



# RETIREMENT PLANNING

## THE 4 ESSENTIAL ELEMENTS OF A RETIREMENT PLAN

Until recently, many retirees have been able to rely upon the three-legged stool of retirement income sources: A defined benefit pension plan that guarantees a lifetime income, their own savings, and Social Security. Within the last couple of decades, the first leg of the stool has all but disappeared as many defined benefit plans have been replaced with defined contribution plans such as a 401(k) plan. This has shifted the responsibility for creating a retirement income source to the individual. With expanding life spans and increasing retirement costs, it will require serious retirement planning to ensure that your income will last a lifetime. Here are the four essential elements of a sound retirement plan:

### Set Clearly Defined Goals

With an increasing life expectancy, it's no longer enough to simply state, "I want to retire at age 65" as a goal. In order to inspire a well-conceived plan and the will to faithfully execute it, you need a clear vision of your life in retirement.

- + Do you plan on actually retiring; or would you like to work in some other field?
- + How will you live in retirement?
- + Where will you live?

- + What would you like to accomplish?

As you get closer to your retirement goal, your vision will become clearer and more focused. Along the way, your retirement goal becomes your investment benchmark, guiding your investment decisions based on where you are in relation to your goal.

### Calculate Your Retirement Costs

One of the more popular rules suggests that retirees will need just 70% to 80% of their pre-retirement income to maintain their standard of living. The major flaw with this rule is it doesn't account for the true cost of aging. In calculating the cost of retirement, the equation has become more difficult due to the new reality of expanding life spans which can also mean higher health care costs. The cost of your retirement needs to factor realistic spending assumptions based on your goals and desired lifestyle with contingencies for health care costs and unexpected expenses.

Once you know the cost of your retirement you can calculate how much you will need at retirement which becomes your accumulation goal.

### Long-Term Investment Strategy

Accumulating enough capital to provide lifetime income sufficiency is a daunting task, made more difficult in an environment of low returns on savings and increased stock market volatility. It requires a serious long-term investment strategy with the confidence and discipline to follow it. It starts with a specific



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[investment objective], which can be stated as the return on investment that must be achieved to meet your capital need.

The next step is to develop a risk profile that will enable you to match your tolerance for risk with a portfolio of investments that can reasonably expect to achieve your objective. This is done by developing an asset allocation plan that mixes different types of investments with varying correlation to one another. Then, through broad diversification within the asset classes, you can reduce portfolio volatility and achieve more stable long-term returns.

## Tax-Diversification

For decades we have been told that the best way to accumulate capital for retirement is through tax deferred savings vehicles, such as a 401(k) plan or an IRA. Although it still makes sense for accumulating capital, it doesn't take into account the tax consequences of income withdrawals and its impact on the total spendable income available in retirement. Retirement planning used to be almost entirely about capital accumulation; however, with the possibility of living 30 years or more in retirement, the emphasis is now on [managing your income during retirement]. If your only income source is a 401(k) plan, your income will be taxed as ordinary income. With diversified income sources that include a Roth IRA for tax free income, or a non-qualified investment portfolio for long term capital gains, you can minimize your taxes in retirement which will help make your income last longer.

## IMPORTANT DISCLOSURE INFORMATION

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