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5 Ways to Ensure You're Ready for Retirement

Here are five steps to ensure you are on track for retirement:

1. Take advantage of tax breaks (the government's way of encouraging you to save for retirement). It is in the government's interest for Americans to save enough on their own to live comfortably in retirement, so government programs don't have to foot the bill. For that reason, the government gives a range of tax breaks for retirement savings:

✔ **401(k) and 403(b) plans** — Contributions are excluded from taxable income; distributions, including earnings, are taxable at retirement.

✔ **Traditional IRAs** — Contributions are fully tax-deductible for individuals and couples with no work-sponsored retirement plan, but deductions are limited for individuals and couples with work-sponsored plans and incomes over certain limits; distributions are taxed as ordinary income.

✔ **Roth IRAs** — Contributions are taxable; qualified distributions, including earnings, are not taxable at retirement.

2. Don't bank on a market boom. It's a double-edged sword: in order to grow your savings large enough to live comfortably for the 20 plus years you'll likely spend in retirement, you have to invest those savings in the market. On the other hand, a market downturn can do significant damage to a nest egg.

The key is to be vigilant about your investments and change your asset allocation as you near retirement. Generally speaking, you should have money in more aggressive investments the farther you are

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Consider Personal Liability Umbrella Coverage

A personal liability umbrella policy increases the liability coverage of your homeowner and automobile policies. It also expands coverage to include damages caused by non-owned property in your possession and suits for libel, slander, defamation of character, or invasion of privacy. The policy also pays attorney fees to defend you against covered claims. Thus, even if you carry high limits on your homeowner and automobile policies, you should consider an umbrella policy.

Your homeowner and automobile policies will typically cover you for personal liability of anywhere from $100,000 to $500,000. However, if a judgment in excess of that amount is awarded against you, the amount in excess of your insurance limits will have to be paid personally, unless you carry personal liability insurance.

You may not think you need an umbrella policy because your actions would never necessitate the need for this coverage. However, liability can arise from auto-related accidents or accidents on your property.

Umbrella policies can be purchased in increments of $1 million. They are designed to kick in once the limits of your homeowner and automobile policies are exceeded. Umbrella policies don't cover intentional acts or damages resulting from a business, even a home-based business. ❍❍❍

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5 Ways to Ensure

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from retirement, and more conservative investments the closer you are.

At the same time, you need to have a realistic idea of the kinds of returns you can expect based on your given asset allocation — because your projections of those returns are an important part of determining how much you need to save to retire comfortably.

3. Make retirement goals real to ease sacrificing today for the sake of tomorrow. As human beings, we are notoriously bad at thinking of our future selves. But sacrificing today — paring down your vacation plans or buying a less luxurious car, for example — is easier if you have a clear, tangible concept of exactly what you're sacrificing for.

So sit down with your significant other and think of the things you want to do in your golden years. Maybe it's an annual month-long European tour, or an Alaskan cruise, or once-a-quarter trips to visit the grandkids. Budget how much those plans will cost (taking inflation into account).

4. Make retirement savings automatic. Another way to make saving easier is to make it automatic — many advisors refer to this as paying yourself first. If the money you've budgeted as retirement savings never reaches your pocket, you'll be much less inclined to spend it. Some retirement plans are already set up this way: for example, an employer-sponsored 401(k), will deduct your contribution from your paycheck. You can also set up other retirement plans — like IRAs — to deduct a certain amount from your bank account every month.

5. Take an honest look at how much you'll need in retirement — and how much you have to save now to get there. The most important step to take is to determine, based on your current income and net worth, a dollar amount that will give you a replacement rate of 70% or more — and a strategy for saving so by the time you're ready to retire, you've met your goal.

Please call if you'd like to discuss this in more detail. ❍❍❍

Your Retirement Portfolio and Bonds

Of the three main asset classes, bonds often appear the least exciting. However, bonds can be an important piece of any retirement portfolio, particularly as you age into your 40s and beyond. As a general rule, your bond allocation should increase as you near retirement.

When you're young, bonds will likely be of little importance to you. History shows that bond returns are typically lower on the aggregate than stocks, so an investor who's 30–50 years away from retirement might be understandably less interested in bonds. Investing predominately in bonds in your youth might keep you from some panicked moments during temporary bear markets, since the stock market is arguably more volatile than the bond market. But depending on your tolerance to a few downturns throughout the course of your working life, stocks' average return has historically been significantly higher than that of bonds.

As you move closer to retirement, however, your vulnerability to risk increases, as you no longer have as much time to ride out and recover from a sudden stock decline. Increasing your bond allocation as you age can offer a buffer should you encounter a sharp decline in stocks, allowing you to hold on to more of your investments and stick to retirement goals regardless of the market. Keep in mind, however, that some of the age-based bond-to-stock ratio investment theories you've heard could be outdated guidance — it may not be realistic to tweak your allocation ratios based on advice born in times when bond yields were much higher, the cost-of-living-to-income ratio was less, and employer-sponsored pensions were more popular. Considering modern-day realities, along with the likelihood that you'll live a longer life than your parents or grandparents, it may not be as prudent to increase your bond investments at your exact aging rate.

Of course, your retirement portfolio should align with your individual retirement goals and risk tolerance, which is why stock and bond allocations often vary from person to person even within the same age category. While bonds, like any investment, come with a modicum of uncertainty, they typically carry less risk than stocks. Therefore, a more conservative investor, regardless of age, might choose a larger portion of his/her asset allocation to represent bonds. On the other hand, because stocks outperform bonds when it comes to long-term growth, a younger, more aggressive investor might choose to start out with no bond investments at all, focusing on stocks until retirement is more visibly on the horizon.

To discuss your retirement goals and create or restructure a portfolio that best fits your overall goals and risk tolerance levels, please call to discuss. ❍❍❍

What Happens If You Are Disabled?

For many people, a long-term disability would be financially devastating. Although no one likes to think about this possibility, you should consider your options now so you can obtain disability income insurance if needed.

Though it might be difficult, many individuals can find the funds to get through a short-term disability of six months or less. When considering a long-term disability, assess your income needs until age 65, when presumably retirement benefits would begin. During this analysis, consider the following items:

✔ **Estimate your monthly expenses following a disability.** Typically, some of your disability benefits would be free of income taxes (if you paid the premiums) and you won't incur work-related expenses. However, don't underestimate your expenses, since your medical and rehabilitation expenses might be much higher.

✔ **Review your annual Social Security Statement for an estimate of disability benefits.** However, keep in mind the eligibility requirements are quite stringent — you must be totally disabled, have little or no chance of recovery, and wait six months or longer for your first check.

✔ **Decide what personal resources you would use.** You can access funds from individual retirement accounts, annuities, or 401(k) plans without penalty if you are disabled. But first consider whether you want to risk depleting your funds due to a disability.

✔ **Investigate any long-term disability benefits provided by your employer.** Long-term group disability plans are typically less common than short-term plans. The policies frequently have strict definitions of disability, pay up to 60% of your base salary (bonuses and commissions generally aren't included), pay two to five years of benefits, and don't provide cost-of-living increases. Also consider income taxes that must be paid on any benefits received from your employer.

✔ **Consider purchasing disability income insurance to fill any gaps.** You might not be able to replace more than 60% to 80% of your income through insurance, since insurers want you to have an incentive to return to work. Any benefits from policies you funded are received income-tax free. Coordinate your employer-provided insurance and your own policy so the maximum benefits do not exceed the amount the insurance companies will pay.

If you decide to purchase disability income insurance, make sure to consider these things:

✔ **Pay special attention to the definition of disability.** There are three basic types of coverage: own occupation, any occupation, and income replacement. Own occupation pays benefits when you can't work at your specific occupation. Many professionals, such as doctors and lawyers, opt for this coverage. However, due to substantial claims, this coverage is now more difficult to obtain. You may be able to find own-occupation coverage for a specified period, with the policy then converting to any-occupation coverage. Any occupation means you must be unable to work at any occupation you would be suited for based on your training and education. Income-replacement policies pay the difference between what you were earning before and after the disability. For most individuals, income-replacement policies will provide the best balance between cost and benefits.

✔ **Opt for a long waiting period before benefits start.** This is a good way to reduce premiums, provided you have other resources to rely on for the short term, such as sick leave, personal savings and investments, and short-term disability coverage. Waiting periods can range from one week to two years, but the most common option is a 90-day delay in benefits.

✔ **Consider coverage that pays benefits until age 65.** Disability insurance is designed to protect your financial situation from a serious disability, so you should obtain coverage for the long term. Policies for lifetime benefits are rare and expensive. It's probably not needed, however, since you will be eligible for Social Security and other retirement benefits once you turn 65.

✔ **Look for a policy that provides residual benefits.** This allows you to return to work on a part-time basis and still receive partial benefits.

✔ **Make sure the policy is either noncancelable or guaranteed renewable.** Noncancelable means you can renew the policy every year at the same premium. Guaranteed renewable means you can renew the policy every year, but the premium can increase as long as it is not done so in a discriminatory manner. Either provision will ensure that the policy can't be canceled due to medical problems.

Please call if you'd like to discuss your need for disability income insurance in more detail. ❍❍❍

Your 401(k) Plan after Changing Jobs

There are a lot of emotions and moving parts to consider when you leave a job. But it is important to remember that your 401(k) plan from your former employer will continue to require your attention. While you can certainly hold more than one 401(k) plan, there are some factors to consider when it comes to deciding whether to maintain separate accounts or roll your assets into a single account.

✔ **It is more difficult to execute saving strategies like asset allocation across multiple accounts.** One of the most crucial components of your financial plan is your asset allocation strategy, which should match your need for performance to your risk tolerance. When your portfolio is spread out over more than two accounts, it's more difficult to monitor your asset allocation strategy.

✔ **It can be hard to track when plans change providers.** When the provider changes, this usually means a change in the plan's fund choices. If you are not paying attention during the transition, your funds could be automatically placed by the new provider. Obviously, the more accounts you have to pay attention to, the more likely it is something will slip through the cracks.

✔ **Rebalancing your portfolio is more complicated with multiple accounts.** Rebalancing involves restoring your portfolio to its planned asset allocation proportions. The more investments you have in various places, the more transactions you'll have to plan and execute.

✔ **Assessing the performance of your investment choices is harder when dealing with more than one account.** Monitoring your assets can seem like a full-time job, especially when they are spread out over multiple accounts.

✔ **More accounts could equal more expenses.** Because 401(k) plan providers charge fees, it is important to know exactly what each of your plan's provider charges. If former employers' plans charge more than your new one, you may be able to boost your portfolio return by consolidating.

If you have accounts at more than one employer, you might benefit from a professional analysis. Please call if you'd like to discuss this in more detail. ❍❍❍

Ways to Reduce Life Insurance Premiums

Following are some ways to reduce your life insurance premiums while still maintaining good coverage:

How much do you really need? — Consider what expenses will need to be covered if something were to happen to you. If reducing your expenses is a top priority, then only buy the amount of coverage that you really need.

How long do you need it? — The longer the term of your life insurance, the more you will pay in premiums.

Your health matters — If you smoke or are overweight, you are going to pay more for your insurance.

Go shopping — Shop around for the best policy to meet your needs at the best price. Make sure you are comparing policies with the same features.

Check the fine print — As you review different policies, check for any hidden fees. For example, some insurance companies charge extra if you pay your premiums monthly versus annually. Also make sure there are no unnecessary riders on your policy you are paying extra for. ❍❍❍

Financial Thoughts

Approximately 42% of U.S. adults have estate-planning documents in place. Of those with children under age 18, the percentage decreases to 36%. And the percentage increases to 81% of people age 72 and older (Source: Caring.com,2019).

About 50% of all inheritances are squandered shortly after receipt (Source: *U.S. News and World Report*, 2019).

Approximately 27% of wills feature some language about a pet (Source: Humane Society of the United States, 2019).

Using data from the Health and Retirement Study, it was found that retirees are happier when they engage in active activities, such as being social, walking, or another form of exercise, over passive activities, such as being at home or watching television. Other issues that can arise from primarily staying at home in retirement include a decrease in cognitive ability, high blood pressure, and lack of immunity. The average retiree spent three hours a day watching television and an additional three hours staying at home. On the active side, retirees spent less than two hours a day socializing and less than an hour exercising (Source: *AAII Journal*, April 2019). ❍❍❍