



FINANCIAL *Planning Strategies*

A Financial Planning Update

Assessing Your Retirement Resources

How resourceful can you be during your retirement? Determining *where* your retirement money will come from is an integral part of planning for retirement. Most people draw on three main sources of income: **Social Security, employer-sponsored plans, and personal retirement savings.** Each offers important resources that can help you fund your desired lifestyle in retirement.

Social Security

Social Security offers a retirement benefit to workers and their spouses. You can start receiving benefits as early

as age 62 (considered early retirement) or wait until you reach **full retirement age** of 65 to 67 (depending upon your year of birth). The benefits you receive are based on the income you have earned over the course of your life, subject to a maximum amount. You can find out how much you can expect to receive by contacting the Social Security Administration (SSA) or visiting their website at www.ssa.gov.

Social Security benefits will most likely fall short of meeting all of your retirement needs. The maximum benefit for a person who retired in 2010 at full

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Money Management Tips for Young Adults

Today, young adults face a variety of challenges in their pursuit of financial independence. Some of these challenges are similar to those faced by previous generations, while others are unique to the times. If you are a young adult, consider the following five financial tips to help you manage your money and prepare for your future:

1) **Invest in your future.** Rapidly changing technology used in various fields may require continuing education. You may wish to make ongoing education a priority to enhance your skills and increase your professional

potential. The more varied and flexible your skills, the more you will have to offer to prospective employers.

2) **Open an emergency savings account.** The uncertainty of the workplace may mean that your professional life will be interrupted by career changes. If you need to return to school to change career paths, you may experience periods of time without steady income. Creating an emergency fund to cover several months' worth of living expenses can help you manage work-related transitions. This savings fund

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retirement age (age 66) was \$2,346 per month, which would be around \$28,000 per year.* For most people, Social Security provides only a base level of income. Therefore, you may require a plan that includes additional sources of income.



Employer-Sponsored Plans

Employer-sponsored plans are a staple of retirement income for many individuals. Many employers offer benefit packages that include retirement savings options, such as defined benefit plans, 401(k) plans, 403(b) plans (for educational and nonprofit organizations), and Savings Incentive Match Plans for Employees (SIMPLEs). Here's how the plans work:

With a **defined benefit plan** (also called a traditional pension), retirement benefits are generally based on a variety of factors, including salary, length of service, and a benefit formula that averages the employee's earnings over a prescribed period of years. In some instances, you, as an employee, may make additional contributions.

To receive benefits, you generally must be employed for a certain number of years and reach the normal retirement age (NRA), typically age 65. Upon retiring, you may have options as to *how* and *when* you collect your benefits, such as in monthly payments or in one lump sum.

A **401(k) plan**, offered by many private employers, provides you with the opportunity to contribute part of your salary, with restrictions, into a retirement account. Your employer may match your contributions, up to a predetermined percentage and subject to a maximum. For example, if your employer matches your contributions by 50%, for every dollar you put into the fund, your employer will add \$.50. In 2011, you can contribute up to \$16,500, and those aged 50 and over can contribute an additional \$5,500. Your contributions are pre-tax and any potential earnings are tax deferred, so payment of taxes will not commence until you begin taking distributions. If you withdraw money from your 401(k) before age 59½, you will incur a 10% Federal income tax penalty, except under certain qualifying circumstances (such as death or disability).

A **403(b) plan** is a 401(k)-type plan designed for employees of certain educational and nonprofit organizations. Your contributions are pre-tax, and potential earnings grow tax deferred. The contribution limit in 2011 is \$16,500

with catch-up contributions of up to \$5,500 allowed for those aged 50 and older. At retirement, you pay ordinary income tax on your distributions.

The **Roth 401(k)**, which is available through sponsoring employers, incorporates elements of both traditional 401(k) plans and Roth IRAs. Your contributions are made with after-tax dollars, but potential earnings grow tax free and distributions are tax free, provided you are at least age 59½ and have owned the account for five years. You may contribute a maximum of \$16,500 per year (\$22,000 for those aged 50 and older), including any contributions to a traditional 401(k) account. Matching contributions made by your employer must be invested in the traditional side of the 401(k) account, not the Roth. Under the Small Business Jobs Act of 2010, participants in traditional 401(k) plans are now permitted to roll over funds into Roth accounts within their plans, if available and permitted by their plan. Any eligible funds transferred to Roth 401(k) accounts are taxed in the year of conversion. Some 403(b) plans may also offer a Roth option.

SIMPLEs are used by small businesses with 100 or fewer employees. A SIMPLE plan allows you to contribute up to \$11,500 to a SIMPLE IRA or SIMPLE 401(k) in 2011. If you are aged 50 or older, you may be permitted to contribute

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up to an additional \$2,500. Employer contributions, which are mandatory, can be in the form of either a 2% contribution to all eligible participants or a matching contribution that is generally 100% of the first 3% of compensation. Your contributions are pre-tax, and you defer payment of taxes until you begin taking withdrawals.

Because retirement savings options often differ from one employer to another, it is important for you to understand the specifics of *your* company's benefit package. Contact your employer's benefit coordinator for more information.

Personal Retirement Savings

Personal retirement savings may be the key to achieving your financial goals. Common complements to Social Security and employer-sponsored plans include the following:

Traditional IRAs allow you to set money aside in a tax-deferred account. Depending on your income and whether or not you participate in an employer-sponsored retirement plan, you may be eligible to take an income tax deduction. In 2011, the maximum contribution for all IRAs (traditional, Roth, or both) is \$5,000, and those aged 50 and older can contribute an additional \$1,000. Even if you don't qualify for a deduction, your contributions have the potential to grow tax deferred; you pay taxes on withdrawals, avoiding tax penalties if you are at least age 59½. Qualified exceptions include death, disability, and first-time homebuyer expenses, up to \$10,000 lifetime.

Roth IRAs permit earnings to grow tax free and distributions to be taken tax free, provided you have owned the account for five tax years and either you are at least age 59½ or you

meet another qualifying exception. However, your contributions are not tax deductible. The contribution limits are the same as with traditional IRAs, including the guidelines for "catch-up" contributions, in the aggregate. In 2011, only taxpayers whose adjusted gross income (AGI) falls below certain levels (\$122,000 a year for single filers, and \$179,000 for joint filers) are eligible to contribute after-tax dollars to a Roth IRA.

With a sound assessment of your income resources, you can begin to plan for the retirement you desire. The choices you make *today* can influence your future financial independence. Starting now puts time on your side. \$

* Source: Social Security Administration, "Find an Answer to Your Question: What is the maximum monthly Social Security retirement benefit?", www.ssa.gov (accessed December 2010).

Your Will: An Important Estate Planning Tool

Often, the prospect of writing a will generates feelings of discomfort. Yet, drafting a will is one of the most important aspects of estate planning, one that can promote feelings of confidence. Your will ensures that heirs will be provided for and your wishes for asset distribution will be met. Like many people, have you postponed the task of writing a will? Or, is it time to review a will drafted years ago?

A will is a formal, legal document instructing your survivors on the settlement of your estate. A qualified



legal professional can help ensure your will is properly written and contributes to the overall success of your estate plan. If your estate is not covered by a will (known as **intestate**), your state's intestacy rules will govern how and by whom your estate will be divided. Some people may believe their estate is too minor to require a will, but even if you believe this is the case, consider writing one anyway. The reason is

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may also be used for other endeavors, such as starting your own business.

3) Save early and continuously for retirement. Saving for retirement is *your* responsibility. The more disciplined and diligent you are, the better off you may be. Social Security provides only a base level of income, and many employers no longer offer traditional pension plans. With employer-sponsored **401(k) plans**, the responsibility of saving rests on your shoulders. Although you may be years away from retirement, the key is to make *time* and *compound interest* your allies.

4) Let retirement funds accumulate. If you change jobs early or often, consider rolling over

your employer-sponsored retirement plan funds into an **Individual Retirement Account (IRA)** or new company retirement plan. It may be tempting to cash in the account, especially if you have accumulated only a small amount, but doing so would make it immediately taxable, and you may also incur an early withdrawal tax penalty. Perhaps a greater concern, however, is that you may be unable to make up for time already spent to accrue these savings.

5) Use credit wisely. Credit card companies frequently target young adults with the lure of "easy money." While credit cards offer convenience (it's virtually impossible to conduct some transactions,

such as reserving airline tickets, without one), they also have the potential to create debt problems. Because payments can be extended far into the future, overspending on credit can create an illusion of wealth. Paying off the full balance each month is the best way to manage your use of credit.

Plan Now for the Future

Remember, the funds you accumulate during your working years may be your *primary* source of retirement income. Although inflation can erode your savings over time, a little discipline and common sense may help you better manage your current and future financial affairs. \$

Your Will: An Important Estate Planning Tool

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simple: If you die without a will, you automatically forfeit the opportunity to direct the settlement of your estate. In addition to facilitating bequests, a will is an opportunity for you to designate your own **executor, guardians** for minor children, and other **fiduciaries**.

If you would like your estate to pass to close friends or to a charity, a will

is the primary means of fulfilling these wishes. Without a will, the courts will have no way of knowing your preferences and will seek relatives—sometimes distant—for distribution purposes. For unmarried couples, a will may help ensure that a partner will be provided for according to your wishes. A will also allows you the opportunity to designate a **secondary**

beneficiary in the event of the **primary** beneficiary's death.

Wills are a means of providing direction to your loved ones. The topic of a will may be difficult to broach, but the many advantages of drafting a will far outweigh the temporary discomfort. Consult a legal professional for specific guidance. \$

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