Q4

RETIREMENT PLAN CONSULTANTS

RPC NEWS

A quarterly newsletter for Retirement Plan Participants

Frequently Asked Retirement Income Questions

When should I begin thinking about tapping my retirement assets and how should I go about doing so?
The answer to this question depends on when you expect to retire. Assuming you expect to retire between the ages of 62 and 67, you may want to begin the planning process in your mid-to-late 50s. A series of meetings with a financial advisor may help you make important decisions such as how your portfolio should be invested, when you can afford to retire, and how much you will be able to withdraw annually for living expenses. If you anticipate retiring earlier, or enjoying a longer working life, you may need to alter your planning threshold accordingly.

How much annual income am I likely to need?
Financial advisors typically suggest that many people are likely to need between 60% and 80% of their final working year's income to maintain their lifestyle after retiring. But low-income and wealthy retirees may need closer to 90%. Because of the declining availability of traditional pensions and increasing financial stresses on Social Security, future retirees may have to rely more on income generated by personal investments than today's retirees.

How much can I afford to withdraw from my assets for annual living expenses?
As you age, your financial affairs won't remain static: Changes in inflation, investment returns, your desired lifestyle, and your life expectancy are important contributing factors. You may want to err on the side of caution and choose an annual withdrawal rate somewhat below 5%; of course, this depends on how much you have in your overall portfolio and how much you will need on a regular basis. The best way to target a withdrawal rate is to meet one-on-one with a qualified financial advisor and review your personal situation.

When planning portfolio withdrawals, is there a preferred strategy for which accounts are tapped first?
You may want to consider tapping taxable accounts first to maintain the tax benefits of your tax-deferred retirement accounts. If your expected dividends and interest payments from taxable accounts are not enough to meet your cash flow needs, you may want to consider liquidating certain assets. Selling losing positions in taxable accounts may allow you to offset current or future gains for tax purposes. Also, to maintain your target asset allocation, consider whether you should liquidate overweighted asset classes. Another potential strategy may be to consider withdrawing assets from tax-deferred accounts to which nondeductible contributions have been made, such as after-tax contributions to a 401(k) plan.

If you maintain a traditional IRA, a 401(k), 403(b), or 457 plan, in most cases, you must begin required minimum distributions (RMDs) after age 70½. The amount of the annual distribution is determined by your life expectancy and, potentially, the life expectancy of a beneficiary. RMDs don't apply to Roth IRAs.

Are there other ways of getting income from investments besides liquidating assets?
One such strategy that uses fixed-income investments is bond laddering. A bond ladder is a portfolio of bonds with maturity dates that are evenly staggered so that a constant proportion of the bonds can potentially be redeemed at par value each year. As a portfolio management strategy, bond laddering may help you maintain a relatively consistent stream of income while managing your exposure to risk.[1]

In addition, many of today's annuities offer optional living benefits that may help an investor capitalize on the market's upside potential while protecting investment principal from market declines and/or providing minimum future income. Keep in mind, however, that riders vary widely, have restrictions, and that additional fees may apply. Your financial advisor can help you determine whether an annuity is appropriate for your situation.[2]

When crafting a retirement portfolio, you need to make sure it is positioned to generate enough growth to prevent running out of money during your later years. You may want to maintain an investment mix with the goal of earning returns that exceed the rate of inflation. Dividing your portfolio among stocks, bonds, and cash investments may provide adequate exposure to some growth potential while trying to manage possible market setbacks.

[1]Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Bonds are subject to availability and change in price.
[2]Annuity protections and assurances are based on the claims-paying ability of the issuing insurance company.

1-877-800-1114
retirementplanconsultants.net

RETIREMENT PLAN
CONSULTANTS

Q4

RPC NEWS

A quarterly newsletter for Retirement Plan Participants

Confused About Plan Fees? Here's a Glossary of Key Terms

Fee disclosure rules are supposed to make it easier for participants in employer-sponsored retirement plans to find out how much they are paying to participate in their plan. But the terminology can be confusing. Below is a handy glossary that can help you interpret all those items on your quarterly account statement, fund fact sheet, or fee disclosure statement.

12b-1 Fee -- A charge assessed to mutual fund shareholders to cover that fund's shareholder servicing, distribution, and marketing costs.

Administration/Recordkeeping Fees -- Costs for providing recordkeeping and other plan participant administrative-type services.

Advisor Fees -- Paid to an advisor for services provided to the plan, including selection of investment options and any participant advice or guidance.

Basis Point (bps) -- A unit of value that is equal to 1/100 of 1%. For example, 10 basis points is equal to 0.10%.

Benchmark -- A standard by which a particular security or mutual fund can be measured. For mutual funds, the benchmark is typically a broad market index, such as the S&P 500, for a fund that invests primarily in large U.S. equities.

Brokerage Fees -- Charges for the administration and maintenance of a self-directed brokerage account.

Commission -- A fee paid to a broker or other intermediary for executing a trade.

Contract Administration Fee -- A charge for costs of administering an insurance or annuity contract. This charge can include costs associated with the maintenance of participant accounts and all investment-related transactions initiated by participants.

Distribution Fees -- The costs typically associated with processing paperwork and issuing a check for a separation-of-service distribution, retirement distribution, hardship withdrawal, or other in-service withdrawal.

Expense Ratio -- The cost of investing and administering assets, including management fees, in a mutual fund or other collective fund. This fee is expressed as a percentage of total assets.

Loan Fees -- Separate fees may be assessed for the origination, processing, and maintenance of a loan.

Management Fee -- Fee charged for the management of pooled investments such as collective investment funds, insurance/annuity products, mutual funds, and individually managed accounts.

NAV (net asset value) -- The per-share value of an investment, such as a mutual fund or exchange-traded fund.

QDRO (qualified domestic relations order) -- A legally binding order that creates or recognizes an alternate payee's (such as a former spouse's or a dependent child's) right to receive all or a portion of a participant's retirement plan benefits.

Sales (Load) Charge -- A front-end load is a charge assessed when an investment in a mutual fund is made. A back-end load is a charge that is due upon the sale or transfer of the investment. A back-end load may be reduced and/or eliminated over time.

Separate Account -- An asset account established by a life insurance company, separate from other funds of the life insurance company, offering investment funding options for pension plans.

Surrender/Transfer Charges -- Fees an insurance company may charge when either an employer terminates a contract (in other words, withdraws the plan's investment) before the term of the contract expires or a participant withdraws an amount from the contract.

Wrap Fee -- An inclusive fee generally based on the percentage of assets in an investment program, which typically provides asset allocation, execution of transactions, and other administrative services.