

THE BASICS OF RETIREMENT PLANNING

Financial You

Personal Finance Education from LPL



THE BASICS OF RETIREMENT PLANNING

When it comes to retirement planning, there are a number of savings vehicles to choose from as well as investment options to understand and consider. Not to mention assumptions you need to make about inflation, Social Security benefits, your longevity and health care expenses during retirement. There are also lifestyle decisions to consider, such as where you'll live, or whether or not you'll continue to work at some level during part or all of your retirement. It's a lot to think about, especially if you don't know where or how to start.

The good news is that it doesn't have to get too complicated. In fact, successful retirement planning can be broken down into two simple saving mantras:

Start saving as early as you can.

Save as much as you can.

This brochure will help you understand the power of these two saving mantras in more detail and context. The goal is to understand how these mantras can help take away the fear factor of retirement planning and empower you to take basic actions that will help set you up for retirement planning success.



TWO WAYS TO APPLY THE SAVING MANTRAS

BOOST YOUR RETIREMENT CONFIDENCE LEVEL

If you Google “retirement saving in America” or listen to financial news reports about retirement planning, you may become convinced that there is a retirement savings crisis. The majority of articles and reports suggest that people are not saving nearly enough for retirement. Check out these 2023 Retirement Confidence Survey statistics from the Employee Benefit Research Institute and Greenwald & Associates. How confident are you in these aspects of retirement planning?

RETIREMENT CONFIDENCE STATEMENT	VERY CONFIDENT	SOMEWHAT CONFIDENT	NOT TOO, OR NOT AT ALL, CONFIDENT
You will have enough money to live comfortably throughout your retirement years	18%	46%	36%
You are doing a good job of preparing for your retirement	22%	44%	34%

Looking to boost your retirement confidence?

Start saving as early and as much as you can in a retirement savings account!



MAINTAIN YOUR LIFESTYLE IN RETIREMENT

Financial professionals recommend saving enough to replace 75-80% of your pre-retirement income to maintain your lifestyle in retirement. That number will vary according to your own unique situation and circumstances. One thing that doesn't vary for each person is inflation. Inflation, or simply the cost of living, eats away at your money's purchasing power and may not buy as much retirement in the future as it does today. When you retire, the cost of basic necessities as well as services you enjoy will continue to rise. Here are some hypothetical examples to consider in your retirement planning efforts:

ITEM	2023	2053
Gallon of Milk	\$4.44	\$10.78
Cup of Coffee	\$4.90	\$11.89
Gallon of Gas	\$3.28	\$7.96
Fitness Club Monthly Membership Fee	\$40.00	\$97.09
Mid-Priced New Car	\$48,094	\$116,737

2023 prices are based on Kmotion Research and general averages. Projections for 2053 prices assume a 3% annual inflation rate.

On average, Social Security currently replaces only 40% of pre-retirement annual income. It's important to save as early and as much as you can in a 401(k) or IRA account to help meet all your retirement income needs.

Looking to maintain your lifestyle in retirement?

Start saving as early and as much as you can in a retirement savings account!

FIVE STEPS TO HELP ACHIEVE RETIREMENT PLANNING SUCCESS

1. CHOOSE YOUR SAVINGS VEHICLE

401(k)s

A 401(k) is a tax-deferred retirement savings account offered by employers to their employees. Employees contribute money to their account on a pre-tax basis and employers can choose to match a percentage of that contribution. The money is deposited in various investments, typically a line-up of mutual funds (which are selected by the employer). Employees have the freedom to choose investments that meet their unique tolerance for risk and time horizon, whether it's conservative, moderate or aggressive. Any investments earnings compound tax-deferred. Withdrawals are taxed at the normal tax rate, as long as they are made at age 59½ or older.

Many employers are also starting to offer Roth 401(k)s. Unlike a traditional 401(k), contributions are funded with after-tax money, so they are not tax deductible; however, qualified withdrawals are tax-free. As of 2024, participants can contribute up to \$23,000 per year to a traditional or Roth 401(k).



If you think your tax bracket may be higher in retirement, then a Roth IRA or 401(k) account option may be something you want to consider. If you think your tax bracket might be lower, then the traditional account option may be more beneficial.

IRAs

An individual retirement account (IRA), traditional or Roth, is a tax-deferred retirement savings account established by an individual person (typically someone who is self-employed). IRA accounts are held by custodians, such as banks or brokerages. Unlike 401(k)s, IRAs allow account holders to choose from a much larger universe of mutual funds. They can also own many different types of assets within the account, including stocks, bonds, treasury bills and certificates of deposit (CDs).

Like 401(k)s, contributions to traditional IRAs are generally tax deductible. Any earnings compound tax-deferred and you pay tax on withdrawals in retirement. Contributions to a Roth IRA are made with after-tax dollars, but qualified withdrawals are tax free in retirement. As of 2024, the annual contribution limit for traditional and Roth IRAs is \$7,000.

2. START EARLY

The earlier you start saving, the better chance your money has to grow enough to achieve your retirement goals. One way to illustrate this is the Rule of 72. It's an easy way to calculate how long it's going to take for your money to double.

Just take the number 72 and divide it by the interest rate you hope to earn. That number gives you the approximate number of years it will take for your investment to double. The earlier you start saving, the more periods you will have for your money to “double.” Here are some examples:

EXPECTED RATE OF RETURN	DO THE MATH	YEARS FOR INVESTMENT TO DOUBLE
4%	$72 \div 4$	18 Years
6%	$72 \div 6$	12 Years
8%	$72 \div 8$	9 Years
10%	$72 \div 10$	7 Years

This table serves as a demonstration of how the Rule of 72 concept works from a mathematical standpoint. It is not intended to represent an investment. The chart uses constant rates of return, unlike actual investments which will fluctuate in value. It does not include fees or taxes, which would lower performance. It is unlikely that an investment would grow 10% or greater on a consistent basis.

3. INCREASE YOUR SAVINGS RATE WHENEVER POSSIBLE

Once you get going in your IRA or 401(k), it's easy to go on autopilot. You've officially made the move to save for retirement. You made sure to start early. You're good, right? Wrong! It's time to take the next step: increasing your savings. Remember your second retirement savings mantra: Save as much as you can.

Cutting or reducing spending on things you don't really need could allow you to bump up the money you're putting into your 401(k) or IRA. And how about increasing your savings rate when you get a merit increase or a bonus? While you're at it, couldn't you bring dinner leftovers for lunch a couple times a week – or shop for a better cell phone plan or find a lower care insurance premium? Not to mention buying a certified pre-owned car instead of a brand new one. The savings can add up quickly.

Catching Up

If you are age 50 or older, the IRS allows you to contribute an additional amount of money to your 401(k) or IRA over the annual contribution limit. It's called – appropriately, for many people – the “Catch-up Contribution.” If you've not been able to save as much as you wanted due to other financial priorities (such as funding a child's education, caring for an aging parent or something else), this is a great opportunity to get back on track with your retirement savings. As of 2024, here are the additional catch-up contribution limits for people age 50 or older:



ACCOUNT TYPE	2024 REGULAR CONTRIBUTION LIMIT	2024 CATCH-UP CONTRIBUTION LIMIT	TOTAL POTENTIAL CONTRIBUTION
Traditional or Roth IRA	\$7,000	\$1,000	\$8,000
Traditional or Roth 401(k)	\$23,000	\$7,500	\$30,500

4. DON'T FORGET ABOUT HEALTH CARE EXPENSES IN RETIREMENT

Here's a big reason to start saving as early and as much as you can: a June 2023 report from Fidelity Investments estimated that a healthy 65-year-old couple retiring in 2023 will need \$315,000 to cover their healthcare costs. Whether retirement is a long way off for you, or it's starting to get closer, it's a smart move to start planning for healthcare costs. The AARP Health Care Costs Calculator (www.aarp.org) is an educational tool designed to help you estimate your health care costs in retirement. You can include a spouse or partner in the calculation as well.

5. SEEK PROFESSIONAL ADVICE IF YOU NEED IT

While this brochure gives you some basics to help you achieve retirement planning success, you should know that professional advice is available if and when you need it. LPL Financial Professionals can give you hands-on personal guidance and advice to help you determine your retirement goals and how you can achieve them. Here's how they can help:

- Help you determine an appropriate retirement saving goal based on anticipated future living expenses
- Help you factor in variables such as inflation, future health care expenses, life expectancy and projected investment returns
- Develop an investment strategy to help meet your long-term needs
- Discuss professionally managed retirement account investment solutions that may be of interest to you
- Help you balance your retirement savings goal with other financial goals
- Meet with you on a regular basis to track progress and make adjustments as necessary

WHAT'S YOUR NUMBER?

The ultimate question for almost everyone saving for retirement is “how much do I need to be saving?” Financial professionals recommend saving enough to replace 75-80% of your pre-retirement income. But is that benchmark right for you? Depending on your own unique circumstances or outlook, you may not need to save as much as that — or, you may need to save more. Here’s a high-level guide to help you through the thought process.

WHY YOU MIGHT NEED TO SAVE LESS

Depending on how you envision your life in retirement, your anticipated expenses may be much less than they are today. In addition, you may continue to earn money in retirement to help offset expenses. Here are some reasons you may not need to save as much for retirement:

- If you have a mortgage, you plan on paying it off before you retire
- You plan on downsizing to a smaller home, with a much lower mortgage payment
- You plan on relocating to a less expensive city
- You plan on working part-time during retirement
- You anticipate other sources of income, such as investment rental properties
- You expect Social Security benefits will provide adequate income for your needs
- You will no longer need to financially support children or other family members
- You anticipate good health, with no unexpected medical or long-term care expenses

WHY YOU MIGHT NEED TO SAVE MORE

On the other hand, with retirement potentially lasting 20 years or more, you may want to be more aggressive with your retirement saving goal. Here are some reasons you may need to save more for retirement:

- If you have a mortgage, you plan on continuing to make payments during retirement.
- You want to travel extensively or purchase a second home for an occasional getaway
- You expect higher healthcare and medication expenses
- You anticipate needing long-term care at some point
- You plan on starting your own business and will need to provide funding
- You will need to financially support children or other family members
- You believe that your Social Security benefits will be reduced or inadequate

GENERAL RETIREMENT SAVINGS BENCHMARKS

Many financial professionals recommend you strive to reach these general retirement savings rate benchmarks* at various life stages. Please note that these are simply general goals and a starting point for your own personal retirement planning efforts.

- ***In your 20's: strive to save 7-10% of your annual pay.***
- ***In your 30's: strive to save 10-15% of your annual pay.***
- ***In your 40's: strive to save 15-20% of your annual pay.***
- ***In your 50's and 60's: strive to save 20% (or more) of your annual pay.***

*Keep in mind that there are annual contribution limits to retirement plans imposed by the IRS. In 2024, the annual limit for 401(k) and 403(b) plans is \$23,000. If you are age 50 or older, you can contribute an additional “catch-up” amount of \$7,500. For traditional and Roth IRAs, the 2024 contribution limit is \$7,000 and the age 50+ catch-up contribution is \$1,000.

VISUALIZING YOUR RETIREMENT

If you're younger, it may be more difficult to imagine what retired life will be like. If you're middle age or older, you may have a clearer picture. No matter how old you are right now, it's always helpful to explore your expectations and concerns about retirement. The following exercises can help.

EXERCISE 1 – IDENTIFY YOUR RETIREMENT EXPECTATIONS

For this exercise, place a check mark next to the retirement expectations that apply to you. Complete this exercise with your spouse or partner. If you're single, it will help you visualize your expectations more if you discuss them with a close friend or family member.

- | | |
|---|---|
| <input type="checkbox"/> Living an active lifestyle | <input type="checkbox"/> Downsizing your home |
| <input type="checkbox"/> Living a quiet lifestyle | <input type="checkbox"/> Relocating to a new city or state |
| <input type="checkbox"/> Spending more time with family and friends | <input type="checkbox"/> Traveling more |
| <input type="checkbox"/> Working part-time | <input type="checkbox"/> Having less stress and living a simpler life |
| <input type="checkbox"/> Volunteering and doing charity work | |

List any other expectations:

EXERCISE 2 – IDENTIFY YOUR RETIREMENT CONCERNS

Now that you've identified your retirement expectations, you can now explore your retirement concerns. For each item listed below, place a check mark beside the concerns that apply to you. Again, make sure to complete this exercise with your spouse or partner. If you're single, discuss your concerns with a close friend or family member.

- | | |
|--|---|
| <input type="checkbox"/> Reduced income | <input type="checkbox"/> Declining health |
| <input type="checkbox"/> Uncertainty of Social Security benefits | <input type="checkbox"/> Rising cost of health care |
| <input type="checkbox"/> Outliving your money | <input type="checkbox"/> Providing care for a family member |
| <input type="checkbox"/> Low investment returns | <input type="checkbox"/> Becoming less active |

List any other expectations:

ABOUT LPL FINANCIAL

LPL Financial is a leader in the retail financial advice market and the nation's largest independent broker/dealer*. We serve independent financial professionals and financial institutions, providing them with the technology, research, clearing and compliance services, and practice management programs they need to create and grow thriving practices. LPL enables them to provide comprehensive guidance to millions of American families seeking wealth management, retirement planning, financial planning and asset management solutions.

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*Based on total revenues, *Financial Planning* magazine June 1996-2023.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual. All investing involves risk including loss of principal.

A Roth offers tax deferral on any earnings in the account. Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Limitations and restrictions may apply.

Investing in mutual funds involves risk, including possible loss of principal. Fund value will fluctuate with market conditions and it may not achieve its investment objective.

Contributions to a traditional IRA may be tax deductible in the contribution year, with current income tax due at withdrawal. Withdrawals prior to age 59½ may result in a 10% IRS penalty tax in addition to current income tax.

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