Q3

RETIREMENT PLAN CONSULTANTS

RPC NEWS

A quarterly newsletter for Retirement Plan Participants

Your Retirement Checklist

Whether you're just starting to invest or you're well into your working years, this checklist can help prepare you for this important financial goal.

Planning for retirement is a lifelong process. During your working years, determine your retirement needs and an appropriate asset allocation, begin investing as early as possible, and contribute as much as you can afford to tax-advantaged accounts to set the stage for an effective retirement plan. Once you're nearing retirement, it will also be necessary to craft a solid strategy for distribution of your assets and an effective estate plan. Answering the questions in this checklist can serve as a starting point to help prepare you for this important financial goal. Then, consider working with a qualified financial professional to help make sure your retirement plan is on target.

What does an artist and someone planning for his or her later years have in common? Each visualizes their final objective, but the process is fluid. Although your situation is unique, there are basic elements you can use to sketch an effective retirement plan.

An important action you can take is to determine your retirement needs. This task involves identifying your potential retirement expenses, as well as estimating the amount you might receive from each potential source of retirement income (Social Security, pensions, personal investments, and employment earnings).

Doing this calculation will give you an idea of how much you may need to finance a comfortable retirement. Don't be surprised if the numbers add up to a large sum -- after all, this money may need to support you for 20 or 30 years. Fortunately, there are ways to leverage your dollars.

Starting early and contributing as much as possible to employer-sponsored retirement plans and IRAs may help you to potentially accumulate more money. Why? Because investing in these tax-advantaged accounts means your money will work harder for you. The longer the money sits untouched, the more it can potentially compound.

Another vital step: Determine an appropriate asset allocation -- how you divide your money among stocks, bonds, and cash -- for your portfolio. This should be based on your financial goals, tolerance for investment risk, and time horizon. Be aware that your asset allocation will need to be adjusted periodically in response to major market moves or life changes. Also remember that asset allocation does not assure a profit or prevent a loss.

Once you're nearing retirement, it will also be necessary to craft a solid plan for distribution of your assets. For example, do you know one of the greatest risks that retirees face? It's the possibility of outliving their money, according to the Society of Actuaries.

That's why it's essential to determine an appropriate annual withdrawal rate. This amount will be based on your overall assets, the estimated length of your retirement, an assumed annual rate of inflation, and how much your investments might earn each year.

Another consideration: After age 70½, you'll have to begin making an annual withdrawal from some tax-deferred retirement accounts (known as a required minimum distribution, or RMD), including traditional IRAs. Preparing for this phase ahead of time may help reduce your tax burden -- especially if your annual RMD may push you into a higher tax bracket.

Likewise, this is the time to make sure your final wishes are accurately documented and estate strategies are well underway to minimize your heirs' tax burden. As you can see, planning for the different phases of retirement is a lifelong process. Following is a list that can help you along the way.

Retirement Planning Checklist

Find the category that best describes you. After answering the questions, bring the list to a qualified financial professional who can help make sure your retirement plan is on target.

Saving for Retirement

1. Have you performed a comprehensive retirement needs calculation?
2. Are you contributing enough to potentially reach your financial goal within your desired time frame, by maximizing contributions to tax-advantaged retirement accounts, such as your employer-sponsored retirement plan and an IRA?
3. Is your asset allocation aligned with your retirement goal, risk tolerance, and time horizon?
4. Have you determined if you might benefit from contributing to a traditional IRA or a Roth IRA?
5. Do you review your retirement portfolio each year and rebalance your asset allocation if necessary?

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Nearing Retirement

1. Do you know the payout options available to you (e.g., annuity or lump sum) with your employer-sponsored retirement account, and have you reviewed the pros and cons of each option?
2. Have you considered your health insurance options, (i.e., Medicare and various Medigap supplemental plans or employer-sponsored health insurance), out-of-pocket medical expenses, and other related health care costs?
3. Have you contacted Social Security to make sure your benefit statement and relevant personal information are accurate?
4. Should you purchase long-term care insurance? If so, have you investigated which benefits are desirable?
5. Is your asset allocation properly adjusted to reflect your need to begin drawing income from your portfolio soon?
6. Have you determined an appropriate withdrawal rate of your assets to help ensure that your retirement money might last 20, 30, or more years?
7. Have you figured the amount of your annual RMD and developed a strategy to reduce your tax burden once you're required to begin taking RMDs?
8. Have you appointed a health care proxy and durable power of attorney to take charge of your health and financial affairs if you are unable to do so?
9. Have you reviewed all your financial and legal documents to make sure beneficiaries are up-to-date?
10. Are you making effective use of estate planning tools (such as trusts or a gifting strategy) that could reduce your taxable estate and pass along more assets to your heirs while also benefiting you now?

Source: DST Systems, Inc.
This is a hypothetical example used for illustrative purposes only and is not representative of any particular investment vehicle. It assumes a 6% average annual total return compounded monthly. Your investment performance will differ.

Time Is Your Friend in Investing

The longer your money is invested in your retirement plan, the more you potentially benefit from compounding.

If an uncle died and left you $50,000 in his will, would you prefer to get your hands on that money today or wait a year to receive it? Most likely, your answer would be: "Now, please." You know instinctively that the sooner you receive the money, the sooner you can benefit from it.

It works much the same way with saving for retirement.

The sooner you begin adding more to your retirement plan, the more time your extra contribution will have to grow and compound. Compounding is basically money making money. And time is a big part of the magic of compounding. The longer your money is invested, the more you potentially benefit from compounding.

The cumulative result after years of contributions and earnings may be the nest egg you'll need to see you through your retirement years. You can put time and compounding to work on your behalf right away by increasing your retirement plan contribution.

Growing Your Savings

An extra retirement plan contribution of $200 a month could potentially grow to:	
After 10 years	$32,776
After 20 years	$92,408
After 30 years	$200,903
After 40 years	$398,298

Source: DST Systems, Inc.
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