Four Simple Steps to Get Your Savings Plan Back on Track

LOCKTON RETIREMENT SERVICES

Do you know what you will need to stop working when and how you want? If you're like three out of four Americans, you might not.

To be fair, it's a little bit of a trick question. How much you will need depends on things unique to you—your lifestyle, your health, your debt, and your time frame. There are, however, some standard targets. In a survey conducted earlier this year, though, most people didn't know what those common targets were. You don't have to be one of them.

FOLLOW SOME OF THESE BASIC STEPS TO BE IN THE KNOW AND ON TRACK. »»

Step 1: Save Something, Anything, Right Now

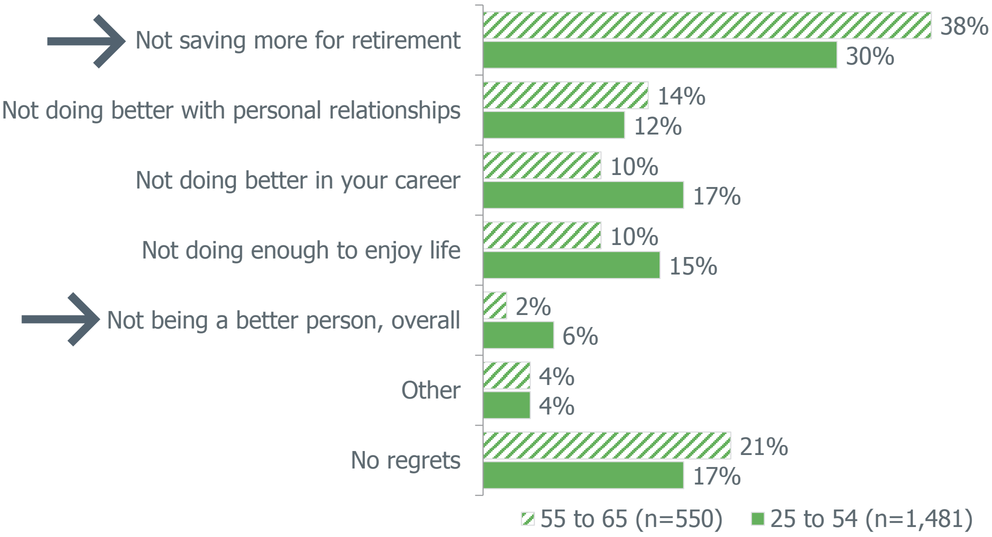
The general guideline suggests people should save at least 10 percent. Most save a lot less and many don't save anything at all.

People have good reasons for why they can't save, including paying down debt, funding a child's education, or buying a house. But there are also a lot of good reasons to find something, anything, to put away in your retirement plan now. These include:

- **Tax deferral.** Every pretax dollar you put into your qualified retirement plan account is a dollar you won't pay taxes on until you withdraw it.
- **Matching contributions.** For some plans, when you save, your employer puts in additional money. Not participating may mean missing out on extra cash.
- **Compound earnings.** Money makes money and the dividends your investments earn can be reinvested to earn even more. The sooner you start saving, the longer your money can work for you.

While these are all good reasons to save, everyone has to make his or her own choice. Many nearing retirement today, though, regret the savings decisions they made when they were younger. In a 2015 study conducted by American Century Investments, almost two out of five people said they wished they'd opted to put money away sooner for retirement.

LOOKING BACK, WHAT IS YOUR BIGGEST REGRET?



Two out of five people age 55 to 65 wish they had saved for retirement sooner.

Source: *Who's in the Driver's Seat?*, American Century Investments, 2015

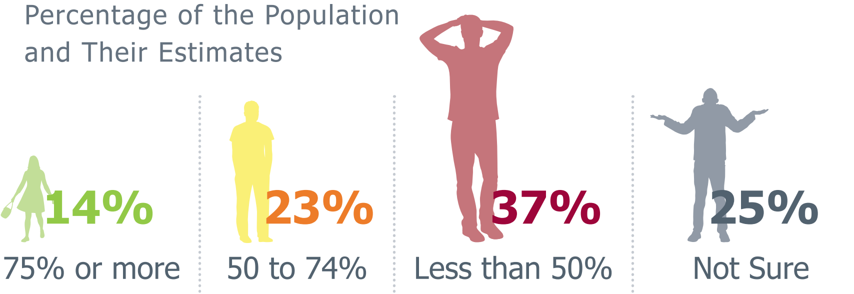
HOW TO MAKE A CHOICE THAT AVOIDS REGRET LEADS US TO OUR NEXT IDEA. »»

Step 2: Pick a Good Target

How much do you need in savings? Although there is no right number, a common rule of thumb says you will need to replace between 70 and 100 percent of your current income after you stop working. Where are you on that spectrum? Well the healthier you are, the more money you make now, and the more you plan to enjoy your time after working, the closer you need to be to a 100 percent replacement rate. That's something a lot of people don't understand.

ESTIMATED PERCENTAGE OF CURRENT INCOME NEEDED IN RETIREMENT

Percentage of the Population and Their Estimates



Source: "Finding the Links Between Retirement, Stress, and Health", Lockton, 2016

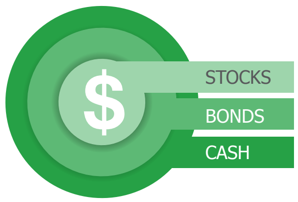
Whatever number you pick from that 70 to 100 percent target range, how will you know when you've saved enough? For starters, divide your total retirement savings amount by 25. If that number, plus what you expect to receive from Social Security, equals your target percentage of income or more, you could be in good shape.

The "divide by 25" is based on a common assumption that your savings will earn 4 to 5 percent in retirement. That way, if you draw down 4 percent each year, or 1/25th, the market will help replace what you spend and keep your account balance whole longer. If you divide by 25 and it is not enough, you will need to save more or work longer.

Of course, this is not a hard and fast strategy, but it is a place to start. Consider Social Security, which for many will replace less than a third of what they need. Also, remember your investments will sometimes earn more and sometimes earn less than 4 or 5 percent.

HOW MUCH YOUR INVESTMENTS WILL INCREASE OR DECREASE DEPENDS ON THE DECISIONS YOU MAKE IN THE NEXT STEP. »»

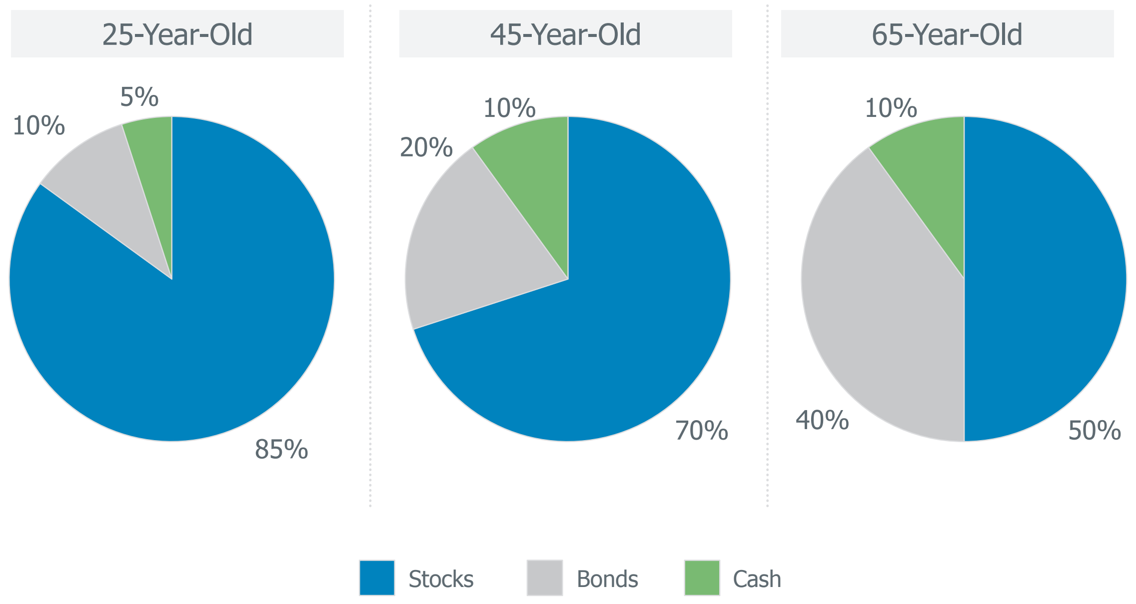
Step 3: Mix It Up



A regularly cited *Financial Analysts Journal* study says that 90 percent of an investment's performance comes from asset allocation, not investment selection or market timing. In other words, the study suggests you should pick a mix of investments based on your time horizon and risk tolerance, and then stick to your plan regardless of market ups and downs or the latest hot investing tip. Most people do not predict market trends well, and in fact, a 2014 Morningstar study found that most people lose 2.5 percent annually due to poor market-timing decisions.

There are a few ways to choose an investment mix. In the do-it-yourself way, pick from the stock, bond, and cash equivalent options in your company savings.

A BEGINNING RETIREMENT ASSET ALLOCATION MIGHT LOOK SOMETHING LIKE THIS:



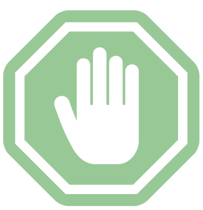
As you get closer to your goal, you may want more in cash and bonds to protect against short-term movements. But where you start depends on your goals, time horizon, your comfort with risk, and other assets outside the plan.

If you're not comfortable choosing funds or rebalancing as you get closer to your goal, most employer plans have do-it-for-me options. These include:

- **Model Portfolio—**A preselected mix of funds based on risk tolerance.
- **Managed Account—**A service that, for a fee, chooses funds and rebalances over time.
- **Target Date Fund—**A fund selected based on the date you plan to retire that gets more conservative as you age.

Consult your retirement website for specifics about what your plan offers.

ALL OF THESE OPTIONS ALLOW YOU TO "SET IT AND FORGET IT," WHICH BRINGS US TO OUR LAST TIP. »»



Step 4: Leave It Alone

The good news about qualified retirement plans is that many offer easy ways to access your money. The bad news? Many plans offer easy ways to access your money.

The most common way people pull money from their employer-sponsored plan is through loans. On the surface, it seems like a good idea. You borrow from yourself and then you pay yourself back, with interest. Nearly one-third of Americans have taken part in the loan feature of their 401(k)s, according to a 2014 survey by TIAA-CREF. But there are some hidden costs to that choice, which could slowly leach away the value of your savings. In fact, of those who took a loan from their plan, 44 percent later regretted it. Here are the reasons why:

- **Default risk.** If you quit or lose your job after taking a loan, you must pay the loan back immediately or default and pay a 10 percent tax penalty. According to the Financial Literacy Center, 80 percent of people who left their jobs with an outstanding loan ultimately defaulted on that loan.
- **Lost earnings.** Most people decrease their contributions while paying back their loans. In addition, over longer periods of time, the market will often increase faster than interest. The lost earnings from the missed contributions and the lost growth from the loan amount taken from your plan cannot be made up.
- **Taxes.** When you pay back a loan, you do it with after-tax dollars. This means you not only miss the benefit of tax deferral, but you also pay taxes again when you take the money out.

Other ways to get money from your account include taking a hardship withdrawal or, if you are leaving your employer, taking your money in a direct distribution rather than rolling it over to another plan. In both cases, you could pay tax penalties of 10 percent, so unless you desperately need the cash, it is best to leave your account alone.

Today's employer-sponsored savings plans are designed to be easy. Money comes from your paycheck automatically. It can usually be invested in a premixed option that, often, rebalances for you. And, as long as you leave it alone, it grows tax deferred. It really can be that simple to prepare for retirement.