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National Association of Government Defined Contribution Administrators, Inc.

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ISSUE BRIEF

Are You Ready To Retire?

There was a time when a pension and Social Security were enough to provide an adequate retirement for the American worker. However, with the rising costs of healthcare, energy and food, retirees may need to rely more on a defined contribution plan for additional retirement income. Regardless of your particular situation, you will eventually find yourself asking "Am I ready to retire?"

The term 'retirement readiness' is subjective; it's not the same for everyone. You may spend a lot of time with coworkers, doing the same job, perhaps working at the same location for years and maybe even receiving a similar amount of pay. Chances are, however, you spend and save money differently. Therefore, the age at which you answer 'yes' to the question, "Am I ready to retire?" may be very different from your coworkers.

Why Is Retirement Readiness Such An Important Topic?

According to a recent EBRI survey, the level of confidence that Americans have in their ability to afford a comfortable retirement has dropped to its lowest level in seven years. Healthcare costs, the economy, declining housing values and other financial pressures all factor into the retirement equation.

This survey found that the percentage of workers who were very confident about having enough money for a comfortable retirement decreased sharply, from 27 percent in 2007 to 18 percent in 2008. The survey also stated that less than half of workers said they or their spouse had calculated their retirement needs. **And less than half of those surveyed admitted that they had less than $50,000 saved for retirement outside of a defined benefit plan.** Alarmingly, 22 percent of workers and 28 percent of retirees indicated that they had no savings of any kind.

Being confident about *your* ability to retire requires planning now.

**Source: Employee Benefit Research Institute (EBRI) 2008 Retirement Confidence Survey. EBRI Issue Brief No. 316, April 2008, www.ebri.org.*

Questions to Ask Yourself

To determine whether you are ready to retire, you should answer some key questions. Your answers will help determine the savings rate and personal investment strategy you'll need to employ in order to reach your retirement goals.

- What lifestyle do I want in retirement and how much will it cost?
- What will my healthcare expenses be?
- What are the different sources of my future income - pension plan, deferred compensation plan, Social Security, or other investments?
- Do I need to save more now?
- Does my investment strategy result in earnings which will be sufficient to meet my future needs?
- Do I have multiple sources of retirement savings which I can consolidate?
- How can I protect my future income?
- When I'm ready to receive a distribution, what are my options?

1. Lifestyle

Think about the people around you. This could be family and friends who will depend upon you for financial support. Also, consider whether you will continue to work, plan to open a business, or begin a new line of work? Maybe you don't want to work at all. Where will you live? Are you contemplating buying or selling a home?

To determine how much your future lifestyle may cost, you need to plan your budget. What expenses will you have in retirement? Whether you will continue to work or not, expenses will still be a fact of life. So, it's important to take inventory of your future expenses, which fall into two basic categories:

"Must haves"	"Nice to haves"
Housing	Entertainment
Utilities	Travel
Healthcare	Charitable donations
Transportation	Other

Unfortunately, there is no rule of thumb for everyone. Only you can determine how much your lifestyle will cost. And, you must also consider how long your retirement income will need to last. Increasingly, many people are living decades in retirement. Careful planning is necessary to ensure that your retirement savings will support the lifestyle you envision.

2. Healthcare

It's in the "expense" category already, but it's probably something that should be considered independently. Americans are living longer and healthcare costs are rising. Take the time to review your healthcare plan. How much does it cost? What health issues do you have now? How much will it cost for health insurance or Medicare supplemental insurance during your retirement years? No one can predict his or her future health, so you may want to explore the cost of Long Term Care. For Long Term

	Estimated Annual Amount	
Social Security	$____________________	Visit www.ssa.gov for an estimate.
Pension	$____________________	Call your employee benefits office.
Your Savings	$____________________	Refer to your personal financial statements.
Annuities (if any)	$____________________	Refer to your personal financial statements.
Total	$____________________	

Taxable Sources	Tax Deferred Sources	Tax Free Sources
Stocks	457, 403(b) and 401(k) plans	Roth IRA
Bonds	Traditional IRA	Life Insurance (cash value)
Savings/CDs	Annuity	Municipal bonds
Real estate		
Part-time income		

Care, you should research your options, compare companies and policies and act. Keep in mind that Long Term Care costs less when you act sooner.

3. Income

You should verify and evaluate the sources from which you will generate income in retirement. For each individual, the sources will vary, and so will the amounts. Your Defined Benefit (pension) benefit and Social Security are important parts of the puzzle, but should not be the sole sources. Some individuals will be able to supplement their income with real estate or other hard assets. Yet the source that everyone can control is their individual savings.

When it comes to your personal savings, it may help to group these potential income sources by tax treatment, since some experts suggest accessing principal from after-tax savings first.

4. Save More Now

If you're not already enrolled in your employer's defined contribution plan (457, 403(b) and/or 401(k)), consider joining the plan now. If you are already participating, contemplate increasing your contributions. Be sure to ask if you are eligible for more than one plan with your employer as this will help you maximize your tax-deferred savings. Finally, determine when you are eligible to make catch-up contributions to the plan.

You might also want to consider supplementing your retirement savings by contributing to either a traditional or Roth IRA.

5. Investment Strategy

Successful investing can be the result of informed decisions. As you consider your investment choices in any plan, such as your employer's defined contribution plan, you'll have an array of investment options with varying amounts of risk. Your investment strategy will depend upon your tolerance for risk and how soon you will need to draw from your retirement savings. Generally, the longer you have until retirement, the more aggressive you may tend to be. However, if you expect to draw upon your savings sooner, you may want to choose a more conservative investment strategy. Also, with your Defined Benefit plan and Social Security (if available or applicable) as your safety net, you may be able to continue to invest more aggressively in your employer's defined contribution plan.

6. Asset Consolidation

If you're like many people, you may have retirement assets in several places, such as retirement plans of former employers and IRAs you set up on your own. This may be in addition to your current employer's defined contribution plan. Keeping track of assets in different places can be difficult and time consuming. Multiple sources of retirement savings mean increased costs, multiple account statements and different investment options. You may find it easier to track your savings if all your retirement assets were consolidated in one place. Find out if your employer allows rollovers into your defined contribution plan. In addition to convenience, asset consolidation can mean potentially lower costs, consolidated account statement(s) and consistent investment choices.

7. Protect Future Income

Saving as much as you can is important, but protecting what you've saved is equally important, particularly as you near retirement. Protecting your future income is a balancing act. On one side of the equation, you'll need to consider your investment earnings, not just as you near retirement but throughout retirement. On the other side, you'll need to weigh how much money you'll be withdrawing for income each year.

There are three general concepts:

- Don't invest too conservatively, too soon
- Don't invest too aggressively, too late
- Don't withdraw too much, too fast

Many pre-retirees think they need to protect their investment portfolios by shifting to more conservative investments, like bonds. But, the earlier you shift to conservative investments, and the more you shift, the greater your exposure to inflation risk. That's because conservative investments tend to generate lower returns, which may not be enough to keep up with inflation. Let's say you continue to earn only 3% on your investments each year, but you withdraw 10%. Obviously, you're going to be dipping into your principal quickly, and potentially running out of assets quickly as well.

While you need to consider inflation risk, you also need to think about investment risk, especially as you approach retirement. Thus, you typically don't want to invest too aggressively as you approach retirement. Of course, all investments have an element of risk. But when you're younger, more risk may be acceptable because you have more time to recover from market losses and wait for the market to swing back up. But, as you near retirement, you've got less time to make up for any investment losses. Since you can't predict whether you're going to be retiring at a market peak or a market valley, you'll need to consider how to minimize those market ups and downs as you approach retirement.

In addition, you may be able to retain control over your investment selection during both the accumulation and distribution phase. This flexibility is critical as you enter this important stage of retirement planning

Your withdrawal rate is also a key factor in how long your retirement savings last. Today's average retiree can expect to live to at least age 85. So, if you plan to retire at age 65, you might need income for 20 years or more. Obviously, the more you withdraw each year, the faster your savings will be depleted.

Finally, be sure to investigate new income protection products that may be available to you. The financial services industry recognizes that pre-retirees are looking for a retirement income solution.

8. Distribution Options

When the time comes to start receiving payments of your retirement benefits, be sure you understand your options. Your employer's defined contribution plan may offer many options, including:

Systematic withdrawals
Full or partial lump-sum distributions
Required Minimum Distributions
Annuity payment options

Each of these options has inherent benefits. For example, systematic withdrawals allow you take money out while keeping the rest of your money in your account, growing tax deferred. Full or partial lump-sum distributions provide the money you want to live on, but there are tax consequences to consider. Taking only the Required Minimum Distribution, based on IRS uniform life expectancy tables, will ensure that your funds stretch over your lifetime. Finally, annuities offer a way to generate a steady stream of income that is guaranteed.

When considering your distribution options, you may want to consult a financial or tax advisor to help you evaluate which choice is best for your specific situation.

Conclusion

When it comes to retirement, there are many different factors to consider. To make sure you are on the right path to realizing your retirement dreams, now is the time to evaluate how much money you think you'll need in the future and identify what steps you can take.

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