Retirement Plan

Update

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Because the time is now...

Frequently asked retirement income questions

A scannable list of frequently asked questions about retirement income planning with plain-English answers.

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

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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 guarantees are based on the claims-paying ability of the issuing insurance company.

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When your nest empties ...

Once children leave home, parents may want to consider increasing their contributions to retirement accounts.

Having a child leave home permanently is a significant event. After you've packed away the memorabilia, sit down and revisit your finances. It may be a good time to make some other changes.

From their diapers ...

Raising a child is expensive. For a child born in 2015 (the latest figures available), a middle-income family can expect to spend about $233,610 for food, shelter, and other necessities associated with raising a child over the next 17 years.[1]

... to your dreams

If you think it's a big change when the kids leave home, the next one—retirement—may be even bigger. Once you no longer have the expenses of raising a family, use the financial "windfall" to beef up your retirement

savings. If you haven't been saving as much as you should, this is the time to catch up. Building up your retirement savings should be a priority.

Check to see how much you're currently contributing to your retirement account, and consider increasing that amount. If you can sock away an extra $200 a month for 10 years and earn 6% a year (compounded monthly), you'll have added more than $32,000 to your account balance.

Max it out

If you can, consider increasing the amount you're saving until you reach your plan's maximum contribution amount. Check with your plan administrator if you don't know how much the annual limit is. If you're age 50 or older by the end of the calendar year—and your plan allows for them—you may be able to make additional catch-up contributions.

No procrastinating

It won't take long to adjust to having more money to spend after the kids leave home, so don't wait to reset your financial priorities. Earmark at least some of your empty nest surplus as retirement savings.

Your situation is unique, so be sure to consult a professional before taking action.

Save more now, spend more later

	Save an extra $2,400 a year	Save an extra $5,000 a year
For 7 years	$20,815	$43,364
For 10 years	$32,776	$68,283

These are hypothetical examples used for illustrative purposes. They do not represent the results of any particular investment. Monthly contributions and a 6% average annual total return (compounded monthly) are assumed. Your investment results will be different. Tax-deferred amounts accumulated in the plan are subject to ordinary income tax upon withdrawal. Source: DST Systems, Inc.

1. 2015 Expenditures on Children by Families, U.S. Department of Agriculture, January 9, 2017.

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60 South Sixth Street | Minneapolis, MN 55402

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