NORTHERN TRUST

RETIREMENT PLANNING FOR EVERY LIFE STAGE

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Envision yourself in retirement. Are you enjoying the lifestyle you thought you would have? Have you achieved the financial goals you laid out for yourself? If you are unsure how you would answer these questions, you are not alone. Retirement planning is the cornerstone of a successful wealth plan. Yet most people fail to adequately prepare for this important life stage, which can leave them feeling fearful and uncertain about their financial future.

Take a look at some recent data. The average life expectancy has significantly increased over the past century. And recent trends suggest that of couples in their mid-50s, 1 out of 3 males and 1 out of 2 females will live to be 90 years-old.[1] However these projections play out, the maxim holds true, *the longer you live, the more money you will need to last throughout your lifetime*.

While there is no one-size-fits-all retirement planning strategy, there are some practical things you can do at every life stage to better prepare yourself for a successful financial future.

In the following discussion we address some common concerns and questions about retirement planning to help you understand your options and make decisions based on your goals. Each individual's set of circumstances is unique, however, and you should evaluate your plan with the help of your trusted team of legal, tax and financial advisors.

1 Society of Actuaries, "Age Wise Longevity Infographic Series," Series 1. July, 2016.

EARLY CAREER: BUILD GOOD HABITS

If you are just starting out in your career, you are likely excited about your new job. But you also may be feeling overwhelmed by the unfamiliar world of employee benefit options — 401(k) and other retirement plans, health insurance, group life and disability insurance, and more. At this stage, one of the most valuable assets you have is time. This is in part due to the principle of compounding — the increased value of an asset as a result of re-investing interest and dividends earned over time. Compounding is one of the most important keys to successful saving for future goals, such as retirement. You also have the opportunity to take early advantage of tax-advantaged savings strategies — 401(k)s and Individual Retirement Accounts (IRAs).

COMMON CONCERNS AT THIS STAGE:

- Knowing where to begin
- Understanding retirement planning options
- Learning how to invest

NEXT STEPS TO CONSIDER:

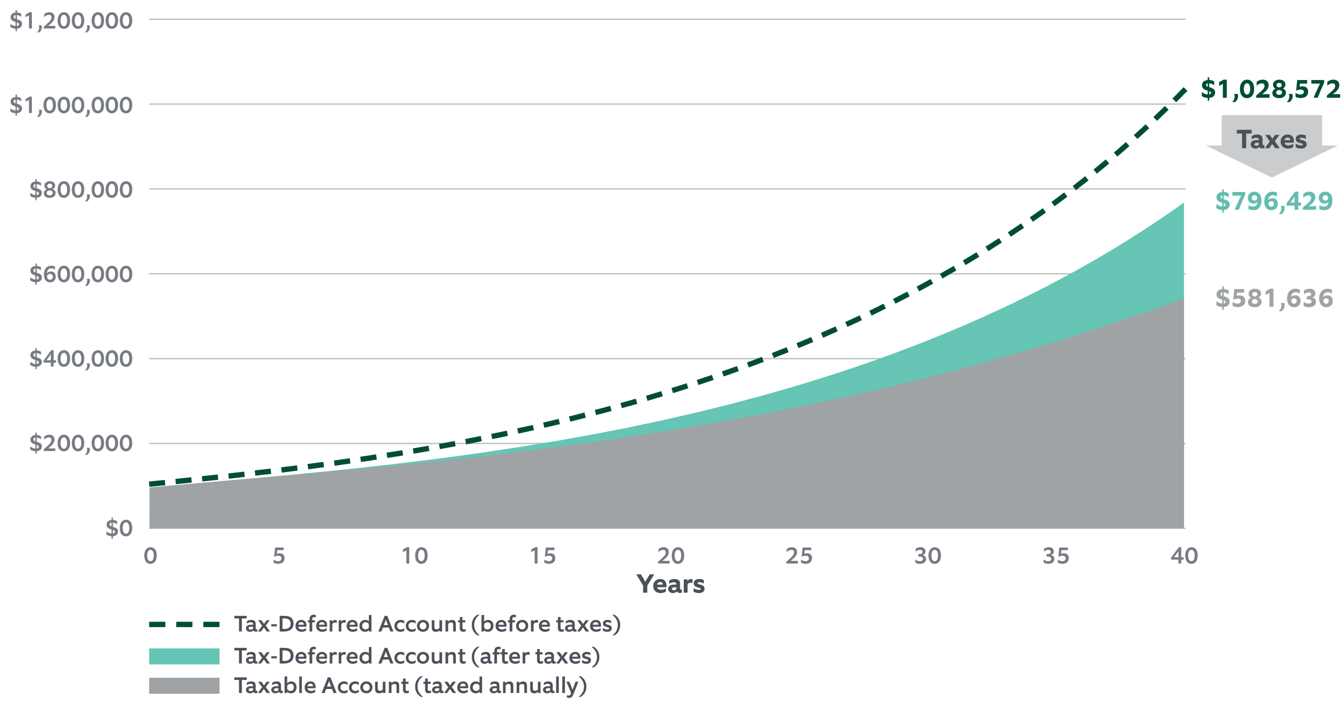
- **Establish an emergency fund.** Plan to have a safety net of 6 to 12 months of living expenses to address unexpected events.
- **Pay yourself first.** Set up automatic deductions directly from your paycheck to savings and/or retirement accounts. Automating your finances will give you confidence that your money is accumulating toward your goals.
- **Pay yourself more.** Take advantage of the power of compounding and begin saving as much as you can comfortably set aside. As your income grows, increase your savings contribution percentage accordingly.
- **Know your options.** IRAs and 401(k)s are two main tax-advantaged retirement savings options. The tax treatment of the accounts is dependent upon whether they are traditional or Roth (see Retirement Account Features on next page). If your employer offers a 401(k) plan with a matching contribution, at a minimum contribute enough to receive the maximum employer match. If the plan has an "auto-increase" option, sign up to automatically increase your contributions as your income increases.
- **Leverage any annual gifts.** If you receive cash gifts, use the funds to supplement IRA contributions to maximize tax advantages and capitalize on compounding.
- **Be a student of basic investing.** Investing can be daunting, but there are many available resources to learn the basics.

RETIREMENT ACCOUNT TYPES	
IRA	Individual Retirement Account
401(k)	Employer-sponsored retirement account offered by corporations
SEP IRA	Simplified Employee Pension, for self-employed individuals or small business owners
SIMPLE IRA	Savings Incentive Match Plan for Employees may be set up by employers with less than 100 employees
403(b)	Employer-sponsored retirement account offered by public schools, certain tax-exempt organizations, nonprofits and hospitals
457	Employer-sponsored retirement account offered by state or local governments and certain non-governmental employers

RETIREMENT ACCOUNT FEATURES	
TRADITIONAL	**Tax deferred.** Contributions may be pre-tax. Withdrawals in the future are subject to ordinary income taxes.
ROTH	**Tax free.** Contributions are made after-tax. Withdrawals in the future are tax free on the conditions the account is held for at least 5 years and you are age 59½ or older.
REQUIRED MINIMUM DISTRIBUTIONS (RMDs)	**Required minimum distributions (RMDs)** are the minimum amounts you generally must withdraw from your traditional account beginning in April of the calendar year following the year you turn age 70½.

THE POWER OF TAX-DEFERRED COMPOUNDING

Growth of $100,000 initial investment, 6% return, 25% tax rate



The example above is hypothetical based on a consistent 6% annual return and 25% taxes. The example is for illustrative and educational purposes only. Actual results in individual circumstances may be affected by considerations including market and economic conditions, tax rates, fees and costs.

MID-CAREER: STRATEGIC PLANNING

If you are mid-career, you are likely more established and are generating substantially more income. You also may find yourself struggling to manage competing financial priorities in addition to saving for retirement. These can include marital and family needs, buying a home or vacation home, or child care and tuition costs. Once you have a clear picture of the type of retirement you want, however, you can begin to identify how to fund it by clarifying all aspects of your spending, saving and investing.

COMMON CONCERNS AT THIS STAGE:

- Managing competing priorities
- Understanding retirement saving choices
- Funding retirement

NEXT STEPS TO CONSIDER:

- **Identify and order your priorities.** If you are married, determine whether your and your spouse's priorities align. Evaluate trade-offs. Would you like to retire "early" or do multiple careers and delayed retirement appeal to you?
- **Understand tax diversification.** Consider the balance between traditional (pre-tax) and Roth (after-tax) in your retirement accounts. Approximately 85% to 90% of retirement funds are in traditional, tax-deferred accounts. Remember, withdrawals from traditional accounts are taxable. With a Roth account, withdrawals are tax-free since contributions are made on an after-tax basis.
- **Think in terms of percentages, not contribution limits, as your income grows.** Capitalize on allowable annual retirement contributions (which increase at age 50). Once you reach your maximum contribution limits for tax-advantaged retirement options, identify other ways to save, such as after-tax contributions, deferred compensation and taxable accounts.
- **Evaluate your insurance needs.** Make sure you have adequate insurance to protect yourself and your loved ones, including life, health, disability, and property and casualty.
- **Consider parental care/aging parents.** Identify whether you will need to help your parents financially, now or in the future. Initiate conversations as a family about their financial future.

TAX CONSEQUENCES OF TRADITIONAL VS. ROTH RETIREMENT SAVINGS ACCOUNTS

The primary difference between the two is when the taxes will be incurred — now or later.

	Contributions	Growth	Early Withdrawal	Withdrawals	Required Minimum Distributions
Traditional	Pre-Tax	Tax Deferred	Penalty + Taxes	Pay Taxes	Yes
TODAY			AGE 59½	AGE 70½	
ROTH	After-Tax	Tax Free	No penalty to withdraw contributions, but may pay penalty + taxes on earnings	Tax Free	No

LATE CAREER: THE DEEP DIVE

In your late career, retirement is on the horizon. If you have not already, you should take time now to meet with your team of wealth planning and other advisors for a closer examination of your overall financial health. Among other things, an advisor can help you: picture what a life in retirement may look like for you and your family; determine how much you will need to maintain your lifestyle in retirement; and evaluate how much longer you may need to work.

COMMON CONCERNS AT THIS STAGE:

- Funding lifestyle in retirement
- Determining when you can retire
- Rising trends in healthcare costs

NEXT STEPS TO CONSIDER:

- **Advisor assessment.** Consult with financial, estate and tax planning experts to take a holistic view of your financial picture and determine whether you are well-positioned to achieve your retirement goals.
- **Create a timeline to retirement.** What do you want to achieve financially in the time remaining before you retire? Are there major purchases or gifts to make, such as a vacation property or funding grandchildren's education savings?
- **Review wills, trusts and beneficiary designations.** Make sure these items — including beneficiary designations for insurance and retirement accounts — are up-to-date considering life events, such as marriage, divorce, children or other occurrences.
- **Tax bracket planning.** Prepare for the tax impact of taking distributions from 401(k)s, IRAs and other sources. These include:
  - Employer pension plans
  - Social Security
  - Annuities
  - Deferred compensation
  - Taxable investments
- **Healthcare planning.** Prepare for significantly higher health care costs, both short- and long-term. With increased age come increased costs associated with healthcare. Health Savings Accounts (HSAs) offer triple tax advantages: contributions are pre-tax, growth is tax deferred and withdrawals for qualified expenses are tax free.

EARLY STAGE RETIREMENT: THE NEW NORMAL

If you are newly retired, you might initially find it difficult to transition out of the workforce. And even though you have been preparing for this stage for quite some time, there is likely still a period of adjustment as you mentally transition from *saving* mode to *distribution* mode.

COMMON CONCERNS AT THIS STAGE:	NEXT STEPS TO CONSIDER:
▶ Recreating income sources ▶ Flipping the switch from saving to distribution ▶ Establishing your post-career identity	▶ **Monetize savings to replace income stream.** The more income sources you have, the more tactically you will need to plan to use them. Sources include family wealth, Social Security, employer pension, deferred compensation, retirement assets, and taxable accounts. Evaluate income drawdown strategies based on a comprehensive view of all of your accounts. ▶ **Evaluate rollover, conversion and distribution options.** Opportunities abound between ages 59½ and 70½. Be especially mindful of tax laws, taxable income, future RMDs, and your total asset picture. Reassess and realign goals with expenditures and adjust accordingly. Do not be surprised if your actual expenses are higher than you anticipated. ▶ **Understand RMD planning and timing**. There are significant penalties if you fail to take RMDs from traditional retirement accounts after age 70½. ▶ **Establish your post-career identity.** Do you want to completely stop working? If you do, it is a good practice to take time off to relax and recharge. When you are ready for the next chapter, consider reengaging in a field you are passionate about and can pour your heart into. Maintaining healthy social connections and staying mentally and physically active have been shown to increase happiness and longevity. Additionally, you may have more free time and may want to spend it supporting charitable causes you care about.

LATE STAGE RETIREMENT: ESTABLISHING LEGACY

In the late stages of retirement you may find yourself involved in fewer activities and spending less of your savings than in earlier stages. This makes it an ideal time to consider legacy and wealth transfer planning for retirement assets. Also, if you have not already done so, you may want to consider contributing to your favorite charitable causes.

COMMON CONCERNS AT THIS STAGE:	NEXT STEPS TO CONSIDER:
▶ Depleting financial assets ▶ Lifetime charitable giving ▶ Planning for wealth transfer of retirement assets	▶ **Evaluate the sufficiency of your assets,** adjust spending if necessary, and consider possible lifetime giving strategies with part of any expected surplus. ▶ **IRA Qualified Charitable Distributions (QCDs)** are direct transfers of funds from your traditional IRA to a qualified charity. These count towards RMDs. QCDs may be a tax efficient distribution and giving option to consider. You must be over age 70½, and the allowable maximum is $100,000 per year. ▶ **Consider legacy and wealth transfer planning with retirement assets.** Should you bequeath traditional or Roth IRAs? Since Roth IRAs have no RMDs and distributions when made are income tax-free, you can continue to let the assets grow and your beneficiaries can take withdrawals free of income tax. Because distributions from traditional IRAs are taxed, consider whether to name tax-exempt charities as beneficiaries if you intend to benefit charities in your estate plan. Be aware that once retirement accounts are passed down to beneficiaries, there are specific rules regarding distributions. ▶ **Review and update your estate planning documents** to help ensure they will accomplish your desired intentions. ▶ **You have planned for your future; now plan for future generations.** Engage your family in wealth transfer and philanthropic gifting plans. Have family meetings to discuss goals and priorities, and allow everyone who wants to participate to have a voice.

RETIREMENT PLANNING COMMON CONCERNS AND NEXT STEPS AT VARIOUS LIFE STAGES

LIFE STAGE	**EARLY CAREER** Build Good Habits	**MID CAREER** Strategic Planning	**LATE CAREER** The Deep Dive	**EARLY STAGE RETIREMENT** The New Normal	**LATE STAGE RETIREMENT** Establishing Legacy
CONCERNS	▶ Identifying where to begin ▶ Understanding retirement planning ▶ Learning how to invest	▶ Managing competing priorities ▶ Understanding retirement choices ▶ Funding retirement	▶ Funding lifestyle in retirement ▶ Determining when you can retire ▶ Rising trends in healthcare costs	▶ Recreating income sources ▶ Flipping switch from “saving” to “distribution” ▶ Post-career identity	▶ Depleting financial assets ▶ Lifetime giving opportunities ▶ Wealth transfer planning with retirement assets
NEXT STEPS	▶ Build emergency safety net ▶ Develop the “saving” habit ▶ Increase your investment knowledge	▶ Identify and order priorities ▶ Accelerate and diversify retirement accounts (Traditional / Roth) ▶ Think beyond contribution limits, and consider parental care	▶ Re-evaluate your financial picture against your goals ▶ Prepare for tax impacts of retirement distributions ▶ Take advantage of Health Savings Accounts	▶ Monetize savings to replace income streams ▶ Evaluate retirement account rollover ▶ Prepare for the next chapter	▶ Reassess appropriate income withdrawal amounts ▶ Review and update estate planning documents ▶ Engage family in wealth transfer and philanthropic gifting plans

Depending on your unique circumstances, concerns and next steps may start earlier or later than depicted in the graphic.

CONCLUSION

Retirement planning is not a one-time event, but rather a career and lifelong journey that, when done well, can lead to a successful and bountiful future. Start the conversations with your advisors early on, take stock of your assets and future inflows, and align those carefully with your goals. The more prepared you are, the better your chances are of having the retirement you envisioned for yourself and your loved ones.

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