RETIREMENT PLAN
Update

Issue 3, 2023

Because the time is now ...

Saving for two

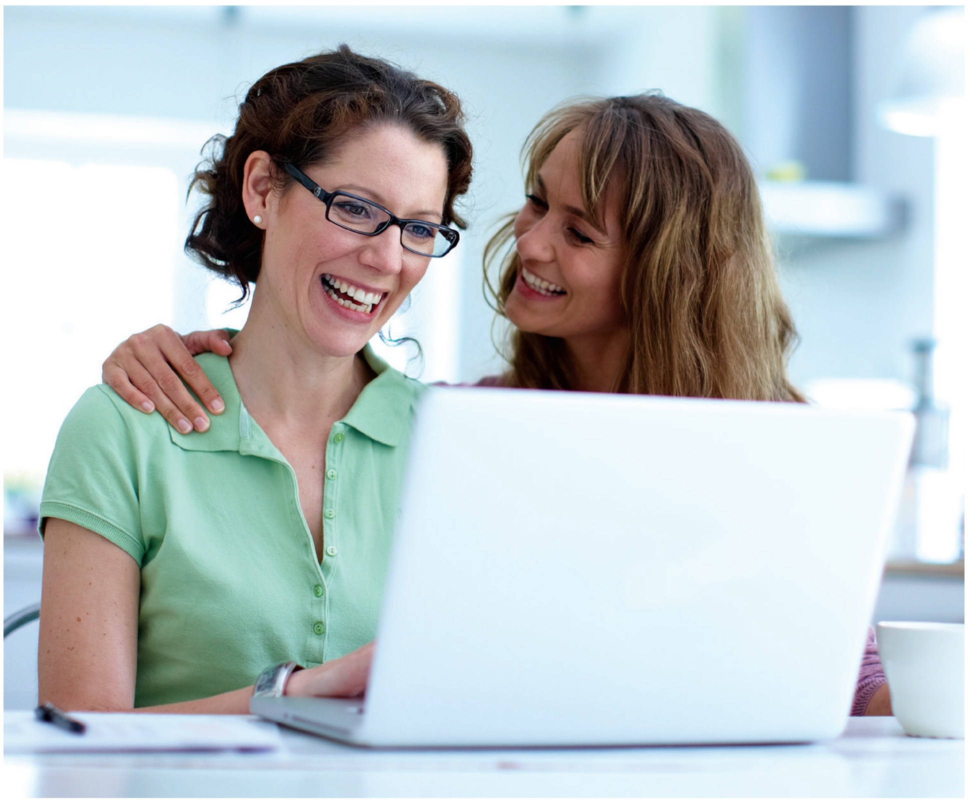
Here are some tips for saving for retirement when only one spouse has a workplace retirement plan.

An employer's 401(k) plan (or similar retirement plan) can be a good way for people to save for retirement. But what if your or your spouse's employer doesn't offer a retirement plan?

According to the U.S. Bureau of Labor Statistics,* 68% of private sector workers have a workplace retirement plan. Since most people don't save for retirement outside of their workplace plans, often only one person in a dual-earner couple is saving. And while you probably want to save enough to maintain your preretirement standard of living, 401(k) plans are designed for individuals, which makes it difficult to save for two.

Plan design

The specific design of a 401(k) plan is a main deciding factor in how much individuals contribute to their plans. Many plans offer auto-enrollment, where employees, upon eligibility, are automatically enrolled in their workplace retirement plan at a default contribution rate, which usually determines the rate at which employees save in their plans. Another feature in 401(k) plan design that influences contribution rates is the employer match. Employees may contribute at the rate necessary to receive the full employer match and



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often will increase their contribution amount to that rate, but they won't go beyond it.

These plan design features are targeted to help individuals save and do not take a spouse into consideration. Therefore, if you have a non-saving spouse, you may need to reevaluate and increase your contribution amount.

Closing the gap

Incorporating certain features in a 401(k) plan's design could help employees save more. For example, marital status might be considered when setting default contribution rates. Another plan feature that may help is auto-escalation, or incrementally increasing plan contribution rates automatically over time. As with auto-enrollment, employees have the opportunity to opt out instead of opting in, making it more likely that they'll just let it ride. Educating employees about the need to save more to cover a non-saving spouse is also important.

However, saving enough for retirement is ultimately an individual responsibility. What can you do to help confirm you'll be able to retire comfortably? Here are a few tips:

- Set a savings goal. Your financial professional can help you determine a target amount based on your projected retirement income needs.
- Consider increasing your plan contribution. Look beyond your employer match to determine your contribution rate. Take advantage of features like auto-escalation while also evaluating how much you can increase your contributions on your own. Remember that although you may have only one retirement plan, your combined incomes may make increasing your contribution rate not only desirable but also affordable.
- Consider using a traditional or a Roth individual retirement account (IRA) to supplement savings in an employer plan. A married individual may contribute to a spousal IRA even with little or no direct earnings. Keep in mind that specific tax rules apply to different IRAs, so you may want to consult a tax professional before investing.
- If there's a significant age gap between you and your spouse, plan for retirement with the younger spouse's life expectancy in mind. You may have to adjust your asset allocations if you follow age-based guidelines, and you may need to scale back on withdrawals later on since you will likely have a longer combined retirement. On the other hand, if you and your spouse are close in age and are nearing retirement, you may want to consider staggering your retirement dates in order to keep saving in your plan a little longer.

Before taking any action, please consult with your tax and financial professionals.

* Source: U.S. Bureau of Labor Statistics, TED: The Economics Daily, November 1, 2021.

"Big picture" retirement planning

Financial security is not the only factor to think about when planning for a successful retirement.

What makes a "successful" retirement? The answer for many people is: Retire with enough money saved to live through all the years of retirement with some degree of financial security. Of course, financial security is a critically important retirement goal. But it's not the only component of a truly successful retirement. Other factors can also play an important role. To help you envision the big picture, consider the following.

What makes you happy?

This is an important consideration. Do you derive the greatest happiness from being around your family and other loved ones? Do you thrive on social interaction or do you prefer solitude? Do you have hobbies or other interests that you enjoy? Do you find that travel and exploring new places are important to your well-being? A deep understanding of what makes you happy can influence where you live, how much spending money you'll need, and whether your retirement savings will last.

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Where will you live?

Family ties and their importance can influence whether you'll want to stay close to where you are living now or spread your wings and retire to a different area. The opportunity to access recreational and cultural events, educational programs, reliable transportation, and excellent health care facilities and providers are additional factors that can contribute to a satisfying retirement.

Your financial health also could be a factor when you are deciding where to live. You may need to downsize if the cost of keeping up your current home eats up too much of your retirement income. However, if you have done well saving for retirement, you will have more options. Thinking about where you may want to live in retirement long before you actually retire will give you time to strategize about how much you need to save to achieve your goals.

What will you do with your free time?

Post-working life may leave you feeling aimless and discontented if you can't find ways to occupy yourself. You'll find retirement more satisfying if you have activities that are meaningful and pleasurable. You may want to volunteer for organizations in your community or try different hobbies well before retirement to see if these activities will capture your interest. It can be particularly satisfying if you can find some way to share particular skills or knowledge you have with others in your community.

Will health be an issue?

Exercising, eating a healthy diet, and avoiding stress now can pay off big in retirement. Good health in retirement means that you will be able to be active and do more things you may enjoy, such as taking trips to see places you've always dreamed of seeing. Moreover, health care is expensive. Even with Medicare or other health insurance, out-of-pocket medical expenses can add up. So it pays to stay as healthy as possible and to have a strategy in place before retirement to deal with anticipated medical expenses that you or a loved one may incur.

What about taxes?

State income tax rates vary, and some states tax Social Security payments while others do not. There also can be significant differences among localities when it comes to property and sales taxes. If your tax burden is significant, it can be worthwhile to consult with a tax professional to see how beneficial it might be to move to a lower tax area in retirement.

What will your retirement look like?

A successful retirement requires clear, unemotional thinking about the type of life you want when you are no longer in the workforce. It requires holistic planning and a commitment to save as much as you can afford so that you will have enough money to lead your retirement life on your terms. Talk with your financial professional for ideas on how you can see the big picture when it comes to retirement planning.

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