

Presented  
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# Plan Participant Forum

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## INSIDE THIS ISSUE:

What's Your Retirement Goal?	1
Make the Most of Your 401(k) Plan	1
Estimating Retirement Income	2
How Much Should You Save?	3
Danger-Don't Touch!	4
The Long Term Cost of an Early Withdrawal	4

Plan now so you can enjoy later!

- Don't make excuses!
- Use a retirement planning worksheet to determine your needs and set your goals.
- Estimate you post-retirement expenses.
- If you're not on track to meet your goals, consider making a change.

## What's Your Retirement Goal?

As the old adage preaches, "Rewards come to those who plan ahead." And that certainly is true when it comes to retirement planning. By taking the time to estimate both your retirement goal and the amount you'll need to save to reach that goal, you'll be one giant step closer to enjoying a comfortable retirement.

Have you estimated how much money you'll need to save to live comfortably in retirement? If you answered no, you're not alone. Many people have not taken this crucial step. Don't put off planning for your future! If you fail to calculate your needs in advance, your retirement may turn out to be a time spent worrying about how to make ends meet.

### Don't make excuses.

There are many reasons why people neglect drafting a clear and realistic retirement savings plan. Avoid making the following excuses:

### "Retirement is too far off

Many employers offer their employees a 401(k) plan to help them save for retirement. Unfortunately, many employees underutilize their available 401(k) Plan opportunities. There are ways to maximize the long-term benefits of a 401(k) plan, however, and some are noted here.

**Be sure to participate.** The sooner you enroll in the plan,

**to start planning now."** Waiting to start saving for retirement can be a big mistake. If you put other goals ahead of retirement planning, you may be forced to scale back your hopes and dreams for the future.

**"I'm too close to retirement to be concerned about planning."** It's never too late! Even if your retirement is right around the corner, you should map out your goals and set up priorities to meet them. You may have to work longer than you expected, but at least you will have a plan for a secure retirement.

**"Retirement planning is too complicated."** To estimate the amount you'll need for retirement, simply use the retirement planning worksheet offered in this publication. It is easy to use and can help you get a feel for your overall retirement picture. Just plug in the different figures and, in a short time, you'll see where you stand.

the faster your account balance can grow.

**Keep the advantages of tax deferral in mind.** You contributions, and the earnings those contributions accrue, grow tax-free until you withdraw funds from the plan.

**Defer as much as you can.** Review your contribution amount at least annually. If

**Post-retirement Expenses.** Keep in mind that the amount of money you'll need to maintain your current lifestyle will almost certainly change after you retire. Some expenses-like your mortgage, taxes, commuting costs, and other work-related expenses-may go down. Other expenses, such as health care and travel, may go up. Most experts predict that you'll need about 70-80% of your pre-retirement income to live comfortably during retirement.

### Pay for your dreams.

Taking the time to calculate your retirement situation *now* may save your blood pressure from going through the roof later. After figuring out your retirement savings goal, you may find that you are on track to meet it. Or you may find you need to increase your retirement savings over time. The key is to start planning now. Having a clear understanding of your objective is the first step in working toward solutions for the future.

you can afford to contribute a bit more, do so!

**Diversify your investments.** Avoid putting all of your eggs in one basket. Also, reexamine your investment diversification and make changes according to your stage of life.

# Estimating Retirement Income

Medical advances are enabling people to enjoy active lives well into their eighties and nineties. While many dream of living a long, healthy life, no one wants this dream to turn into a nightmare of struggling to make ends meet because retirement savings have depleted.

In order to enjoy a long retirement, you need to save enough money. But how much is enough? No one knows exactly what future prices will be or how long you will live after you retire. But you can figure out approximately how much you will need by filling out the worksheet on the next page. Then you can adjust your retirement savings accordingly.

## Retirement Income Needed

According to many retirement planners, you should be able to live comfortably on about 80% of your preretirement income. The theory is that eliminating work-related costs will reduce your income needs.

If you will be retiring soon and are eligible, you can anticipate receiving Social Security payments. In 2003, the estimated average monthly payment is \$895 (\$10,740 annually), which can be subtracted from your

retirement income need for purposes of this exercise.

How much income you will need also depends on inflation and the number of years until you retire. Actual inflation may be higher or lower, but the chart below uses a 4% annual inflation assumption. Choose the inflation factor from the chart that corresponds to the number of years before you retire. Then multiply that factor by the income figure you just calculated to find the yearly income you may need to take from personal savings and investments.

## Total Savings Needed

Next, you need to determine approximately how much you should save. For this worksheet, we've made three assumptions: a 4% annual rate of inflation, a 7% annual return on your retirement investments, and a 20-year long retirement. Of course, the actual rate of inflation, the investment returns you achieve, and the length of your retirement may all be different.

To figure out the total amount you should save for retirement, multiply your annual retirement income need by 15. Do you already own assets that

you will be able to use for some of your retirement income? To estimate how much the assets will be worth when you retire, multiply the value of your current assets by the growth factor from the chart that corresponds to the number of years before you retire.

Finally, subtract the estimated value of your current assets from the total savings needed. This will give you the approximate amount you need to save for retirement. To figure out how much you need to save each year, divide the amount you need to save for retirement by the savings factor that corresponds to the number of years you have before retirement. Then divide by 12 to figure a monthly savings amount.

## Are you saving enough?

While this is just a rough estimate of your retirement saving needs, it will give you an indication of whether or not you are on the right track. If yes, terrific. Keep doing what you're doing. If not, it's never too late to start saving more for retirement. Make the necessary changes today so that your retirement will be a dream come true.

Inflation, Growth & Savings Factors			
Years Until Retirement	Inflation Factor 4% annual inflation	Growth Factor 7% annual return	Savings Factor 7% annual return
5	1.22	1.4	5.75
10	1.48	1.97	13.82
15	1.80	2.76	25.13
20	2.19	3.87	41.00
25	2.67	5.43	63.25
30	3.24	7.61	94.46
35	3.95	10.68	138.24

Source-NPI

# How Much Should You Save?

This worksheet can help you estimate what you need to save now in order to achieve your retirement goals. This worksheet only provides a rough estimate of your needs and savings contributions. You may need to save more or less than this estimate. The example is for illustrative purposes only and assumes 30 years until retirement.

	Example	Yours
Current Annual Income	\$35,000	\$ _____
	X 80%	X 80%
	\$28,000	\$ _____
Minus Social Security	— \$10,740	— \$ _____
	\$17,260	\$ _____
Inflation Factor (reference the table on the previous page)	X 3.24	X _____
Retirement Income Needed (from personal savings and investments)	\$55,922	\$ _____
	X 15	X 15
Savings Necessary	\$838,830	\$ _____
Value of Current Assets (your 401(k) plan and any other investments set aside for retirement)	\$50,000	\$ _____
Growth Factor (reference the table on the previous page)	X 7.61	X _____
Estimated Future Value of Current Assets	\$380,500	\$ _____
Total Savings Needed (necessary savings minus future value of current assets)	\$458,330	\$ _____
Savings Factor (reference the table on the previous page)	÷ 94.46	÷ _____
Annual Amount You Need to Save	\$4,852	\$ _____
	÷ 12	÷ 12
Monthly Amount You Need to Save	\$404	\$ _____

# Danger-Don't Touch!

We're used to seeing warnings on electrical appliances, tools, cleaning products, and other things that can be harmful if mishandled. Although your retirement plan doesn't have a warning label, you should be cautious with your money if you change jobs.

**More now, less later.** You might like the idea of having some extra cash to pay bills, buy a car, or do something else. Who wouldn't? But remember this: Spending money you've earmarked for retirement *before you retire* will eventually mean less income *after you retire*. Even if your balance is relatively small, the impact could be significant. Take a look at the chart below to see what the "cost" of withdrawing just \$8,000 at age 30 might be by the time a person reaches age 65.

**Don't forget taxes!** Using your

retirement money early can also have an immediate-and potentially substantial-tax cost. The money in your plan is tax deferred only until it is distributed. In addition to income taxes, a *10% early withdrawal penalty* may also apply. Let's say you're changing jobs at age 40, you're in the 27% federal tax bracket, and you decide to take \$10,000 from your retirement plan. After paying the penalty and federal taxes, you'd pocket just \$6,300. And that doesn't take into account any state income taxes you may have to pay.

**Keep your money working.** If you decide you want to preserve your tax-deferred retirement savings, you may be able to leave your money in your present employer's retirement plan. Check to see whether this option is available to you.

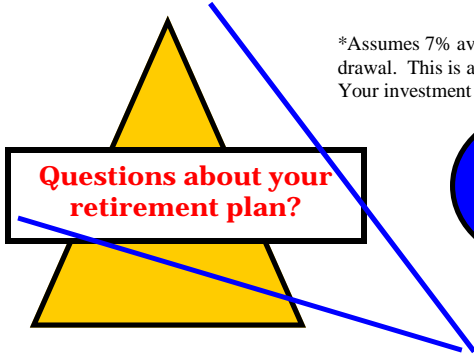
Your other choice will be to "roll over" your retirement money into your new employer's retirement plan or an individual retirement account (IRA). If you arrange for a direct trustee-to-trustee transfer, the plan administrator will move the money for you, and you'll avoid tax problems. If you take the money in a check, your plan must withhold 20% to pay federal income taxes, even if you intend to complete the rollover yourself later on. You'll have to replace the missing 20% to accomplish a tax-free rollover of 100% of your funds. If the day ever comes when you have to decide whether to take your retirement money early, picture that warning label: *Don't touch*. Then avoid the threat to your future financial well-being by preserving your cash in a tax-deferred retirement account.

## The Long-Term Cost of an Early Withdrawal

<b>Retirement Account Balance</b> At Age 30	\$8,000	\$8,000
<b>Withdrawal</b> At Age 30	\$8,000	\$0
<b>Contributions</b> Age 30-65	\$100 per month	\$100 per month
<b>Balance</b> At Age 65*	\$180,105	\$272,154

Cost of withdrawing \$8,000—\$92,049

\*Assumes 7% average annual total investment return. Money will be taxed upon withdrawal. This is a hypothetical example with investment returns compounded monthly. Your investment returns and contributions will be different. *Source: NPI*



**Contact your account administrator at Pension Inc. at (563) 332-3071 or visit [www.pensioninc.com](http://www.pensioninc.com).**