Retirement Plan
Update

Issue 3, 2016 Because the time is now...

Monitor and modify at midyear

How are you doing with your finances so far this year? Perhaps you're in the habit of reviewing your financial situation only at the end of the year. But also reviewing at midyear can allow you to spot any problems early on and make needed changes now so you're on track toward achieving your goals.

Review plan performance

It's important that you review your retirement plan statements when you receive them. These provide you with recent and long-term performance information about your plan investments. To see how well an investment has performed, compare its returns with the returns of an appropriate benchmark index. Keep in mind that short-term losses can be a normal part of investing. If an investment still matches your goals and fits with your portfolio's targeted allocation, you may want to hang on to it. However, if an investment's return is consistently lower than the return of a comparable benchmark index over an extended period, you may want to consider making a change.

Rebalancing required?

How your investments perform may affect your asset allocation — the balance of different asset classes in your portfolio. If one type of asset has been performing well, you may find that it represents a higher percentage of your portfolio than you intended. As a result, you may be invested more aggressively or conservatively than you originally planned. To get your portfolio back to its original allocation, you should consider rebalancing your portfolio's asset mix.

Smart money moves

In addition to reviewing your retirement plan investments, take a look at your overall financial situation. Keeping track of your spending will help you find areas where you can cut back and save more. If you're carrying high credit card balances, paying them off will free up money you can then save for retirement. And make sure you maintain an emergency fund so you won't need to cut back on your plan contribution to pay for unexpected expenses.

New job, more decisions

Starting work with a new employer means you've already had to make some important decisions. Are you ready for one more? What should you do with the money in your former employer's retirement plan account? Your decision could have a big impact on your future retirement savings and your current income-tax liability.

Consider your options carefully before you make a decision.

Leave it there

You may be able to leave your money in your former employer's plan. You won't be able to contribute more, but your tax-deferred balance will remain invested. If you like the investment choices and the fees are reasonable, leaving your money in the plan is one option.

Roll it over

You may be able to roll over your account balance to your new employer's plan or an individual retirement account. Requesting a direct trustee-to-trustee transfer avoids mandatory 20% federal income-tax withholding and a possible early withdrawal penalty. Check the plan's investment choices first to make sure you're comfortable with them.

Take it out

Taking the money out of your retirement plan account when you change jobs may seem like a good way to access some extra cash, but withdrawing money prematurely robs you of the potential for time and compounding to turn your savings into a significant nest egg. And remember that the amount you withdraw will be reduced by income taxes and a possible penalty. So think twice before you put your retirement savings at risk.

Age 70½ and still working?

The money in your retirement plan or individual retirement account (IRA) is for your retirement, right? So do you have to take required minimum distributions (RMDs) at age 70½ if you're still working? The answer is maybe. It all depends on the type of account and where you're working when you reach age 70½.

Your 401(k) plan

If you're still working for the company that sponsors your current 401(k) plan and the plan allows it, you can generally postpone taking RMDs until you retire. You may not postpone your RMDs if you qualify as a 5% owner of the company sponsoring the plan, in which case you'll have to start taking them at age 70½.

But what if you worked for other employers in the past and have 401(k) plan accounts that you didn't roll into an IRA or your current employer's plan? Since you're no longer working for your former employers and therefore not actively participating in your former employers' plans, you'll have to take RMDs from those accounts beginning at age 70½ even though you're still working elsewhere.

Individual retirement accounts

The rules are straightforward for traditional IRAs. Working or not working, you'll have to begin taking distributions at age 70½ from any traditional IRAs you own. The rule doesn't apply to Roth IRAs. Since Roth IRAs are funded with after-tax dollars, you're not required to make withdrawals during your lifetime if you don't need the money.

Minimum distribution rules also apply to other defined contribution plans, including SEP IRAs, SIMPLE IRAs, 403(b) and 457(b) plans, and profit sharing plans.

Will your money last?

Nobody can predict how long you'll spend in retirement. But one thing is certain: You don't want to run out of money. Consider the following when estimating how long your savings will last.

Your earnings

The rate of return on your savings and investments may play a big role in making your money last. However, there's no way to predict your investments' performance over time. It may be useful to remember that stocks historically have provided higher returns than more conservative investments over the long term, so keeping a portion of your portfolio invested in stocks after you retire may be a good idea.*

Your withdrawal rate

The percentage of your savings that you withdraw each year may have a significant impact on how long your money lasts. So it's important to calculate the amount you can withdraw without running out of money based on a specific time horizon — 30 or 40 years, for example. You may need to adjust your withdrawal amount in some years depending on your returns and on the inflation rate.

The rate of inflation

Over time, everything costs more, even when inflation is low. So the longer you spend in retirement, the more the buying power of your savings may be reduced by inflation.

Your expenses

Estimating expenses in retirement can be tricky. You may have to replace expensive items such as your car or your furnace. And people often underestimate health care expenses, so make sure you budget for deductibles, copays, and supplemental insurance or Medigap premiums.

Your longevity

You don't know how many years you'll spend in retirement, so planning for a 30-to-40-year lifespan is a wise move.

* Past performance doesn't indicate future results.

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