Retirement Planning Basics

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Getting Started

- Developing Your Retirement Saving Strategy
- Retirement Plan Logistics
- Your Retirement Investment Considerations
- Maintaining Your Retirement Strategy
Retirement Planning: Your Paychecks

Next 1,140 paychecks need to come from YOU
The Retirement Equation

Total control → Asset Allocation

Savings vs Spending

Employment Earnings

Longevity

Market Returns

Policy Regarding Taxes, Savings

Out of your control

Some control →
Developing Your Retirement Saving Strategy
Retirement Plan Considerations

Where might your income come from in retirement?

- Pension Plan
- Social Security
- Your Retirement Plan
- Savings
- Inheritance
- Personal Savings
- Sale of Your Home
- Reverse Mortgage
- Your Kids
The Retirement Equation

Social Security

“On average, retirement beneficiaries receive 40% of their pre-retirement income from Social Security. As you make your retirement plan, knowing the approximate amount you will receive in Social Security benefits can help you determine how much other retirement income you’ll need to reach your goals.” - ssa.gov

To estimate your benefit go to: www.ssa.gov/benefits/retirement/estimator or create a log in to see your accrued benefit!
How much should you save to your Plan?

• Aim for at least 10% if you are early in your career or 20% if you are closer to retirement.

• Use an online retirement income calculator to help with your particular situation.

• **Remember:** The more you are dependent on your current income, the more income you need in retirement.

Target 10% to 20% of your pay
The Rule of 72

Investment Basics

• The Rule of 72 is a simplified way to estimate the doubling of an investment's value, based on a logarithmic formula.

• The formula is useful for understanding the effect of compound interest.

The Formula for the Rule of 72 Is

\[
\text{Years to Double} = \frac{72}{\text{Interest Rate}}
\]

Where: Interest Rate = Rate of return on an investment

So if you expect an 8% average rate of return, it would take 9 years for your account to double
The Sooner You Start to Save…

The Greater Potential You will have More Money Later

Harry starts saving $300 a month at age 45

$72,000

20 years of saving

$171,798

Total Contributions
Total Savings at Age 65

Megan starts saving $100 a month at age 25

$48,000

40 years of saving

$324,180

Total Contributions
Total Savings at Age 65

Megan was able to save $152,382 more than Harry by starting at an earlier age

Assumes each account earns an annual tax-deferred rate of return of 8%.

This chart is hypothetical and is for illustrative purposes only. It is important to remember that future rates of return cannot be predicted with certainty and that investments that pay higher rates of return are subject to higher risk and volatility. The actual rate of return on investments can vary widely over time, especially for long-term investments. This includes the potential loss of principal on your investment.
Maintaining Your Retirement Strategy

What does it take to get to retirement?

Save “x” your starting Salary

$50,000 Annual Salary

$100,000 Annual Salary

MODEL ASSUMPTIONS
Assumed annual gross savings rate: 10% | Pre-retirement investment Return: 6.0% | Post-retirement investment return: 5.0% | Inflation rate: 2.25% | Years in retirement: 30
Retirement Plan Logistics
Retirement Plan Logistics

Why participate?

• Your employer handles the administration and general expenses

• Saving is easy - your deferral is automatically withheld and deposited to your plan account

• Your employer may help you save by matching a portion of your contribution

• Even if you change jobs, your savings and compounded interest are yours to keep

• Tax benefits are available
# Retirement Plan Logistics

## Plan features to know

<table>
<thead>
<tr>
<th>Feature</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current IRS Limits</td>
<td>Check IRS.gov for the most accurate information</td>
</tr>
<tr>
<td>Vendor Website &amp; Login</td>
<td>Access information in your benefits guide &amp; HR contact</td>
</tr>
<tr>
<td>Eligibility &amp; Entry</td>
<td>Know when you can enroll in the plan if you haven’t already</td>
</tr>
<tr>
<td>Employer Match</td>
<td>Know how much your employer contributes, and defer at least that amount</td>
</tr>
<tr>
<td>Vesting Schedule</td>
<td>Understand when your savings belongs entirely to you. Employer contributions may not be immediate.</td>
</tr>
<tr>
<td>Roth Saving Opportunities</td>
<td>Consider whether it’s allowed and helpful to pay taxes on this income now.</td>
</tr>
<tr>
<td>Rollover Opportunities</td>
<td>Does it make sense for you to roll money from other retirement savings accounts into this one?</td>
</tr>
</tbody>
</table>
### Savings Options

#### Traditional Pre-tax vs. Roth Contributions

<table>
<thead>
<tr>
<th>Traditional (Before-tax)</th>
<th>Roth (After-tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay taxes later, more take-home pay</td>
<td>Pay taxes now, less take home pay</td>
</tr>
<tr>
<td>Tax-deferred potential earnings</td>
<td>Tax-free potential earnings*</td>
</tr>
<tr>
<td>Taxable distributions</td>
<td>Tax-free distributions*</td>
</tr>
</tbody>
</table>

* If withdrawn 1) after five years and 2) after you turn age 59½ or if distribution follows death or disability.
Retirement Plan Logistics

Distributions & Withdrawals

• You may take a distribution at:
  • Retirement
  • Death
  • Disability
  • Separation from service

• Options include:
  • Cash distribution
  • Rollover to IRA
  • Rollover to qualified plan

If you need to access your retirement plan money while working, your plan may offer these options:

• In-Service Withdrawal at 59 ½
• Hardship Withdrawal
• Loans
• Borrow your own money
• Pay yourself back – principal & interest
Retirement Investment Considerations
Choosing your investments

Two ways to diversify

1. “Do-it-myself”

Build your own portfolio
Choose your own diversified combination of individual funds offered by the plan.

2. “Do-it-for-me”

Choose a single, ready-mixed fund
Make a single investment choice to professionally diversify your total retirement savings across an array of funds.

Diversification does not ensure a profit or protect against loss. It is possible to lose money in a diversified portfolio.
“Do-it-for-me”

Target Date Funds

- Target-Date Funds (TDF) are diversified investment vehicles designed to provide a simpler solution for investors where a portfolio’s asset allocation automatically adjusts based on one’s age or proximity to retirement.

- 78% of all plan participants used a Target Date Fund(s) in 2019.¹

- The principal value of a target date fund is not guaranteed at any time, including the target date.

Using diversification as part of your investment strategy neither assures nor guarantees better performance and cannot protect against loss of principal due to changing market conditions. Asset allocation does not protect against loss of principal due to market fluctuations. It is a method used to help manage investment risk.

¹Source: Vanguard’s “2020 How America Saves”
Target Date Funds

Age Vintages

Most aggressive
Higher risk/
longer targeted
investment period

- Retirement 2060 Fund
- Retirement 2055 Fund
- Retirement 2050 Fund
- Retirement 2045 Fund
- Retirement 2040 Fund
- Retirement 2035 Fund
- Retirement 2030 Fund
- Retirement 2025 Fund
- Retirement 2020 Fund
- Retirement 2015 Fund
- Retirement Income Fund

Most conservative
Lower risk/
shorter targeted
investment period

For illustrative purposes only. Actual Glide path may vary. Source: Vanguard
Target Date Funds

Glide Path

A glide path is the changing mix of stocks, bonds and cash equivalents. By the time a fund reaches its target date, it “glides down” to reach a more conservative mix of investments.

For illustrative purposes only. Actual Glide path may vary.
Maintaining Your Retirement Strategy
Maintaining Your Retirement Strategy

Conduct your annual retirement check-up

- Enroll in your employer’s retirement plan
- Check your balances & update passwords
- Revisit your investment selections
- Select your beneficiaries
- Calculate your retirement income
- Save more when you can
- Evaluate potential rollover options

Download the retirement budget worksheet from the resource window.
Seek out the tools and resources you need to achieve healthier financial wellbeing.

• Visit Financial Guides for Individuals on ajg.com

• Check out our Finding Financial Stability Season 1 podcast episodes

• Determine your money mindset and set a micro-resolution this month! Watch this on-demand webinar.

• Join us next month
Disclosure

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