FINANCIAL BUILDING BLOCKS BY HUB

Retirement Planning

When it comes to retirement planning, there are a number of savings vehicles to choose from as well as investment options to understand and consider. Not to mention assumptions you need to make about inflation, Social Security benefits, your longevity and health care expenses during retirement.

There are also lifestyle decisions to consider, such as where you'll live, or whether or not you'll continue to work at some level during part or all of your retirement. It's a lot to think about, especially if you don't know where or how to start. The good news is that it doesn't have to get too complicated. In fact, successful retirement planning can be broken down into two simple golden rules:

Start saving as early as you can.

Save as much as you can.

These golden rules can help take away the fear factor of retirement planning and empower you to take action to improve your financial future. Here's a simple 5-step process you can follow to help set yourself up for success.

Step 1: Choose Your Savings Vehicle

The most common retirement savings vehicles are an employer-sponsored retirement plan, such as a 401(k) or 403(b), or an Individual Retirement Account (IRA). Both traditional and Roth contribution options are commonly available. Here's an overview:

401(k)s

A 401(k) is a tax-deferred retirement savings account offered by employers to their employees. Employees contribute money to their account on a pre-tax basis, and employers can choose to match a percentage of that contribution. The money is deposited in various investments, typically a line-up of mutual funds (which are selected by the employer). Employees have the freedom to choose investments that meet their unique tolerance for risk, whether it's conservative, moderate or aggressive. Investment income accrues and compounds tax-free. Withdrawals are taxed at the normal tax rate, as long as they are made at age 59½ or older.

Many employers are also starting to offer Roth 401(k)s. Unlike a traditional 401(k), contributions are funded with after-tax money, so they are not tax deductible; however, qualified withdrawals are tax-free. As of 2023, the IRS allows you to contribute up to $22,500 per year to a traditional or Roth 401(k).

If you think your tax bracket may be higher in retirement, then a Roth IRA or 401(k)/403(b) account option may be something you want to consider. If you think your tax bracket might be lower, then the traditional account option may be more beneficial.

IRAs

An IRA, either traditional or Roth, is a tax-deferred retirement savings account established by an individual person (typically someone who is self-employed). IRA accounts are held by custodians, such as banks or brokerages. Unlike 401(k)s, IRAs allow account holders to choose from a much larger universe of mutual funds. They can also own many different types of assets within the account, including stocks, bonds, treasury bills and certificates of deposit (CDs).

Like 401(k)s, contributions to traditional IRAs are generally tax deductible. Earnings and returns grow tax free and you pay tax on withdrawals in retirement. Contributions to a Roth IRA are made with after-tax dollars, but withdrawals are tax free in retirement. As of 2023, the IRS allows you to contribute up to $6,500 per year to a traditional or Roth IRA.

Step 2: Start Early

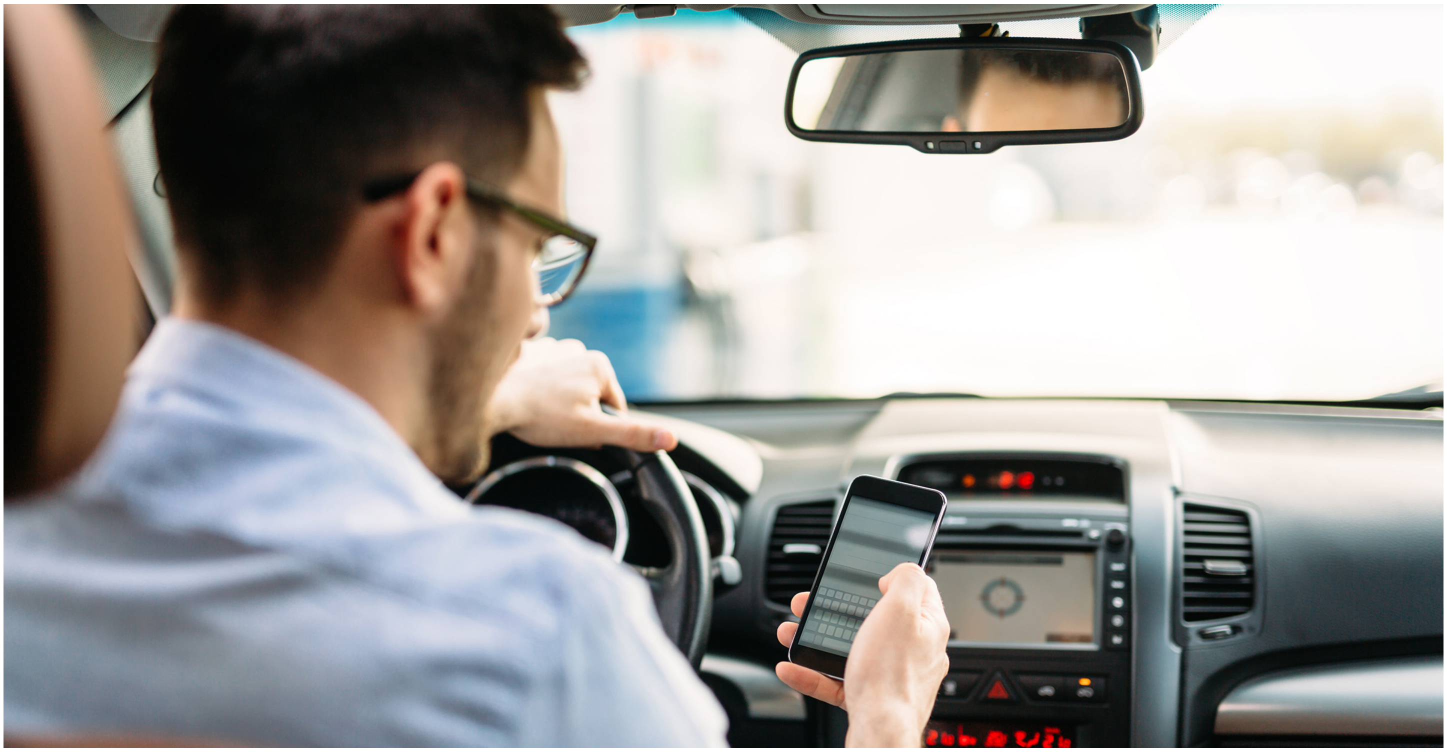
The earlier you start saving, the better chance your money has to grow enough to achieve your retirement goals. One way to illustrate this is the Rule of 72. It's an easy way to calculate how long it's going to take for your money to double.

Just take the number 72 and divide it by the interest rate you hope to earn. That number gives you the approximate number of years it will take for your investment to double. The earlier you start saving, the more periods you will have for your money to "double." Here are some examples:

The Rule of 72

Expected Rate of Return	Do the Math	Years for Investment to Double
4%	72 ÷ 4	18 years
6%	72 ÷ 6	12 years
8%	72 ÷ 8	9 years
10%	72 ÷ 10	7 years

This table serves as a demonstration of how the Rule of 72 concept works from a mathematical standpoint. It is not intended to represent an investment. The chart uses constant rates of return, unlike actual investments which will fluctuate in value. It does not include fees or taxes, which would lower performance. It is unlikely that an investment would grow 10% or greater on a consistent basis.



Step 3: Increase Your Savings Rate Whenever Possible

Once you get going in your IRA or 401(k), it's easy to go on autopilot. You've officially made the move to save for retirement. You made sure to start early. You're good, right? Wrong! It's time to take the next step: increasing your savings. Remember your second golden rule of retirement savings: Save as much as you can.

Cutting or reducing spending on things you don't really need could allow you to bump up the money you're putting into your 401(k) or IRA. And how about increasing your savings rate when you get a merit increase or a bonus? While you're at it, couldn't you cut back just a little on dining out—or shop for a better cell phone plan or find a lower car insurance premium? Not to mention buying a certified pre-owned car instead of a brand new one. The savings can add up quickly.

On average, Social Security currently replaces only 40% of income. It's important to save as early and as much as you can in a 401(k) or IRA account to help meet all your retirement income needs.

Source: Social Security Administration Retirement Ready Fact Sheet, 2022.

Catching Up

If you are age 50 or older, the IRS allows you to contribute an additional amount of money to your 401(k) or IRA over the annual contribution limit. It's called—appropriately, for many people—the "Catch-up Contribution." If you've not been able to save as much as you wanted due to other financial priorities (such as funding a child's education, caring for an aging parent or something else), this is a great opportunity to get back on track with your retirement savings. As of 2023, here are the additional catch-up contribution limits for people 50 and older:

Account Type	2023 Regular Contribution Limit	2023 Catch-up Contribution Limit	Total Potential Contribution
Traditional or Roth IRA	$6,500	$1,000	**$7,500**
Traditional or Roth 401(k)	$22,500	$7,500	**$30,000**

Step 4: Don't Forget About Healthcare Expenses in Retirement

Here's a big reason to start saving as early and as much as you can: according to the 2022 Fidelity Retiree Health Care Cost Estimate, an average retired couple age 65 may need approximately $315,000 saved (after tax) to cover health care expenses in retirement. Whether retirement is a long way off for you, or it's starting to get closer, it's a smart move to start planning for healthcare costs.

Step 5: Seek Professional Help if You Need it

When it comes to retirement planning, you should know that professional help is available if and when you need it. HUB International advisors can give you hands-on personal guidance and advice to help you determine your retirement goals and how you can achieve them. Here's how we can help:

- Help you determine an appropriate retirement saving goal based on anticipated future living expenses
- Help you factor in variables such as inflation, future health care expenses, life expectancy and projected investment returns
- Develop an investment strategy to help meet your long-term needs
- Discuss professionally managed IRA investment solutions that may be of interest to you
- Help you balance your retirement savings goal with other financial goals
- Meet with you on a regular basis to track progress and make adjustments as necessary

How Much Do You Need to Save?

The ultimate question for almost everyone saving for retirement is “how much do I need to be saving?” Financial professionals recommend saving enough to replace 80-90% of your pre-retirement income. But is that benchmark right for you? Depending on your own unique circumstances or outlook, you may not need to save as much as that, or you may need to save more. Here’s a high-level guide to help you through the thought process.

The Case for Saving Less

Depending on how you envision your life in retirement, your anticipated expenses may be much less than they are today. In addition, you may continue to earn money in retirement to help offset expenses. Here are some reasons you may not need to save as much for retirement:

- If you have a mortgage, you plan on paying it off before you retire
- You plan on downsizing to a smaller home, with a much lower mortgage payment
- You plan on relocating to a less expensive city
- You plan on working part-time during retirement
- You anticipate other sources of income, such as investment/rental properties
- You expect Social Security benefits will provide adequate income for your needs
- You will no longer need to financially support children or other family members
- You anticipate good health, with no unexpected medical or long-term care expenses

The Case for Saving More

On the other hand, with retirement potentially lasting 20 years or more, you may want to be more aggressive with your retirement saving goal. Here are some reasons you may need to save more for retirement:

- If you have a mortgage, you plan on continuing to make payments during retirement
- You want to travel extensively or purchase a second home for an occasional getaway
- You expect higher healthcare and medication expenses
- You anticipate needing long-term care at some point
- You plan on starting your own business and will need to provide funding
- You will need to financially support children or other family members
- You believe that your Social Security benefits will be reduced or inadequate

General Retirement Saving Benchmarks

Fidelity Investments suggests the following age-based savings milestones that would provide enough income for you to continue your current lifestyle in retirement (rather than planning to downsize or spend more).

- **By age 30:** strive to have the equivalent of your annual salary saved; if you earn $55,000 per year, by your 30th birthday you should strive to have $55,000 saved.
- **By age 40:** three times your annual salary.
- **By age 50:** six times your annual salary.
- **By age 60:** eight times your annual salary.
- **By age 67:** ten times your annual salary.

The above savings guidelines include anything you have in a retirement account, like a 401(k) or IRA, and includes any company matches.

Please note that these are simply general goals and a starting point for your own personal retirement planning efforts.

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