RETIREMENT INCOME PLANNING

Realize Your Goals by Establishing a Personalized Retirement Income Strategy

Even affluent families today are concerned about reaching their goals and maintaining a comfortable lifestyle in retirement. Reaching these goals involves asking some pointed questions. At what age do you want to retire completely? How much money will you need to support your lifestyle? How do you make sure you don't outlive your savings? Where do you want to live? How will you spend your time – travelling? Pursuing your passions? Spending more time with family?

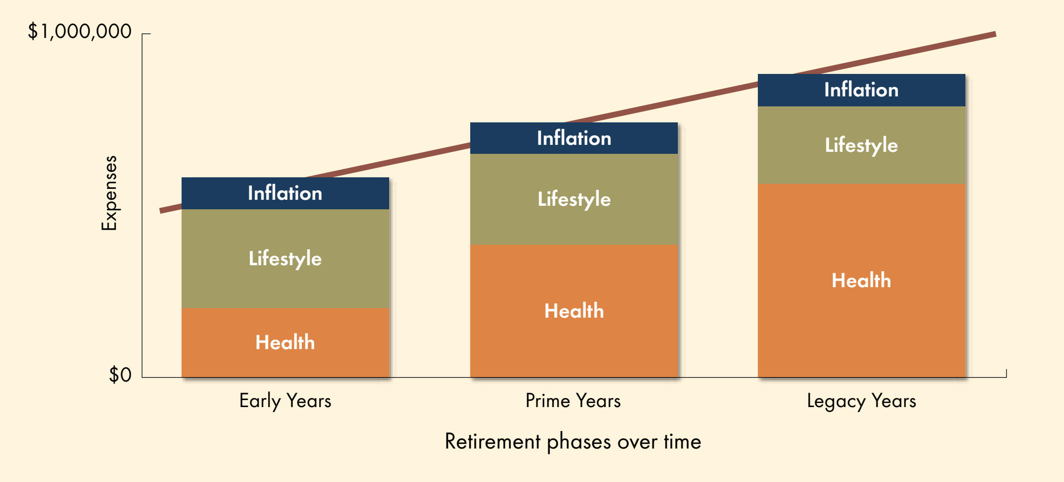
Once you have a clear picture of the retirement you want, you can begin to figure out how to afford it through careful planning by clarifying all aspects of your spending, saving and investing.

How much income will you need?

As a retiree, your spending patterns will change over time. You will typically spend more on lifestyle expenses at the beginning of your retirement, and more on health care later on. On the other hand, some expenses may go down. You may not be driving to work or suiting up for meetings. Older adults tend to spend less on restaurants and entertainment than time-pressed, middle-aged couples.

However, if you envision an active retirement, it's important to make sure your savings and investments will allow you to pursue these interests.

SHIFTING EXPENSES DURING RETIREMENT



TIME TO RETHINK YOUR RETIREMENT INCOME PLANS?

Understanding trends that could impact the security of your retirement income should be a top priority.

- **Demographic trends:** We're living longer, making the possibility of outliving your wealth a real risk.
- **Rising healthcare costs:** Healthcare costs can rapidly deplete your hard-earned wealth and possibly jeopardize your estate plan.
- **Generational demands:** Many Baby Boomers today are reaching retirement with responsibilities for supporting children or grandchildren and aging parents.
- **Societal changes:** Today we have to cope with the disappearance of pensions, the uncertainty of Social Security and the likelihood of higher taxes.

Here are some other suggestions for getting the most from your retirement income:

- **Maximize contributions to tax-deferred savings in the years leading up to retirement.** That way you will defer taxes when your taxable income is at its highest.
- **Tap into the right assets first.** Your withdrawal strategy should aim to reduce your tax burden as well. Generally, draw down taxable accounts first, followed by accounts such as your IRA and 401(k) plans. Depending on your individual tax bracket, you may want to consider IRA withdrawals if you are over 59½. Generally, though, you will want to put off accessing tax-free Roth IRAs for as long as possible, to maximize their tax-free growth.

  You also may want to structure things so that your income comes from stable and liquid sources such as dividends, bonds, Social Security, pensions or annuities. After all, you do not want to be forced to sell a security at the wrong time just to generate income.
- **Factor in inflation.** With life expectancies rising, you need to plan for 25-35 years of retirement. That means your investments will need to outpace inflation, which has averaged between 2% and 3% for the past 10 years. Thus, the price of goods and services has gone up about 25% in the past 10 years, so your dollar buys nearly one-fourth less today. If you keep your retirement savings in bank accounts, you could actually lose purchasing power over time.

  One way to offset the effects of inflation and maintain your purchasing power is to keep a portion of your assets invested in growth investments such as common stocks. Historically, stocks have returned about 8% a year, easily outpacing the average annual inflation rate of 3%. You might also protect your income by using Treasury Inflation-Protected Securities (TIPS) and other strategies.
- **Factor in rising healthcare costs.** The rising cost of health care is the number one concern even among millionaire households in America, according to Northern Trust's recent Wealth in America survey of affluent households.

  And no wonder: the average 65-year-old couple living into their 80s may need up to $300,000 in insurance premiums and out-of-pocket healthcare expenses during their remaining lifetime. And that does not even include the cost of long-term care or nursing home costs, which are generally not covered by Medicare. Long-term healthcare costs likely will triple in the next 20 years, according to the U.S. General Accounting Office.
- **Weigh the cost of ownership for luxury items.** The ongoing cost of owning vacation homes and other expensive luxuries may far outweigh the cost of renting them whenever you actually need them.
- **Take advantage of unrealized appreciation.** If you have employer stock in your 401(k), there are potential tax savings available by having the stock distributed to you outright rather than being rolled into an IRA. By doing so, you pay ordinary income tax only on the cost basis of the stock, not on the full-market value.
- **Diversify concentrated positions.** If you have more than 10% of your overall assets in the shares of one company or one asset, you may be exposed to unnecessary market risks.
- **Simplify your holdings.** If you have multiple 401(k)s or IRAs, you may want to consolidate them to simplify your paperwork, recordkeeping and administration. Consolidating also makes it easier to evaluate and access your investment portfolio.
- **Consider wealth transfer planning.** Speak with your financial advisor about wealth transfer and charitable giving strategies to further reduce income and estate taxes.

Take charge of your retirement

Whether retirement is just around the corner or far off on the horizon, it's important to develop a strategy that works for you and your family.

Living life to the fullest takes resources and careful planning. At Northern Trust, we can help you identify your priorities, and help you realize those goals by developing a personalized retirement income strategy.

Planning doesn't end once you enter retirement, either. It's an ongoing process that can help you realign your finances to fit your lifestyle as your needs and situation changes.

For more information, speak with a Northern Trust professional near you or visit northerntrust.com/retirewell.

Retirement income checklist

As part of your retirement income planning, you'll need to take an inventory of your retirement income assets. Here are the likely sources:

- **Retirement accounts:** Nearly half of all Americans expect to fund their retirement with a 401(k), IRA, Keogh or other type of retirement account.
- **Pensions:** Fewer than 1 in 5 retirees today are able to rely on a company pension.
- **Risk control assets:** Many advisors suggest you should keep risk control assets, such as cash equivalents, to fund living expenses and to help protect from market volatility.
- **Risk assets:** Risk assets, such as stocks and stock mutual funds, can help your portfolio outpace inflation. And the appreciation of stocks held outside retirement accounts are taxed at the typically lower capital-gains tax rate.
- **Social Security:** Today, a 65-year-old can expect to live another 19 years, on average. That means he or she will receive nearly $250,000 in income from Social Security. It is also important to analyze the right age at which to start drawing Social Security.
- **Home equity:** Don't put off plans to downsize. While your home may have changed in value, so have other properties. It also could be time to reconsider vacation properties and second homes. If it's costing you the equivalent of $500 a night, you may want to stay at a five-star hotel instead and not be tied to the upkeep of that property.
- **Part-time work:** Some people want to work part-time for the stimulation and social interaction. It's also worth noting that a part-time job paying just $20,000 a year is equivalent to having a half million dollars in retirement investments.
- **Inheritance:** You can't always count on an inheritance. Your benefactor may live longer than expected and require more of these assets for long-term care.
- **Annuities or insurance:** Annuities can guarantee a certain income for a period of years or for your lifetime. But they cannot be passed on to your heirs, and in today's low interest rate environment, the payout may not be very large.
- **Rent and royalties:** Income from real estate, royalties from patents, trademarks and copyrighted intellectual can supplement your other sources of retirement income.

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