Ramp Up Savings for Your Retirement

5-step action guide to help you boost your future 'paycheck'

Written by the Editors of *Kiplinger's Personal Finance*

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Improve Your Retirement Readiness

5 STEPS YOU CAN TAKE TODAY

At the midpoint of your career, you're in a strong position to rev up your retirement planning.

Your first step is to imagine your ideal retirement, and then assess your progress toward achieving those goals. It's important to make sure you're on track now, so that you can gauge whether you need to accelerate savings, maximize earnings, or obtain some professional advice.

The good news is that you're in your prime earning years, which could give you the financial resources to save more. And you still have time to let those savings grow. If you haven't already, getting professional advice can also be a key step at this stage.

It's all about having the freedom to retire on your terms, choosing when you want it to happen, and making sure you have enough assets to fund the lifestyle you envision. And it's easier to manage those choices than you might think.

That's what this booklet is all about. It's an action guide that walks you through five important steps you can take right now to prepare for retirement and strengthen your future financial security:

- Boost savings to supercharge asset growth.
- Reassess your investments based on your timeline and risk tolerance.
- Get dependable financial advice to minimize risk and fortify assets.
- Plan to maximize Social Security.
- Determine when you want to retire.

Now let's take a closer look at the five steps.

STEP 1: Boost savings to supercharge asset growth

There is a great reason why taking advantage of peak earning years helps top off retirement savings: The IRS allows extra tax-advantaged savings when you turn 50. Here's how you can bump up your contributions for maximum gain.

TAKE ADVANTAGE OF CATCH-UP CONTRIBUTIONS

As soon as you turn 50, you can begin making special tax-advantaged "catch up" contributions to your retirement accounts. These annual contributions can turbocharge savings, helping you make up for lost time.

- In employer plans, including 401(k) and 403(b) plans, you can contribute an extra $6,000, bringing the maximum total annual contribution to $24,500 for 2018.
- And for Roth and traditional IRAs, you can contribute an extra $1,000, for a total annual contribution of $6,500 for 2018.

! The IRS decides whether to change annual limits on contributions and benefits for a range of retirement plans; you can find the current year's limits at IRS.gov.

DON'T SABOTAGE SAVINGS

A crucial rule at this stage of your savings plan: Keep your retirement savings for retirement. Tapping these funds by taking early withdrawals or loans from your retirement accounts can cost you dearly. You'll lose the momentum of compounding on that money and may also pay 10% early-withdrawal penalties.

THE POWER OF COMPOUNDING

Like a snowball gaining in size as it rolls downhill, compounding helps your savings grow. That's because you earn interest on your original sum plus the accumulated interest.

Even when you're nearing retirement, compounding will still work for you. Let's say you're 45, and you save $200 per month until you turn 65 (with earnings averaging 7% a year). You'll contribute $48,000, but your nest egg could grow by more than $100,000. That's the ongoing power of money making money.

That's on top of any taxes you may owe. Borrowing money from your 401(k) may help you avoid those tax issues, but you'll still lose out on the compounding effect.

Plus, if you quit or lose your job, you may have to pay back the entire loan in short order. And temporarily stopping contributions—even if you plan to try to catch up later—also minimizes the impact of compounding.

TAKE-AWAY ACTION STEP

Check out various savings calculators online:

- Compound Interest Calculator at **Investor.gov**
- Savings Goal Calculator at **Bankrate.com**
- Compound Savings Calculator at **360financialliteracy.org**

STEP 2: Reassess your investments

Another important step is to review the investments in your retirement accounts based on changing circumstances and your personal timeline. That allows you to customize your asset mix to maximize and protect your nest egg as you get closer to retirement.

ADJUST THE MIX TO MATCH YOUR TIMELINE

Your prime earning years are the perfect time to maximize the amount of money you contribute and focus on the growth potential of your portfolio. At the same time, keeping a closer eye on managing risk may be appropriate as retirement nears.

You can reduce risk by choosing some "safe" investments, but there's a trade-off. Safer investments (such as bonds) typically don't earn as much as riskier ones (including stocks). While your nest egg might be more secure, it's unlikely to grow as much or as quickly, which can result in less money when you're ready to retire.

And don't forget that your retirement could last for decades, so keeping at least some portion of your portfolio invested in higher-earning, but riskier, investments throughout those years may make sense.

Here's a common rule of thumb: To set a percentage allocation for stocks, subtract your age from 120. So, at age 40, you'd invest 80% in stocks and 20% in bonds and cash; at age 50, 70% in stocks and 30% in bonds and cash; and so on.

REVIEW YOUR MIX REGULARLY

Adjusting your portfolio as you get closer to retirement makes sense. But changes in other circumstances could prompt the need to rebalance your holdings as well. For example:

1. Your life situation has changed. When your personal situation changes—getting divorced or sending children to college, for example—it's a good idea to review your retirement savings as a part of your overall financial plans.
2. Market performance has changed the value of your investments. Revisit your retirement holdings periodically (at least once a year) to see if the actual diversification still matches your plan.

Here's an example: Say you've accumulated a $100,000 portfolio, with $70,000 in stocks (70%) and $30,000 in bonds (30%). After a very good year for the stock market, the portfolio is worth $120,000, with $90,000 in stocks (75%) and $30,000 in bonds (25%). To get back to your 70/30 plan, you would need to rebalance your portfolio by selling $6,000 worth of stocks and buying $6,000 worth of bonds.

CONSIDER TARGET DATE FUNDS

Target date funds put asset allocation on autopilot. These mutual funds automatically adjust their holdings toward more conservative investments as the target date—the year you plan to retire—approaches. Mutual fund companies include the date in the name of the fund, such as Retirement 2040.

Here are a few things you need to keep in mind when considering a target fund:

- Target date funds are designed to be the only investment in your retirement portfolio; holding other funds defeats the purpose by messing with the carefully designed allocation.
- Like any other fund, target date funds are not risk-free and may experience significant losses.
- Not all target date funds are the same: Each fund company sets its own path and timetable for moving into more conservative holdings.
- It's important to know whether it's a "to" fund or a "through" fund. "To" funds aim to reach their more conservative portfolio mix on your retirement date and stop adjusting asset allocations once they hit that target year. "Through" funds hit that final portfolio mix after the target date, taking fund holders through retirement and continuing to shift the asset mix over a predetermined number of years.

ARE STOCKS REALLY RISKIER THAN BONDS?

Yes ... and no. Because stock prices are more volatile than bond prices, over the short term, bonds tend to provide more stability to your portfolio than stocks do. But history shows that over the long term (such as the period over which you are saving for retirement), stocks consistently outperform bonds, giving you a safer cushion against inflation.

TAKE-AWAY ACTION STEP

Learn more about asset allocation. Choosing the right mix of investments depends on your personal risk tolerance and timeline. Explore your options with tools like these:

- Asset Allocation Profile at **Smartasset.com**
- Asset Allocation Calculator at **Bankrate.com**
- Asset Allocator Tool at **360financialliteracy.org**

STEP 3: Get dependable financial advice

If you haven't done so already, consider seeking professional guidance to ensure your retirement plan is on track. You can explore one of two approaches: working with a traditional financial professional or choosing the newer breed of hybrid advisers. Hybrid advisers combine computer-generated "robo" services with personal guidance from a professional.

LOOK FOR A FIDUCIARY

For the most reliable service, you'll want to work with a *fiduciary*. Fiduciary professionals are legally and ethically obligated to put you first and avoid any conflicts of interest.

You'll also want to find an adviser whose specialties match your situation. Here are just a few of your options:

- **Registered Investment Advisers** (RIA) actively manage or invest money on your behalf for a fee. You may elect to give RIAs the authorization to make trades on your behalf and determine your investment strategy.
- **Certified Financial Planners®** (CFP®) have met experience requirements and have passed qualifying examinations to prepare them to take on a wide variety of assignments, including analyzing your retirement funds.
- **Accredited Financial Counselors®** (AFC®) have met education, experience, and ethics requirements. They can help you address immediate money challenges and build a foundation to achieve long-term financial goals.

Find more detailed explanations for how these and other professionals work, in the booklet *Getting Help With Your Investments*, from the Investor Protection Trust.

CONSIDER A HYBRID SERVICE

If your financial planning needs aren't overly complex, you may want to consider a hybrid advisory service. Many traditional adviser networks and brokerage firms now offer this alternative.

Hybrid services are a step up from conventional "robo" advisers, which fully automate portfolios by using computer algorithms to select, manage, and rebalance investments. With the hybrid approach, you'll get access to those automated recommendations, but also to a certified financial planner if you need it.

Just don't expect to develop an ongoing relationship with a dedicated adviser, as you would at a traditional money-management firm. When you call, you'll talk to the first person available.

TAKE-AWAY ACTION STEP

- **Verify a specific adviser.** Your State Securities Regulator can confirm an adviser's licensing and education. Find your state regulator on the North American Securities Administrators Association website at NASAA.org.

STEP 4: Plan to maximize Social Security

Your next step involves learning more about how Social Security will figure into your retirement plans. Although many experts believe that Social Security will have to undergo some changes to ensure its continued viability, you can count on it to be an important component of your retirement funding.

So it's a good idea to familiarize yourself with the program. You'll want to estimate your future benefits and make sure you understand the best time to apply for them.

KNOW THE BASICS

There are four essential facts everyone needs to know about Social Security.

1. You must earn 40 "credits" to be eligible for benefits. You can earn up to four credits a year, so it generally takes 10 years of work to qualify. In 2018, one Social Security work credit equals earnings of $1,320. (You can find updated credit values each year at **www.ssa.gov/oact/cola/QC.html**.)
2. Your benefit is based on the income from your 35 highest-earnings years—even if they're not consecutive.
3. You can start taking Social Security retirement benefits any time between age 62 and age 70, and when you start can have a big impact on the amount you receive.
4. The age at which you can claim a *full* Social Security benefit (your Full Retirement Age) is based on the year you were born.

TIME YOUR CLAIM RIGHT

There are advantages and disadvantages to taking your benefit before your full retirement age. The advantage is that you collect benefits for a longer time. The disadvantage is that your benefit is reduced.

If you start collecting Social Security before your full retirement age, your benefits will be reduced by about 6% each year. So, for example, if 67 is your full retirement age but you start taking benefits at age 62, you'll lose about 30% of the monthly benefit you'd get at 67.

FULL RETIREMENT AGE

*Birth year	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960+	67

**Born on January 1? Refer to the previous year.*

CASE STUDY

Assume you're due a monthly benefit of $2,000 at the full retirement age of 67. Here's what your benefit would be if you started collecting Social Security earlier or later, not counting cost-of-living increases that apply almost every year.

62	$1,408
63	$1,500
64	$1,600
65	$1,733
66	$1,867
67	**$2,000**
68	$2,160
69	$2,320
70	$2,480

On the other hand, waiting to claim until after your full retirement age can increase your benefit—by as much as 8% per year up to age 70. Of course, there are reasons to claim sooner—if you have health concerns, for example, or if you think you'll need the money more in early retirement than when you're older.

Bottom line: The longer you wait to claim Social Security, the bigger your monthly retirement benefits will be. But only you can decide when it's the right time for you.

TAKE A SPOUSAL BENEFIT

Marriage brings couples an advantage when it comes to Social Security. Namely, one spouse can take what's called a spousal benefit, worth up to 50% of the other spouse's benefit. For example, if your benefit is worth $2,000 but your spouse's is worth only $500, your spouse can switch to a spousal benefit worth $1,000—bringing in $500 more in income per month.

Generally, you must be married for one year before you can claim spousal benefits. A divorced spouse must have been married 10 years to receive any benefits on an ex-spouse's record.

Note that the calculation changes if benefits are claimed before full retirement age, and that you cannot apply for a spousal benefit until your spouse has applied for his or her own benefit.

TAKE-AWAY ACTION STEP

- **Create a "my Social Security" account at www.ssa.gov/myaccount.** You'll be able to review estimates of your future retirement, disability, and survivors' benefits, plus verify your earnings record to ensure that the amounts posted are correct.

STEP 5: Determine when you want to retire

Have a specific retirement date in mind? Take stock of your financial preparedness by doing a little accounting work in advance to estimate future income and expenses. That way, you can make a few adjustments to your savings strategy, if needed, to ensure you'll reach your goal.

ADD UP POTENTIAL SOURCES OF INCOME

Start by estimating your Social Security benefits. (Remember, the longer you wait to take Social Security, the bigger your monthly check will be.) Then, if you have an employer pension, ask the plan administrator what your guaranteed payments are likely to be. And don't forget to identify any potential income from other sources, such as rental payments, non-retirement investment income, or even part-time work.

Next, review the withdrawal rules for your employer-based retirement account, such as a 401(k) or 403(b) plan, and for any individual retirement account (IRAs) you may have.

- **For traditional IRAs,** you may start taking money out without penalties when you turn 59½, and you must take required minimum distributions (RMDs) when you turn 70½ or face steep IRS penalties—50% of the amount you were supposed to withdraw. Any money you withdraw from traditional IRAs will be subject to regular income taxes, unless you have made nondeductible contributions to the account.
- **Rules for Roth IRAs are different:** The original owner is not required to begin taking withdrawals at any age. And you can take out money you contributed at any time without penalty. As long as the Roth IRA account is at least five years old, withdrawals are completely tax-free after you turn 59½.
- **Penalty-free withdrawals from a 401(k) or 403(b)** can start once you turn 59½, and RMDs are generally required once you turn 70½. There's an exception: If you're still working, you won't have to take RMDs until you retire, which gives your money extra time to grow. (There's an exception to the exception, too. If you own more than 5% of the company, payouts must begin at 70½.) You'll pay regular income tax on any money you withdraw from your traditional 401(k). The same RMD rules apply to Roth 401(k) accounts, but withdrawals are tax-free.
- **Note:** If you'll turn at least age 55 in the year you leave a job, you can also tap your 401(k) or 403(b) without penalty.

ESTIMATE FUTURE EXPENSES

Many people substantially underestimate what they will spend in retirement. One recent survey of current retirees by the Employee Benefit Research Institute shows that almost half spent more on healthcare than they expected. And almost as many said they underestimated costs for all other expenses, too.

In addition to healthcare costs, you'll need to budget for regular expenses such as housing, groceries, and taxes. You'll also want to consider expenses that don't crop up every month—such as car and home repairs, holiday gifts, or vet bills—but still take a big bite out of your budget. And don't forget to include new (or increased) lifestyle expenses, such as world travel, art classes, or golfing.

DETERMINE HOW LONG YOUR INCOME WILL LAST

The first step to figuring out how long your savings will last is to calculate the difference between your guaranteed annual income and your essential expenses. That's the amount you'll need to withdraw annually from your retirement accounts. Next, divide your total retirement savings balance by the annual withdrawal you just identified.

The result? That's the estimated number of years your savings could last (barring any major economic downturns).

This number is a good starting point for helping you figure out when you might be able to retire. And if the timing doesn't match your expectations, you can take action today to put your savings in a better position for tomorrow.

$404,253

This is how much the average 65-year-old couple retiring today will pay for lifetime healthcare costs (including premiums, deductibles, co-pays, and other out-of-pocket expenses), according to one estimate by HealthView Services.

Another estimate conducted annually by Fidelity Benefits Consulting pegs average healthcare spending at $275,000 per couple over a 23-year retirement.

TAKE-AWAY ACTION STEPS

- **Estimate your RMDs from all sources.** Check out the IRS's required minimum distribution worksheets, available at IRS.gov.
- **Estimate your monthly expenses in retirement** with Vanguard's retirement expenses worksheet, available at Vanguard.com.
- **Calculate how much you need to save,** and how multiple variables affect your goal, with the retirement savings calculator at Kiplinger.com.

Key Retirement Milestones

50 Begin making catch-up contributions to your retirement accounts

55 If you leave a job during the year you turn 55 or after, you can take penalty-free withdrawals from that employer's retirement plan (taxes still apply)

59½ Make penalty-free withdrawals from all traditional IRAs and employer retirement plans (taxes still apply)

62 Earliest age at which you can claim Social Security retirement benefits

65 Enroll in Medicare Part A even if you have workplace coverage; also enroll in Part B if you don't

66 67 Full retirement age for Social Security, depending on the year you were born

70 Claim the maximum benefit from Social Security

70½ Begin taking required minimum distributions (RMDs) from traditional retirement accounts

Check out these websites for more information: **Medicareinteractive.org**; **SSA.gov**; and **IRS.gov.**

RETIRE ON YOUR TERMS

Now that you've learned some smart ways to boost savings and gauge sources of income in retirement, you're ready to supercharge your progress. Envision your ideal retirement—and then prepare wisely to fund your journey ahead.

ABOUT WHEN I'M 65

How we live and thrive in retirement is changing dramatically in the 21st century. ***When I'm 65*** is a groundbreaking documentary, produced by Detroit Public Television, and community engagement program that examines the choices all Americans must make today to plan for a financially secure and fulfilling future.

> *"When I'm 65 offers jargon-free explanations and can-do action plans for all ages—Millennials, Gen Xers and Baby Boomers alike."*
>
> *–Don Blandin, CEO and President of Investor Protection Trust*

Watch the documentary and find upcoming workshops and conferences at **www.WI65.org**, **facebook.com/WI65project**, or **twitter.com/WI65project**.

Investor Protection Trust

THE INVESTOR PROTECTION TRUST (IPT) is a nonprofit organization devoted to investor education. More than half of all Americans are now invested in the securities markets, making investor education and protection vitally important. Since 1993, the Investor Protection Trust has worked with the states and at the national level to provide independent, objective investor education.

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