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QUARTERLY RETIREMENT REVIEW

S.L. Reed & Company
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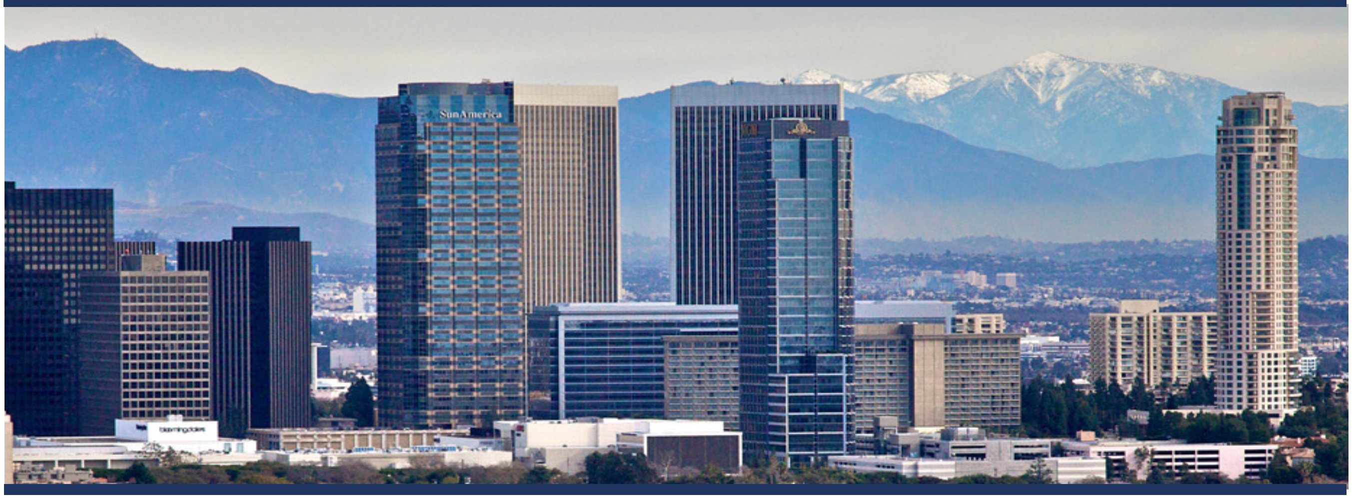
SPRING 2020 ISSUE



Saving For Retirement

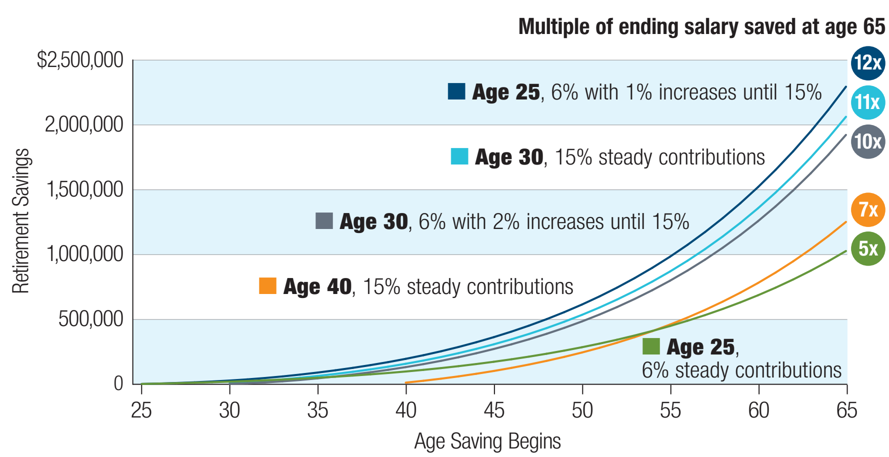
1. How much should I save for retirement?

How much you need to save depends on several factors, including your lifestyle, how much you earn, and your unique vision for this next stage of life. By aiming to save at least 15% of your income each year, you can give yourself a good chance to maintain your current lifestyle in retirement.

Each extra percentage point you save will make a significant difference in your retirement savings over time. *See the chart below:*

Saving Regularly for Retirement

The sooner you can start saving, the better off you'll be in the long run. For many individuals, 15% may be a stretch for their current financial situation. If you can increase the amount you save over time, it can make a significant difference.



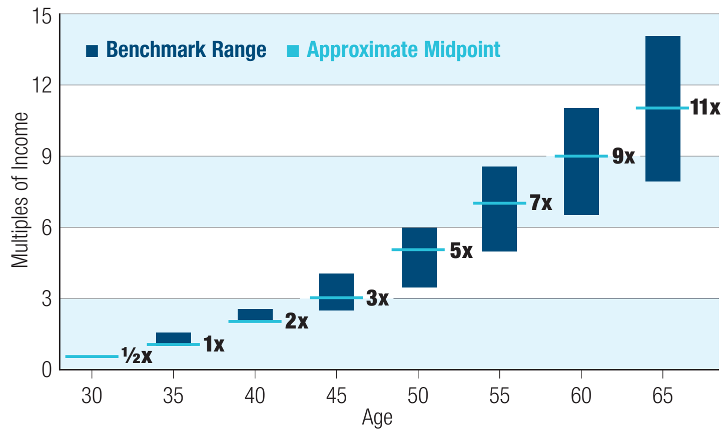
Examples beginning at age 25 assume a beginning salary of $40,000 escalated 5% a year to age 45, then 3% a year to age 65. Examples beginning at age 30 assume a beginning salary of $50,000 escalated 5% a year to age 45, then 3% a year to age 65. Example beginning at age 40 assumes a beginning salary of $80,000 escalated 5% a year to age 45, then 3% a year to age 65. Annual rate of return is 7%. All savings are assumed tax-deferred. Multiple of ending salary saved divides final ending portfolio balance by ending salary at age 65. This example is for illustrative purposes only and is not meant to represent the performance of any specific investment option. The assumptions used may not reflect actual market conditions or your specific circumstances and do not account for plan or IRS limits. Please be sure to take all of your assets, income, and investments into consideration when assessing your retirement savings adequacy.

Source: T. Rowe Price

The T. Rowe Price 15% guideline is based on several factors, including the potential that your retirement may last 30 years or longer. Longevity exposes you to a few risks including more years of spending to fund your living expenses, a decrease in purchasing power from inflation, and higher health care costs. A 15% target can help your savings generate a robust income stream in the face of these long-term challenges. Many individuals may set their savings rate through their workplace plan, like a 401(k). Investors also can supplement these savings with an IRA or a regular, taxable account.

Benchmarking Your Progress

To find your savings benchmark, look for your approximate age and consider how much you've saved so far for retirement. Compare that amount with your current gross income or salary.



Benchmarks are based on a target multiple at retirement age and a savings trajectory over time consistent with that target and the savings rate needed to achieve it. Household income grows at 5% until age 45 and 3% (the assumed inflation rate) thereafter. Investment returns before retirement are 7% before taxes, and savings grow tax-deferred. The person retires at age 65 and begins withdrawing 4% of assets (a rate intended to support steady inflation-adjusted spending over a 30-year retirement). Savings benchmark ranges are based on individuals or couples with current household income of approximately between $75,000 and $250,000. Target multiples at retirement reflect estimated spending needs in retirement (including a 5% reduction from preretirement levels); Social Security benefits (using the SSA.gov Quick Calculator assuming claiming at full retirement ages and the Social Security Administration's assumed earnings history pattern); state taxes (4% of income, excluding Social Security benefits); and federal taxes (based on rates as of January 1, 2019). While federal tax rates are scheduled to revert to pre-2018 levels after 2025, those rates are not reflected in these calculations. For the benchmarks, we assume the household starts saving 6% at age 25 and increases the savings rate by 1% annually until reaching the necessary savings rate.

Source: T. Rowe Price

2. Have I saved enough for retirement so far?

Considering you may spend a few decades in retirement, it's important to have enough set aside so that your money will last. A quick way to check your progress is to assess how much you've saved by certain ages. You might call these target levels as savings benchmarks. See the chart.

These benchmarks assume you'll be dependent primarily on personal savings and Social Security benefits in retirement. However, if you are expecting other income sources you may not have to rely as much on your personal savings, so your benchmark would be lower. The midpoint benchmarks are a good starting point, but circumstances vary by person over time.

Key factors that affect the savings benchmarks include income and marital status. Depending on your personal circumstances, you may want to consider other targets within the ranges. As you're nearing retirement, you'll want to go beyond general benchmarks and think more carefully about your specific spending needs and income sources.

If it appears you're falling below the benchmark and you're behind on your savings goals, make sure you're taking advantage of all the savings options available to you. Consider contributing more than 15% of your salary and taking advantage of both an IRA and a taxable account. If you're age 50 or older, your contribution cap will be higher than for those under age 50.

3. Should I contribute to a Roth IRA or a Traditional IRA?

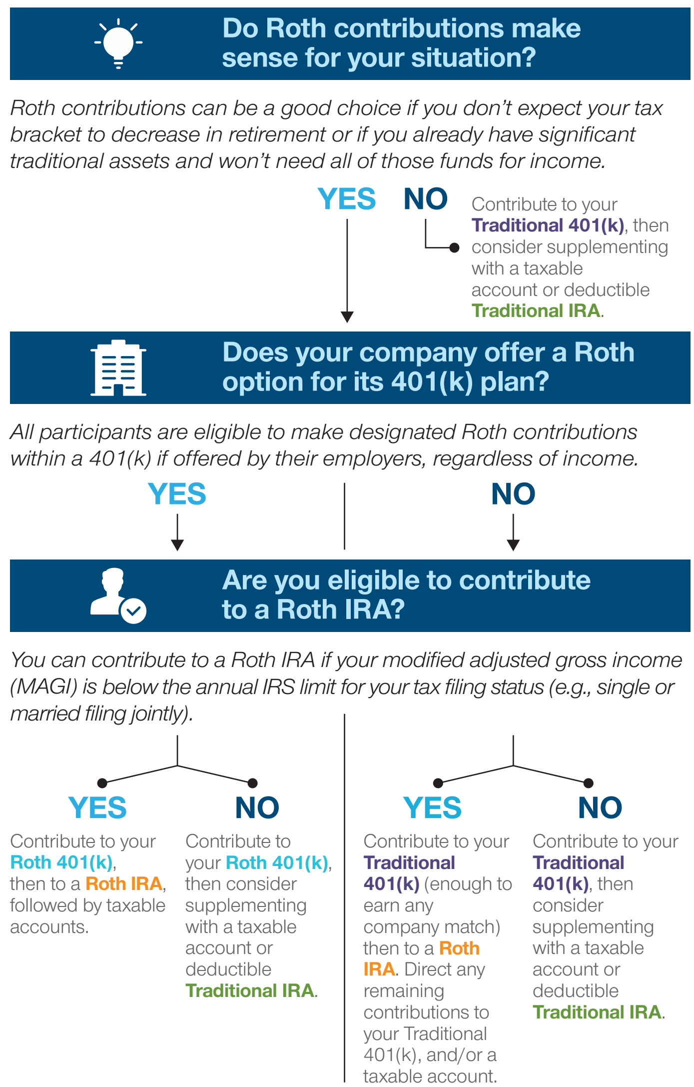
Setting aside funds in a Roth IRA can offer a few distinct benefits over savings in a Traditional IRA. Withdrawals from a Roth IRA are tax-free in retirement (generally, if you are age 59 1/2 or older and have held the account for five years). By comparison, withdrawals from Traditional IRA's generally are taxed as ordinary income. Additionally, Roth IRA contributions can be withdrawn at any time penalty and tax free, providing flexibility and access to these funds if needed.

Moreover, Roth IRA's aren't subject to the required minimum distributions (RMDs) that apply to most retirement accounts starting at age 72 (age 70 ½ if you reached 70 ½ before January 1, 2020), so you can choose to let Roth assets benefit from tax-deferred growth for the rest of your life. Roth contributions can be a good choice if you don't expect your tax rate to decrease in retirement or if you already have significant traditional assets and won't need all of those funds for income. Keep in mind that your best choice between a Roth IRA and a Traditional IRA may change as you revisit your investment strategy over time.

4. Which retirement account should I fund first?

The order in which you contribute to your retirement accounts could help increase future spending income. When deciding on your approach, make sure not to miss out on any matching contributions (if offered) from your employer's retirement plan. Also, consider taking advantage of the benefits of a Roth account, both within your employer's retirement plan (if available) and/or through a Roth IRA (if you meet income qualifications).

Let's look at an example: Suppose Roth contributions make sense for your situation and you're eligible to contribute, but your company doesn't offer a Roth option in its 401(k) plan. In this case, contribute enough to your Traditional 401(k) to earn any company match, then to a Roth IRA up to the contribution limit ($6,000 for those under 50 in 2019 and 2020). Then direct any supplement savings to your Traditional 401(k) and/or a taxable account, depending on your circumstances and other financial goals. See the chart below:



*In 2019 and 2020, eligibility to make the maximum Roth IRA contribution requires a modified adjusted gross income (MAGI) of less than $122,000 and $124,000, respectively, for single filers and less than $193,000 and $196,000, respectively, for married couples filing jointly. (For partial contributions, a MAGI of less than $137,000 and $139,000, respectively, for single filers or less than $203,000 and $206,000, respectively, for married couples is required.)

Source: T. Rowe Price

5. What should I consider when establishing an income plan for retirement?

Starting to draw down your savings can be a challenge after years of putting money aside. Many advisors suggest a 4% guideline as a starting point for a withdrawal strategy. This means that in the first year of retirement, you could consider a withdrawal amount that is equal to 4% of your retirement account balance. Each year, reassess your spending needs, portfolio performance, and market environment to adjust your withdrawal amount if needed. You'll want to assess and plan out your strategy well before you need to start taking RMDs Also, consider your option for Social Security. You can start taking reduced Social Security. You can start taking reduced Social Security benefits at age 62, but working until your full retirement age will allow you to claim full benefits. The longer you wait (up to age 70), the higher your annual benefit will be. Consider coordinating your claiming strategy with your spouse. For instance, to maximize the benefit for a surviving spouse, the higher earner should wait as long as possible (up to age 70) before claiming benefits.

Saving for retirement is a priority for most investors. Regularly reassessing your answers to these questions and using them as a guide can help you reap the rewards later on in retirement.

HAS ANYTHING CHANGED?

S.L. Reed & Company can help:

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