Experience Makes The Difference • Total Flexibility • International Knowledge, Global Access • Retirement Made Simple

3rd QUARTER 2010

Do Your Homework Now

to Pass the Retirement Readiness Test

Retirement is one of life's largest transitions. So many questions and concerns arise as you prepare. How will you spend your time after you 'graduate' into retirement? Where will you live? What kind of lifestyle will you have? How much will it cost and how will you be able to pay for those expenses?

How much will you have to save in order to live the rest of your life the way you would like?

Do Your Homework

Finding the answers to these critical life questions requires you to do your homework. For the non-financial questions, read the article, *Life Planning Goes Far Beyond Finances* on page 2. To find out about your future financial picture, take your time, think about your desired lifestyle, and how much it will cost, and then do some calculating. Ultimately, you'll need to figure out what you need to save in order to achieve your life-long goals. Fortunately, there are plenty of helpful calculators on financial and retirement planning websites. See *Calculators To Ease Your Number Crunch* on page 2.

Key considerations include:

Retirement Expenses

How much do you expect to spend in retirement? This can vary widely, but a common ballpark estimate is that you'll need 70-90% of your preretirement income to live on after you retire. A more precise method is to try to project how much you will spend on each of your major areas of expense after you retire.

Retirement Income

See if you can match your projected annual expenses with your annual income. Your retirement income sources will include: Social Security benefits, any possible pension or annuity, earnings from part-time work, and withdrawals from your retirement accounts.

Every American worker receives an annual Social Security benefits statement. It provides estimated monthly benefits based on your "full retirement age"—which will slide upwards gradually from age 65 to 67 over the next 17 years. It also estimates your benefits should you begin receiving them at age 62 and 70. For details on the rising retirement age and an estimate of your benefits, go to www.ssa.gov.

To find out how much you should save for retirement, first add all your sources of income except for your retirement account withdrawals. Subtract the total from your projected annual expenses. That's what you'll have to make up with your savings withdrawals each year. Let's say it's $25,000. Will you have enough money saved to be able to withdraw that amount without the risk of outliving your savings?

Continued on p.2

Visit our website to sign up for future newsletters. While there take advantage of our myriad online tools to help you plan for your financial future.

FMi®
Pensions123.com

Do Your Homework Now *Continued from p.1*

How long can you expect to live? The average 65-year-old American male and female currently live to age 82.2 and age 85.0, respectively[1]. Your family history of longevity and your personal lifestyle could help give you a better estimate of this.

Using online calculators will make all this easier. But be aware that a so-called "safe annual withdrawal rate" of 4% to 5% of your total amount saved when you retire would give you a good chance of still having money after living 25-30 years in retirement. To be able to withdraw $25,000 a year, at a 5% withdrawal rate, for example, you would have to have saved $500,000. A calculator can tell you how much you should save each year to reach that amount by the time you retire.

Calculators To Ease Your Number Crunch

Good calculators can make retirement planning easier by helping you develop a pretty accurate idea of what you'll need to live on in retirement and how much you'll have to save to reach that goal.

Both **http://www.bloomberg.com/invest/calculators/index.html** and **www.dinkytown.net** have numerous helpful retirement planning calculators, including general ones and some devoted to those in 401(k) savings plans.

Life Planning Goes Far Beyond Finances

Beyond financial planning, which is essential, all pre-retirees should plan for what they'll do after they retire. Life planning involves setting goals, deciding what is most important to you, and what gives you the greatest satisfaction and is worth pursuing or achieving.

Fewer and fewer people lead a traditional retirement of withdrawing from the workforce completely and engaging in simple pleasures, such as golf, gardening and travel. The period after full-time work is now sometimes known as "the second half of life." The traditional view of retirement no longer reflects the diverse interests and activities, and improved health of many retirement-age baby boomers as they explore a new life phase with vast possibilities. Also, greater longevity and the need for more income in retirement, combined with an increasingly flexible approach to careers, are reshaping how people view retirement.

Many people actively pursue hobbies and interests, volunteer, return to school, start a business, work part-time or phase into retirement. What are your plans? What are your interests? What should you be doing now to prepare for your next phase in life?

Do your research

Begin by tackling the key questions, such as 'where will I live?' Do your homework thoroughly to find the best answer for you. Search the Internet for things such as "Best places to retire." Financial publications and retirement planning websites are a great resource for this.

If you have a few years before you retire, you could research potential places to live in retirement by vacationing there. Talk with residents and pay attention to local leisure activities, cultural events, climate, and business opportunities, particularly if you might remain in the workforce part-time.

Use the same type of approach to resolve other questions, such as: 'What will I do to stay active socially, mentally and physically?' Some people prefer to continue to work part-time to remain stimulated and socially active—and, of course, to earn some income. Other endeavors could include volunteer activities, such as mentoring students or serving meals to elderly or infirm shut-ins, learning a new language or taking up an instrument. Studies show that stimulating activities such as these tend to help retirees remain sharper mentally and happier.

Learn about yourself

Think about what you really want to do and then spend some time studying and learning more about specifics. Begin by reflecting on what you want out of the rest of your life.

- If money wasn't an issue, how would you want to spend your time?
- What do you want to accomplish in your life?
- How would you like to be remembered?
- Do you have skills you could offer as a volunteer? And would you like to give your time in that way?
- Are you itching to develop a new talent, such as art or creative writing?
- If you want to travel, what are your dream destinations?

By thinking ahead and doing your homework, you could ace one of life's most important tests—how to make the most of the rest of your life!

1 Health, United States, 2008, National Center for Health Statistics

INFLATION

Protect yourself against its erosion

Among the many risks that investors face is inflation risk. That's the risk that the rise in prices will decrease your purchasing power over time. This is especially relevant for those saving for a long-term goal.

Even at the fairly tame annual inflation rate of 3%, your expenses would double over 24 years. (To calculate how long it would take your expenses to double, divide 72 by the inflation rate. At 4% inflation, expenses would double in 18 years. At 8%, it would occur in just nine years.)

It's easy to see the unrelenting impact inflation could have on your savings over a few decades in retirement. Also, inflation doesn't stay at a steady rate. A few years of low inflation could be followed by very high inflation rates. For instance, U.S. inflation rose above 10% annually in 1979, 1980 and 1981.[2]

Inflation Protection

There are effective ways to protect yourself and your investments from the short-term and long-term impact of inflation.

Stick with stocks for the long term. For long-term investors, the most effective inflation hedge is simply to invest in assets that have outpaced inflation over long periods. For most individual investors, owning a diversified mix of stocks, held through a stock mutual fund, can help you stay ahead of inflation for the long run. Although stocks can have volatile performance, they have been the best asset class at outpacing the rate of inflation over long periods. According to Ibbotson Associates, a leading investment research firm, U.S. stocks earned a 9.81% average annual return from 1926 through 2009[3], far ahead of the 3% average annual inflation rate. Of course, no one can guarantee how stocks will perform going forward.

Treasury Inflation-Protected Securities (TIPS) provide effective, efficient short-term protection. TIPS give you another way to keep pace with inflation. These U.S. Treasury bonds offer built-in protection against rising prices. Once a year, the bonds' interest payments are adjusted to reflect rises in the consumer price index. Future interest payments will be adjusted upwards. When the bond matures, investors receive the inflation-adjusted principal. Because both the interest and the increase in the bond's principal value are taxed, it's most efficient to invest in TIPS within a tax-deferred savings account.

Round things out with commodities, precious metals and real estate. Gold and other precious metals have a reputation as an effective anti-inflationary hedge. Commodities and residential real estate can also help offset inflation. However, each of these three types of assets could have drawbacks. Gold doesn't pay dividends or interest and it has actually lost value over the last few decades. Commodity prices can be very volatile and their long-term returns haven't come close to those of stocks.

Residential real estate—including owning a home—can have effective anti-inflationary power. For example, locking in a 30-year mortgage means that, unless you refinance, you will pay no more in monthly mortgage payments 10 or 20 years from now. But real estate prices rise and fall, and you should consider your overall investment return, not just the value of real estate as a possible inflation hedge.

While none of these investment options may be a single anti-inflationary silver bullet, together they can help protect you from a loss in short-term and long-term purchasing power.

2 http://www.inflationdata.com/inflation/inflation_rate/historicalinflation.aspx
3 http://www.icmarc.org/xp/rc/marketview/chart/2010/20100205SP500 HistoricalReturns.html

Retirement in Motion

TIPS AND RESOURCES THAT EVERYONE CAN USE

Boomers on the Brink

Issues facing participants approaching retirement

Boomers fear outliving savings

Baby boomers are more afraid of being poor than dying. More than six in 10 baby boomers say they're more fearful of outliving their savings than they are of death. A study entitled, *"Reclaiming the Future: Challenging Retirement Income Perceptions"* also found that 31% of survey respondents are not too clear about what their retirement expenses will be, and 36% have no idea whether their income will last. Respondents, who ranged in age from 44 to 75, indicated on average that they'd need $59,000 in annual income but they grossly underestimated how much they would need to save to create that household income. The survey was conducted in May 2010 by Allianz Life.

Q & A

Common questions asked by retirement plan participants

What's the best way to roll over retirement plan assets to an IRA?

When people retire, one of the most popular options is to transfer their savings from their employer's retirement plan into a rollover IRA. The best way to do this is through a direct rollover. That means the money goes directly from one financial institution to another. This eliminates potential confusion and can help you avoid having to pay needless tax or a penalty on the money as you might if you received the account balance—even temporarily—in the form of a check in an indirect rollover. If you are approaching retirement and would like more information about your rollover options, please contact your plan administrator.

Quarterly Reminder

Is it time to review and rebalance your asset allocation?

Let's assume that you have carefully allocated your assets—stocks, bonds and cash—in a mix that reflects your risk tolerance and the length of time before you'll withdraw your savings. Over time, if some investments outperform others, they'll grow to make up more of your portfolio. Review your portfolio at least once a year and be prepared to rebalance the mix if needed. To rebalance, you could sell some investments that have done very well and have grown faster than others. With the proceeds of that sale, you can then buy more of those that have not grown as much. In addition to keeping your investments aligned with your risk tolerance, this disciplined strategy gets you to "buy low" and "sell high," an important investing principle.

Tools & Techniques

Resources and ideas to guide you in your retirement planning efforts

How best to hedge against inflation

Inflation, the rising cost of goods and services, can eat away at your purchasing power, particularly over the course of a few decades. Retirees are particularly vulnerable to the impact of rising prices. To protect yourself, you could own some investments that tend to rise in times of higher inflation. These include gold and other precious metals, stocks of natural resources companies and commodities producers, Treasury Inflation-Protected Securities (TIPS) or other inflation-linked bonds, and residential real estate. By nature, some of these investments rise as economic demand picks up. Owning a variety of these can further lower your risks. To learn more about how to protect yourself from inflation, read *Inflation: Protect Yourself Against Its Erosion* on page 3.

Corner on the Market

Basic financial terms to know

Financial leverage

Leverage describes using borrowed money to invest or do business. Investors who have borrowed money to invest are leveraged. Investing with borrowed money magnifies the impact of either a gain or a loss. If you lose money on an investment made with borrowed money, you might not be able to repay the loan. But if you earn money on the investment, you would have a higher return on it because you would have achieved the gain with less money originally invested.

Kmotion, Inc., P.O. Box 1456, Tualatin, OR 97062; www.kmotion.com

© 2010 Kmotion, Inc. This newsletter is a publication of Kmotion, Inc., whose role is solely that of publisher. The articles and opinions in this newsletter are those of Kmotion. The articles and opinions are for general information only and are not intended to provide specific advice or recommendations for any individual. Nothing in this publication shall be construed as providing investment counseling or directing employees to participate in any investment program in any way. Please consult your financial advisor or other appropriate professional for further assistance with regard to your individual situation.