Three Steps to Improve Your Retirement Outlook

If you are nearing retirement, it is important to carefully consider your future retirement income needs and how you will meet them. This brochure outlines three steps you can take today to help improve your retirement outlook.

**STEP 1  DETERMINE YOUR TOTAL RETIREMENT BUDGET**

**CALCULATE HOW MUCH YOU WILL NEED**

Whether you plan to be adventurous, restful, or some combination of the two, it is important to anticipate your expenses ahead of time and budget accordingly. Remember to factor in taxes and inflation. You may consider meeting with a financial advisor to help with the calculations.

**Prioritize essential vs. nonessential expenses**

Make a list of your anticipated expenses, both essential and nonessential. Essential expenses include your mortgage or rent, car and other loan payments, and food, to name a few. Also included are homeowners and life insurance premiums, taxes, healthcare, and long-term care expenses.

When planning for retirement, consider your essential expenses first, but be realistic about your lifestyle expectations, too. Planning now to have some “fun money” at your disposal may help you get the most enjoyment out of your future.

**Consider budgeting for future healthcare expenses**

Medicare is for people age 65 and older and generally covers a portion of medical expenses. To learn about eligibility and what Medicare covers, visit medicare.gov. The program rarely covers long-term care, such as nursing home expenses and home health aides.

How will you cover the rest? You may have a Health Savings Account or retiree medical coverage through your employer. Investigate these alternatives long before you actually need the coverage.

With or without retiree medical coverage, you may consider enrolling in Medigap. Medigap is an insurance policy that covers certain costs that Medicare won’t, but it does have limitations. You may also be interested in long-term care insurance. Do your research to find out what type of insurance is right for you.

If you are already receiving Social Security when you turn 65, you will be automatically enrolled in Medicare. If you are not already receiving Social Security benefits three months prior to your 65th birthday, you should contact Medicare at that time. More information is available at socialsecurity.gov.

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PAYING FOR YOUR VISION

With your retirement date in mind, review all of your assets to make sure you are on track to reach your financial goals.

As shown in the graph to the right, the average retiree receives 33% of his or her total retirement income from Social Security. Since reserves are projected to be exhausted by 2023, it is important to plan for additional sources of retirement income.

Source: 2016 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds

SOURCES OF RETIREMENT INCOME

The sources from which current workers expect to receive their income during retirement differ from the sources from which current retirees actually receive their income.

The graphs illustrate that while only 40% of current retirees utilize their personal savings for retirement income, 65% of current workers anticipate personal savings to play a role during retirement. Seventy-six percent of workers expect to receive retirement income from an employer-sponsored retirement savings plan, such as a 401(k) plan, while only 25% of those already retired actually receive income from such a source. A whopping 77% of current workers expect to receive some income from employment in retirement, as opposed to only 37% of retirees who rely on this source.

Traditionally, Social Security and company pension plans were primarily depended on to fund an individual’s retirement. As the retirement income gap grows larger, however, the current belief is that these established retirement income sources will no longer play as prominent a role. Personal savings, as well as employment during retirement, are expected to play a much larger role in funding future retirement needs.
DO YOU NEED A FINANCIAL ADVISOR?

When planning for retirement, you can manage your plan independently or get help from a trusted financial advisor. A financial advisor can work with you to help clarify priorities for financial goals before and during retirement, as well as manage your retirement portfolio and other assets.

Visit retirementdirections.com to calculate your retirement income and check out our other retirement tools and resources.

### INCOME SOURCE | WHAT TO KNOW
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Employer-Sponsored Defined Contribution Retirement Plans | Many retirees are invested in at least one defined contribution plan, such as a 401(k), 403(b) or other employer-sponsored plan, upon retirement. Consider your options at retirement:
1. Leave your money invested in the plan, tax-deferred.
2. Roll over the assets to an Individual Retirement Account or Annuity (IRA). Select a direct rollover to avoid taxes.
3. Opt for periodic payments, if your plan offers them.
4. Take a lump-sum distribution, but carefully consider the tax consequences.

Pensions | Every pension plan is different, so check on the options available to you. The regular income of a monthly pension payment is a unique feature other retirement vehicles may not provide.

Annuities | A life annuity is purchased with a one-time, lump-sum payment and can provide guaranteed periodic income for your life (and your spouse's life in the case of a joint and survivor annuity).
If you own an annuity, you have several options:
1. Withdraw the money in one lump sum.
2. Withdraw the money over a period of time through regular or irregular withdrawals. This option turns your annuity into something similar to a bank savings account. You may be able to withdraw only earnings (interest) from the account, or both the principal and the interest.
3. Opt for annuitization, which means the account value is converted into a stream of payments, providing you guaranteed periodic income.

Other Income | Remember to factor in any income you may receive from real estate investments, veterans' benefits, dividends, and interest. Be sure to include any income from employment, too.

### STEP 2 | DETERMINE HOW MUCH TO WITHDRAW

You will need to determine how much you can withdraw each month during retirement and when to withdraw from your various accounts. You should consider many factors, including your time horizon and your asset allocation mix, to establish a withdrawal rate that is right for you. If you have a personal financial advisor, then he or she can help you with this step.

**Set dollar vs. set percentage**

When planning your withdrawal strategy, you have two basic options for receiving your systematic withdrawals: (1) withdraw a set dollar amount, or (2) withdraw a set percentage of your account value.
Each approach has a significant pro and con. Consider each one carefully before making a decision:

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<th>DOLLAR AMOUNT APPROACH</th>
<th>PERCENTAGE APPROACH</th>
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<tr>
<td><strong>PRO</strong></td>
<td><strong>CON</strong></td>
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<tr>
<td>Withdrawals are predictable, which is helpful for budgeting.</td>
<td>You may deplete your funds too quickly if the value of your account falls and you end up withdrawing too much each period.</td>
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<td><strong>CON</strong></td>
<td><strong>PRO</strong></td>
</tr>
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<td>You may deplete your funds too quickly if the value of your account falls and you end up withdrawing too much each period.</td>
<td>Withdrawals fluctuate with the market, making it difficult to budget.</td>
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ORDER OF WITHDRAWALS
Regardless of which method you choose, the order in which you withdraw retirement assets is key to your financial outlook. If you are at least 70½, you may consider following the steps outlined below.

1. **Take your required minimum distributions (RMDs)** | Once you reach the age of 70½, you are required to take minimum distributions from many retirement accounts, including 401(k) and 403(b) plans, pension and profit-sharing plans, and traditional, SIMPLE, and SEP IRAs. (RMDs do not apply to Roth IRAs until after the death of the account owner.) Be sure to take any required minimum withdrawals to avoid tax penalties.

2. **Draw on your taxable accounts** | Consider options such as (1) liquidating loss positions in your taxable accounts to offset capital gains elsewhere, as well as ordinary income from wages or interest; (2) selling assets in taxable accounts such as money market funds that will generate neither capital gains nor capital losses; or (3) withdrawing from your taxable accounts first to allow your tax-deferred and tax-exempt investments to continue growing and working for you longer.

3. **Move on to tax-deferred vehicles** | Consider withdrawing from your tax-deferred accounts, such as variable annuities, 401(k) plans, and traditional IRAs, only after you’ve withdrawn from your taxable investments.

4. **Finally, withdraw from tax-exempt accounts** | Consider making withdrawals from your Roth IRAs as your last resort, since those assets come out tax-free and you have the option of passing them on to your heirs without income tax penalties.

Bear in mind that no one strategy is right for everyone. We encourage you to discuss the tax ramifications of various withdrawal strategies with a financial advisor or a qualified tax advisor.

WITHDRAWAL RATE YOU CAN SUSTAIN MAY BE LOWER THAN YOU THINK
Historically, withdrawal rates that could support an investor over a typical 30-year retirement have varied from 4.98% to 6.47%, depending on the asset allocation of the portfolio. Of course, if you lived longer than 30 years, these withdrawal rates would need to be lower.

The optimal withdrawal rate will vary from investor to investor, and may vary over time. Many financial planners consider a withdrawal rate of 4%–5% as being reasonable and sustainable over a long retirement horizon. Your withdrawal rate can have a profound impact on how much money you need to accumulate before retiring and even on when you can retire.

In this graph, starting values for the three portfolios are assumed to be $500,000; stocks are represented by the Ibbotson® Large Company Stock Index. Bonds are represented by the five-year U.S. government bond, and fees from Morningstar. Annual fees of 0.69% for stocks and 0.57% for bonds were assumed. An investment cannot be made directly in an index.

Source: PNC Capital Advisors. Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.
Conduct a thorough assessment of your individual investments, insurance policies, and estate plan. Review your entire portfolio to confirm that your investments are properly diversified, given your age, the number of years you may live into retirement, and your risk tolerance, and to confirm whether you have enough invested for retirement. Review your insurance policies to determine if there are any gaps or if you have more than you need (life insurance, for example), as well as to confirm beneficiary designations. Finally, make sure your will, living will, and power of attorney authorizations are up to date.

Are your investments set up to provide the most benefit to you?

Maintain or adjust investments
How you invest your retirement assets is unique, and should depend on your age, personal investment philosophy, financial circumstances, and risk tolerance.

As you get older, you may consider investing more conservatively in order to help protect retirement assets from loss. However, depending on how long you may live in retirement, you may want to maintain some higher risk investments in your portfolio to continue to take advantage of stock market growth.

Now is a good time to review your holdings and make adjustments to confirm that your asset mix is still on track. Continue rebalancing your portfolio periodically throughout retirement to reflect any changes in your appetite for risk and in the market, with the goal of preserving and growing the assets you have so they will sustain you for many years to come.

Determine if consolidating investments is appropriate
If your investments are spread among various asset managers, it may make sense for you to merge your accounts under one roof. This will make it easier to monitor your investments, and may reduce overall investment fees. If you still own 401(k) or other employer-sponsored plans with previous employers, consider consolidating them into your current employer’s retirement plan or a rollover IRA.

Prepare for emergencies
Do you have an emergency savings account? Consider setting up a liquid account with easy and immediate access, so you’re prepared if and when something unexpected happens. If you already have such a fund set up, think about increasing it before you retire.

Consider boosting retirement contributions
Your retirement plan may allow people age 50 or older to contribute an extra amount per year, called catch-up contributions. If you are eligible and financially able, consider taking advantage of this opportunity.
Dust Off Those Old Policies

DO YOU STILL NEED LIFE INSURANCE?
Many people nearing retirement have at least one life insurance policy. But do you need life insurance now that you are about to retire?

For some retirees, the expense of the annual premiums outweighs the benefit of the policy. Carefully evaluate the pros and cons of discontinuing your life insurance payments before you make a decision.

WHO ARE YOUR BENEFICIARIES?
Do you know that the beneficiary designations on your insurance policies take precedence over whatever you have written in your will upon your death?

Think about the various benefits you have set up for your loved ones, some of which probably date back several decades. Though you’ve updated your will, it’s possible that you need to update the beneficiary designations on pensions, life insurance policies, long-term care insurance policies, etc. Be sure to update those documents now, and consult a tax advisor or attorney as necessary.

YOU HAVE A WILL… RIGHT?
If you don’t have a will, now is the time to write one. In addition to a traditional will, you should also consider having a living will in place to provide guidance to your family and doctors in case of an emergency.

You should also consider authorizing someone to make decisions on your behalf, if necessary, through a power of attorney.

Be sure to discuss the contents of these documents with your spouse, children, and any other named heirs. It will give you peace of mind and prepare them to cope with whatever may happen in the future.