

21st century retirement



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American's confidence in their ability to afford retirement has bounced back from the record lows of the past five years. However, this increased confidence does not seem to be "founded on improved retirement preparation," according to the "2014 Retirement Confidence Survey," by the Employee Benefit Research Institute. The annual survey aims to discover what percentage of income Americans are saving for retirement, and whether or not the nation as a whole has a realistic financial picture for the years to come.

The Results

Survey results indicate that 18% of workers (up from 13% in 2013) feel very confident about having adequate retirement funds. Retiree confidence in a financially secure retirement also increased: 28% were very confident (up from 18% in 2013). However, 24% are *not at all* confident in their ability to fund a comfortable retirement. Perhaps more alarming is the fact that 36% of all workers surveyed say they have less than \$1,000 saved for retirement (up from 28% in 2013), and only 44% have tried to calculate how much they need to save to live comfortably in retirement. Based on these and other findings, Americans have a crucial need to make saving money and financial management a top priority, so they can be secure and stable in their retirement years.

Where to Begin?

So what can you do to start saving more and spending less? A good plan begins with saving at least six months' worth of income in case of unexpected or emergency expenses. Cars break down, roofs spring leaks, and other surprises often seem to come out of nowhere. Having an emergency fund can help ensure these needs will be met as you continue to build your financial future. Once you calculate the amount you need to set aside, establish a monthly goal for saving toward this emergency fund, and pay it faithfully like any other expense until you have reached the predetermined amount. An emergency fund should be conserved in a relatively liquid, low-risk account.

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money-saving tips for your future

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A cash reserve is your first step toward obtaining financial security. As you accomplish this goal, consider using some of these smart, money-saving tips to reach your retirement goals and develop a healthy spending and saving plan:

Stash it before you cash it.

Many employers offer some type of retirement savings plan, such as a **401(k)**, **403(b)**, or **457**. Sign up and allocate a certain amount or percentage of your paycheck to be directly deposited into a retirement account. This money is deducted from your income before taxes and may have a relatively minor effect on your net pay. Furthermore, if your employer offers **matching contributions**, this will automatically increase the principal in your account—that's free money for taking the initiative to plan your future.

To enhance your new savings habit in your personal life, consider signing up for automatic transfers from your checking account to savings accounts or to an **Individual Retirement Account (IRA)**. A good general rule is to increase the percentage you save every time you get a raise. This way, your savings and income have the potential to grow together throughout the years and outpace the eroding power of inflation.

Set limits. Credit cards, debit cards, and ATMs make cash readily available. Take a moment to calculate a reasonable spending allowance for a week. At the beginning of the week, withdraw that amount and limit your spending to that amount. A set budget can help you prioritize necessities.

Use tax advantages when available. If your employer offers **flexible spending accounts (FSAs)**, you may contribute pretax earnings for medical and dependent-care expenses. These funds can help parents save tax dollars when paying for child care, for example. However, note that in order to not lose any money, the whole amount contributed must be depleted by the end of the year. Any remainder is forfeited.



Pay yourself. When your credit card, new car, or school loan is finally paid off, consider “continuing” those payments by making deposits into your own savings account. Eliminating debt will increase your net worth, and by continuing to build your savings, you can greatly increase your assets.

Contribute to your piggy bank. Loose change adds up over the course of a year. Pay for everything with bills and make nightly change deposits into the piggy bank. To take this a step further, consider occasionally depositing one dollar bills or even five dollar bills. If this is done faithfully, you will likely have more than a \$1,000 at the end of the year.

Conserve any windfalls. Every now and then, people receive large amounts of cash at once. Inheritances, tax refunds, and company bonuses are all windfalls that may leave you ready to rush out and

spend your money. Those things you have been wanting now seem to be a transaction away, but hold on. Allocate the amount received into three portions: one for long-term savings goals, one for short-term savings goals, and one for spending money, to reward yourself. This way, you will get to splurge on something you've been wanting and have the satisfaction of continuing to meet your savings goals.

Have fun for free. Sometimes, we all spend money out of carelessness or boredom. Make a list of fun and inexpensive things to do, and when you feel cash burning a hole in your pocket, do these things instead. Go for a hike, go to a free museum, or even take a drive through the country. Think about your list, and stick to it whenever you feel like buying useless items. By distinguishing between unnecessary and necessary expenses, you will be that much closer to achieving your financial goals.

Results of the “Retirement Confidence Survey” indicate that 38% of those saving for retirement report that the value of their savings and investments, excluding the value of their primary home and defined benefit plans, are under \$25,000. Consider this: if you save a mere \$20 per week you will have \$1,040 at the end of the year. With a 5% annual return and 25 years of saving, those \$20 contributions could amount to well over \$50,000.

Saving to meet short- and long-term goals doesn't have to be difficult, but it does require that you take a proactive approach. With a little time and effort, your goals may become a reality. ■

Rules of the Road for Taking an Early Retirement

have you ever entertained thoughts of taking an early retirement? Suppose you're age 55 and could take home a pension income that amounted to 60% of your pay if you retire now. If your income is high, it may seem that you would be able to retire in reasonable comfort. However, before calling it quits, weigh all of the facts *carefully* to be sure an early retirement makes financial sense for you. Here are eight rules to consider if you're thinking about taking an early retirement:

Rule #1: Weigh the pros and cons of retiring now or in the future. Retiring at age 55 with, hypothetically, 60% of your income may seem like a good deal at first. But if you wait until full retirement age, you will have another 10 years of full earnings under your belt, along with any pay increases from promotions, merit raises, and inflation. This will provide you with more money to save for retirement, and ultimately, it may boost your Social Security and pension benefits. Also, if you consider the difference in the percentage you will receive now and in 10 years for example, 60% if you retire now versus 80% if you retire in 10 years, retiring now may not seem as attractive.

Rule #2: Remember to factor inflation into your decision. If you think you could manage on 60% of your income, remember that inflation will erode your pension. If you retire today and let's say you receive a pension income of \$1,600 per month for life, in 20 years at a 4% rate of inflation, you'll have the equivalent of \$707 in today's dollars.

Rule #3: Prepare for longevity. The longer you live, the more money



you'll need in retirement. Due to increased longevity, an early retirement plan must include a budget to meet the financial needs of several decades beyond the normal retirement age of 65.

Rule #4: Evaluate other retirement income resources. If you already have a sizable nest egg, or if you expect to collect a pension from a previous employer, the amount of your *current* employer-sponsored retirement plan may not be as robust. If so, perhaps you can exit the labor force earlier because you have other sources of retirement income.

However, don't expect Social Security to provide most of your retirement income. The Social Security Administration (SSA) projects that benefits will replace about 40% of the average worker's preretirement income and retirees may need 70% or more of preretirement earnings to live comfortably (SSA, 2014). Also, since the future of Social Security and **Medicare** is uncertain, you may have to provide more funds for future health care expenses.

Rule #5: Evaluate the economics of part-time work. If you decide to leave your present job, will you be securing employment elsewhere until you permanently retire and start collecting your pension? Keep in mind that it may be difficult to find another equally high-paying position. Although the prospect of part-time work may make it possible to consider an early retirement option, be sure you can depend on a reduced part-time income until full retirement.

Rule #6: Be aware of the early retirement impact on Social Security benefits. If you are under full retirement age and continue working after you begin collecting Social Security benefits, you may have to "give back" a portion of your benefits. In addition, if you continue working after you begin collecting Social Security, a portion of your Social Security benefits might be taxed. You can determine how much of your benefits will be included in your gross taxable income with a calculator found online at the Social Security Administration's website, www.ssa.gov.

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Gender Differences in Retirement Planning

Women often face more financial challenges than men as a result of lower salaries, prolonged career breaks, and relative longevity, according to a study recently published by the BMO Retirement Institute.

Women tend to have smaller pensions or 401(k) balances, on average earn less than men while working, and are more likely to have part-time jobs with limited retirement benefits. Women also leave the workforce more than men to become family caregivers, further reducing their ability to save.

The study showed that men and women have very different approaches to preparing for retirement. For example, men are more likely than women to feel very confident that they will have enough



retirement income to live comfortably with funds for both basic and medical expenses. But women are generally less confident in their knowledge about financial products and services.

More men than women indicated they are somewhat or very knowledgeable about IRAs, Roth IRAs, Rollover IRAs, and Social Security. Also, men are three times as likely as women to describe their investment

style as “aggressive,” while women are more likely to describe their style as “pragmatic” or “conservative.” Moreover, nearly half of the men surveyed have a do-it-yourself attitude to retirement planning, compared to about one-third of the women.

The authors suggested that women need to consider improving their level of financial literacy while becoming more engaged in the financial planning process. On the other hand, men could benefit from being more receptive to advice from experts, and recognizing their financial limitations. Researchers added, “Men would do well to keep in mind that retirement is a life event as well as a financial event, and that preparing for the social aspect of retirement is equally important as preparing for its finances.” ■

rules of the road for taking an early retirement

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Rule #7: Take an early retirement before downsizing or layoffs occur. Is there a chance your company will lay you off if you do not elect to leave on your own? Many companies now lay off high earners as part of their cost-cutting measures. If your company is experiencing financial difficulties and downsizing appears imminent, you may get a better deal through early retirement

than through the company's severance package.

Rule #8: Understand the potential tax consequences of early retirement. If you opt for early retirement, in some cases you may incur a 10% Federal income tax penalty for early withdrawals from a qualified retirement plan. Keep in mind that withdrawals taken from an **Individual Retirement Account**

(IRA) before age 59½ may also be subject to a penalty.

Early retirement may be a long-held dream and a financial possibility. But, before calling it quits, assess your situation carefully. You will have to live with the effects of your choice for the rest of your life. Take the time now to make sure it will be a smart decision in the long run. ■

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