Citi Personal Wealth Management

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From Here to Retirement

A Guide to Life's Most Important Financial Journey

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PART I

Your Destination

Ask ten people what retirement means to them and you will likely get ten different answers.

No doubt you have your own vision of retirement. But how will you get there? As you begin your journey, ponder three key issues.

- First, when do you hope to leave the work force? Early retirement may seem enticing. But unless you come into a big windfall or you have been saving diligently since your 20s, it can be hard to make the numbers work. You won't have as much time to save or to earn investment returns. Plus, if you retire early, you will have to make your savings last longer. By contrast, each year you delay retirement can make it easier to build a bigger nest egg. In addition, if you postpone claiming Social Security benefits until as late as age 70, you will receive a larger monthly check.

- Second, think about how much income you will need to retire in comfort—and also how much in savings you'll need to generate that income. As a rule of thumb, financial experts often suggest a 4% withdrawal rate. That means that, for every $100,000 you have in retirement savings, it may be prudent to withdraw $4,000 in the first year of retirement. Want $60,000 in portfolio income, to complement whatever you receive from Social Security and any pension payments? You might need to amass a $1.5 million nest egg.

  Folks will often focus on replicating a percentage of their preretirement income, with 80% being a frequently suggested target. But how much you need will depend on your spending and savings habits. Those who have been frugal, in an attempt to save large sums, might not need to replicate as much because they are accustomed to living on a smaller portion of their paycheck.

- Finally, what do you picture your retirement looking like? As we trudge off to the office each day, we might imagine we would be happy with a life of endless leisure. But endless leisure may quickly lead to boredom and dissatisfaction, conflicts with a spouse who's used to having time alone and perhaps premature health issues. With that in mind, as you approach retirement, you may want to consider not only your finances, but also what will give you a sense of purpose in retirement. That might mean volunteering, going back to school or devoting yourself to a variety of hobbies.

  You might even look into working part-time. In fact, continuing to work can ease the financial burden of retirement. Imagine you can earn $20,000 a year working part-time. Based on the 4% withdrawal rate mentioned above, that $20,000 a year is like having a nest egg that is $500,000 larger, because that is how much you might need in retirement savings to generate that much income.

PART II

Your Starting Point

As you grapple with the issues above, this is a good time to take a financial inventory, whether you're decades from retirement or just a few years away. Where do you stand right now? What sources of retirement income do you expect to have, whether it's pension income, Social Security benefits or dividends from stock market investments?

Social Security. There's a chance that a future Congress might alter Social Security, possibly raising the age for receiving full retirement benefits or introducing "means testing," so that benefits are reduced or possibly even eliminated for retirees with higher incomes. Still, for now, Social Security remains a cornerstone of many Americans' retirement dreams, offering a lifetime income stream that is indexed for inflation and at least partially tax-free. How much might you receive? See the accompanying box on how to "Estimate Your Social Security Benefits."

› ESTIMATE YOUR SOCIAL SECURITY BENEFITS

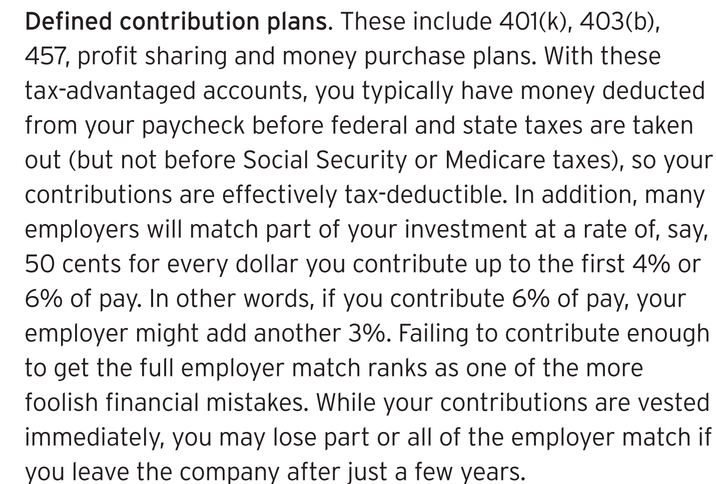
Every year, the Social Security Administration sends out a statement telling you how much you can expect in benefits if you start receiving your monthly retirement check at age 62, at your "full" retirement age (which is 66 if you were born between 1943 and 1954) and at age 70. The statement usually arrives a few months before your birthday.

What if you can't find your most recent statement or you want to check your benefits now, perhaps before meeting with your Financial Advisor to go over sources of retirement income? Go to www.ssa.gov. Look for a link labeled "Estimate Your Retirement Benefits." Click on that and you'll be asked a few basic questions: your name, Social Security number, date of birth, the state where you were born, your mother's maiden name and last year's total wages and self-employment income. In a few seconds, you'll have the information you need.

Keep in mind that, whether you're looking online or at your latest statement, the benefits you see are likely to change by the time you claim Social Security. In estimating your benefits, the Social Security Administration assumes you will continue earning at last year's rate. If you make more money in the future, your benefits may increase. Also, the benefits shown are in today's dollars and, by the time you claim Social Security, they will likely be higher because of inflation. In addition, the estimated benefits are based on current law—and without the cutbacks that some politicians are advocating.

Pension plans. While the label "pension plan" is sometimes applied to 401(k) and similar defined contribution plans, we're referring here to traditional defined benefit plans, where an employer pays monthly income to eligible employees when they retire. At one time, these were the only type of company-sponsored retirement plan. But today, less than half of private sector workers have traditional company pensions. That number is shrinking as more companies introduce 401(k) plans instead. According to the most recent figures available from the Employee Benefit Research Institute, the number of private sector defined benefit plans fell from 148,000 in 1980 to 47,000 in 2004.

If you have a defined benefit plan at your current job or with a previous employer, or both, ask each company's benefits department what your expected payment will be. Also ask if the payments are indexed for inflation, how your payments might change if you retire early and whether your survivors will receive anything if you die before or shortly after you retire. In addition, you might request the most recent copy of the plan's summary plan description, which explains how you build up benefits, when you become vested and other key details.



Defined contribution plans. These include 401(k), 403(b), 457, profit sharing and money purchase plans. With these tax-advantaged accounts, you typically have money deducted from your paycheck before federal and state taxes are taken out (but not before Social Security or Medicare taxes), so your contributions are effectively tax-deductible. In addition, many employers will match part of your investment at a rate of, say, 50 cents for every dollar you contribute up to the first 4% or 6% of pay. In other words, if you contribute 6% of pay, your employer might add another 3%. Failing to contribute enough to get the full employer match ranks as one of the more foolish financial mistakes. While your contributions are vested immediately, you may lose part or all of the employer match if you leave the company after just a few years.

Take some time to find out how much you have in the plan now. You might also work with your advisor to estimate how much you will have in the plan at retirement if you and your employer keep putting money in it at the same rate. Meanwhile, if you still have some money in 401(k) or other defined contribution plans at previous employers, consider consolidating the money in a rollover Individual Retirement Account. You can do this yourself by requesting a trustee-to-trustee transfer from your old firm's plan to your rollover IRA. Your advisor can walk you through the process and help with the paperwork.

Traditional IRAs. Introduced in 1986, the traditional Individual Retirement Account has some fairly complex rules regarding contributions and withdrawals. For example, if you are covered by a retirement plan at work, you can only take a tax deduction for your contribution if your income falls below a specified threshold, which typically changes each year. But even if you can't deduct your IRA contributions, you can still fund an account up to $5,000 each year, plus an additional $1,000 if you're age 50 or older, provided you have at least that much in earned income. If you have been putting money in traditional IRAs, this is a good time to find out how much you have amassed and calculate how much your IRA might be worth at retirement. While you're at it, make sure its allocation to stocks, bonds and other investments fits with the rest of your portfolio.

Roth IRAs. A traditional IRA or 401(k) may give you an initial tax deduction, but all taxable withdrawals are subject to federal and possibly state income taxes. By contrast, there is no initial tax deduction for funding a Roth, but all withdrawals in retirement should be tax-free. The contribution limits for the Roth are the same as for a traditional IRA. To be eligible to fund a Roth, your income has to fall below the limits set for that year. You can also convert money from a regular IRA to a Roth, though this can trigger a substantial tax bill. Unlike a traditional IRA, there are no required minimum distributions for the Roth starting at age 70½. That means you could leave the money to grow untouched and then bequeath it to your children or grandchildren. While early withdrawals from a Roth can be subject to income taxes and tax penalties, these only apply to the earnings from the Roth. Indeed, if you need to, you can withdraw your original annual contributions at any time without penalties or taxes.

You may also have access to the Roth through your employer's 401(k) plan. As with a Roth IRA, your Roth 401(k) contributions aren't tax-deductible, but all withdrawals in retirement should be tax-free. Having a mix of traditional and Roth retirement plan money can, in effect, give you tax diversification. If your tax rate is lower in retirement, it will be less costly to withdraw from your traditional retirement accounts. But if your tax rate rises, your traditional accounts will be taxed more heavily—but the financial pain may be eased by your Roth accounts, where withdrawals should remain tax-free.

Small business retirement plans. If you are self-employed or have your own business, you may want to consider a SEP-IRA or one of the other tax-advantaged plans available to small businesses. You might even talk to your advisor about launching your own 401(k) and possibly setting up a defined benefit plan.

Taxable accounts. Even if you are maxing out your 401(k) plan and fully funding your Roth or traditional IRA, you may not amass enough for retirement, especially if you have a relatively high income and hope to replicate a substantial portion of that income once retired. And this, of course, is an even bigger issue if your employer doesn't offer a retirement plan. What to do? You may want to build up your holdings in your regular taxable account. Your taxable account's dividends, interest and realized capital gains will be subject to taxes each year. But you may be able to hold down that tax bill by working with your advisor to favor more tax-efficient investments.

Tax-deferred annuities. As you save for retirement, you might also consider funding a tax-deferred fixed or variable annuity. Annuity investments aren't tax-deductible, while 401(k) and Individual Retirement Account contributions can be, so funding an annuity may not be your top savings priority. Still, they can be appealing if you are maxing out your 401(k) and IRA and you are looking for additional tax-deferred growth or you are attracted to a particular insurance feature offered by an annuity.

Real estate. Your home or homes can be an integral part of your retirement planning. If you can pay off any mortgages by retirement, that can free up a chunk of money that can be used for other expenses. If you have rental properties, those can provide regular income. And if you trade down to a smaller house or an apartment, that can unlock home equity that can then be spent. Trading down may also reduce the amount you spend on upkeep, utilities and property taxes.

If you want to tap into the home equity you've built up, you might also consider a reverse mortgage, where a lender lets you borrow against the equity in your home, either on a fixed payment schedule or as you request it. In most reverse mortgage agreements, the loan amount plus interest is paid off after you die or move out of your home, usually by selling it. When the property is eventually sold, the lender collects the principal, interest, and any accumulated fees or charges that are due. Whatever is left over from the selling price, if anything, goes to you or your heirs. Neither you nor your heirs can ever owe more than the selling price.

While a reverse mortgage may seem like a ready source of cash, it should probably be viewed as a last resort. The fees involved can be substantial, you may find that the amount you can borrow isn't meaningful, it can make it financially difficult to move and, of course, it reduces the amount you leave to your heirs.

Possible inheritance. The emphasis here should be on "possible." Your parents, or whoever else has named you as an heir, may still be alive when you are looking to retire—or the hoped-for inheritance could disappear, perhaps because of long-term care costs. The implication: It's probably best to downplay the financial benefits of an inheritance until the money actually arrives.

› YOUR PERSONAL BALANCE SHEET

Every company, whether it's a major corporation or a small business, has a balance sheet that shows its assets and liabilities. If you want to know where your finances stand, particularly as you plan for retirement, you might create something similar. Like the company version, your personal balance sheet would list all your assets and liabilities, including your debts. The difference between these two numbers is your family's net worth.

Your balance sheet is like a photograph. It's a snapshot of your financial position at a particular moment in time. A few weeks later, your investments may have increased slightly in value, while you might have paid off some credit card debt, so your net worth would be a little higher. Still, knowing where you stand today can be a good first step to longer-range financial planning.

Here's how it works. Add up your assets, including checking accounts, money market funds, stocks, bonds, mutual funds and real estate. Meanwhile, liabilities include credit card balances, outstanding loans for things like college, cars and appliances, as well as the balance on your mortgage. When you're done, your balance sheet should list your assets on the left side of a page and your liabilities on the right. Subtract liabilities from assets and you have your net worth—and a good snapshot of your current financial situation.

PART III

Driving Directions

Now that you know where you stand, you need to figure out what it will take to get from here to retirement. Everybody's retirement plan will be a little different. Still, as you aim to amass the nest egg you need, consider three strategies: Save like crazy, minimize your investment tax bill—and get time on your side.

Save, save, save. Suppose you are age 55 and hope to retire in ten years. Let's also assume you have been a fairly good saver over the years, and you and your spouse or partner already have $300,000 spread among various retirement accounts. Assuming a hypothetical 5% annualized rate of return, that $300,000 could be worth almost $489,000 in ten years.

Next, let's assume you can set aside $1,000 a month, perhaps by stashing these dollars in your 401(k) and IRA. If your employer matches part of your 401(k) contribution, that $1,000 wouldn't come solely out of your pocket. Also, since your contributions might be made on a pretax basis, the actual reduction in your paycheck will be less than what you put into the 401(k). So, assuming the same 5% hypothetical return, a $1,000 monthly contribution would grow to almost $156,000 in ten years. The combination of what you already have and your monthly savings could leave you with almost $645,000 at age 65. Of course, if you have more than ten years to retirement or you save more each month, these figures have the potential to be larger.

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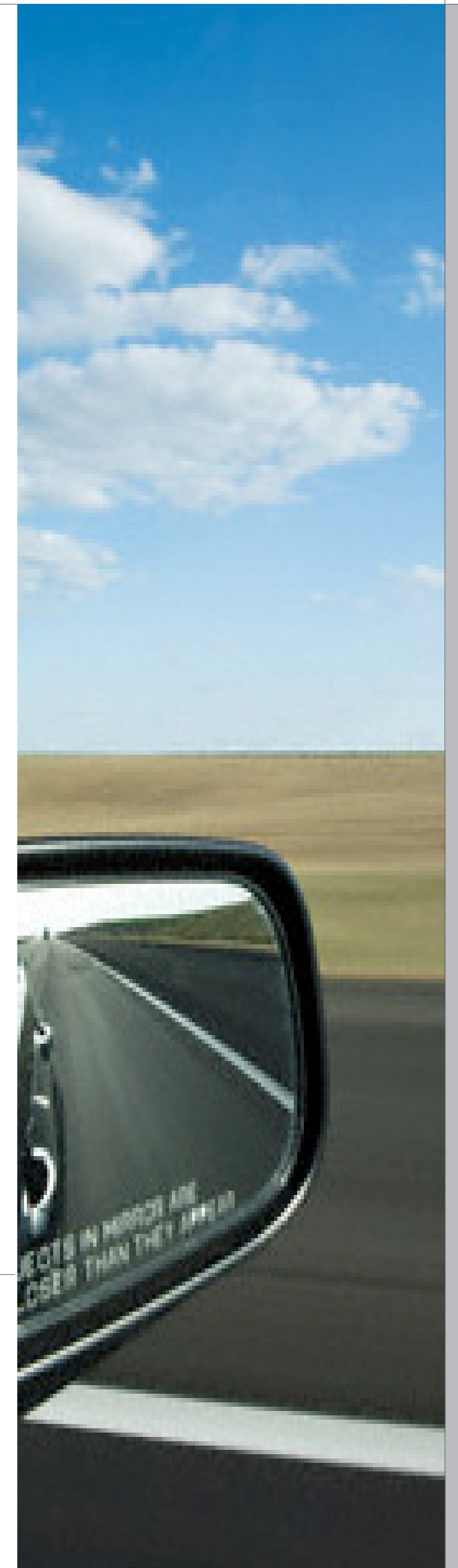

> HOW MUCH ARE YOU SAVING AND SPENDING?

We're often encouraged to sock away 10% of our pretax income toward retirement, and sometimes even more. How much are you saving? Add up how much you invest each year in your 401(k) plan, Individual Retirement Account, regular taxable account and elsewhere. To this sum, you might add any matching contribution you receive in your 401(k). Next, compare this to your pretax annual income to find out your personal savings rate. Your advisor can help you figure out whether this savings rate is high enough, given your nest egg's current size and your other sources of retirement income.

While you are at it, you might also get a sense for how much you will likely spend each year in retirement by taking your current pretax income and subtracting your savings and any expenses that may go away in retirement, such as Social Security payroll taxes, commuting costs and mortgage payments—assuming you have your home loan paid off by then.

As you shovel savings into investment accounts, also look to reduce and preferably eliminate all your debts by retirement. If you have credit card debt, car loans or other debt, consider paying them off, starting with the highest-interest debt. Similarly, if you have a mortgage, think about putting more money toward principal each month, with the goal of paying off your mortgage by retirement. The less money that you have to pay on loans, the more you will have to invest for your financial future—and to spend once you quit the work force.

Get tax smart. As you strive to save more, look to get a little help from Uncle Sam—by taking advantage of various tax-favored investment accounts. You might start at the office, funding your employer's 401(k), which may give you an initial tax deduction, tax-deferred growth and possibly a matching employer contribution.

To complement any 401(k) investments, consider using traditional and Roth IRAs to broaden your investment choices. Both the traditional and Roth IRAs have the potential for tax-deferred growth. While a traditional IRA is often funded with pretax dollars and you pay taxes on the withdrawals, a Roth is funded with after-tax dollars—but all withdrawals in retirement can be tax-free. Meanwhile, if you are self-employed or a small business owner, look into whether you can set up a SEP-IRA or a similar plan designed for small businesses.

You may not be able to amass enough for retirement by funding tax-deferred accounts alone. Instead, you could need to build up your taxable investment accounts as well. As you build up those accounts, you might talk to your Financial Advisor about how to invest so that you don't lose too much of your gains to taxes. You might also talk to your advisor about how to coordinate your 401(k), IRA, taxable account and any other investments, so you have the appropriate overall mix of investments, without too much unnecessary duplication.

Get time on your side. Ideally, you started funding your retirement as soon as you entered the work force, so you get the advantage not only of decades of regular savings, but also decades of investment compounding. But what if you were late to the retirement-savings game and you are playing catch up? You can still make time your ally—by delaying retirement a few years.

Let's say you put off retirement by two years. That will mean two more years of regular savings and two more years of potential investment gains. You will also be two years older when you quit the work force, so you should get a larger monthly check if you decide to purchase an immediate annuity.

Staying in the work force might also allow you to put off claiming Social Security retirement benefits. For example, depending on your income and how much you have paid into the system over the years, you might get around $2,200 a month at age 66. But, by waiting until age 70 to start benefits, you could get closer to $2,900 a month.

Don't want to stay in your fulltime job for two years longer? Consider part-time work instead. For instance, your current employer may be willing to take you on as a freelance consultant. You would receive self-employment income, which means your employer wouldn't have to pay benefits such as health insurance or the company share of the Social Security tax. That may make the idea attractive to your employer. Alternatively, perhaps you have a hobby or special skill that can be turned into a moneymaking venture. This would be a good time to consider what you might sell and how you can turn it into a small business.

As you strive to save more, look to get a little help from Uncle Sam—by taking advantage of various tax-favored investment accounts.

PART IV

The Check-Up

With every birthday, retirement might be drawing nearer. But are you still headed in the right direction? Once a year, check to see whether you are on track to meet your retirement goals—by asking these four questions.

- **How have your financial accounts fared over the past year?** Has your performance been dragged down by a periodic market decline or an out-of-favor sector—or is it something more worrisome, such as ill-advised investments? Keep in mind that market declines can be your friend, because they offer the chance to buy investments at relatively lower prices. While you are examining your investment accounts, you might update your net worth statement, so you are also taking into account other aspects of your financial life, such as your debts and your real estate holdings.

- **Does your asset allocation still make sense?** As you approach retirement and the moment when you will say goodbye to a regular paycheck, you may want to shift your asset allocation toward income-producing investments, so that you start to replace your disappearing paycheck.

- **Do you need to rebalance?** Even if you haven't done any buying or selling in your portfolio over the past year, you may not have the right investment mix today. Say you had earmarked 60% of your portfolio for stocks and 40% for bonds and cash investments. Thanks to the market recovery since March 2009, you might have more in stocks than you want. To help get back on track, you might rebalance by adding money to the bond side of your portfolio, to get it back up to 40%. While rebalancing can sometimes help performance, it's principally about controlling risk. By rebalancing, whether it's adding to stocks in a bear market or lightening up on shares during a bull market, you can help keep your portfolio in line with your original risk profile. One warning: Rebalancing can mean selling investments with capital gains, so it's best done in a tax-deferred retirement account, where selling won't trigger a tax bill.

- **Are you still on track for your target retirement date—or do you need to increase your savings rate or move back the age at which you retire?** Remember, if you're age 50 or older, you can take advantage of catch-up contributions for both IRAs and 401(k) plans. In 2011, you can usually contribute up to $16,500 to a 401(k) plan. But if you are age 50 or older, the maximum contribution is $22,000. Similarly, IRA investors who are 50 and over can invest a maximum $6,000 in 2011, versus $5,000 for those who are younger.

PART V

For Late Starters

What if retirement is looming and your nest egg is looking a little skimpy? You may need to make some hard choices in the next few years, but good planning and discipline can help you further narrow the gap. Some of these ideas have been mentioned earlier in this guide, but you may want to pursue them even more aggressively now.

- **Make retirement your top financial priority,** putting it ahead of other financial goals. If you can help your children or grandchildren with their college expenses, without risking your retirement security, go ahead. But if you can't, perhaps the kids should take out college loans, so you can focus on building up your retirement savings.

- **Examine the big expenditures in your life,** such as your mortgage and car purchases. You might keep your current vehicles a few years longer and see if it's worth refinancing your mortgage. You might even consider trading down to a smaller home now, rather than waiting for retirement.

- **Take a hard look at your everyday spending.** Identify where your money is going, whether there are items you can eliminate and where you can spend less for the same products or services. For instance, you might see if you can save on insurance by, say, raising the deductibles on your auto and homeowner's insurance, though this will mean larger out-of-pocket costs if you have a claim.

- **Consider working a few years longer,** so you have longer to save and to collect investment gains. If that seems unappealing, investigate taking a part-time job during your initial retirement years.

- **Check on your potential Social Security benefits**—and see if you can make your retirement numbers work by putting off benefits until age 66 or even age 70, so you get a larger monthly check. Postponing Social Security may mean working longer or taking a part-time job after you leave full-time employment.

- **Ratchet up your savings rate.** Even a little extra can make a big difference. For example, if you can save just $200 extra a month and it grows at a hypothetical 5% annual return, you'll have roughly $13,700 after five years, $31,200 after ten years and $53,700 after 15 years.

- **Talk to your advisor about annuitizing more of your portfolio upon retirement.** Many folks resist buying lifetime income annuities, because it can mean handing over a big chunk of money to an insurance company without knowing how much income they will get in return. Still, lifetime income annuities can be an effective way of squeezing more income out of your retirement savings, while also reducing worries that you will outlive your nest egg.

- **One warning:** Think twice before moving into riskier investments to make up for lost time. Instead, talk to your Financial Advisor about your portfolio, to make sure you have a mix of stock and bond investments that is appropriate for your situation.

How Your Citi Personal Wealth Management Advisor Team Can Help

Citi Personal Wealth Management can assist you in purchasing individual investments such as stocks, bonds, exchange-traded index funds, mutual funds, cash investments, annuities and alternative investments. But we firmly believe that clients are better served if they focus less on picking individual investments and more on building a well-balanced portfolio—one designed to mesh with their goals, their risk tolerance and their broader financial life.

To help you figure out what sort of portfolio you might purchase and whether you are on track for retirement and your other financial goals, our Financial Advisors have access to tools to analyze your current finances, see what adjustments you might make and even develop an overall financial plan. Each of our advisors works on a team, so you get the benefit of a group of dedicated professionals, each of whom may have a different financial specialty.

Once you have your financial road map, you might put it to work using one of our advisory accounts. With these accounts, we charge an annual advisory fee for designing a portfolio, selecting investments, considering investment taxes and providing regular monitoring, including rebalancing when necessary. If, instead, you prefer to pay for each trade you make, we can also help you build your portfolio by purchasing a diverse collection of individual investments on a transactional basis.

As you save and invest for retirement, also consider how your family would cope if you suffer a prolonged illness, job loss or die prematurely. To protect your retirement and that of your spouse, consider setting up an emergency fund and looking into disability, life and long-term care insurance.

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Past performance is not a guarantee of future results.

Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

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