CANBY Financial Advisors

Destination: Retirement

Third Quarter 2018

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Questions?

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What Would Retirees Do Differently?

When it comes to planning for retirement, what would today's retirees have done differently? Researchers who conducted the *2017 TIAA Transition to Retirement Survey* asked individuals that very question—and the responses were eye-opening.

Let's look at the retirees' top regrets and what they would have done differently if they had known then what they know now.

Fifty-five percent wish they had started saving earlier

It's never too late to begin saving for retirement. But it's clear that starting as early as you can is a big advantage. Consider this:

Anna, who earned $50,000 annually, began contributing $3,000 each year to her IRA when she was 30 years old. When she retired at age 65, having saved for 35 years and having earned a 7-percent average rate of return, the pretax balance of her IRA was $443,740.

James also earned $50,000 annually and contributed $3,000 each year to his IRA, but he didn't begin saving until age 45. By the time he turned 65, also having earned a 7-percent average rate of return, the pretax balance of his IRA was $131,596.

Both Anna and James did a great job in saving for retirement. But because Anna began saving earlier, she saved $312,144 more for her retirement years than James![1]

Regardless of how old you are when you begin, getting started is the key. Try saving small amounts at first—you'll barely miss them. Then, incrementally, increase the amount you save each year. Over time, you'll be surprised at how much your nest egg will have grown!

[1] These are hypothetical examples and are for illustrative purposes only. No specific investments were used in this example. Actual results will vary. Past performance does not guarantee future results.

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Forty-six percent wish they had saved more

Once that critical first step of deciding to save is under your belt, look around and determine which savings engine available to you will help you rev up your savings efforts. Your chance of reaching age 65 regret-free in terms of your finances will greatly increase if you invest a portion of your salary in an IRA or in a tax-deferred account like a 401(k) plan through your employer. The money you contribute to your employer's 401(k), which you otherwise would have paid toward your income taxes, will stay invested in your account and will earn interest for many years. And that interest will be compounded. Plus, the automatic nature of contributing to a workplace retirement plan by having a percentage or dollar amount automatically and directly deposited from your paycheck makes it easier to save.

Also keep in mind that most employers reward you for your saving efforts by "matching" a portion of what you contribute from your paycheck. That is free money in your pocket when you reach retirement.

Thirty-six percent wish they had invested more aggressively

Many retirement plan participants often select an asset allocation mix that doesn't quite align with their retirement savings goals. Further, investors often have difficulty separating the emotional aspect of investing from the calculated, dispassionate decision-making that successful investing requires. This may lead to many choosing an investment strategy that is either too conservative when they're younger or too aggressive when they're approaching retirement and are trying to "make up" potential shortfalls.

Fortunately, options are available for those who don't wish to choose their own investments. For example, most 401(k) plans offer target-date funds (TDFs), which are professionally managed funds that automatically allocate the appropriate mix of stocks, bonds, and fixed income products according to investor's expected retirement date.

Another strategy is to enlist the help of a financial advisor. By working with a trained investment professional, either on your own or through your company's 401(k) plan, you'll be able to leverage that individual's investment acumen, experience, and expertise to set you on your way to realizing your retirement goals.

Authored by the Retirement Consulting Services team at Commonwealth Financial Network.

Think Twice About 401(k) Loans

Sometimes life throws you a curveball, and you find yourself in a financial jam that requires some quick cash. Taking a loan from your 401(k) plan sounds like an easy solution. But, in reality, borrowing from your 401(k) can be harmful to both your short- and long-term savings goals. Here's why:

- When you take out a loan from your 401(k), you're borrowing money that hasn't been taxed yet. But when you pay back the loan, you'll be doing it with after-tax dollars that will be deducted from your paycheck. Years later, when you withdraw that paid-back money as distributions from your 401(k), it will be taxed again. That means you will be taxed twice on your retirement savings!
- You will likely stop contributing to your 401(k) plan. Why? Because the loan repayments will reduce your take-home pay, giving you less cash to work with each month. Moreover, if you stop contributing pretax dollars to your 401(k), your taxable income will increase, which could put you in a higher tax bracket.
- If you leave your job and haven't finished repaying your loan, you may owe taxes and penalties. Or your former employer could require you to pay off the loan's outstanding balance. If you can't do that, the balance could be reported to the IRS as a distribution, and distributions are taxable. And if you're younger than 59½, you would have to pay an extra 10-percent penalty to the IRS on that distribution!
- When you withdraw money from your 401(k), it is no longer being invested. This could translate into your having less money when you retire.

Circumstances may leave you with no alternative but to borrow from your 401(k) plan. But if you can, try to find a way to get the cash you need today other than borrowing it from your future.