DONNA BAX

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Retirement Basics

The Changing Face of Retirement

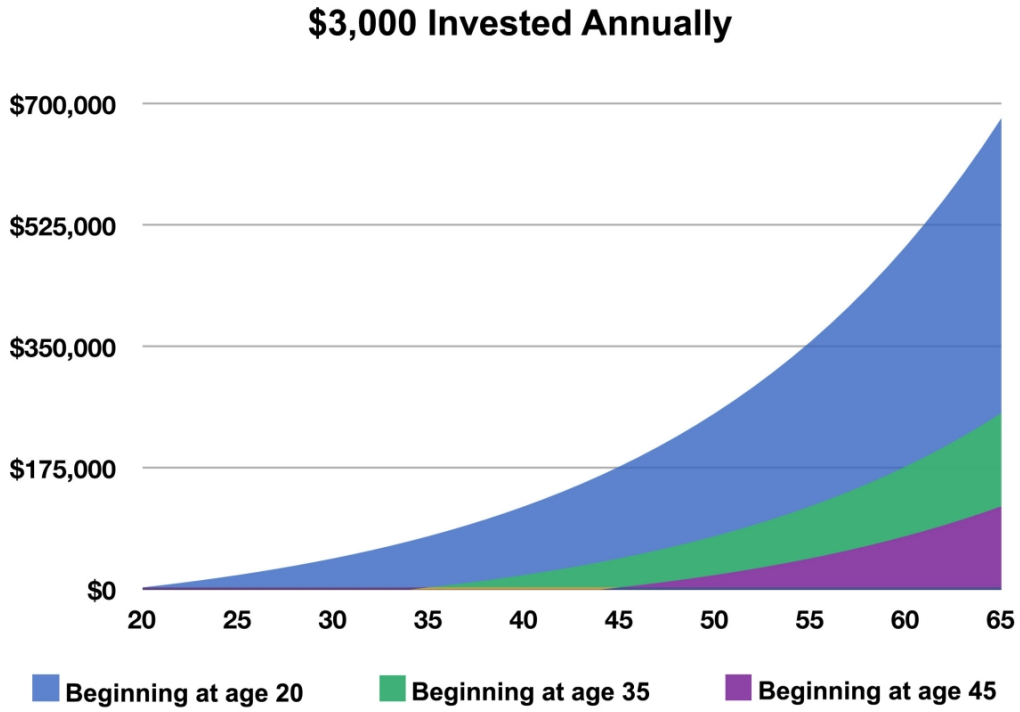
Americans are living longer, healthier lives than ever before. We're retiring earlier and doing more in our retirement years.

Many of us look forward to retirement as a reward for a lifetime of hard work; we see an opportunity to spend time with loved ones, pursue hobbies, and travel. Some of us will start new careers. Others will go back to school.

The one thing that we have in common is the fact that we all want to be financially independent. A realistic retirement strategy can make this a reality.

Start planning and investing now

Because retirement may be many years away, it's easy to put off planning for it. The longer you wait, however, the harder it is to make up the difference later. That's because the sooner you start, the more time your investments have to grow, and a few years can make a big difference in how much you'll accumulate.



Assumes 6% annual growth, reinvestment of all earnings, and no tax.

This is a hypothetical example and is not intended to reflect the actual performance of any investment. Please consult a financial professional about how this example may relate to your own situation.

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Basic Questions and Considerations

When do you want to retire?

Have you given any thought to when you'd like to retire?

The answer is important because the earlier you retire the shorter the period of time you have to accumulate funds, and the longer the period of time those funds will have to last.

Although you can retire anytime, you'll probably want to consider the fact that you won't be able to start collecting Social Security retirement benefits until age 62, and won't be eligible for health coverage through Medicare until age 65.

What kind of retirement do you want?

Can you describe the retirement lifestyle you'd like? Does it include extensive travel? Expensive hobbies? Do you imagine yourself living in your current home, downsizing to a smaller home, or perhaps purchasing a vacation home?

Would you like the opportunity to provide financially for children or grandchildren, or even your own parents, during your retirement years?

Don't settle for the retirement you think you can afford--plan for the retirement you want.

How long should you plan on retirement lasting?

The average 65-year-old American can currently expect to live for another 19.3 years. (Source: NCHS Data Brief, Number 178, December 2014.) Keep in mind, though, that life expectancy has increased at a steady pace over the years, and is likely to continue to do so.

The point is, it makes sense to plan for a retirement period that lasts for 25 years or more.

Note: *Although you can elect to receive Social Security retirement benefits beginning at age 62, you can't receive full benefits unless you wait until full retirement age. This can be age 66 to 67, depending on the year you were born. See page 5 for more information.*

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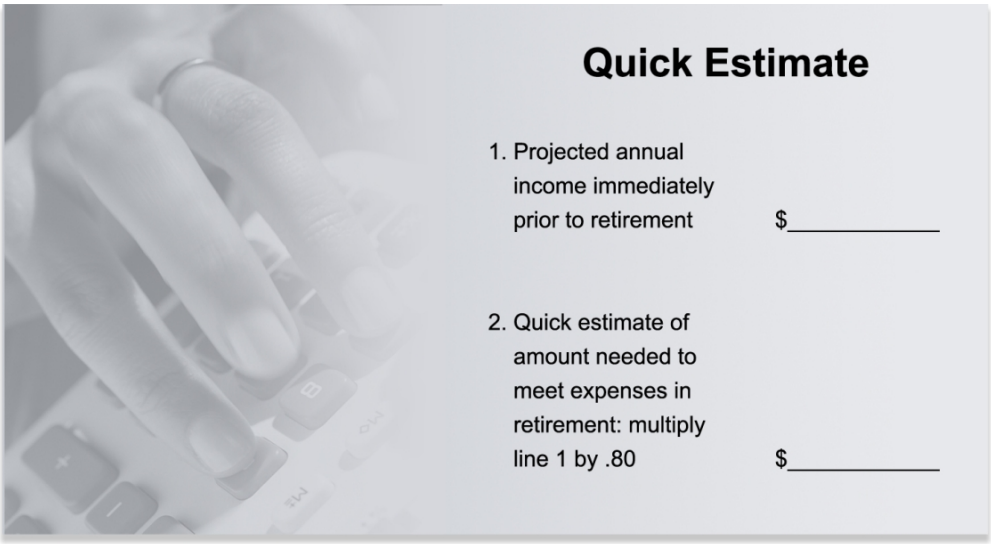
Estimating Retirement Expenses

Estimating retirement expenses is a big piece of the retirement planning puzzle. But you may have a hard time identifying all of your expenses in retirement and projecting how much you'll be spending in each area, especially if retirement is still far off. Try thinking about your current expenses, and consider how they might change between now and the time you retire.

Expenses to consider

- Food and clothing
- Housing: Rent or mortgage payments, property taxes, homeowners insurance, property upkeep and repairs
- Utilities: Gas, electric, water, telephone, cable TV
- Transportation: Car payments, auto insurance, gas, maintenance and repairs, public transportation
- Insurance: Medical, dental, life, disability, long-term care
- Health-care costs not covered by insurance: Deductibles, co-payments, prescription drugs
- Taxes: Federal and state income tax, capital gains tax
- Debts: Personal loans, business loans, credit card payments
- Education: Children's or grandchildren's college expenses
- Gifts: Charitable and personal
- Savings and investments: Contributions to IRAs, annuities, and other investment accounts
- Recreation: Travel, dining out, hobbies, leisure activities
- Care for yourself, your parents, or others: Costs for a nursing home, home health aide, or other type of assisted living
- Miscellaneous: Personal grooming, pets, club memberships



Quick Estimate

1. Projected annual income immediately prior to retirement $_____

2. Quick estimate of amount needed to meet expenses in retirement: multiply line 1 by .80 $_____

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Estimating Retirement Income

Traditionally, retirement income has been described as a "three-legged stool" composed of:

- Social Security retirement benefits
- Traditional employer pension income
- Individual savings and investments

However, fewer and fewer people are covered by a traditional employer pension these days.

Social Security full retirement age

Normal retirement age, for purposes of Social Security retirement benefits, depends on the year you were born.

If you were born in ...	Your normal retirement age is:
1943 - 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Early retirement

You can begin receiving Social Security benefits before your full retirement age, as early as age 62. However, if you retire early, your Social Security benefit will be less than if you wait until your full retirement age to begin receiving benefits. Your retirement benefit will be reduced by 5/9ths of 1 percent for every month between your retirement date and your full retirement age, up to 36 months, then by 5/12ths of 1 percent thereafter. For example, if your full retirement age is 67, you'll receive about 30 percent less if you retire at age 62 than if you wait until age 67 to retire. This reduction is permanent--you won't be eligible for a benefit increase once you reach full retirement age.

Still, receiving early Social Security retirement benefits makes sense for many people. Even though you'll receive less per month than if you wait until full retirement age to begin receiving benefits, you'll receive benefits several years earlier.

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Crunching the Numbers

Once you've estimated both your annual retirement expenses and income, you're likely to find a significant gap.

Your goal is to determine how much you'll need to accumulate by the time you retire to close this gap.

Quick estimate--how much will you need to accumulate?

1. Estimated annual retirement expenses (see the preceding section, *Estimating Retirement Expenses*)	$ _____
2. Estimated annual retirement income	$ _____
3. Gap (subtract line 2 from line 1)	$ _____
4. Enter number of projected years in retirement	_____
5. Select appropriate multiplier from Table A (below)	_____
6. Amount you'll need to have accumulated by the time you retire to close gap for length of retirement (multiply line 3 by line 5)	$ _____

Table A

Expected rate of growth of untapped funds

Number of years (from line 4)	4%	5%	6%	7%
5	4.4518	4.3295	4.2124	4.1002
10	8.1109	7.7217	7.3601	7.0236
15	11.1184	10.3797	9.7122	9.1079
20	13.5903	12.4622	11.4699	10.5940
25	15.6221	14.0939	12.7834	11.6536
30	17.2920	15.3725	13.7648	12.4090

Inflation

This quick estimate ignores the impact of inflation. Inflation has the effect of reducing the purchasing power of your dollars over time. So, in order to ensure that you will have adequate purchasing power during your retirement, you'll have to adjust your calculations. A financial professional can be invaluable in this regard.

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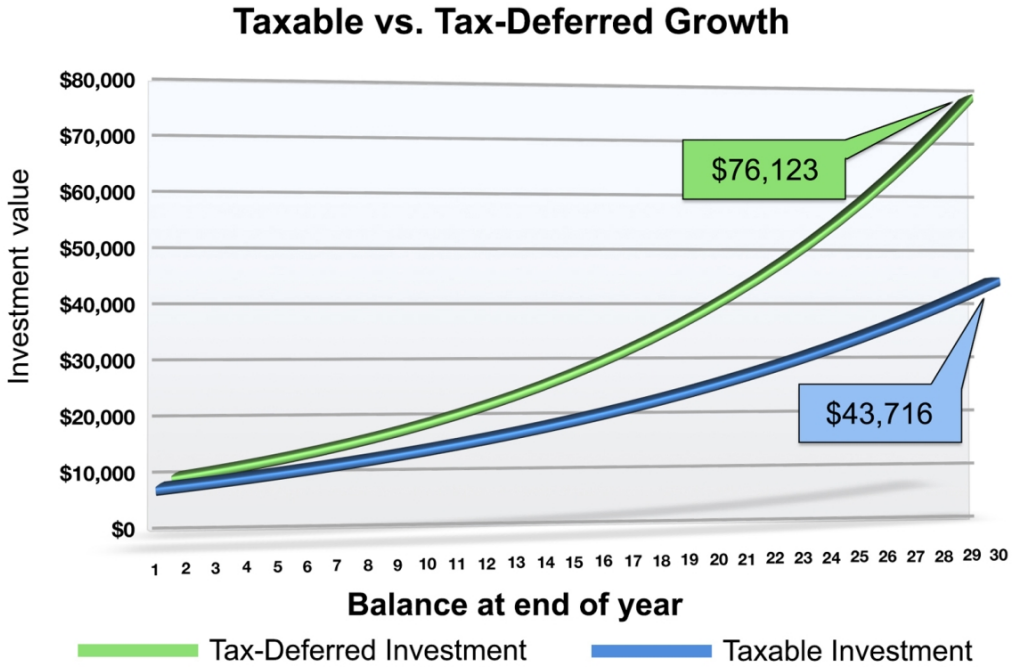
The Advantages of Tax Deferral

Probably the best way to accumulate funds for retirement is to take advantage of special tax-deferred retirement savings vehicles.

A 401(k) plan and other employer-sponsored retirement plans can be very powerful savings tools because your contributions generally come out of your salary pretax, reducing your current taxable income, and grow tax deferred until withdrawn (withdrawals made prior to age 59½ may be subject to an additional 10% penalty tax). Also, 401(k) plans often include employer matching contributions, which should make 401(k)s your first choice in saving for retirement.

Traditional IRAs, like 401(k)s, feature tax-deferred earnings growth and can lower your current taxable income if you qualify to make tax-deductible contributions. And like a 401(k), funds aren't taxed until they're withdrawn, and may be subject to an additional 10% penalty tax if withdrawn before age 59½. Roth IRAs (and Roth 401(k)s) don't permit tax-deductible contributions, but they allow you to make completely tax-free withdrawals under certain conditions.



Assumptions: You have a lump-sum investment of $10,000, earning 7 percent a year compounding annually, and you are in the 28 percent income tax bracket.

This is a hypothetical example and is not intended to reflect the actual performance of any specific investment, nor is it an estimate or guarantee of future value. Investment fees and expenses, which are

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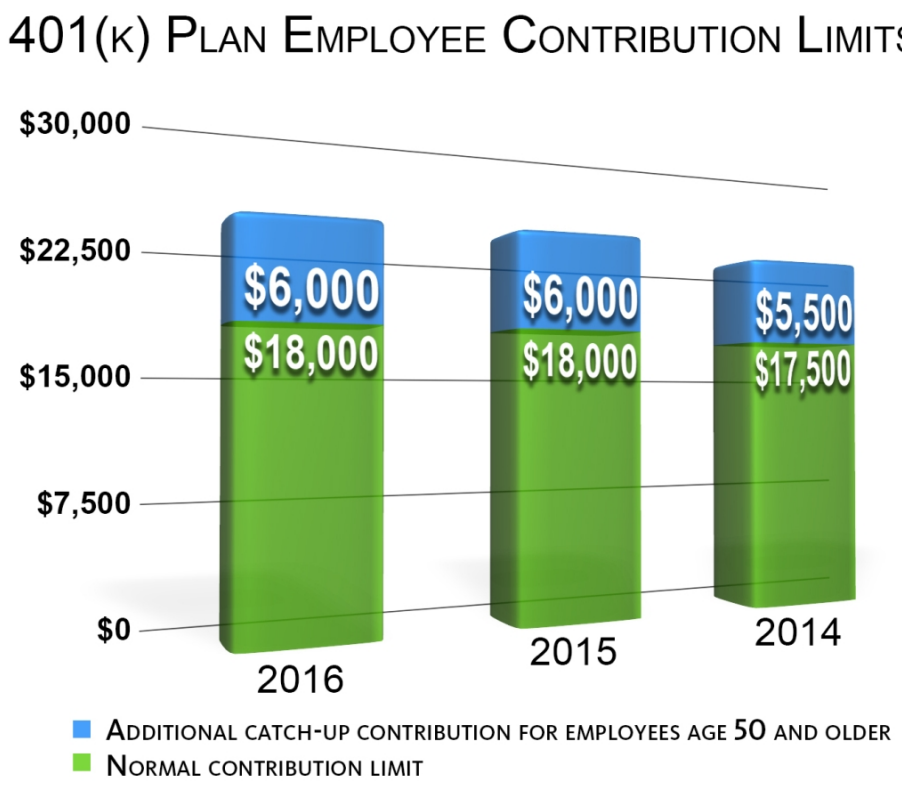
generally different for taxable and tax-deferred investments, have not been deducted. If they had been, the results would have been lower. The lower maximum tax rates on capital gains and qualified dividends would make the taxable investment more favorable than is shown in this chart. When making an investment decision, investors should consider their personal investment horizons and income tax brackets, both current and anticipated, as these may further impact the results of this comparison. Please consult a financial professional about how this example may relate to your own situation.

401(k) Plans and IRAs

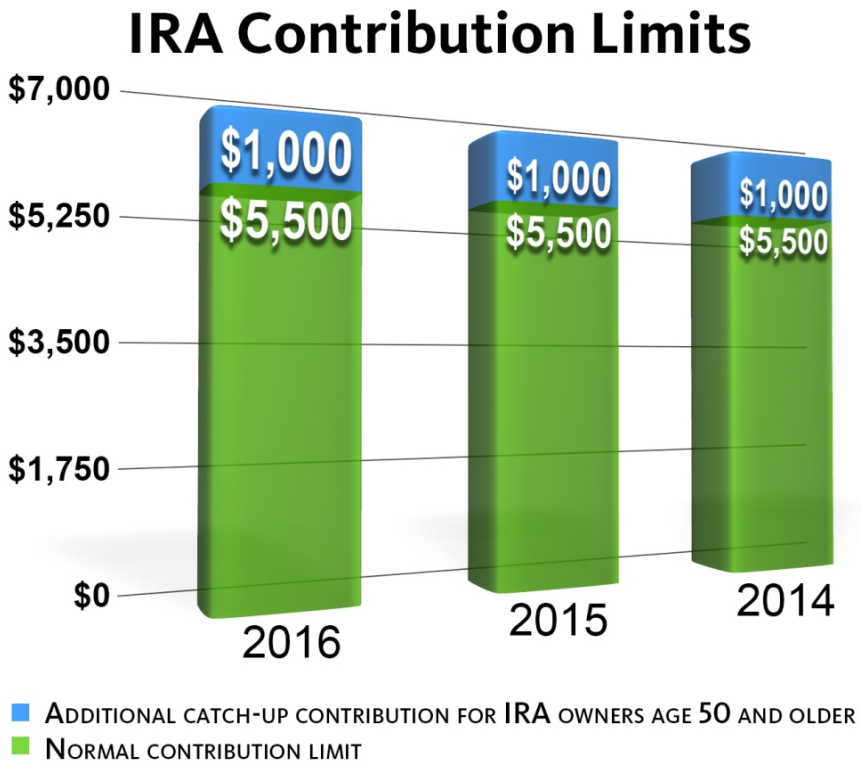
401(k) plans

The 401(k) plan has become one of the most popular types of employer-sponsored retirement plans, and for good reason. If you participate in a 401(k) plan at work, you should be taking full advantage by contributing the maximum amount allowed. In 2016, you can contribute up to $18,000 of your compensation to a 401(k) plan. If you're age 50 or older, you can make an additional "catch-up" contribution of $6,000. If your 401(k) plan allows Roth contributions, you can split your contributions between pretax and after-tax Roth contributions in any way you want.



IRAs

An individual retirement arrangement (IRA) is a personal savings vehicle that offers specific tax benefits. There are two types of retirement IRAs: traditional IRAs and Roth IRAs. Both allow you to contribute up to $5,500 a year (in 2016), and individuals age 50 and older can make additional $1,000 "catch-up" contributions.



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Traditional IRAs

Practically anyone can open and contribute to a traditional IRA. The only requirements are that you have taxable compensation and be under age 70½. The question is whether or not you can deduct your contribution.

If neither you nor your spouse participates in a 401(k) or other type of employer-sponsored retirement plan, you can generally deduct the full amount of your annual contribution. If one of you does participate in such a plan, your ability to deduct contributions depends on your modified adjusted gross income (MAGI) and your income tax filing status. You may qualify for a full deduction, a partial deduction, or no deduction at all.

Can you deduct your traditional IRA contribution for 2016?

If you participate in an employer-sponsored retirement plan, use this table to find out. If your spouse participates, but you do not, special rules apply.

Filing status	Ability to deduct contribution phased out if your MAGI is in this range:	You cannot deduct your contribution if your MAGI is:
Single or head of household	$61,000 to $71,000	$71,000 or more
Married filing jointly	$98,000 to $118,000	$118,000 or more
Married filing separately	$0 to $10,000	$10,000 or more

Distributions from a traditional IRA

Distributions from a traditional IRA are subject to federal income tax. However, no tax applies to any portion of a distribution that represents nondeductible contributions made to the IRA.

In addition to federal income tax, you may have to pay a 10% premature distribution tax if you're under age 59½ at the time of the distribution.

Roth IRAs

Whether or not you qualify for a Roth IRA depends upon your filing status and MAGI. You may be able to make a full contribution to a Roth IRA, a partial contribution, or no contribution at all. (See table below.)

Unlike a traditional IRA, all contributions to a Roth IRA are made with after-tax dollars--you don't get a deduction for your contributions.

If your filing status for 2016 is:	Roth IRA contribution reduced if MAGI is:	No Roth IRA contribution allowed if MAGI is:
Single or head of household	At least $117,000 but less than $132,000	$132,000 or more
Married filing jointly	At least $184,000 but less than $194,000	$194,000 or more
Married filing separately	More than $0 but less than $10,000	$10,000 or more

Distributions from a Roth IRA

If you meet certain conditions, your withdrawals from a Roth IRA will be completely free from federal income tax. To qualify, you have to satisfy a five-year holding period, and you generally have to reach age 59½ before making the withdrawal. Even if you haven't reached age 59½, you also qualify for tax-free treatment if you satisfy the five-year holding requirement and make the withdrawal either because of a disability or to pay certain first-time homebuyer expenses. Even nonqualified distributions get special tax treatment: distributions are considered to come from contributions first, and from earnings last. Distributions that represent a return of your Roth IRA contributions are free from federal income tax. After you've received all of your contributions back tax free, any further distribution will represent earnings, and will be subject to income tax, and--if you're under age 59½--to the additional 10% premature distribution tax, unless an exception applies. (Note that special rules may apply when a traditional IRA has been converted to a Roth IRA.)

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Roth IRA distributions are free from federal income tax if:

1. You satisfy the five-year holding period requirement, **and**
2. The distribution is made:
   - After you reach age 59½, **or**
   - As a result of a disability, **or**
   - To pay first-time homebuyer expenses (up to $10,000 lifetime from all IRAs), **or**
   - As a result of your death

Annuities

What is an annuity?

An annuity is a contract between you and an insurance company. Annuities vary when it comes to the details, but they share the same general characteristics: you invest money (either a lump sum or a series of premium payments) with a life insurance company and, in exchange, the insurance company promises to make payments to you or to a named beneficiary at some point in the future (for example, upon your retirement). Bear in mind, though, that any return, whether guaranteed or not, is only as good as the insurance company that offers it. Any promises and guarantees made by the insurance company are entirely dependent on the insurer's ability to meet its financial obligations.

Like 401(k)s and IRAs, earnings in an annuity grow tax deferred. However, unless an annuity is held within an employer-sponsored retirement plan or IRA, premium payments are made with after-tax dollars--you don't get a tax deduction as you might with a traditional IRA. An annuity may provide a death benefit to your heirs, and there's no limit on the amount you can contribute. Note, however, that insurance features such as a death benefit are generally accompanied by higher costs.

Annuity distributions

When you take distributions from an annuity, you pay tax on the portion that represents earnings at ordinary income tax rates. An additional 10% premature distribution tax may also apply if withdrawals are made prior to age 59½, although some exceptions apply. It's also worth noting that, unlike 401(k)s and traditional IRAs, you don't have to start taking required minimum distributions from an annuity after you reach age 70½.

You generally have a number of options to choose from in terms of how

you receive distributions from an annuity. Typically, the annuity contract allows you to withdraw a percentage of your annuity's value as needed, or you can convert the annuity into a series of payments that will continue for the rest of your life, or for the lifetimes of you and your spouse. (Note, however, that the guarantee is limited to the claims-paying ability of the insurance company.) Finally, you need to understand that annuities typically impose a surrender fee or charge in addition to other fees and charges if you withdraw an amount greater than the free withdrawal amount as stated in the contract.

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