Earning Your Way to a Successful Retirement

Targeting Desired Retirement Outcomes

The concepts and personal definitions of retirement are changing. For those who take the time to really consider and prepare, it means being in a position to choose how, where and with whom they want to enjoy their retirement. For many, work provides social and emotional well-being as much as financial support, and these individuals are able to choose whether they will downshift their careers to work less or in less demanding roles, or quit working altogether.

However, for too many Americans, thinking about retirement is put off until too late. As a result, those individuals will not have the luxury of choice. They may need to work well into what is typically considered the retirement years because they cannot afford to retire. That is, if their physical and mental health allows them to work.

Helping Manage the Way America Retires

We can help change the way America retires by helping change the way people think about retirement. Retirement is often thought of as a destination, an endpoint. We believe it is a journey that starts with earning a first paycheck, targeting a desired retirement outcome and prioritizing financial goals accordingly. There is a saying that "life happens" — and it is no different when thinking about retirement. Life's events, both planned and unforeseen, can distract us from staying on track for our targeted retirement outcomes. But by developing healthy financial habits early in life, and with some discipline, individuals can enjoy today while also preparing for the future.

There are four fundamental inter-connected financial behaviors that impact one's ability to stay on track and achieve a targeted retirement outcome: Earning, Spending, Investing and Insuring (ESII).TM As life events shift and alter our course, individuals must continually reprioritize and balance these behaviors while maintaining a focus on their retirement target. Understanding these financial behaviors and how they intersect is critically important to securing a desired retirement outcome. We believe working within this framework provides a structured way to develop those healthy financial habits and discipline that can lead to a successful retirement. In this paper, we discuss the Earning behavior.

There are two phases of earning: income earned from wages in the working years and income typically derived from Social Security, pensions, savings, retirement accounts and other investments during retirement. Other sources of income during retirement may include continued wages for those healthy enough to work, and possibly home equity.

NOT FDIC-INSURED | NOT BANK-GUARANTEED | MAY LOSE VALUE

Earning in the Working Years

There are many factors affecting earning during the working years that are beyond a worker's control: economic cycles, dying industries, bankrupt companies, layoffs, rate of pay increases, bonuses and incentives, injuries, health declines and more. But workers can control some factors such as career path, education, skill development, industry choice, risk-taking, persistence and adaptability.

What is most controllable is the ability to protect individuals' and their family's earning ability and future income. Financial advisors can help clients understand the effect of long-term earnings on their targeted retirement outcomes and provide recommendations to protect wage-based income, such as health insurance, accidental death insurance, long- and short-term disability and long-term care insurance.

Earning for Retirement

Developing healthy personal financial habits in the working years allows future earnings in the retirement years.

1. Target the retirement outcome one imagines and desires, and set a course to achieve that goal. Then recalibrate as one's expectations evolve.
2. Save to develop a cash cushion equivalent to 6–12 months of expenses.
3. Invest earnings in employer's retirement plans, ideally up to the maximum annual contribution limit, but at least enough to maximize the employer's match.
4. Invest additional earnings in Traditional and Roth IRAs to maximize their favorable tax benefits.
5. Protect earnings and investments from life's unexpected setbacks with appropriate employer-provided insurance and other solutions.

The potential sources of income during retirement are wide and varied. And as individuals plan and save for retirement, they need to take stock of the potential income sources that will be available for them, and then develop plans to fund them out of current earnings.

The commonly considered potential sources are:

- Social Security
- Defined Benefit Pensions
- 401(k) and Other Defined Contribution Plans
- Traditional and Roth IRAs
- Annuities
- Cash Value of Life Insurance
- Longevity Insurance
- Home Equity
- Inheritance*

Earning Income in the Retirement Years

Income in the retirement years may come from a combination of the sources listed above. A retirement income plan should seek to coordinate and optimize those various sources. The plan's investment strategy should be aligned with one's retirement goals, be they in-retirement income-generation, capital preservation or legacy wealth transfer. The plan should try to optimize the sequence and coordination of spending from pre- and post-tax retirement savings vehicles and other savings and investment accounts to minimize taxes and maximize Social Security income.

Financial planners and advisors can be resourceful helping individuals convert today's earning dollars into tomorrow's satisfactory retirement income. According to a recent report by the Insured Retirement Institute, Baby Boomers who work with advisors are better prepared for retirement: More than 90% of them have retirement savings. Eight out of 10 Baby Boomers feel they are better prepared for retirement because they work with a financial professional.†

As people of all ages prepare for their retirement, we believe individuals are better served by working with a financial professional to tailor a retirement income plan to their unique situations. A professional can inventory potential income sources, project what the income potential may be from these sources and develop a strategy to prepare for retirement, as well as plan when and how much income to take from each of those sources in retirement.

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* We don't recommend counting on an inheritance unless it is protected in an irrevocable trust. The long-term health care needs and personal whims of one's benefactor can change quickly.

† The Insured Retirement Institute (IRI) "Boomer Expectations for Retirement 2015: Fifth Annual Update on the Retirement Preparedness of the Boomer Generation," April 2015.

Earning and Savings Best Practices Through the Years

The 20s

- Develop a career plan that takes into account industry, experience and education. Careers in which you learn all of your skills and expertise before starting tend to pay well in the early years, but salary progression may not be as great compared to careers in which one is continually learning and gaining more valuable experience.
- Target a desired retirement outcome and assess the level of monthly and annual savings and investments needed to achieve that target.
- Develop healthy financial habits of saving and invest 10% or more of every paycheck.
- An employer's retirement plan is a great place to start for both matching dollars and efficiency.
- Develop a plan to prioritize paying off college loans while balancing the need to start saving.
- Increase retirement plan contributions once loans have been paid off.

The 30s

- Actively manage one's own career to advance, earn more and enjoy work.
- Apply raises and bonuses directly to investments as a painless way to increase retirement savings.
- After maxing out employer plan contributions, invest additional earnings in tax-favored Traditional and Roth IRAs. Protect earnings with disability insurance and health insurance.
- Reassess the targeted retirement outcome, and recalibrate contributions to retirement plans and other long-term investments.
- Protect current and future income through health insurance, long-term disability insurance and life Insurance.

The 40s

These are peak earning years for many. Maintain savings and investing discipline, and manage bonuses and stock options with an eye toward the retirement target.

- Work with a financial advisor, if not already doing so, to develop a comprehensive investment plan factoring in all savings and investments, targeted timeline to retirement, and risk tolerance
- If life insurance is needed, consider term insurance for its lower cost, and permanent insurance for its long-term potential to accumulate cash value that could be used for retirement income and as an estate-transfer tool later on.
- Continue to reassess the targeted retirement outcome and recalibrate savings as needed.
- Together with a financial advisor, reassess and realign the investment strategy as needed to align with goals and objectives.

The 50s

The 50s, particularly from the mid-50s onward, is a transitional period from a retirement perspective. It's a time to conduct one last assessment and recalibration of the retirement outcome being targeted.

- Take advantage of retirement plans' catch-up provisions. Individuals age 50 and older can contribute an additional $1,000 to Traditional and Roth IRAs, $3,000 to SIMPLE IRAs, $6,000 to 401(k)/Profit Sharing/403(b) plans.
- Seek to protect retirement savings. As the targeted retirement date approaches, discuss moving from an accumulation investment strategy to a protection strategy through de-risking retirement savings and investments with an advisor.
- Consider consolidating various IRAs and brokerage accounts as appropriate.
- At age 55, reassess investment risk tolerance and portfolio positioning.
- If retiring from a company at age 55 or older, penalty-free distributions from that company's defined contribution plan may begin.
- Penalty-free distributions from IRAs and other retirement plans may begin at age 59½.
- Insurance needs may be changing. See our paper on Insuring for a More Secure Retirement.

The 60s

Consider a phased retirement and make necessary plans. Depending on circumstances, consider downshifting without completely stopping work as a way to maintain social connections, stay active and earn wage income to supplement other sources of retirement income.

- Work with a financial advisor to develop a tax-efficient retirement income sequencing strategy.
- Evaluate all Social Security options including delaying beyond "normal" retirement age.
- Be sure to sign up for Medicare three months before turning age 65, even if you plan to delay taking Social Security beyond age 65.
- Portfolio allocations for most at this age should be conservative because market declines are difficult to recover from in these transition years.

The 70s-90s

- Manage spending within the budget. Retirement income may need to last another 25 years or longer.
- Manage receipt of income from various sources for tax efficiency.
- Retirement accounts can continue growing tax deferred, but required minimum distributions must begin at age 70½ to avoid the 50% penalty tax.
- Accumulated cash value in life insurance plans can be managed for tax-free withdrawals.

Investors should consider the investment objectives, risks, charges and expenses of a fund carefully before investing. Contact your financial advisor to obtain a prospectus, or a summary prospectus, if available, that contains this and other information about a fund, and read it carefully before investing.

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