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YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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In This Issue

Four Risks to Your Retirement Future

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As Americans live longer, the task of managing money after retirement gets more complex. A retiree in his or her mid-60s typically has a different risk profile than an individual approaching 90. It may be helpful to look at various types of risk from the vantage point of how they affect retirees at different life stages. Here are four key risks to consider.

1. Investment Risk -- Balancing risk and return takes on a different meaning for individuals as they age. A negative rate of return during the early years of retirement could leave an individual with a significantly smaller nest egg when compared with negative returns later in the retirement life cycle. Your financial advisor can help you craft an investment mix with the goal of smoothing out returns over the long term and increasing the chances that your assets will last throughout your lifetime.

2. Longevity Risk -- Withdrawing too much from a portfolio during the early years of retirement may heighten the chance of depleting your assets during your later years. For this reason, many financial advisors recommend limiting annual withdrawals to 5% or less of a portfolio's value, adjusted for inflation, to make assets last as long as possible.

3. Inflation Risk -- Because younger retirees typically are planning for a time horizon of 20 years or more, it is important that their portfolios include a source of growth that is likely to exceed inflation over the long term. To complement this potential growth, many retirees rely on more conservative investments that may generate income and help to balance risk and potential return.

4. Health Care Risk -- It is not unusual for medical costs to increase as retirees age, and it may be prudent to plan for these costs before the need is immediate. Preretirees and younger retirees may want to explore options for medical insurance that supplements Medicare, as well as long-term care insurance, to reduce the possibility of dipping into personal assets to finance illness- or accident-related expenses. Also, remember that those who retire before age 65 need to find an alternate source of medical insurance prior to becoming eligible for Medicare.

Reviewing these and other challenges associated with retirement planning with your financial advisor may increase your confidence that you have considered all scenarios. While it may not be possible to prepare for every situation, planning ahead may help you cope with financial issues that come your way.

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Looking for Extra Savings? Start With a Budget

Investing a few hours to create and maintain a household budget may be the key to identifying opportunities to save more for the future, including for long-term goals such as retirement. Yet it's surprising how few households take the time to commit to a budget. Many financial experts recommend making time for this task, which could pay dividends down the road.

Get a Grip on Your Money

More than half of working Americans have accumulated less than $25,000 in savings and investments, excluding home equity and retirement accounts.[1] Finding the extra money to save is not always easy.

The good news is that many families realize they spend money on nonessentials -- such as eating out and specialty coffees. These are expenses that can often be reduced with the aid of a budget. A budget may also help you reduce large expenses to make room for savings. For example, if your transportation costs are considerable because of a long commute to work, look into carpooling with a colleague or working at home periodically.

Budget Basics

The first step is to understand and summarize your various sources of income, which may include earnings from a job, alimony, real estate income, and income or dividends from investments. Next, determine how you spend your money. Start by tracking your spending for a month. Gather bills and receipts and don't forget things like an occasional splurge on new shoes or a cup of coffee.

You may want to group expenses into the following categories:

- **Fixed committed expenses**, such as mortgage, loan, and insurance payments that are the same from month to month.
- **Other committed expenses,** which are things you can't live without, such as food and clothing.
- **Luxury expenses,** which are things you like but don't necessarily need.

You can tally your income and expenses in writing if you prefer. Or consider trying one of the many online budgeting programs to help get you started.

At the end of each month, see how your actual spending stacks up against your budget and how much income is left over. When looking for places to cut additional costs, start with luxury expenses, followed by other committed expenses.

Budgeting will initially require some extra work and organization. But a little extra effort now can go a long way toward helping you pursue your financial goals.

[1]*Source: 2010 Retirement Confidence Survey, Employee Benefit Research Institute, March 2010.*