Making Dreams a Reality

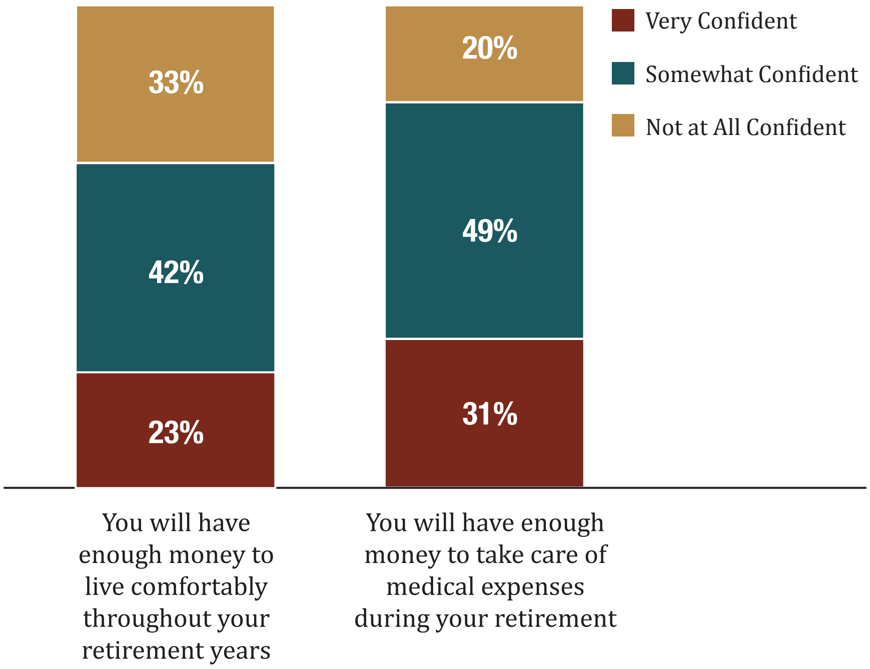
YOUR RETIREMENT PLANNING WORKBOOK

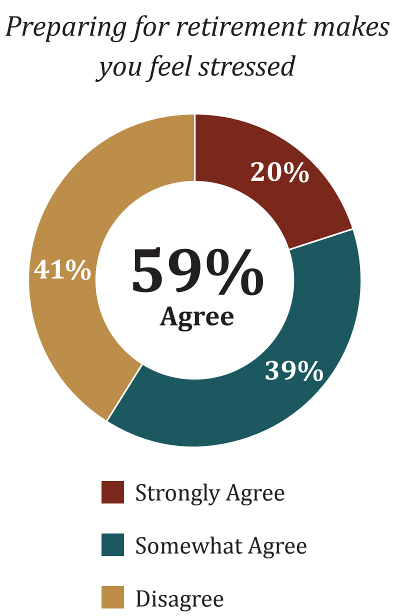
PETERSEN HASTINGS
Fiduciary-Centered Advice

A Guide to What's Inside

Worker Attitudes Toward Retirement Preparations

Overall, how confident are you that you (and your spouse) will have enough money to live comfortably throughout your retirement years? How confident are you about the following aspects related to retirement?





Source: Employee Benefit Research Institute and Greenwald & Associates, 2019 Retirement Confidence Survey.

Why an Employer Retirement Plan?

Your employer retirement plan is a key benefit offered by your employer, and it offers you one of the easiest ways to save for your retirement. Here's a closer look at the features that can help you to get the best retirement deal for yourself:

100% Savings Power

When you make a contribution to your employer retirement plan, you are taking an important step to preparing for your financial future. One of the major reasons for this is that federal and any state income taxes are deferred until withdrawal. This means that 100% of your money goes to work for you right away! Participating in your employer retirement plan lowers your current income tax bill, too. Here's how:

Amanda and Jake each earn $30,000 per year, and both save 6% of their pay ($1,800) each year for retirement. Amanda saves through her employer retirement plan, so her contribution goes directly into her account pre-tax. Jake saves on his own, so he cashes his paycheck and puts away after-tax money in a savings account at his bank.

By saving through her employer retirement plan, Amanda gets a better tax deal. She lowers her taxable income, which means she pays less tax.

In this example, that translates into an annual tax savings of $216! Actually, she is out-of-pocket only $1,584 in order to save $1,800 ($1,800 - $216 = $1,584).

COMPARISON SHOPPING

Amanda's Employer Retirement Plan Savings Strategy		Jake's After-Tax Savings Strategy
$30,000	Annual Pay	$30,000
-$1,800	Amanda's Pre-Tax Contribution	$0
$28,200	Taxable Pay	$30,000
-$3,384	Federal Income Tax*	-$3,600
$216	Tax Savings	$0
$0	Jake's After-Tax Contribution	-$1,800
$24,816	**Take-Home Pay**	**$24,600**

*Assumes a 12% flat federal tax. State and local taxes are not included.

Automatic Payroll Contributions

Your employer retirement plan allows you to save each pay period up to annual limits set by the IRS. Your contribution is automatically deducted from your paycheck before you even see it. Out of sight, out of mind — what you don't have, you won't spend! You will also be following a great savings principle: pay yourself first.

It's Portable

Should you leave your company for any reason, you can take your vested account balance with you. Your money can be rolled over into an IRA or your new employer's retirement plan (if offered). However, there are strict rules when taking money out of your retirement plan. For instance, if you decide to take a cash distribution before age 59½, you may be subject to a 10% IRS penalty tax (in addition to current income taxes). Check with both your plan administrator and a financial advisor to make sure you understand all your options.

Tax-Deferred Growth

As your retirement account grows, you pay no taxes on any earnings until you begin to withdraw your money. This powerful feature is known as tax-deferred compounding. Investments with earnings that are tax-deferred have the potential to grow faster when they are not being "hit" by taxes each year.

Tax-deferred compounding can give a significant boost to your retirement account balance!

Comparison Savings

Let's return to Amanda and Jake to see what happens to their money after it gets deposited in their accounts:

SAVINGS COMPARISON

Amanda Earning 8% Pre-Tax in her Employer Retirement Plan		Jake Earning 8% Paying Taxes
Account Balance	**Year**	**Account Balance**
$27,019	10	$25,711
$50,641	15	$46,818
$85,350	20	$76,477
$136,349	25	$118,153
$211,283	30	$176,716
$321,385	35	$259,007
$483,162	40	$374,640

This illustration assumes an average annual rate of return of 8% (compounded annually), a 12% flat federal tax and a $30,000 annual salary. This is a what-if scenario and is not based on (or predicting the performance of) any specific investment or savings strategy. Most employer retirement plan investments will move up and down with the market over time, producing better or worse actual returns for you. Your returns are not guaranteed.

Which balance do you think would potentially provide you with the most income during retirement?

Which balance do you think would potentially last longer during retirement?

And remember, as a starting point, many financial experts feel you should save:

> Save 7% of your salary in your 20s.
> Save 10% of your salary in your 30s.
> Save 15% of your salary in your 40s.
> Save 20% of your salary in your 50s.

Source: Kmotion, Inc. 2020

Consumer Clue

Let's take a look at the difference tax-deferred compounding can make in terms of retirement income. Assume that upon retiring, both Amanda and Jake decide to divide up their account balance into 20 equal withdrawals. They plan to take one withdrawal each year over a 20-year period.

TAX-DEFERRED COMPOUNDING

Amanda		Jake
$483,162	Account Balance	$374,640
$24,158	Annual Withdrawal	$18,732
-$2,899	Taxes to Pay (12%)	0
$21,259	Money in Pocket Each Year	$18,732

Amanda has over $2,500 more each year for pursuing her retirement dreams!

This illustration assumes a flat 12% federal tax rate and does not take into account any annual earnings or losses that may accumulate on the remaining balance of their accounts over the years. Withdrawals from a qualified plan made prior to age 59½ are subject to ordinary income taxes and may incur a 10% early withdrawal penalty.

Finding the Money to Save

It's hard to save for retirement and make it a priority. You could have childcare expenses, or you may be trying to save for college tuition. Maybe you're planning for a major purchase, such as a car or new home. Possibly you're supporting an aging parent. Does it seem like too many things are competing for your paycheck? The fact is, people at all income levels find themselves struggling just to make ends meet.

Budgeting for a Better Retirement

Keeping tabs on your spending is only the first step. What you do with your findings is critical in establishing the habit of saving money. The table below shows how making just a few small sacrifices can add up to a better retirement.

SMALL SACRIFICES

Give Up	How Often	Monthly Expense	Value if Invested 25 Years
Coffee & Bagel	Twice a week	$20.00	$19,147
Lunch Out	Twice a week	$50.00	$47,868
Dinner Out	Once a week	$100.00	$95,737
Movie Ticket	Once a month	$10.00	$9,574
Car Wash	Once a month	$6.00	$5,754
Vending Soda	Once a day	$30.00	$28,721

Assumes an investment in a tax-deferred retirement account in which you hypothetically earn an average annual rate of return equivalent to 8%, compounded monthly. This is a what-if scenario and is not based on (or predicting the performance of) any specific investment or savings strategy. In the real world, most employer retirement plan investments will move up and down with the market over time, producing higher or lower actual returns for you. Your returns are not guaranteed.

CONSUMER CLUE

- **> Savings of $60 in one week translates into $240 each month that could be invested in your employer retirement plan.**
- **> In 25 years, this could potentially add over $228,000* to your retirement savings.**

* Assumes an 8% average annual return.

This chart shows how just a small increase in your contribution level could mean thousands of dollars over time. All contribution amounts are based on a $30,000 annual salary.

A SMALL INCREASE MAKES A BIG DIFFERENCE

Contribution Increase	Savings After 10 Years	20 Years	30 Years	40 Years
1% ($25)	$5,099	$17,863	$47,775	$115,520
2% ($50)	$10,180	$37,048	$102,289	$264,724
3% ($75)	$15,270	$55,571	$153,433	$397,087
4% ($100)	$20,360	$74,095	$204,578	$529,448
5% ($125)	$25,451	$92,619	$255,723	$661,809
6% ($150)	$30,541	$111,143	$306,867	$794,175

Source: Kmotion, Inc. 2020. Assumes a hypothetical 8% annual rate of return.

Track the Cash

When you look a little closer, however, chances are you'll find money that you may be spending thoughtlessly or that could be better used to save for your retirement. One of the best tools to help you find these savings opportunities is a spending journal. It can help you track where all your dollars are disappearing. A movie or lunch out might not seem to cost all that much, but the expense adds up over time. Try keeping a spending journal for several weeks and evaluate your spending habits.

Track the Cash

From the Desk of Amanda & Jake

Here are some excerpts from a sample spending journal.

★ = savings opportunities

Sunday

$63.00 Groceries (Forgot coupons and went in without a grocery list!)

★ $6.00 Toy action figure for Tommy while grocery shopping (He threatened a tantrum!)

★ $40.00 Pizza delivered for Sunday Pro Football (Friends dropped by; gotta remember to buy a frozen pizza next time!)

★ $10.00 Ice cream out for the family for letting me watch football!

Monday

★ $4.00 Got a latté on the way to work

★ $6.00 Lunch—hot sandwich and soda at restaurant (Must start brown-bagging it!)

$50.00 Filled gas tank (I Should look into carpool or bus!)

Tuesday

★ $15.95 Went to a movie and bought a soda

$75.00 New outfit for Molly (Should buy on sale!)

★ $2.00 "Breakfast" at the vending machines

★ = $83.95 easy savings opportunities in one week

Shop Around

By shopping around and getting a better deal on basic things, such as car insurance or your mortgage rate, you can uncover additional money that can be redirected into your retirement plan each month. Here are a few ideas — along with the potential payoff for your financial future. But remember: the only way there can be a potential payoff is if you actually do redirect the monthly savings into your retirement plan account!

GET A BETTER DEAL

Event	Monthly Amount Saved	Potential Balance if Invested for 25 Years at 8%
Shop around for a better cellphone plan	$15	$14,361
Receive a raise and invest $25 in your retirement plan	$25	$23,934
Shop for lower credit card interest rate*	$30	$28,721
Find a lower car insurance premium	$50	$47,868
Refinance your mortgage	$150	$143,605

This illustration is hypothetical and is not intended to reflect the actual performance of any investment or investment strategy. Actual investments will move up and down over time. This illustration assumes an 8% annual rate of return, compounded monthly, with investments made at the beginning of each period.

* Only if you absolutely must maintain a balance. You should make a plan to pay off the balance within a reasonable length of time by making more than the minimum payment each month.

The Price of Your Retirement

Your Retirement Income Gap is the difference between what you're currently tracking to have and the amount that you will actually need for a comfortable retirement.

Estimating Your Gap

The goal here is to simply establish a starting point. It is not meant to stress you out or place fear into your retirement planning! To complete this worksheet you will need a pencil, a calculator and the latest savings account statements you may have.

1 First, how much income will you need in retirement?
Many experts suggest you will need 75% to 100% of your working income to live comfortably in retirement. Depending on your own personal situation, you may want to multiply your current income by more or less than this range.

2 Now, subtract the income you expect to receive annually from Social Security

If you currently earn $25,000, enter $14,424.
If you currently earn $35,000, enter $17,616.
If you currently earn $45,000, enter $20,808.
If you currently earn $55,000, enter $24,012.
If you currently earn $65,000, enter $27,204.

To determine what you can expect from Social Security with your exact salary, go to:
http://www.socialsecurity.gov/OACT/quickcalc/

3 Next, subtract any other income sources
This could include any pension plan or rental property income that you may have or anticipated part-time income that you earn when you retire. Enter amount in today's dollars.

4 The total is your Retirement Income Gap — the amount of income your savings will need to produce each year in order to maintain your current standard of living.

YOUR RETIREMENT INCOME GAP

	You	Example
		Age 32 Earns $35,000/year Lives to be 87 Has $5,000 saved
1	$______	$ 31,500 90% of $35,000
2	$______	$ -17,616 Earns $35,000
3	$______	$ -0 No other income
4	$______	$ 13,884 $31,500 - $17,616 = **$13,884**

This is your Retirement Income Gap

This worksheet simplifies several retirement issues, such as projected Social Security benefits and earnings assumptions on savings. It also reflects today's situation. Reinventing Retirement is about managing your Retirement Income Gap and the assumptions you make. You will definitely want to revisit this calculation at least annually as your salary and circumstances change.

CLOSE YOUR GAP	
You	Example

What Will It Take to Close the Gap?

Next, you must estimate how much you need in savings the day you start your new life as a retiree. This is your Nest Egg needed to produce enough income to make up for the Retirement Income Gap.

Example: Age 32, Earns $35,000/year, Lives to be 87, Has $5,000 saved

5 Now estimate the size of the Nest Egg you will need

After you retire, if you expect to live:
20 years multiply your Retirement Income Gap (line 4) by **14.3**
25 years multiply your Retirement Income Gap (line 4) by **16.5**
30 years multiply your Retirement Income Gap (line 4) by **18.3**

You: $________

Example: 5 $ 198,541
$13,884 (line 4) multiplied by 14.3

6 Next, take credit for what you have saved so far

Multiply any savings to-date by the appropriate factor below. Include any money you have currently in retirement plans, and any IRAs.

Years to Retirement:	6	8	10	12	14	16
Multiply by:	1.27	1.37	1.48	1.60	1.73	1.87
Years to Retirement:	18	20	25	30	35	40
Multiply by:	2.03	2.19	2.67	3.24	3.95	4.80

You: $________

Example: 6 $ 19,750
$5,000 saved multiplied by 3.95 (35 years to retire)

7 Now subtract line 6 from line 5

The result is the remaining Nest Egg to accumulate.

You: $________

Example: 7 $ 178,791
$198,541-$19,750

8 Figure the annual savings required to meet your Nest Egg goal

Multiply the total from line 7 by the appropriate factor below.

Years to Retirement:	6	8	10	12	14	16
Multiply by:	.151	.109	.083	.067	.055	.046
Years to Retirement:	18	20	25	30	35	40
Multiply by:	.039	.034	.024	.018	.014	.011

You: $________

Example: 8 $ 2,503
$178,791 (line 7) multiplied by .014 (35 years to retire)

9 Finally, to get the PERCENT you should contribute to your plan

Divide the number on line 8 by your annual pay, then multiply by 100 to see the percent to contribute. Round your percentage to the nearest whole number.

You: ______%

Example: 9 7 %
$2,503÷ $35,000 = .0715
.0715 X 100 = 7.15%
7.15% rounds to = **7%**

The factors used in this worksheet were developed by actuaries (people who crunch numbers for a living). Using these factors simplifies the amount of work you'll have to do. These factors assume only a what-if scenario in which you hypothetically earn an average annual rate of return equivalent to 8%. Also, these factors assume that the annual inflation rate will be 4%. These rates of return do not reflect any specific investment or savings strategy. In the real world, most retirement investments will move up and down with the market over time, producing higher or lower actual returns for you. Your returns are not guaranteed.

About Social Security

CONSUMER CLUE

Just How Much Will You Need in Retirement?

Most financial experts suggest you will need 75% to 100% of your current annual income to live comfortably in retirement.

$______________ Your current income

x .90

= $______________ Amount needed each year in retirement

Now, let's look at how much Social Security might contribute. Visit the Social Security website at www.ssa.gov. You'll find interactive retirement calculators that will give you a rough estimate of what you can expect in Social Security benefits.

1. $______________ Amount needed each year in retirement
2. $______________ Approximate annual Social Security benefit
3. $______________ How much more you'll need to live comfortably in retirement

Saving through your employer retirement plan is an excellent way to take responsibility for your own financial security!

Knowledge Is Retirement Power

Social Security is intended to provide only a minimum level of retirement income to go toward covering the basic necessities: food, shelter and clothing. It was never intended to be your only source of retirement income. The rest will be up to you! The age which the Social Security Administration considers full retirement age has been increasing in gradual steps. It's important to stay informed of these changes.

Currently, Social Security statements are only mailed to workers age 60 and over who aren't receiving Social Security benefits and do not yet have a *My Social Security* account. They are sent three months prior to your birthday. This will help you understand what benefits you can expect from Social Security based on your earnings.

You may also obtain a Social Security Statement online by going to **http://ssa.gov/myaccount/statement.html**. This statement will help you understand what benefits you can expect from Social Security based on your actual earnings history. If you need help obtaining a statement, you may call the Social Security Administration at 1-800-772-1213.

> People are living longer, healthier lives.

> The number of people age 65 and older will nearly double by 2060[1].

> The Social Security Administration (SSA) estimates that by 2034, the tax income it receives may be able to meet just 79% of its benefit obligations.[2]

> The outlook for Social Security is uncertain.

[1] AARP.org, 2018.
[2] SSA.gov, 2018.

Consumer Clue

Let's assume that you were born in 1960 and your average annual pay is $35,000. Beginning at your full retirement age of 67, you can generally expect a monthly Social Security benefit of $1,261. By retiring at age 62, your early-retirement penalty would be $419 per month — a 33% reduction in monthly benefits.

THE EARLY RETIREMENT PENALTY

Year of Birth	Year You Turn 62	Reduction in Benefits if You Retire at Age 62	Retirement Age for Full Social Security	
			Years	Months
1943-1954	2005-2016	**-25.00%**	66	0
1955	2017	**-25.83%**	66	2
1956	2018	**-26.67%**	66	4
1957	2019	**-27.50%**	66	6
1958	2020	**-28.33%**	66	8
1959	2021	**-29.17%**	66	10
1960+	2022 & later	**-30.00%**	67	0

Source: Social Security Administration (based on a monthly benefit of $1,000).

Remember, too, that Medicare coverage doesn't begin until age 65. If you retire before that, you'll need to save enough money to pay for health insurance, which is often very expensive for people in that age group.

Get a Better Feeling for How Social Security May Impact Your Future

In 1990, 1 out of 25 Americans was over age 65.

Today, 1 out of 6 Americans is over age 65.

In 2060, 1 out of 4 Americans will be over age 65.

Over the next 25 to 30 years, the over-65 age group is expected to be the fastest growing segment of our population. And since the 1960s, America's birth rates have been declining. Simply put, there will be fewer people in the workforce supporting more people in retirement.

Source: Population Reference Bureau, 2019.

The Delayed-Retirement Bonus

Did you know that delaying retirement past your full retirement age could increase your Social Security benefit in two ways? Here's how:

- Each additional year you work adds another year of earnings to your Social Security record. Generally, higher lifetime earnings will result in higher benefits when you retire.
- Your benefit will be increased by a certain percentage if you delay retirement past your full retirement age.

Consumer Clue

Assuming again that you were born in 1960, the $1,261 monthly benefit at full retirement age of 67 would increase by 8% for each year you delay your retirement. If you postpone retirement for just one year, and begin taking your benefit at age 68, your monthly benefit will probably be $1,362, potentially adding $101 to your monthly benefit!

*If you were born in 1943 or later and delay receiving your Social Security benefits at full retirement age, you can receive an **8% increase** in benefits for each year you postpone retirement up to age 70.*

Source: Social Security Administration.

It’s About Time

THE RULE OF 72	
	Example
1. Take the rate of return you expect to receive on your investment:	**8%**
2. Divide it into 72:	**72 ÷ 8**
3. The result is the number of years it will take for your investment to double:	**9**

Expected Rate of Return	**Years for Investment to Double**
6%	12 Years
8%	9 Years
10%	7 Years
12%	6 Years

The sooner you start saving, the more doubling periods you will have in your remaining working career!

Why Time Is Money

You may think that retirement is a long time away and that there is plenty of time to get going on a serious savings plan. But don’t underestimate the power of time. Time greatly improves your chances of having enough money at retirement. The earlier you start saving, the better retirement deal you can get!

The Rule of 72 is one of the easiest ways to find out what an impact time can have on your savings. It simply calculates the number of years it will take to double your money. (Keep in mind that it is simply a general rule of thumb and may be affected by many factors.) The chart to the left shows how the Rule of 72 works.

Can You Afford to Wait?

Assuming a hypothetical annual investment return of 8%, the chart below uses the Rule of 72 to show how time affects the potential growth of an initial investment of $2,500.

SMALL SACRIFICES

An Initial $2,500 Investment Will Double Every 9 Years

	Value When You Reach					
If You Start at:	**Age 22**	**Age 31**	**Age 40**	**Age 49**	**Age 58**	**Age 67**
Age 22	$2,500	$5,000	$10,000	$20,000	$40,000	$80,000
Age 31		$2,500	$5,000	$10,000	$20,000	$40,000
Age 40			$2,500	$5,000	$10,000	$20,000

Cost of Missing One Doubling Period: -$40,000 **Cost of Missing Two Doubling Periods: -$60,000**

Assumes an investment in a tax-deferred retirement account in which you hypothetically earn an average annual rate of return equivalent to 8%. This is a what-if scenario, and is not based on (or predicting the performance of) any specific investment or savings strategy. In the real world, most employer retirement plan investments will move up and down with the market over time, producing higher or lower actual returns for you. Your returns are not guaranteed.

The Impact of Inflation Over Time

Inflation eats away at your money's purchasing power, and may not buy as much retirement in the future as it does today. After you retire, you will probably be living on a fixed income. Unfortunately, the cost of basic necessities will continue to rise. The following table can help you reinvent retirement by keeping inflation in perspective:

INFLATION'S IMPACT

Item	2019	2049
Half Gallon of Almond Milk	$2.98	$7.23
Cup of Coffee	$2.70	$6.55
Gallon of Gas	$3.35	$8.13
Pint of Beer at a Pub	$4.00	$9.71
Netflix (Standard Plan) Monthly Fee	$12.99	$31.53
Amazon Prime Annual Fee	$119.00	$288.84
Fitness Club Monthly Fee	$40.00	$97.09
Mid-priced Car	$21,000	$50,973

Sources: 2019 prices are based on Kmotion research and general averages. Projections for 2049 prices assume a 3% annual inflation rate.

Not only does inflation affect your buying power, it also has an impact on investment returns. For example, cash-type investments, such as U.S. Treasury Bills, have earned less than 1% on average over the past few years. Over that same time, inflation has averaged about 3%. That means that the "real" return on cash-type investments (their return after adjusting for inflation) is -2%!

What can you do about inflation? One thing you can do is to consider increasing your contribution each year. In addition, you may also want to consider investments in your retirement savings account that have the potential to beat inflation.

True Love Is a Happy Meal

As fate would have it, Amanda and Jake meet, fall in love and get married. Together, they share a dream — to be able to eat a McDonald's® Cheeseburger Happy Meal® for breakfast, lunch, and dinner each and every day once they retire. Both are currently age 30 and plan to retire at age 65. They both expect to be in excellent health and would like their Happy Meal splurge to last for 20 years.

Since a Happy Meal today costs around $3.30, this means they will be spending about $20 a day to feed their dream. However, Amanda has helped turn Jake into a well-informed consumer. He realizes that inflation will cause the price of Happy Meals to go up over the many years leading up to and during retirement. Together, they wonder how much they will need to have saved in their retirement account to be able to afford their dream.

Assuming a 3% annual rate of inflation, Amanda and Jake will spend $551,950 on their retirement dream!

Source: Kmotion Research, 2020.

Reinvent Your Retirement

Congratulations!

By completing this workbook, you should have a better understanding of retirement planning basics:

> The features and benefits of contributing to your employer retirement plan:
  - Automatic payroll deductions
  - You have control
  - Pre-tax savings
  - Tax-deferred compounding

> Budgeting to find the money to contribute to your plan

> The potential savings needed for your retirement

> Some of the limitations of Social Security

> The importance of harnessing time

> The effects of inflation on your retirement planning

Start Purchasing Your Dream Now

Take the First Step

Enroll now in your retirement plan and take the first step in realizing your financial dreams.

As a start, consider making at least a conservative contribution — let's say 5% of your current income. Starting is the most important part, and will get you on the road to regular saving.

Would you like a raise? If you're not contributing at least enough to receive the maximum of any company match your plan offers, you're declining one! Make the contribution and get that match.

Once you're on the road to saving, increase your contributions at every opportunity. You know the impact of time and inflation, so maximize your contributions as early as you can. At retirement, you will never look back and wish you had saved less.

If you are already enrolled in your employer's retirement plan, take a look at how much you are actually investing. It may not be enough. Plan to increase the amount you are saving by 1% or 2% of your pay annually. And if you receive a raise, that's a great time to increase your plan contribution as well. Before you know it, you'll be saving the maximum your plan allows!

ABOUT PETERSEN HASTINGS

Petersen Hastings is a fee-only, Registered Investment Advisory firm. As a primary fiduciary, Petersen Hastings serves committed investors with complex financial needs. We aim to provide each and every client with a team experience through the Trusted Financial Path™.

Our Areas of Expertise Include:

- Investment Management
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- Estate Planning
- Tax Planning
- Trust Management
- Risk Management
- Model Portfolios
- Endowments and Foundations

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