State of Indiana

457/401(a) RETIREMENT PLANS

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Look for registration details in August

Hosted by Hoosier S.T.A.R.T. and State Auditor Tim Berry

Set Solid Goals

When you plan for retirement, setting goals for saving and spending can be tricky. See how two hypothetical investors at different life stages can get on track for retirement. Which one best represents you?

Jerry, age 35

Jerry, who earns $50,000 a year, wonders, ***"How much should I be saving for retirement?"***

At this age, he should shoot for contributing at least 10% of his paycheck to his retirement plan, and then further increase his deferral by a percentage point each year thereafter as his salary increases until he reaches the maximum allowed by his plan.

Of course, the right savings target depends on Jerry's personal circumstances, including his current total assets, his living expenses, and the age at which he expects to retire. Visit the website at **www.hoosierstart.in.gov** and click on "Access Your Account."[1] The website provides information regarding the Hoosier S.T.A.R.T. Plan, as well as financial education information, financial calculators and other tools to help you manage your account.

The take-away: Take advantage of time

Saving more now can make it much easier to meet your goals, especially if you have decades before you plan to retire. Increasing the portion of your paycheck that is deposited automatically in a retirement plan also can reduce your current tax bill since contributions are deducted out of pre-tax income.[2]

Amy, age 57

Amy wonders ***how much money she'll need to live on when she retires***, hopefully at age 65.

With plans to retire in eight years, Amy needs to calculate current expenses and then compare them with her income and expected savings she'll have accumulated by that time. By visiting **www.hoosierstart.in.gov**, Amy will have access to calculators that will help her do the math for her retirement needs.

The take-away: Don't underestimate retirement expenses

Most financial advisors say you'll need about 70 percent of your pre-retirement earnings to comfortably maintain your pre-retirement standard of living.[3] But some experts recommend that you plan on costs that are even higher. One reason is that you need to account for inflation, which will gradually increase your cost of living while eroding the purchasing power of your money, especially if you have a lot of it parked in cash investments. What's more, you may face high medical costs. You may be eligible for Medicare at age 65, but the federal insurance program does not cover all expenses.

How will your budget change?

The best way to calculate your retirement needs is to examine your current budget and estimate how it will change. Then, add up the amounts you anticipate receiving from Social Security and a pension, if you have one. The difference between this amount and your annual expenses is the amount you'll need to withdraw from your savings annually in order to fill the income gap.

Limit withdrawals

Financial planners generally suggest that you withdraw no more than 3% to 4% of your savings during the first year of retirement, and then adjust for inflation each year thereafter. At that rate, your portfolio has a chance of lasting up to 25 or 30 years—not bad, considering today's long life spans. ■

FOR ILLUSTRATIVE PURPOSES ONLY. Highly adverse market conditions may affect an investor's ability to sustain withdrawals at these rates. This is not intended as financial planning or investment advice. Please consult with your financial planner, attorney and/or tax adviser as needed.

Fight Your Fears

Emotion can be an investor's worst enemy

Emotional reactions to market movements often result in poor investment decisions. Take the "buy high, sell low" tendency in which an investor buys stocks that have soared in price and sells them when the price has plummeted—a sure way to lose money. Instead of trying to "time the market," consider this rational approach to long-term investing:

Stick with an investment mix that fits your goals, time frame and tolerance for risk.

If you won't tap your account for 30 years, for example, you might be less concerned about short-term volatility and opt for a bigger stock allocation to maximize potential long-term growth. As you near retirement, generally capital preservation becomes more important, so you might decide to trim your stock investment allocation while boosting bond investments and cash investments. ■

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1 Access to KeyTalk® and the website may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons. Transfer requests made via the website or KeyTalk received on business days prior to close of the New York Stock Exchange (4:00 p.m. Eastern Time or earlier on some holidays or other special circumstances) will be initiated at the close of business the same day the request was received. The actual effective date of your transaction may vary depending on the investment option selected.

2 Withdrawals are subject to ordinary income tax. A 10% early withdrawal penalty may apply to withdrawals made prior to age 59½. The 10% early withdrawal penalty does not apply to 457 plan withdrawals.

3 https://www.socialsecurity.gov/planners/morecalculators.htm, 2011.

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