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21st century retirement

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The Baby Boom generation is about to enter another era: retirement. Never known for accepting the status quo, Baby Boomers are ready to redefine the "golden years." Forget about endless days of leisure. This generation seeks adventure, travel, and new business pursuits. While these changes may redefine retirement, will Boomers be able to finance their plans? Today, many people age 50 and older have not begun to save for retirement or have yet to accumulate sufficient funds.

If you're in this age group and find yourself facing an underfunded retirement, it's not too late to take charge. There are actions you can take today to get on the right track. Here are some ideas:

What's it going to take? First, estimate how much money you will need in retirement. Once you have an idea of the amount, you can work toward meeting that goal. A good rule of thumb is that you may need 60%–80% of your current annual income in retirement. Your financial professional can help you assess the best amount for your situation.

Maximize your contributions. If your employer offers a retirement plan, contribute as much as the law will allow. In 2016, those age 50 and over can contribute up to $24,000 to an employer-sponsored 401(k) plan ($18,000 + $6,000 "catch-up" contribution). Many employers also offer a company match, so be sure you contribute enough to claim this "free" money, which can add up over time.

Create a spending plan. In other words, make a budget. Many people think a budget is restrictive, but look at it this way: You can spend now, or you can have the money to afford your dream adventures later. To start, it is important that you pay down debt and avoid accruing new debt. Next, examine your spending habits and replace some of your discretionary spending with saving. Saving even $20 more per week is a step in the right direction.

Take initiative. Besides contributing to your employer's plan, you can save more by opening your own Roth IRA. Contributions are made after taxes, but earnings and distributions are income-tax free, provided the account is at least five years old and you have reached age 59½. Those age 50 and over can contribute up to $6,500 a year in 2016. Eligibility in 2016 for these plans begins to phase out with adjusted gross incomes of $117,000–$132,000 for single filers and $184,000–$194,000 for married joint filers.

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Focus on Cash Saving Hinders Americans in Reaching Retirement Goals

Although Americans put urgent financial goals like a secure retirement high on their list of priorities, their attitudes and behaviors regarding money are not necessarily aligned with their intentions, the findings of an annual global survey on savings and investment behavior from BlackRock suggest.

The "Global Investor Pulse" survey of 31,139 individuals in 20 nations, including 4,213 Americans, was conducted from July to August 2015. As no income or asset qualifications are used in selecting the survey's participants, the survey is designed to have a truly representative sampling of each nation's entire population.

The results indicated that, overall, the U.S. respondents are positive about their financial future (54%) and are confident they are making the right savings and investing decisions (49%). When asked to name their most important financial priorities, the Americans surveyed cited saving to live comfortably in retirement, after saving money in general. However, 71% said they are concerned they will not be able to save enough money for retirement, and 74% said they find it very difficult to keep up with bills and to save for retirement at the same time (74%).

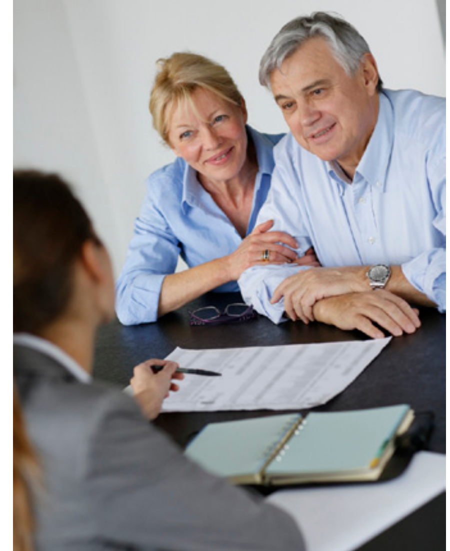
Researchers observed that the efforts of many Americans to prepare themselves financially for retirement are falling dramatically short of their goals. On average, the baby boomer respondents (ages 55 to 65), who are closest to retirement age, said they hope to have $45,500 in annual retirement income.

Researchers pointed out, however, that the average nest egg the respondents reported having accumulated so far ($136,200 in average retirement savings) would provide just $9,129 of estimated annual retirement income.

The results further showed that while most of the Americans surveyed believe they should have around one-third of their net worth in cash instruments, most have far too much of their savings in cash to achieve their retirement goals, given low interest rates and the diminishing purchasing power of their cash related to the pressures of inflation. The survey found that the current asset allocation of the average portfolio among U.S. respondents is 65% in cash, 18% in equities, 6% in bonds, 4% in property, 2% in alternatives, and 5% listed as "other."

Researchers further warned that, in addition to being cash-heavy, many Americans are failing to grow their money in a disciplined way: less than one-quarter of the U.S. respondents said they regularly put aside a certain amount of income into long-term savings or investments (23%) or have a formal financial plan for retirement (14%). Moreover, just 21% reported that they make regular contributions to retirement accounts through their employer, while another 21% said they save for retirement outside of an employer plan.

The findings suggested that a key obstacle to retirement saving is the feeling of security that cash brings: 39% of U.S. respondents said they want to have "cash saved as a security blanket or reserve for unforeseen events before I can think about investing." In addition, significant shares of respondents said that saving money makes them feel secure (39%), hopeful (29%), and confident (28%); while investing money makes them feel risky (37%) and nervous (35%). More than one-third (36%) of the American respondents said they are afraid of taking risks with money or losing money, even though only 7% reported that they have actually lost a lot of money in past investments.



The respondents were also asked about their use of information technology in financial planning. The survey showed that 35% of the U.S. respondents use the internet as a source of information on long-term savings and investment decisions, and that 41% would be interested in consulting robo-advisors, or online investment services that provide recommended portfolios. However, 72% of the respondents who indicated that they are interested in robo-advisors also said that they value professional financial advice. ■

countdown to retirement: strategies for saving in your 50s

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Hang out your shingle. Many Boomers hope to start their own businesses in retirement. Why wait? If you begin your entrepreneurial efforts now, your business has the potential to be in full swing by the time you retire, and any profits between now and then can be added to your savings.

Consider downsizing. Your home may have significantly increased in value since you first bought it, and you may have already paid off the mortgage. With children at or near adulthood, do you really need all that space? Selling now and moving to a smaller, more affordable location may allow you to transfer some of the equity in your home into a savings vehicle.

Reconsider your retirement age. If you want to cushion your retirement savings, consider staying on the job longer. Some people actually leave retirement to reenter the workforce because they feel more fulfilled while working. Others seek part-time work, consulting, or entrepreneurial endeavors. Such options may enable you to earn more money to save, which may help to postpone spending down your savings.

Regardless of which options you choose, you can benefit from time and compounding interest. Every year that your savings remain untouched allows more time for growth. It is never too late to start preparing for your future. So, take action *now* to get on track to saving for your retirement. ■

Divorce and Retirement Plan Proceedings

Because divorce usually involves the division of assets, including some that may have tax implications, it is important to be aware of potential "tax traps," such as **vested account balances**, when you begin your retirement planning strategies.

In the past, with traditional **defined benefit plans**, such as company pension plans, participants generally received a retirement benefit, but they had no vested balance in an individual retirement account. In other words, employees had no rights to the employer's contributions to the retirement plan. However, with the popular shift toward workplace **defined contribution plans**, such as the 401(k), contributions made by employees to their retirement plan are always vested, and employer contributions vest over time, according to the schedule set forth in the plan document. Consequently, dividing vested retirement plan assets in divorce proceedings has become a complex financial issue.

Protect Yourself with a QDRO

A **qualified domestic relations order (QDRO)** is a judgment or order that involves child support, alimony, and property rights pertaining to a spouse, former spouse, child, or other dependent. A QDRO can be used to establish one spouse's right to part or all of the other spouse's retirement plan(s) and ensure that the recipient spouse pays the tax.

To be protected through a QDRO, it must specify the following:

- The name and address of the plan participant and the "alternate payee" (typically, the participant's spouse).
- The name and account number of each retirement account involved.
- The percentage (or dollar amount) of each plan that is to be paid to the alternate payee.
- The period of time or the number of payments covered by the QDRO.

The QDRO must be a part of a divorce decree or a court-approved property settlement document. The decree must also specify that a QDRO is being established under Section 414(p) of the Internal Revenue Code (IRC) and the particular state's domestic relations laws. Intent to establish a QDRO is insufficient; it must be documented in the divorce papers.

Getting divorced can be "taxing" enough, so be sure that you understand the process of dividing retirement plan assets. Through a QDRO, an individual can provide retirement funds for a former spouse, child, or other dependent, and ensure that those assets are taxed appropriately. Consult your qualified tax and legal advisors for guidance on your unique situation. ■

How Social Security Affects Your Retirement

When contemplating retirement, you, like many other people today, may be counting on Social Security benefits to provide you with a basic level of income. The age at which you choose to retire is an important part of the equation. In addition, there are many other issues to consider when making that choice.

Let's look at the following questions: 1) How would an early retirement, for example, at age 62 vs. age 65, affect your Social Security benefits? 2) How will those benefits be taxed? and 3) Is it in your best interest to continue working to earn extra income when your Social Security benefits could be reduced, based on your earnings?

What's the Maximum?

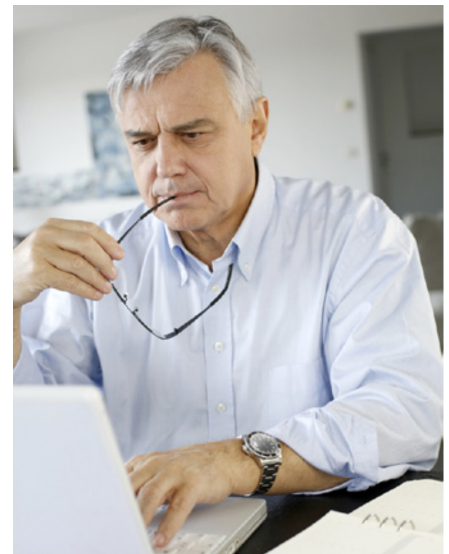
As most people realize, Social Security provides only a *base level* of income. The maximum benefit for a person who retires in 2016 at full retirement age (65–67 depending on your year of birth) is $2,639 per month. In comparison, the maximum benefit in 2015 was $2,663 per month. The combination of a lack of cost-of-living adjustment and a rise in the national average wage index decreased the benefit by $24. It is important to note that the benefit for a nonworking spouse is only 50% of that amount.

Should You Delay Retirement?

If you delay retirement past your **full retirement age**, your monthly benefit will increase, based on the age at which you elect to take retirement benefits. But, upon reaching age 70, the benefit increase no longer applies, even if you continue to delay the payment of benefits.

Receiving benefits at age 62 (considered early retirement) is appealing to many people. However, if you decide to take early retirement benefits from Social Security, your monthly benefit amount will be permanently reduced by 20–30%, based on your full retirement age.

Some people continue working and earning additional money to supplement basic Social Security income. This is where you need to be careful. If you earn more than the maximum amount allowed, you may forfeit some of your benefits. If you are under full retirement age, receive Social Security benefits, and earn additional income, your benefits will be reduced by $1 for each $2 you earn over $15,720 in 2016. During the year in which you attain full retirement age, your benefits will be reduced by $1 for every $3 earned over $41,880 in 2016. Upon attainment of full retirement age, there is no earnings limit, and Social Security benefits will not be reduced.



Full Retirement Age: It's Changing

For a long time, the retirement age has been 65. Due to longer life expectancies, that age will increase in gradual steps until it reaches age 67. This change began in the year 2000 and affects people born in 1938 and later. Age 62 still remains the earliest you may begin to receive Social Security retirement benefits.

For Your Information

Note that as of April 2011, the SSA stopped mailing out annual estimated benefit statements to workers under age 60 and retirees already receiving benefits as a fiscal restraint measure. To receive an estimate of your projected payments, you can go to the SSA's website at www.ssa.gov. ■

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