

# Update



## Rebuilding a Nest Egg

After a storm, birds use leaves and twigs to repair and rebuild their nests. What can investors do to shore up retirement nest eggs damaged during the recession? Here are some ideas.

### STACK UP THE SAVINGS

Saving *more* for retirement is an important step. Yes, it may be difficult to find extra money to save when money is tight. But just cutting back a little on your out-of-pocket spending and saving that money instead could make a big difference in the value of your nest egg by the time you're ready to retire. If you participate in an employer's retirement plan, increase the percentage of income you save each pay period as much as you can reasonably afford.

### CHOOSE INVESTMENTS CAREFULLY

This may be a good time for you and your financial professional to take a close look at your portfolio. While you may be tempted to simply get rid of investments that have underperformed lately, that may not be the best strategy. Instead, you may benefit by maintaining a long-term perspective. If an investment is still appropriate for your long-term goals, you may want to hang on to it despite its current performance. Then you'll be in a good position to benefit from a potential recovery in the future. You may want to consider selling investments that have underperformed over a *long* period — not simply during the downturn — or that no longer fit your portfolio.

This also is a good time to check your asset allocation. Market swings may have caused your retirement portfolio to become unbalanced. You can rebalance a portfolio held in an employer's tax-deferred plan fairly easily by transferring money among investments in different asset classes or directing that future account contributions be invested in the underrepresented asset class(es). Selling investments held in a taxable account can have tax consequences that you'll want to take into consideration.

### KEEP ON WORKING

Depending on how close you are to your desired retirement age, you may need to reconsider your hoped-for retirement date. The closer you are to retirement, the less time

## VOLUME VI, ISSUE II

### INSIDE THIS ISSUE

LIVE LONG AND  
(SAVE TO) PROSPER  
..... 2

MINING YOUR  
RETIREMENT RESOURCES  
..... 3

A ROTH CONVERSION MAY BE  
AN OPPORTUNITY FOR YOU?  
..... 4



RBC Wealth Management®

Continues on page 2

## Rebuilding a Nest Egg *Continued*

you have for your investments to recover. Continuing to work a little longer may give you an opportunity to rebuild your savings. First, you can keep contributing to your retirement plan account and give your savings more time

to accumulate on a tax-deferred basis. And the longer you work, the shorter the time you'll need your savings for support. Finally, if you put off receiving Social Security benefits, your eventual monthly benefit will be larger.

---

## Live Long and (Save To) Prosper

Retirement is changing. And one of the biggest reasons is that people are living longer. Can you imagine spending 20 or 30 years in retirement, or more? It definitely could happen. That's the good news.

The not-so-good news may be that if you hope to enjoy many years of retirement, you'll need enough income to allow you to do all the things you want to do.

The longer your retirement lasts, the greater the possibility that you could outlive your retirement savings. For anyone who plans to retire someday, the possibility of outliving retirement savings is an important issue to ponder.

### A UNIVERSAL QUESTION

Where will your retirement income come from? One seemingly steady source of retirement income is Social Security. Under the current system, Social Security retirement benefits continue, regardless of how long retirement lasts. But even today, those payments provide only a portion of the income most retirees need. And the future of Social Security is unknown.

You may be one of a lucky group of people who will be eligible for another relatively reliable source of income — monthly benefits from an employer's pension plan. But even with pension benefits, you will most likely need more income. With or without a pension, the balance of the money you'll need during retirement will have to come from your retirement savings and, possibly, other assets. Of course, if you continue working, your earnings will provide additional income.

### LIFE IN THE FUTURE

Your retirement lifestyle will play a big role in how long your savings will last. If you plan to retire to a simple, financially conservative way of life, you can expect your

savings to last longer than if you intend to spend more. But making drastic budget cuts and scaling back on spending doesn't exactly fit everyone's vision of retirement.

Unfortunately, cutbacks may be necessary to prevent you from outliving your retirement savings. A recent report\* sheds some light on this issue. The study looked at two middle-income groups — new retirees (age 65) and “near” retirees (age 58) — and found that in almost three out of five cases, new retirees who plan to maintain their preretirement standard of living can expect to outlive their assets.

To avoid outliving their assets, this group of retirees would have to reduce their standard of living, on average, by 24%. The outlook for the group of near retirees was also less than rosy. On a positive note, the study observed that an increase in savings could make a difference.

### AN ENTERPRISING PLAN

What can you do to avoid outliving your retirement assets? There's a very simple answer: Start as early as you can to save as much as you can in your retirement plan account. If you have decades to go before your golden years arrive, time is on your side. Steady saving over a long period should allow you to build a healthy nest egg. If you have less time to beef up your savings, increasing the amount you're contributing to your plan can help. If you're very close to retirement age, you might want to consider postponing retirement for a few years to give you more time to build up your savings.

Wherever you are in your career, contributing as much as you can to your plan now may help you avoid outliving your savings *later*.

\* *Retirement vulnerability of new retirees: The likelihood of outliving their assets*, Ernst & Young LLP for Americans for Secure Retirement (July 2008)

## HOW LONG WILL ASSETS LAST?

Percentage Withdrawn Annually	Number of Years Before Assets Are Gone					
	4%	5%	6%	7%	8%	9%
5%	42	*	*	*	*	*
6%	29	37	*	*	*	*
7%	22	26	34	*	*	*
8%	18	21	24	31	*	*
9%	15	17	19	23	29	*
10%	14	15	16	18	21	27
11%	12	13	14	15	17	20
12%	11	12	12	13	15	17
13%	10	10	11	12	13	14
	<b>4%</b>	<b>5%</b>	<b>6%</b>	<b>7%</b>	<b>8%</b>	<b>9%</b>
<b>Average Annual Return on Remaining Assets</b>						

\* Indicates that assets will not be depleted based on withdrawal percentage and annual return.

This chart is for illustrative purposes only. Actual earnings would vary from year to year. Your investment results will be different. Source: NPI

## ARE YOU SAVING ENOUGH?

Annual Retirement Income Needed	Amount of Savings Needed	
	5% Average Annual Investment Return During Retirement	7% Average Annual Investment Return During Retirement
\$20,000	\$281,879	\$233,072
\$40,000	\$563,758	\$466,143
\$60,000	\$845,637	\$699,215
\$80,000	\$1,127,516	\$932,287
\$100,000	\$1,409,394	\$1,165,358

Assumes a 25-year retirement and that all the retirement savings amounts shown are depleted after 25 years. Future inflation will likely increase your income needs during retirement. Your investment returns and balances will vary. Source: NPI

## Mining Your Retirement Resources

For anyone planning to retire, the key considerations are *longevity* and *resources*. Will your financial resources last as long as you need them? And are your resources sufficient to generate the income you will require?

More specifically, you have to decide not just when you can afford to retire, but also how much you can afford to spend annually, and how you will invest your retirement savings.

### LUMP SUM VS. ANNUITY

Some employer-sponsored retirement plans let retirees choose either annuity payments that guarantee lifetime income or a one-time cash payout. Many choose the cash.

But, depending on your situation, the annuity payments may be more advantageous.

Making a careful analysis is essential. A lot will depend on your expectations regarding longevity. For example, you could find that the annuity option would provide a greater benefit if you and/or your spouse survives beyond your average life expectancies. On the other hand, you may prefer to take your lump-sum payment and invest it yourself.

### ADEQUATE INCOME

Your individual circumstances will determine the amount of retirement income you'll require. Many retirees live well

Continues on page 4

## Mining Your Retirement Resources *Continued*

on somewhat less than their preretirement income. Others require all that income and more. And every retiree must deal with a cost of living that rises over time, even during periods of “low” inflation.

The total of your Social Security benefits, withdrawals from retirement plan savings and individual retirement accounts, and/or pension income may not adequately replace your preretirement income. You might have to delay your retirement or find part-time employment.

### UNCERTAIN RETURNS

Meeting income needs during retirement often depends on achieving investment goals. However, investing success is far from certain. Volatile returns can defeat financial assumptions. Even long holding periods do not ensure earning historical average returns. Also, poor market performance early in retirement could greatly reduce a portfolio’s ability to produce adequate long-term income. A possible solution is to use part of your retirement savings to buy an immediate annuity that guarantees lifetime pension-like income.

We have helped many clients evaluate their financial options for retirement. If you need help planning your retirement, please call us.

### RETIREMENT REALITIES

The facts of retirement today are far removed from the familiar vision of full-time leisure beginning at age 65. A recent national survey\* of individuals age 55-69 found:

- *Almost 30% of Americans retire early.* They stop working permanently during their 50s, either because their employer retirement plans and strong saving habits make retirement affordable or because of poor health.
- *12% leave their full-time jobs in their 50s but continue working part-time or become self-employed.* Generally, they enjoy keeping active or want to earn extra spending money.
- *35% leave full-time work during their 60s.* But many continue working part-time or for themselves, often because their financial resources are insufficient.
- *10% don’t retire, including many small business owners and entrepreneurs.* They plan to continue working as long as they physically can.

\* “Six Paths to Retirement,” the Vanguard Center for Retirement Research, 2007

## Is a Roth Conversion the Right Opportunity for You?

Do you have a traditional IRA? If you do you may want to consider converting it to a Roth IRA beginning in 2010. This is good news for individuals who’d like to convert their traditional IRA to a Roth IRA but haven’t been able to do so because their income is higher than the tax law’s \$100,000 income cap. Beginning in 2010, the income cap is eliminated. Also for the first time, married taxpayers filing separate tax returns will be able to convert their traditional IRAs to Roth IRAs. As a result, more high earners will have the opportunity to take advantage of a Roth IRA.

Before you call your Financial Consultant regarding a conversion you need to remember that there’s a tradeoff.

When you convert a traditional IRA to a Roth IRA, you’ll incur a federal income-tax liability on the taxable portion of the traditional IRA in the year that it’s converted.

But, if you convert your traditional IRA to a Roth IRA in 2010, you won’t have to pay taxes on the conversion immediately. Unless you elect otherwise, half of the taxable amount of your IRA will be included in your 2011 income and the remainder in your 2012 income.

It is recommended to consult with your tax advisor to determine if a conversion to a Roth IRA is right for you.



RBC Wealth Management 60 SOUTH SIXTH STREET • MINNEAPOLIS, MN 55402-4422

The articles and opinions expressed in this advertisement, prepared by Newkirk, are those of the author and are not necessarily the same as those of RBC Wealth Management. RBC Wealth Management did not assist in the preparation of the material and makes no guarantee as to its accuracy or reliability or the sources used in its preparation. As broker/dealer for your plan, RBC Wealth Management is providing you,

the Plan Sponsor, with this important information recently released by the Department of Labor. Please note, RBC Wealth Management does not act as administrator or recordkeeper for 401(k) plans or any other defined contribution plan. The material contained herein is for informational purposes only and does not constitute tax or legal advice. Plan sponsors and investors should consult with their own tax advisor or attorney with regards to their personal tax and legal situation. Examples enclosed are not intended to be representative of any specific investment vehicle. Actual results will vary.