

Investment Strategist™

Nearing Retirement in “Interesting Times”

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The old proverb, “May you live in interesting times,” certainly is applicable today.

According to the Securities and Exchange Commission, baby boomers today control more than \$13 trillion in household investable assets, or over 60% of total U.S. household investment assets. U.S. Census projections also show that nearly one in every six Americans will be 65 or older by the year 2020. That means that there is a sizeable portion of today’s workforce that is rapidly approaching retirement age. Given the recent turbulence in the stock market, a sizable number of investors are focused on the assets they’ve been accumulating in their retirement accounts and wondering if they have enough to retire and how long they may have to continue to work.



How Much Will You Need to Retire?

As a rule of thumb, many financial professionals suggest that you’ll need anywhere from 70% to 85% of your pre-retirement earnings in order to maintain a similar standard of living in retirement. In addition, another issue to take into consideration is inflation. The cost of living (as measured by the Consumer Price Index) has fluctuated over the last decade, but has increased an average of approximately 2.5% per year. Many financial planners recommend that retirees prepare for anywhere from 3% to 6% annual inflation, based on a 20- to 30-year retirement. Healthcare costs, another important factor to consider, have been rising at a much higher rate.

Thanks to advances in medicine and an improved quality of life, today’s retirees can expect to live longer, and as a result, will need to get even more out of their nest eggs. According to the Social Security Administration, today’s 60-year-old men and women can expect, on average, to live an additional 20.92 and 23.97 years, respectively. However, due to the uncertainty involved with estimating any individual’s life expectancy, it makes sense to prepare for an even longer retirement.

Will You Run Out of Money Before You Run Out of Time?

In the chart on the following page, the figures show how many years it will take for your principal and earnings to become fully depleted if you spend more money than your portfolio is actually earning.

*Stifel Nicolaus wishes you
Happy Holidays and a prosperous New Year*

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Years Until All Capital Is Depleted

Withdrawal Rate	Expected Rate of Return										
	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
6%	37	*	*	*	*	*	*	*	*	*	*
7%	25	33	*	*	*	*	*	*	*	*	*
8%	20	23	30	*	*	*	*	*	*	*	*
9%	16	18	22	29	*	*	*	*	*	*	*
10%	14	15	17	20	27	*	*	*	*	*	*
11%	12	14	15	17	20	25	*	*	*	*	*
12%	11	12	13	14	16	19	24	*	*	*	*
13%	10	11	11	12	14	15	18	23	*	*	*
14%	9	10	10	11	12	13	15	17	22	*	*
15%	8	9	9	10	11	11	13	14	16	21	*
16%	8	8	8	9	10	10	11	12	14	16	20
17%	7	8	8	8	9	9	10	11	12	13	15
18%	7	7	7	8	8	8	9	10	10	11	13
19%	6	7	7	7	8	8	8	9	9	10	11
20%	6	6	6	7	7	7	8	8	9	9	10

* = Capital will never be depleted at this combination of return and withdrawal.

Investing As You Approach Retirement

Investors nearing retirement should begin taking measures to reduce the amount of risk in their portfolios, reallocating more of their resources to more conservative investments such as bonds and even cash. However, even in retirement, it is still important to maintain a mix of asset classes to provide growth potential in addition to income and capital preservation.

In addition to IRAs and retirement accounts such as 401(k)s, investors may also consider adding other tax-advantaged investments to their asset mix. Municipal bonds and government securities, such as Treasury bills, notes, and bonds, are popular tax-advantaged investments.

Making “Catch-Up” Contributions to Retirement Accounts

Since the passage of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, investors nearing retirement have had the option of making additional contributions to their qualified retirement plans (QRPs) and individual retirement accounts (IRAs) above and beyond the maximum annual contribution. Thanks to the EGTRRA's catch-up provision, individuals who have attained the age of 50 before the end of the taxable year can contribute an extra \$1,000 to their IRA, for a total maximum contribution of \$6,000, and \$5,500 to their QRP, for a total of \$22,000. Traditional IRA investors are eligible to continue making contributions to their accounts up to, but not including, the year they turn age 70 ½, while Roth IRA investors may make contributions after age 70 ½ as long as they have earned income.

While catch-up contributions are certainly no substitute for the benefits offered by utilizing the power of compounding at a younger age, they can prove to be a helpful last-minute means of meeting retirement savings goals.

Can You Continue Working?

If you are finding yourself short of your savings goals, one way to help make the most of your savings is to postpone retirement. This strategy also works for those who have sufficient retirement savings, but wish to preserve their assets for their heirs. Of course, taking a later retirement is often easier said than done, but if you're in good health and have a job

that you enjoy and the opportunity to continue working, it's an option that could potentially have a big impact on your retirement dollars.

For each year that you continue working, you not only postpone having to tap into your retirement savings, you also have the opportunity to save additional money for your nest egg as well as another year of tax-deferred growth, if you're investing in a tax-deferred retirement plan. And, if the value of your investments is down at the time you had originally planned to take retirement, working longer can give you additional time to allow your investments to recover.

If you are able to work past age 70 ½, you may also be able to postpone taking the required minimum distributions from QRRs only. Generally speaking, you must begin minimum distributions from a qualified tax-advantaged account no later than April 1 of the year after you turn 70 ½. As of this date, and in each calendar year that follows, the IRS will require you to take a minimum amount of money from your traditional IRA and QRR. However, if you continue working, you can postpone required distributions from your employer's workplace plan as long as you don't own more than 5% of the company. Even a part-time job that offers a retirement plan, such as a 401(k) or 403(b), can help you postpone taking required minimum distributions, provided you are able to work 1,000 hours or more over the course of a year. It's important to note that some employers may require participants to begin taking distributions at age 70 ½, even if they continue working, and that the retirement plan in question must be administered by the current employer. Consult with your Stifel Financial Advisor and your retirement plan administrator for more details.



Do You Have Your Other Affairs in Order?

Aside from your retirement savings, it's important to have a plan in place outlining how your assets will be distributed to your heirs once you've passed on. While this subject can be a bit unpleasant to think about, addressing certain issues now can potentially help you and your loved ones down the road.

Planning your estate involves the preparation of documents, including a will or trust. Even if you do not have significant assets, you will want to have a will to help ensure that your assets are distributed according to your wishes. Regardless of the size of the estate, preparing a will can help to prevent any disagreements among your decedents.

You'll also want to have a durable power of attorney so that a person you assign can act on your behalf in case you become incapacitated. Without a power of attorney, a court may be left to decide what happens to your assets (if you are found to be mentally incompetent), and the court's decision may go against your original intentions. If you are considering such an arrangement, be sure to pick someone you trust and who would likely recommend a course of action agreeable to you. After all, this person could literally have your life in his or her hands.

Finally, be sure to keep all of your beneficiary designations up to date. Since certain assets, such as your 401(k) assets, can be passed to your heirs without being dictated in your will, it is important to maintain a beneficiary and contingent beneficiary on the account.

When it comes to issues surrounding estate planning, be sure to consult your attorney and your Stifel Financial Advisor for details on your specific situation.

To Learn More

As you get closer to retirement, your Stifel Financial Advisor is there to help you, every step of the way. The actions you take and strategies you institute today can impact not just you, but future generations as well. For more information on keeping your investments on track for retirement, contact your Financial Advisor today.

Account Disclosures

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