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# Retirement Planning

Considerations as you begin to prepare for retirement

# Did you know?

- Fewer than half of Americans have calculated how much they need to save for retirement
- In 2010, 30% of private industry workers with access to a defined contribution plan (such as a 401(k) plan) did not participate
- The average 65 year old male can expect to live to be 84 years old, and for the average 65 year old female that life expectancy is increased to 86 years old
- The average American spends 20 years in retirement
- Putting money away for retirement is a habit we can all live with.
- Remember... saving matters!

Source: [http://www.dol.gov/ebsa/publications/10\\_ways\\_to\\_prepare.html](http://www.dol.gov/ebsa/publications/10_ways_to_prepare.html)

# How much will you need for retirement?

Annual salary	Annual retirement income need	Number of years in retirement	Total retirement savings need
\$30,000	X 85% = \$25,500	X 20 =	\$510,000

\*In today's dollars, not including inflation during the 20 years in retirement.



# Where to start?

- Where will I live?
- What will I do?
- How much money will I need?
- How much money do I have?
- What are my likely health-related issues?



# Budgeting

## **A budget: What does it do?**

- Is a spending plan
- Identifies where money goes
- Can limit amounts spent on certain categories of expenses
- Helps you reach financial goals





# Income

## Categories of income:

- Wages/salary
- Income from self-employment
- Pension, IRA distributions
- Interest and dividends
- Social Security



# Expenses

## Fixed expenses:

- Taxes
- Mortgage or rent
- Insurance
- Automobiles



# Expenses

## Variable expenses:

- Food
- Clothing
- Furniture, appliances
- Gas, oil
- Entertainment
- Medical care
- Gifts
- Vacation
- Personal items





# The moment of truth

- What is your bottom line?
- Your expenses may be more than your income
- You may have opportunities to put any excess money to work for you
  - Example: increasing your savings
- You may need to examine ways to increase your income
  - Example: Working longer
- Regardless of the bottom line, after you draft your initial budget, you'll have a much better handle on the financial situation you're facing during retirement
- And you'll be armed with detailed information to use in adjusting your income and expense projections

# Assets

## Assets include:

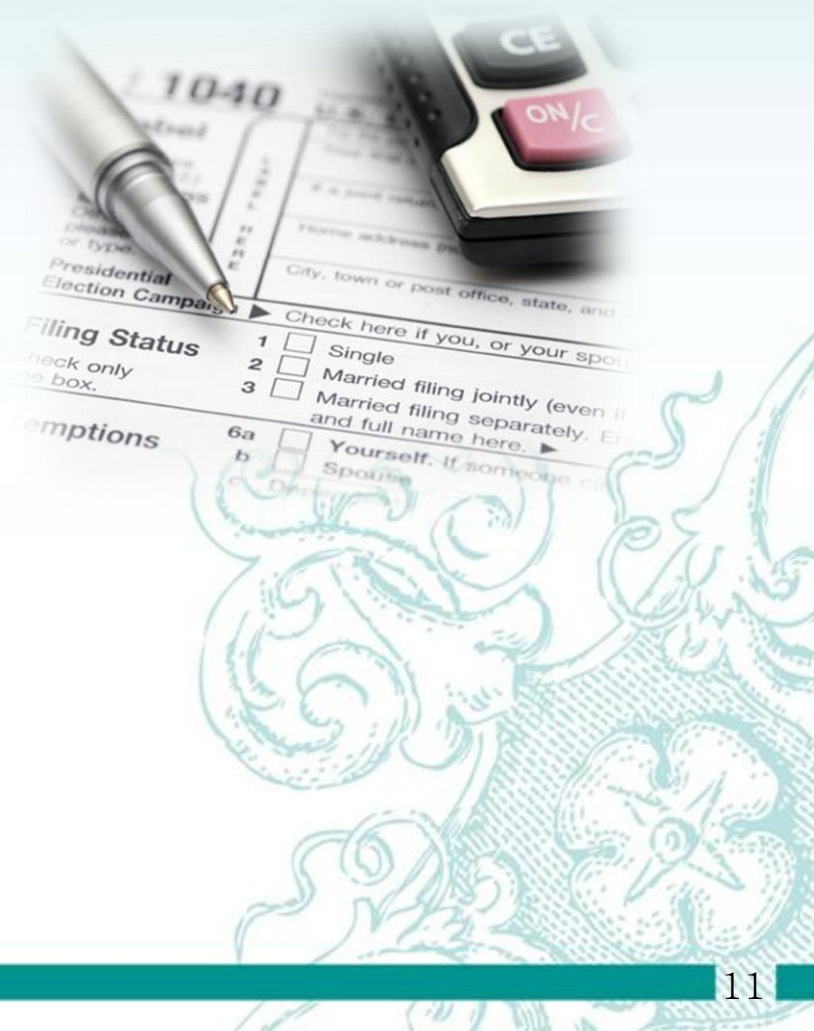
- Cash
- Stocks, bonds, mutual funds
- Annuities and retirement plans
- Home
- Car, truck, boat
- Furnishings, antiques, jewelry, coins, etc.



# Liabilities

## Liabilities include:

- Mortgage
- Car and other loans
- Credit card debt
- Taxes due
- Major unpaid bills
- Other



Net worth

$$\begin{aligned} & \text{Assets} \\ & \text{- Liabilities} \\ & = \text{Net worth} \end{aligned}$$

# Net worth

## Why calculate net worth?

- Applying for a loan
- Preparing a will
- Determining insurance needs
- Progressing toward financial goals



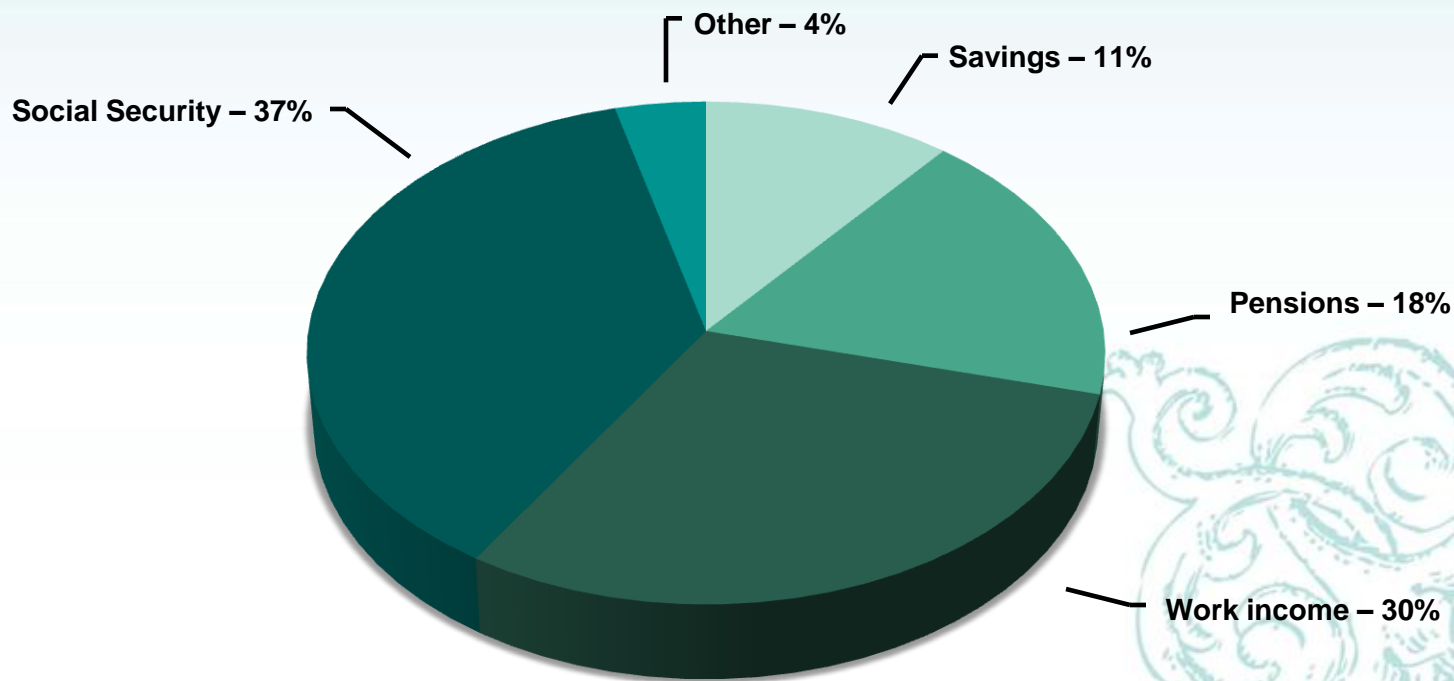




# Your changing financial picture



# Do you know where your income will come from during retirement?



\*Source: Social Security Administration, Fast Facts & Figures About Social Security, 2012.

# Contributions

For 2015, contributions to the Plan per calendar year are limited to \$18,000 exclusive of employer contributions.

Your employer contributes 6% of your pay on a payroll basis.



# Catch up contributions

If you participate in a 401(k) or 403(b) plan and are at least 50 years of age you may contribute more to the plan through catch-up contributions in addition to your normal pre-tax deferral contributions

- \$6,000 in 2015





# Up in the air about asset allocation?





# Your changing asset allocation

- Asset allocation is the way you diversify your money among asset classes
- Asset allocation helps you balance risk and return
- Asset allocation may account for up to 90% of investment performance

**Source:** "Does Asset Allocation Policy Explain 40, 90, or 100 Percent of Performance?" by Roger G. Ibbotson and Paul D. Kaplan, *Financial Analysis Journal*, vol. 56, no. 1 (January/February 2000): 26-33. Asset Allocation does not assure or guarantee better performance and cannot eliminate the risk of investment loss.

# Components of your asset allocation

- Time horizon
- Risk tolerance
- Total financial picture



# Time horizon

- The number of years before you need to begin withdrawing money from your retirement account
- Not to be confused with “years to retirement”
- Your money may remain invested for many years after you retire
- Consider withdrawing money over time



# Risk tolerance

- The ability to tolerate ups and downs in the value of your account
- Risk and return have been linked
- The higher the risk, the higher the potential return



# Total financial picture

- Factor in all your retirement income sources when considering your asset allocation





# Asset allocation in buckets

- Retiring within five years?
  - Consider a conservative allocation
- Keeping your money invested?
  - Think “buckets” of money



# Buckets of money



5 or less



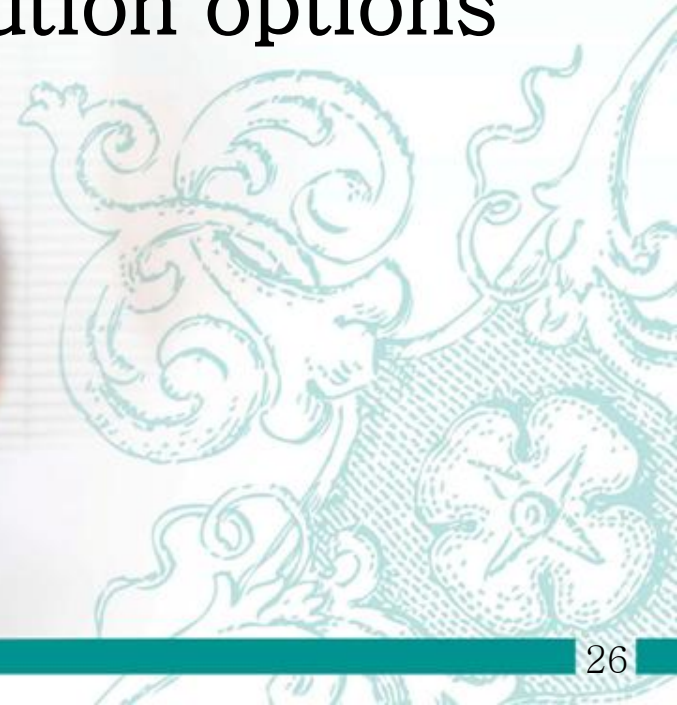
6 to 14



15 or more

years to withdrawal of substantial portion of retirement money

# Learning about your distribution options



# Distribution options

- Lump-sum distribution
  - Cash
  - Roll over to another eligible plan or to an IRA1
- Periodic payments
- Combination payment options



# Lump-sum distribution

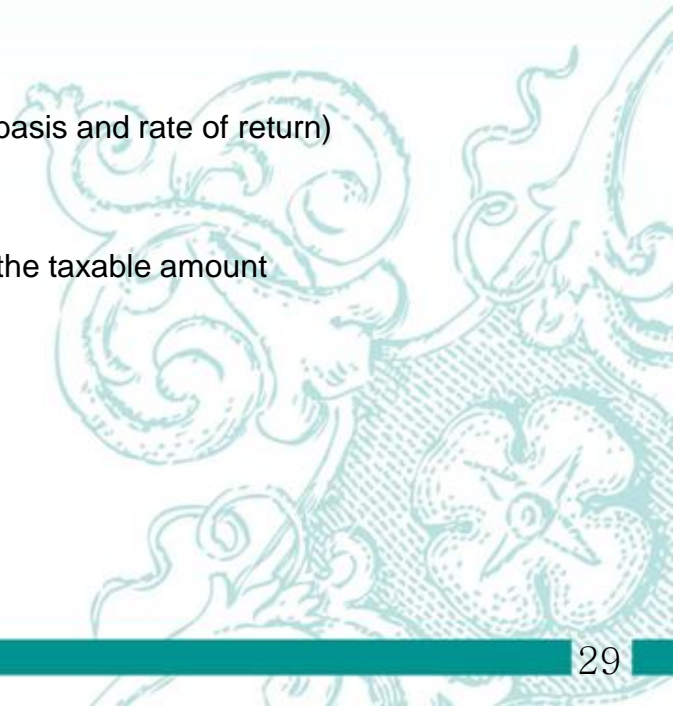
- Mandatory 20% federal income tax withholding on the taxable amount that is not rolled over
- May owe additional federal income tax, depending on your income tax bracket
- Investments and any earnings are no longer tax-deferred amounts that are not rolled over
- Money is available immediately (less taxes and any applicable penalties)

A 10% penalty may apply if you are under the age of 59 1/2 and do not meet one of the statutory exceptions.



# Periodic payments

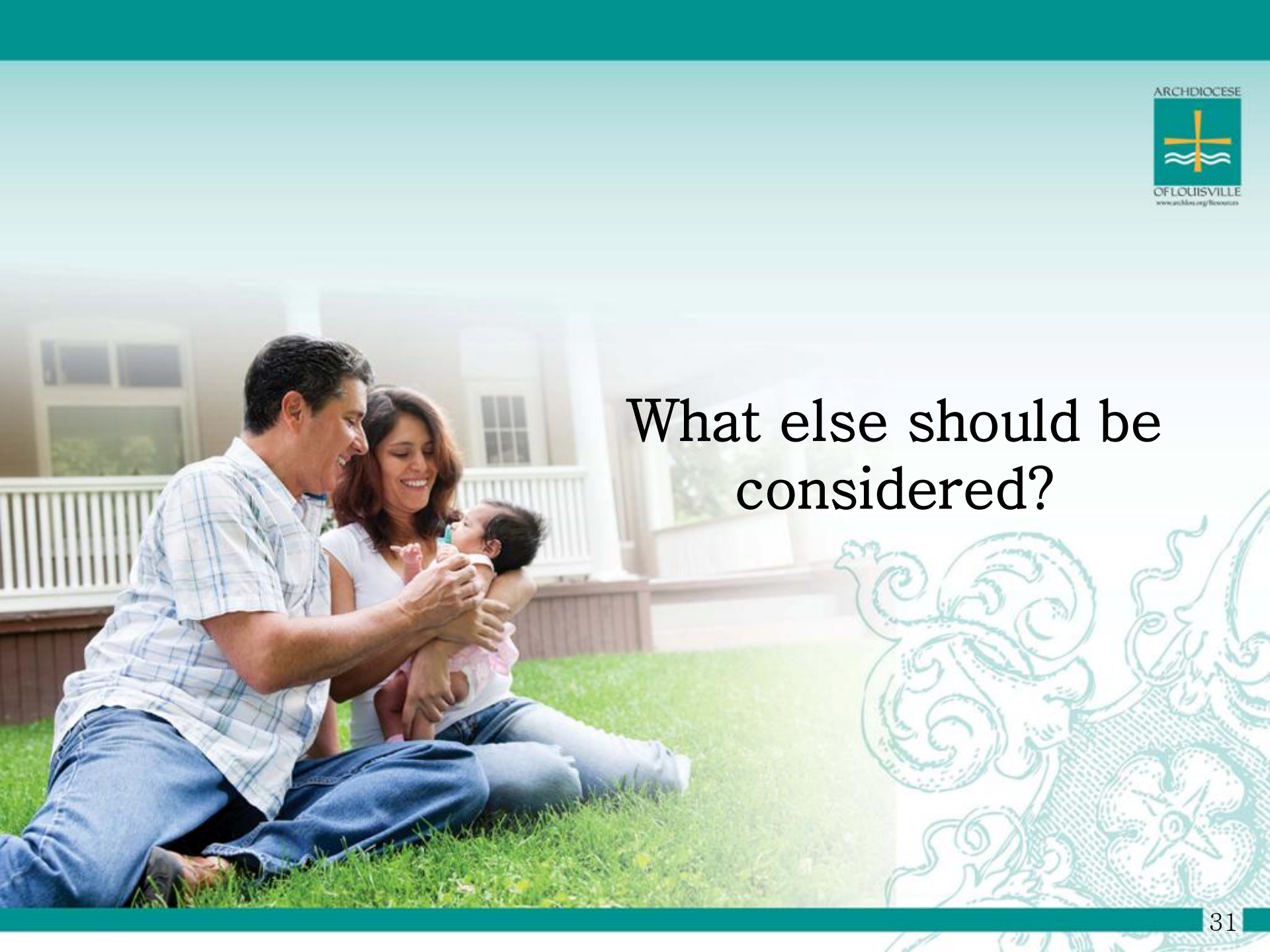
- **Equal amounts**
  - Select dollar amount
  - Select how often
  - Payments continue until money is gone
  - Number of payments varies
- **Specified period**
  - Select how often
  - Payment amount varies (depending upon length of time, periodic basis and rate of return)
- **Payments taxable at the time withdrawn**
  - The mandatory 20% federal income tax withholding may apply to the taxable amount
  - You may owe additional federal and state income tax



# Required minimum distribution

- Must be taken by April 1\* of the year after the year you turn 70½ unless you are still employed by your employer or a related employer
- After that, at least once a year — on or before December 31
- If you don't withdraw, there is an IRS penalty tax — 50% of the required distribution that you didn't take
- Visit [www.irs.gov](http://www.irs.gov) for more about minimum distributions

An individual who waits until April 1 must receive two minimum required distributions in that year, one by April 1 and the second by December 31. Thereafter, only one minimum distribution is required each year.



What else should be considered?



# Social Security full retirement age

Year of birth	Full retirement age
1937 or earlier	65
1938	65 + 2 months
1939	65 + 4 months
1940	65 + 6 months
1941	65 + 8 months
1942	65 + 10 months
1943-1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960 or later	67

Source: Social Security Administration, [www.ssa.gov](http://www.ssa.gov)

# Factors reducing Social Security income

## Reduction factors at age 62

Year of birth	Total percent reduction
1937 or earlier	20.0
1938 – 1942	20.83 – 24.17
1943 – 1954	25.0
1955 – 1959	25.83 – 29.17
1960 and later	30.0

Source: Social Security Administration, [www.ssa.gov](http://www.ssa.gov), 2013



# Social Security benefit increase factors

## The value of waiting

Year of birth	Yearly rate of increase
1937 - 1938	6.5%
1939 – 1940	7.0%
1941 – 1942	7.5%
1943 or later	8.0%

Source: Social Security Administration, [www.ssa.gov](http://www.ssa.gov), 2013

# Income tax on Social Security benefits

Total income	Portion taxable*
<b>Individual</b>	
< \$25,000	None
\$25,000 - \$34,000	50%
> \$34,000	85%
<b>Joint</b>	
< \$32,000	None
\$32,000 - \$44,000	50%
> \$44,000	85%

Source: Social Security Administration, [www.ssa.gov](http://www.ssa.gov), 2013

\* The percentage in this column times that amount of the Social Security benefits that you receive in a tax year will be included in your income and subject to income tax. The actual amount of your tax will depend on your income tax rate times the amount that will be included in your income.

# Social Security benefits

## What to bring to apply for Social Security benefits

- Your original birth certificate or other proof of birth (you may also submit a copy of your birth certificate certified by the issuing agency);
- Proof of U.S. citizenship or lawful alien status if you were not born in the United States;
- A copy of your U.S. military service paper(s) (e.g., DD-214 - Certificate of Release or Discharge from Active Duty) if you had military service before 1968; and
- A copy of your W-2 form(s) and/or self-employment tax return for last year

Source: <http://www.ssa.gov/online/ssa-1.html#a0=2>  
You should consult with your tax advisor before applying for your Social Security benefits.

# How much income will I need when I retire?

**My current income**

**\$ \_\_\_\_\_**

**x 0.70**

**= Amount needed each year in  
retirement**

# Don't ignore inflation

**Retired life will cost more in the future than it does today**

Item	Average cost today	Estimated cost in 5 years	Estimated cost in 10 years
House cost in Florida	\$301,000	\$348,942	\$404,579
Recreational Vehicle (RV)	\$115,000	\$133,317	\$154,550
10-day Caribbean cruise	\$1,499	\$1,738	\$2,015
Round of golf at your local club	\$75	\$87	\$101

Source: BestPlaces.net, Kmotion research 2013.



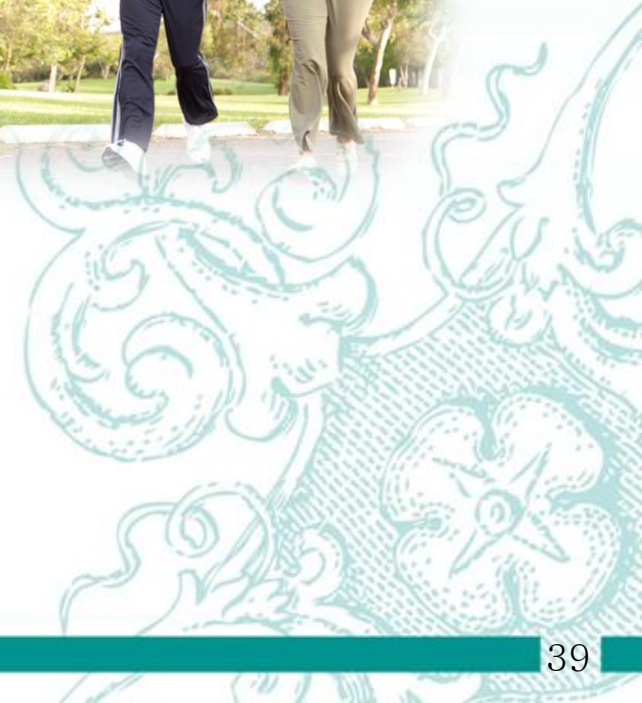
# Healthcare coverage

## Medicare

- Eligibility: Age 65
- Four parts

## Medicare

- Part A - Hospital insurance
- Part B - Medical insurance
- Part C - Medicare advantage plan
- Part D - Prescription drug coverage



# Retirement timeline

## **At age 50**

The minimum age to begin making catch-up contributions, an extra amount that those over 50 can add to retirement plans and other applicable retirement accounts.

## **At age 59½**

No more tax penalties on early withdrawals from the 403 (b) or on salary deferrals from the 401(k), but leaving it in means more time where your money can potentially grow<sup>1</sup>.

## **At age 62**

The minimum age to receive Social Security benefits, but delaying means a bigger monthly benefit.

## **At age 65**

Eligible for Medicare.

## **At age 66**

Eligible for full Social Security benefits if born between 1943 and 1954.

## **At age 70½**

Recommended age to start taking minimum withdrawals from most retirement accounts by this age; otherwise, you may be charged heavy tax penalties in the future.

<sup>1</sup> The 10% early withdrawal penalty does not apply to certain 457 plan withdrawals. Withdrawals may be subject to ordinary income tax.

# Useful resources

- [www.aarp.org](http://www.aarp.org) - Informational articles and interactive tools
- [www.ssa.gov](http://www.ssa.gov) - Official Social Security website
- [www.medicare.gov](http://www.medicare.gov) - Official Medicare website
- [www.irs.gov](http://www.irs.gov) - Internal Revenue Service official site
- [www.psc.org](http://www.psc.org) - Plan Sponsor Council of America (retirement planning and calculation tools)



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