' services and outpatient hospital care. Part B coverage requires that you pay a monthly premium of at least $104.90 per month in 2013. People enrolled in Medicare Parts A and B find that, even though a lot of their medical care is covered, they can still face considerable out-of-pocket costs. In order to pay the costs not covered by Medicare, many people elect to purchase a Medicare supplement plan from a private insurer to fill in many of the gaps in Medicare Parts A and B coverage. These "Medigap" plans can be fairly expensive, but they do serve to limit out-of-pocket costs for healthcare.
- ☐ **Medicare Advantage:** The Medicare Advantage Plan provides benefits through a private insurer and is designed to provide Medicare Parts A and B coverage. There are various types of Medicare Advantage Plans which, in addition to providing the hospital and doctor benefits of Parts A and B, may offer additional benefits, including prescription drug benefits. The premium for Medicare Advantage Plans may be less expensive than the Medicare Part B premium plus the cost of "Medigap" insurance, but there are also plan network, co-payment and deductible requirements to take into account in deciding on Original Medicare or Medicare Advantage coverage.
- ☐ **Prescription Drug Plan:** Medicare's Part D Prescription Drug Plan, which will pay some but not all of your prescription drug costs, is available for an additional monthly premium through companies that contract with Medicare. If you choose Original Medicare, you can purchase a separate Part D Prescription Drug Plan. Alternatively, you can purchase a Medicare Advantage Plan with a prescription drug benefit.
- ☐ **Retiree Health Insurance Plans:** Review your employer's health insurance program to understand what healthcare benefits may be available to you after retirement. Retiree health insurance plans are generally designed to coordinate with Medicare benefits. If your company provides retiree health insurance benefits, make sure you know how much of the premium you will be required to pay, as well as deductible and co-payment requirements. Also, understand that companies have the right each year to increase retirees' health insurance premiums and/or the co-payments and deductibles paid by retirees, or even to discontinue retiree health insurance coverage.
- ☐ **If You're Under Age 65:** If you plan to retire before you reach Medicare eligibility at age 65, you'll need some way to pay for healthcare costs until you become eligible for Medicare. As part of an early retirement package, your employer may provide you with health insurance options until you reach age 65. Alternatively, you may be eligible to continue your employer-provided coverage under COBRA. Finally, you can explore the option of purchasing individual health insurance until you reach age 65.

According to Medicare (www.medicare.gov), "A study by the U.S. Department of Health and Human Services says that people who reach age 65 will likely have a 40 percent chance of entering a nursing home. About 10 percent of the people who enter a nursing home will stay there five years or more."

- **Did You Know?:** As a national average, a year in a nursing home was estimated to cost $90,520 in 2012. The average cost of an assisted living facility in the U.S. was $42,600 per year in 2012. The average cost for assisted living facilities that provide Alzheimer's and dementia care was $57,684 annually. (Source: 2012 MetLife Survey of Nursing Home, Assisted Living, Adult Day Services, and Home Care Costs)
- **Medicare and Long-Term Care:** According to the Medicare website (www.medicare.gov), "While there are a variety of ways to pay for long-term care, it is important to think ahead about how you will fund the care you get. Generally, Medicare doesn’t pay for long-term care. Medicare pays only for medically necessary skilled nursing facility or home health care. However, you must meet certain conditions for Medicare to pay for these types of care. Most long-term care is to assist people with support services such as activities of daily living like dressing, bathing, and using the bathroom. **Medicare doesn’t pay for this type of care called "custodial care."** Custodial care (non-skilled care) is care that helps you with activities of daily living."
- **Medicaid and Long-Term Care:** Medicaid programs vary from state to state, both in regard to qualification requirements and services provided. People who qualify for Medicaid may get coverage for nursing home costs. In order to qualify, however, federal poverty guidelines for income and assets must be met. In addition, there are state requirements for Medicaid eligibility. While Medicaid recipients must have low incomes and few financial assets in order to qualify, their homes and cars are not included in determining Medicaid eligibility. There is, however, a federal estate-recovery law that requires each state to recoup assets from the estates of Medicaid recipients, which may result in the family home being sold and the proceeds used to pay for nursing home care previously received.

If it becomes necessary, how will you pay for long-term care services? Options for you to evaluate in your planning include:

- **Personal Savings:** You may have sufficient funds available in your retirement investment portfolio to pay for needed long-term care services without impairing your spouse's future financial security.
- **Long-Term Care Insurance:** Long-term care insurance is purchased from private insurance companies and typically helps pay the costs of a nursing home stay. Many policies also cover assisted living and home health care costs.
- **Home Equity:** You may have built up substantial equity in your home. This equity could be tapped to help pay for long-term care services by selling the home, through a home equity loan or line of credit or with a reverse mortgage. The surviving spouse's future financial security should be considered in evaluating this option.
- **Continuing Care Retirement Community (CCRC):** A CCRC provides a range of services from independent living to assisted care to nursing home care. CCRCs typically are quite expensive, requiring an entrance fee plus monthly payments.

The decision on when to retire can have an enormous impact on your financial security in retirement.

If you're thinking of retiring early, consider the following:

- ☐ In addition to possibly giving up several of what might be your prime earning years, you're also increasing the number of years for which your investment portfolio must provide at least a portion of your retirement income.
- ☐ Check to see what impact an early retirement will have on the monthly income you'll be paid by any employer-provided pension plans in which you participate(d).
- ☐ If you plan to retire before age 65, determine how you'll continue your health insurance benefits until you reach Medicare eligibility at age 65.
- ☐ You can begin receiving Social Security benefits at age 62. Receiving Social Security retirement benefits before your full retirement age (currently age 66), however, results in a permanent reduction of as much as 30% in your Social Security retirement benefit. Keep in mind that Social Security benefits are increased by an inflation factor most years. This means that if you begin receiving Social Security benefits early, you'll not only receive a reduced benefit, but the inflation factor will also apply to that reduced benefit.
- ☐ If you plan to start withdrawals from certain retirement plans prior to age 59-1/2, those withdrawals may be subject to a 10% penalty tax, in addition to regular income tax.

As an alternative, you may want to consider delaying your retirement:

- ☐ You can continue adding to your retirement savings, which can be particularly advantageous if you're saving in a tax-deferred retirement plan and your employer matches a portion of your contributions. At the same time, you're postponing when you begin withdrawing from savings to pay retirement expenses.
- ☐ If you delay taking Social Security benefits beyond your full retirement age, the amount of your Social Security benefit will increase by up to 8% per year until you reach age 70. There is no advantage to delay taking Social Security benefits beyond age 70.
- ☐ If you do decide to delay your retirement to after age 65, be sure to sign up for Medicare at age 65. Your Medicare premium may be more if you delay enrolling beyond age 65.
- ☐ If you delay retirement until after age 70, be aware that you may be required to begin receiving distributions from traditional IRAs or certain employer-sponsored retirement plans beginning at your age 70-1/2.
- ☐ You may want to more gradually transition to full retirement, continuing to work on a part-time or consulting basis for a few years following your normal retirement date.

If you receive an early retirement offer, the decision may not be an easy one to make. The following information is intended to help you evaluate the offer you've received.

- [ ] **Severance Payments:** An early retirement offer typically contains severance payments based on your salary and your years of service with the company. For example, the offer might be for one week's salary for each year of service...if weekly salary is $3,000 with 20 years of service, the severance payments would total $60,000 ($3,000 X 20). Evaluate the payout options available...will the severance be paid to you in a lump sum or is it a series of deferred payments? What are the income tax implications of each option?

- [ ] **Healthcare Benefits:** If you're under age 65, does the early retirement offer include any healthcare benefits? Will those benefits cover you until you reach Medicare eligibility at age 65? If not, you can investigate continuing your current coverage through COBRA, purchasing an individual policy or, possibly, being covered by your spouse's healthcare plan.

- [ ] **Pension Benefits:** If your employer provides a traditional pension plan, early retirement can result in you receiving a reduced pension benefit. Does your early retirement offer include any provision to add years to your age or length of service when calculating your benefit? Such a provision could result in you receiving a larger pension benefit while still retiring early.

- [ ] **Money Due You:** Make sure the agreement compensates you for money you're entitled to receive, such as unused vacation and sick time and/or any bonuses or commissions to which you're entitled.

- [ ] **Services:** Does your early retirement offer include services such as career counseling, financial planning and/or educational or job training assistance? If so, determine if and how you can use those services to transition into the next phase of your life.

- [ ] **No Choice?:** If you're inclined to refuse the early retirement offer, first evaluate the financial condition of your company. If there is a possibility that you might be let go anyway in the nearer-term future, the current early retirement offer may be better than one you'll receive down the road.

- [ ] **Review the Agreement:** You may be giving up certain rights when you accept an early retirement package, so carefully review the agreement before you sign it. If you have any questions, have an attorney look it over and advise you. If you feel you have to accept the offer, but aren't financially ready to retire, you'll need to explore new job opportunities.

While you'll be retiring from your job, you won't be retiring from paying taxes! In fact, you may have taxes to pay on more sources of income than while you were working. While the following discussion focuses on federal taxes, remember that many states also tax retirement income.

Social Security

- **Taxation of Social Security Retirement Benefits:** When your income from other sources, including tax-exempt interest, plus one-half of your Social Security benefits exceeds $32,000 for a married couple filing jointly or $25,000 for a single person, a portion of your Social Security benefits may be taxable. If a threshold is exceeded, either 50% or 85% of your Social Security benefits will be subject to income tax. The amount of income tax actually paid will depend on your tax bracket after adding the taxable portion of your Social Security benefits to your other taxable income.
- **Working While Receiving Social Security Retirement Benefits:** If you continue to work while receiving Social Security benefits, be aware that:
  - Payroll or FICA tax will continue to be deducted from your paycheck;
  - Your earnings may cause a portion of your Social Security benefits to be subject to income tax, as described above; and
  - If you are less than your Social Security full retirement age, your Social Security benefits will be reduced by $1 for each $2 of earned income in excess of an exempt amount ($15,120 in 2013). Once you reach your Social Security full retirement age, there is no retirement earnings test...you will receive your full Social Security benefit without regard for or limit on your earnings.

Retirement Income

- **Taxable Accounts:** Since you've already paid taxes on amounts contributed to taxable accounts, as well as the earnings, you can withdraw amounts from taxable accounts without paying additional taxes.
- **Tax-Deferred Accounts:** If all contributions to traditional IRAs and employer-sponsored retirement plans were made with "before-tax" dollars, then distributions from those plans are subject to income tax in the year received. If some contributions were made with "after-tax" dollars, then you're entitled to a tax-free return of those amounts, with the balance being subject to income tax.
- **Premature Distributions:** If you make withdrawals from certain retirement plans prior to age 59-1/2, those withdrawals may be subject to a 10% penalty tax, in addition to regular income tax.
- **Required Minimum Distributions:** Once you turn age 70-1/2, you must begin receiving minimum distributions from plans such as traditional IRAs and 401(k) plans. Otherwise, the required amount that was not distributed to you will be subject to a 50% excise tax, in addition to regular income tax.
- **Tax-Free Accounts:** Distributions from a tax-free account, such as a Roth IRA, are not subject to income tax.
- **Annuity Income:** A portion of each payment received from a non-qualified annuity is a tax-free return of the annuity purchase price and the balance of the payment is subject to income tax.

A critical step in determining if you can retire is to first assess your income needs in retirement. There are plenty of "rules of thumbs" when it comes to estimating retirement income needs. Some range as low as 60% of pre-retirement income and others as high as 90% or 100%. One thing, however, is for certain...you're the only one who can determine how much income you'll need in order to sustain your preferred retirement lifestyle.

In developing your retirement income budget, consider these factors:

- [ ] **Housing:** Is your mortgage paid off, or will it be by retirement? Do you plan to move to a smaller home? To a less (or more) expensive part of the country?
- [ ] **Savings:** Once retired, you'll no longer be making retirement plan contributions.
- [ ] **Work-Related Expenses:** You'll be able to reduce or eliminate expenses related to your job, such as commuting expenses and business clothing.
- [ ] **Vehicles:** You may be able to reduce the number of vehicles you own. One piece of advice to consider is to enter retirement with a paid-for new vehicle.
- [ ] **Retirement Activities:** Are you planning to travel extensively, develop your backyard garden or volunteer with local organizations? Those activities have very different impacts on your retirement budget. Will you entertain more or less? Eat out more or less? Give serious thought to your preferred retirement lifestyle and the income required to sustain that lifestyle.
- [ ] **Protection Costs:** Don't forget to budget for health insurance premiums, such as Medicare and "Medigap" premiums. If you retire before age 65, be certain to take into account how you will pay for healthcare expenses or health insurance premiums. You may decide to purchase long-term care insurance, which will require an ongoing premium commitment. Then there are life insurance, homeowners and auto insurance premiums to take into account.
- [ ] **Healthcare Costs:** Even with the best of health insurance coverage, you should plan on having out-of-pocket costs for healthcare, dental and vision services not fully paid for by insurance.
- [ ] **Family Responsibilities:** Are you currently responsible for the support of any family members? Will this responsibility continue after your retirement? Do you want to help pay for your grandchildren's college education?

The Retirement Income Budget Organizer on the next page provides a framework for you to use in developing your unique retirement income needs.

The purpose of the Retirement Income Organizer is to assist you in developing a realistic retirement budget (Parts A and B), to identify the sources of monthly retirement income available to you (Part C) and to reconcile your retirement budget with your retirement income (Part D).

While you should consider using one of the many retirement planning software programs available, the Retirement Income Organizer will give you a relatively quick reading on your financial readiness for retirement.

A. Monthly Basic Expenses		
Housing/Utilities	$	
Food	$	
Transportation	$	
Taxes	$	
Insurance Premiums	$	
Healthcare Costs	$	
Personal Needs/Clothing	$	
Debt Payments	$	
Other:	$	
Other:	$	
TOTAL	$	0

B. Monthly Discretionary Expenses		
Entertainment	$	
Hobbies	$	
Travel	$	
Charitable Gifts	$	
Vacation Home	$	
Other:	$	
Other:	$	
Other:	$	
Other:	$	
Other:	$	
TOTAL	$	0

C. Sources of Monthly Retirement Income		
Social Security	$	
Pension Payments	$	
Annuity Payments	$	
Rental Income	$	
Trust Fund Income	$	
Monthly Paycheck	$	0
Other:	$	
Other:	$	
TOTAL	$	0

D. Monthly Retirement Income Reconciliation			
Part A Total		$	0
Part B Total	+	$	0
Total Monthly Expenses	=	$	0
Part C Total		$	0
Total Monthly Expenses	-	$	0
Retirement Income Overage or (Shortfall)	=	$	0

For many people, completion of the Retirement Income Organizer results in a shortfall... their anticipated monthly retirement expenses exceed the income they expect to receive from steady sources, such as Social Security and employer-provided pension plans. If that's true for you, then the next step is to consider how you will use your retirement nest egg, including personal savings, IRAs and 401(k) plan balances, to produce the income needed to eliminate your retirement income shortfall.

Let's begin by taking a look at a couple of examples. While these examples are hypothetical, they do illustrate the challenges faced in using withdrawals from an investment portfolio to produce income that will last throughout retirement.

If you withdraw both principal and interest, how long will it take to exhaust a $250,000 retirement nest egg?

Rate of Return	Amount Withdrawn at the Beginning of Each Month:		
	$2,000	$4,000	$6,000
3%	150 monthly payments (12 years, 6 months)	68 monthly payments (5 years, 8 months)	44 monthly payments (3 years, 8 months)
4%	161 monthly payments (13 years, 5 months)	70 monthly payments (5 years, 10 months)	45 monthly payments (3 years, 9 months)
5%	175 monthly payments (14 years, 7 months)	72 monthly payments (6 years)	46 monthly payments (3 years, 10 months)

On the other hand, what if you use interest only and don't withdraw principal? What size retirement nest egg is needed to produce the necessary income?

For each year that you need this much monthly retirement income:	This is the amount of capital needed to provide that monthly income, assuming your principal earns an annual interest rate of:		
	3%	4%	5%
$2,000	800,000	600,000	480,000
4,000	1,600,000	1,200,000	960,000
6,000	2,400,000	1,800,000	1,440,000

This example is based on the capital retention method, which uses interest return only to provide income. Principal is not liquidated and remains available.

NOTE: The above are hypothetical illustrations only and are not indicative of any particular investment or investment performance. They do not reflect the fees and expenses associated with any particular investment, which would reduce the performance shown in these hypothetical illustrations if included. In addition, rates of return will vary over time, particularly for long-term investments.

In order to create a retirement paycheck that will last a lifetime, there are a variety of strategies you can employ. While a brief review of some retirement income strategies follows, you should consider meeting with a financial professional who can assist you in developing a retirement paycheck blueprint designed to achieve your income objectives, while taking into account the risks to a financially-secure retirement, such as outliving your assets and the impact of inflation.

- **Periodic Withdrawals:** As the hypothetical examples on the previous page illustrated, counting on periodic withdrawals alone to supplement your other sources of retirement income can be a tricky proposition. If you withdraw too much too early in your retirement, you run the risk of running out of money too soon, since there will be less money available in your investment portfolio on which to earn a return. Determining the rate at which you can safely make withdrawals from your retirement nest egg depends on factors such as the size and composition of your investment portfolio, your risk tolerance and expected rate of return, how long you and your spouse expect to live and whether or not you want to adjust the withdrawals to reflect future inflation.
- **Tax-Deferred Retirement Plans:** If you have a traditional IRA and/or have participated in an employer-sponsored retirement plan, such as a 401(k) plan, you need to become familiar with the distribution options available to you, as well as the tax consequences of each of those distribution options. In addition, be aware of the required minimum distribution rules, which are designed to spread the distribution of these account balances over your lifetime, thus ensuring that people do not defer taxation indefinitely. Generally, you must begin receiving required minimum distributions when you reach age 70-1/2, although there are exceptions, such as continuing to work and participate in your employer's retirement plan beyond age 70-1/2. Note that required minimum distribution rules do not apply to Roth IRAs. Required minimum distribution rules can be complex. Keeping in mind that failure to take a required minimum distribution can result in a 50% excise tax of the required amount not distributed to you, you may find it advisable to consult with a tax professional.
- **Taxable or Tax-Favored Accounts First?:** As a general rule, consider making withdrawals from taxable accounts first (personal savings/investment plans), then from tax-deferred plans (traditional IRAs or 401(k) plans) and, finally, from tax-free plans (Roth IRAs). Leaving tax-favored accounts for later in your retirement allows them the opportunity to continue to grow on a tax-deferred basis, at least until required minimum distributions must begin. If, however, you want to leave assets to family members, another order of withdrawals, taking into account the step-up in basis at death, as well as income tax implications, may be indicated. Consider asking a tax professional for guidance.

Purchase Guaranteed Income: Income annuities are insurance contracts under which you make a lump sum premium payment and the issuing insurance company guarantees to pay you (or you and your spouse) an income for life, based on the insurance company's claims paying ability. An income annuity isn't an investment as much as it is "longevity" insurance that pays an income for as long as you live...income you cannot outlive. If you're interested in an income annuity, it's important that you thoroughly understand income annuity benefits, costs and potential disadvantages before you make a purchasing decision.

Equity in Your Home: Assuming you've built-up substantial equity in your home, there are a number of ways you can put that equity to work for you during retirement. You could sell your home and move to less expensive housing. You could borrow against your equity with a home equity loan or line of credit. If you don't want to move and aren't interested in a loan which will require monthly loan repayments, then you may want to consider a reverse mortgage. A reverse mortgage is a loan against the value of your home that does not have to be paid back for as long as you live in your home. A reverse mortgage can be used to convert some of the equity in your home into income. The proceeds from a reverse mortgage can be paid to you in a lump sum, as a regular monthly income or at times and in amounts of your choosing. While a reverse mortgage typically requires no repayment while you are living in your home, it must be repaid, including interest and other charges, at the earliest of the death of the last living borrower, the sale of the home or when the last living borrower moves permanently, such as to an assisted living facility or nursing home. The upfront costs associated with a reverse mortgage, such as an origination fee, closing costs and mortgage insurance premium, can be significant. This means that a reverse mortgage may be expensive if the loan is repaid within a few years of closing. As a result, if you anticipate moving within a few years, you should explore another alternative to make use of the equity in your home, such as a home equity loan.

Working During Retirement: You may decide to continue working on a part-time basis for a period of years. Doing so could enable you to rely less on income from your retirement savings in the earlier years of retirement, leaving more of your retirement savings to continue growing for use later in retirement. Another benefit of working during retirement might be access to affordable healthcare insurance through your employer. If you're receiving Social Security benefits and working part-time, new earnings from your part-time employment might increase your future Social Security benefits. On the other hand, if you are less than your Social Security full retirement age (currently age 66), your Social Security benefits will be reduced by $1 for each $2 of earned income in excess of an exempt amount ($15,120 in 2013). Once you reach your Social Security full retirement age, there is no retirement earnings test...you will receive your full Social Security benefit without regard for or limit on your earnings.

In Preparation for Retirement:

Have you identified a specific retirement age or date?

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Have you made plans for what you want to do during retirement?

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Have you decided where you'll live after retiring?

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If married, do you and your spouse share a common retirement dream?

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Do you need more information on strategies to deal with the primary financial risks you'll face in retirement: outliving your assets, inflation, loss of a spouse, healthcare expenses and long-term care expenses?

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Have you developed a realistic monthly retirement budget, taking income taxes into account?

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Do you have an estimate of the monthly income you'll receive from Social Security and employer-provided pension plan(s)?

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If you plan to begin receiving Social Security benefits prior to your full retirement age, have you evaluated the impact of the permanently reduced benefit on your future financial security and that of your spouse?

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Do you have complete information on the distribution options available in any IRAs you own and/or employer-sponsored retirement plans, such as 401(k) plans, in which you have participated? Do you need additional information on the income tax implications of each distribution option?

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Have you investigated various methods to turn investment assets into a retirement paycheck, including the potential advantages, disadvantages, costs and taxation of each method?

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Before You Actually Retire:

Have you eliminated all debt to the greatest degree possible?

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Do you have three to six months of retirement living expenses set aside in an emergency fund?

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If you're under age 65, do you have a plan in place to pay for your healthcare expenses until you become eligible for Medicare?

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If you're approaching age 65, have you applied for Medicare and selected either the Original Medicare or a Medicare Advantage Plan? Be sure to apply during the six-month period beginning three months before you turn age 65 and ending three months after you turn age 65. Also, if you select Original Medicare, are you going to purchase a "Medigap" policy?

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Have you applied for Social Security benefits? It is recommended that you apply three months prior to the date that you want benefits to begin. Have you evaluated the potential advantages of delaying Social Security benefits until you are older?

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If you plan to work part-time in the earlier years of retirement, do you need additional information concerning the potential impact on your Social Security benefits?

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Do you have a plan to pay any long-term care expenses you and/or your spouse may incur during retirement?

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Are you prepared to implement a retirement paycheck strategy that incorporates safeguards against the risks of outliving your assets and the impact of inflation on future retirement income needs?

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Is your estate plan consistent with your retirement plan? Do you and your spouse have current wills, including a durable power of attorney and advanced medical directives?

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Disclosure Information

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