MetLife

# Retirewise®

## A financial education workshop series



# Welcome!

Welcome to Retirewise® – an award-winning financial education workshop series. In its 15th year, Retirewise has been offered to more than 3,000[1] companies in all 50 states. Our surveys consistently show that 99%[2] of employees would recommend Retirewise to their colleagues.

**Let us help you sort it all out**

By attending the Retirewise workshop series, you will learn a lot. Each session builds on one another and takes you through the different stages of financial and retirement planning. From investment basics and budgeting to tax strategies and estate planning, there's something for everyone, regardless of your age or where you are in your career.

**At the end of the series, we hope you'll feel:**

- More informed about personal finance and retirement planning
- Better prepared to make financial decisions
- Confident, in control, and ready to take action

**Get your questions answered**

This workbook includes important activities and concepts that are covered in the Retirewise workshops. During the program, you will have the opportunity to ask any questions and hear from your co-workers. You can also sign up for a free personal consultation with the presenter or a member of their team. It is part of the financial education program offered by your employer.

We know your time is valuable, and thank you for participating in the Retirewise workshop series. Remember, it's never too early or too late to get a better financial plan in place.





1. Retirewise workshop data results
2. 2021 Retirewise satisfaction survey results

# A financial education workshop series

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# Building the Foundation

Building the Foundation sets the stage for the "why" and "how" of the financial and retirement planning process. We'll talk about money, but also about what your ideal retirement might look like and what you need to think about to get you there.




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Please note: Throughout our workshop series we use the term spouse/partner to reflect the various domestic arrangements individuals may have. Federal and tax legislation may vary based on your particular arrangement.

# My financial checkup checklist

It's never too early or late to start knocking off these tasks that can lead to your financial success. Even if you have planned, it is essential to review this checklist often, so you are more prepared to make important decisions as your lifestyle and financial circumstances change.

## Building the Foundation

- ☐ Have a budget and understand monthly expenses categorized as "needs" and "wants"
- ☐ Know my marginal tax bracket and if a pre-tax or after-tax retirement plan contribution is best for me
- ☐ Max out 401(k) or 403(b) contributions, or at least enough to get the company match
- ☐ Use the "Rule of 72" to help understand the power of compounding in my savings efforts
- ☐ Determine if Roth accounts and an HSA (if available) fit into my plan
- ☐ Understand the meaning and importance of tax diversification

## Creating and Managing Wealth

- ☐ Get a basic idea of how big my retirement savings will have to be by using the "Rule of 25"
- ☐ Complete a risk tolerance assessment to help identify an asset allocation that reflects my investment objectives
- ☐ Review investments regularly to make sure they are appropriately diversified

## Establishing Your Retirement Income Stream

- ☐ Order my Social Security statement and understand how to maximize benefits
- ☐ Think about how my expenses will change in retirement
- ☐ Determine my dependable income sources in retirement and what percent of my income will, and will not, be guaranteed

## Making the Most of What You Have

- ☐ Ensure that all beneficiary designations are correct, especially on life insurance, 401(k)s, 403(b)s, and IRAs, since named beneficiary(ies) supersede a will
- ☐ Determine how much life and disability income insurance may be needed
- ☐ Take the time to look at all additional benefits offered by my employer
- ☐ Prepare the five basic elements of an estate plan: a will, advanced healthcare directives, financial and healthcare powers of attorney and a digital fiduciary

# Budget Worksheet

| | Current | | Next Milestone (wedding, vacation, car, tuition) | Retirement | |
|---|---|---|---|---|---|
| | Needs | Wants | | Needs | Wants |
| **Income** | | | | | |
| Salary after deductions | | | | | |
| Spouse/partner salary after deductions | | | | | |
| Other income (pension, alimony) | | | | | |
| **Total income:** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Housing and Related Expenses** | | | | | |
| Mortgage, rent | | | | | |
| Real estate association, maintenance fees | | | | | |
| Property taxes | | | | | |
| Home, renter's insurance | | | | | |
| Utilities (heat, AC, electric, water, sewer, garbage) | | | | | |
| Cable, internet, phone | | | | | |
| Home maintenance/repairs | | | | | |
| Other housing expenses | | | | | |
| **Total housing expenses:** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Transportation** | | | | | |
| Car payments | | | | | |
| Car insurance | | | | | |
| Gas, parking, rideshare, tolls | | | | | |
| Repairs | | | | | |
| Other car-related expenses | | | | | |
| **Total transportation:** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Medical Expenses and Insurance Premiums** | | | | | |
| Medical and dental (copays, prescriptions) | | | | | |
| Eye care (exams, glasses, contacts) | | | | | |
| Life insurance | | | | | |
| Long term care insurance | | | | | |
| Disability income insurance | | | | | |
| Other medical expenses | | | | | |
| **Total medical expenses:** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

| | Current | | Next Milestone (wedding, vacation, car, tuition) | Retirement | |
|---|---|---|---|---|---|
| | Needs | Wants | | Needs | Wants |
| **Savings** | | | | | |
| Emergency fund | | | | | |
| Long term savings and investments | | | | | |
| Short term savings and investments | | | | | |
| Retirement plan contributions (other than 401k) | | | | | |
| Additional 401k contributions | | | | | |
| Other savings | | | | | |
| **Total savings:** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Debt** | | | | | |
| Credit cards | | | | | |
| Loans (personal, student) | | | | | |
| Extra mortgage, student loan payments | | | | | |
| Other debt | | | | | |
| **Total debt:** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Flexible Spending** | | | | | |
| Childcare | | | | | |
| Education | | | | | |
| Groceries | | | | | |
| Restaurants and take-out | | | | | |
| Entertainment | | | | | |
| Clothing | | | | | |
| Vacation | | | | | |
| Gifts | | | | | |
| Personal care (beauty, gym, hobbies) | | | | | |
| Charitable contributions | | | | | |
| Monthly subscription services (Amazon, Netflix, Spotify) | | | | | |
| Other flexible spending | | | | | |
| **Total flexible spending:** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Total expenses:** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| **Budget result:** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

# How to find money for your emergency fund?

## Get paid

- Treat reimbursements from your Flexible Spending Account (FSA) and Dependent-Care FSA as a windfall – the money has already been spent.
- Use MissingMoney.com to search for unclaimed property held in state treasury departments.
- Get a no-fee credit card that pays points that can convert to cash (but make sure you pay off the balance in full).
- Increase your tax withholding from your paycheck which will generally result in a larger tax refund, unless you owe taxes at the end of the year.

## Spend less

- Manage debt payments – never pay less than the minimum but if they are manageable, consider 50% toward extra debt payments and 50% towards emergency fund.
- Take advantage of low interest rates and refinance your mortgage and other loans (auto, personal or student).

## Save more

- Build up your Health Savings Account (HSA) if you have one and pay for regular out-of-pocket healthcare expenses with other money.
- You may want to increase deductibles on your auto and homeowners policies and eliminate collision coverage on older cars to lower your premiums.*
- Don't spend your raise.



*This is not insurance advice and you should consult with your insurance professional as to your specific insurance needs

# Get to know your credit score

### What it is and why it matters

Virtually all lenders use your credit score as a factor when you apply for credit. Whether you are applying for a credit card, a mortgage, or a car loan, or refinancing your student loans, your score will more than likely come into account.

## How scores are calculated

- **Payment history**
- **Amounts owed on credit and debt**
- **Length of credit history**
- **Type of credit used**
- **New credit**

### Aim for 740 or higher

Your FICO* credit score can range from 300 to 850 and can influence what credit is available to you, how much interest you'll pay, and even how much you pay for utilities and car insurance.

*The most widely used credit scores are FICO Scores created by Fair Isaac Corporation.

| Credit Score | Rating | % of people | Impact |
|---|---|---|---|
| **300-579** | Very Poor | 16% | Applicants may be required to pay a fee or deposit or may not be approved for credit at all. |
| **580-669** | Fair | 17% | Scores in this range are considered to be subprime borrowers. |
| **670-739** | Good | 21% | Only 8% of applicants in this score range are likely to become seriously delinquent in the future. |
| **740-799** | Very Good | 25% | Applicants with scores in this range are likely to receive better than average rates from lenders. |
| **800-850** | Exceptional | 21% | Scores in this range put applicants at the top of the list for the best rates from lenders. |

Experian.com 2022

## Check your score

You are entitled to one free credit report every 12 months from each of the three reporting agencies — Experian, TransUnion or Equifax. You can order your credit report online from **annualcreditreport.com** or by calling **877-322-8228.** After you get your report always check it for accuracy — especially if you are a victim of identity theft, trying to repair credit, or applying for a major loan.

## Factors that affect your credit score

- The longer a credit account has been open and in good standing, the better it reflects on your credit score.
- A home loan has a more positive impact on your credit score than a credit account with some financing companies.
- Limit the number of times you apply for credit because frequent credit applications may depress your score.

## Improve your score

Once you know your score and have your credit reports in hand, there are steps you can take to improve your credit score.

- Make all your loan and credit card payments on time and for the appropriate amount. Even one late payment can affect your score.
- Avoid carrying large balances on your credit cards and stay below 30% of your maximum borrowing limit.
- Paying off or even reducing your debt will generally improve your score within a few months.



**Remember:**
Even an unpaid library book fine of $16 can affect your credit if the library sends your information to collections.

# Envision your retirement

## Place

As you look ahead to retirement and where you will live, make sure your vision offers you the right climate, activity, transportation, healthcare, safety, proximity to family, and impact on taxes.

1. **Given your resources, lifestyle, and your vision of retirement, where would you like to live?**

_____

2. **Do you anticipate your cost of living to be:**

a) More
b) Less
c) The same
d) I don't know

3. **What type of living arrangement do you prefer?**

a) House
b) Apartment/Condo
c) 50+ Community
d) Living with family
e) Other

## People

It's important to consider how and with whom you will spend your time in retirement.

1. **Have you thought about the importance of having a support system in place, such as family and friends?**

a) Yes
b) No

2. **If you plan on being financially responsible or acting as a caregiver for any individual during retirement, what impact do you think that will have on you and your goals?**

_____

3. **Do you, or any of your family members, have any health concerns or history that may impact your lifestyle in the future, including the need for long term care?**

a) Yes
b) No
c) I don't know

## Work

For many, working, volunteering or going to school during retirement is part of the plan.

**1. If necessary, would you rather work longer, save more now, or spend less in retirement?**

- a) Work longer
- b) Save more now
- c) Spend less in retirement

**2. At what age(s) do you and your spouse/partner intend to transition into retirement?**

_____

**3. Do you plan to continue working in retirement?**

- a) Yes, part-time
- b) Yes, in a new career
- c) No
- d) Undecided

**4. If you intend to work or volunteer, what would you imagine your main reason to do so?**

- a) Additional income and benefits
- b) Social interaction and routine
- c) Pursue other interests
- d) Start a business

## Activity

A significant benefit of retirement is that you are no longer "on the clock." But this can be a mixed blessing.

**1. How will you spend your time in retirement?**

- a) Continue working, full or part-time
- b) Take classes toward a degree or otherwise
- c) Pursue old or new hobbies or activities
- d) Travel
- e) Visit family and friends
- f) Volunteer
- g) Teach



# Meet your match — literally

When it comes to retirement planning the very first place you should start is with your employer plan. If available, at the very minimum, meet any match your employer provides on contributions to your 401(k) or other retirement plan.

### How does the employer 401(k) match work?

Example: Company match is 50% of employee salary contribution up to a maximum of 3%. For every $1 put into the 401(k), this employer will put in 50¢ up to a maximum of 3% of the annual salary. If the annual salary is $50,000, 3% of that salary is $1,500. If the employee contributes $1,500, this employer will add another $750.

| ( $50,000 | x | 3% ) | x | 50% | = | $750 |
|---|---|---|---|---|---|---|
| salary | | salary contribution | | company match | | employer contribution |

This employee has earned a **50%** return **($750)** on a **$1,500** contribution.

| ( $_____ | x | ___% ) | x | ____% | = | $0_____ |
|---|---|---|---|---|---|---|
| Your salary | | Your salary contribution | | Your company match | | Your employer contribution |



# Leverage the power of 1%

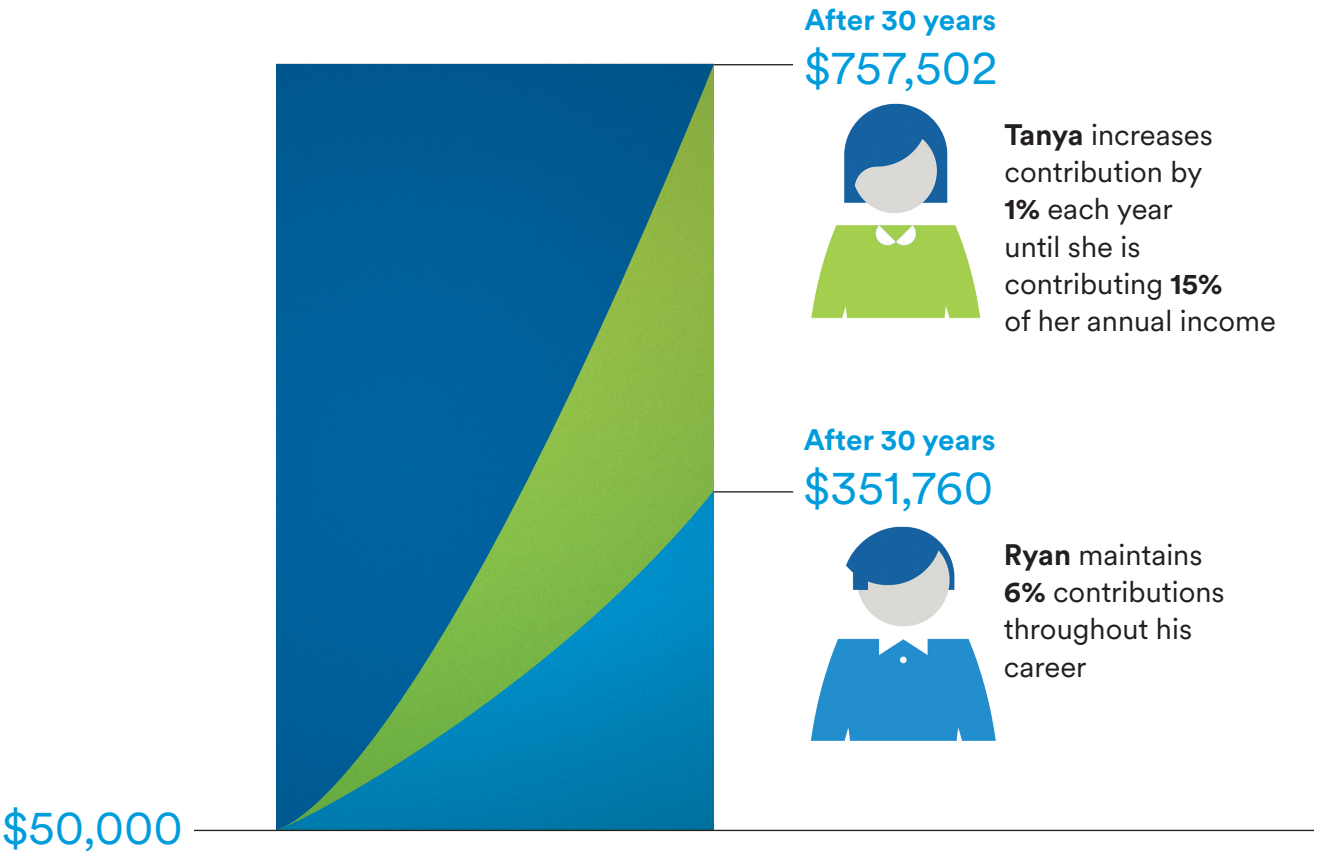
One of the benefits of contributing to a 401(k) or any savings plan is the power of compounding. A 1% increase may not sound like much, but it could make a big difference throughout your career. As your income climbs, make an effort to increase your savings- first to your retirement plan and then to other accounts.

## Meet Tanya and Ryan.

Both have a starting salary of **$50,000.**

Both contribute **6%** of their salaries to retirement plan accounts.

Both receive a **3%** salary increase each year.




Assumes 6% average annual rate of return, monthly salary deferral and monthly compounding of earnings and no deductions or loans. Hypothetical examples of mathematical compounding are used. Fees, taxes and expenses are not considered and would reduce the results if shown. Actual results may vary.

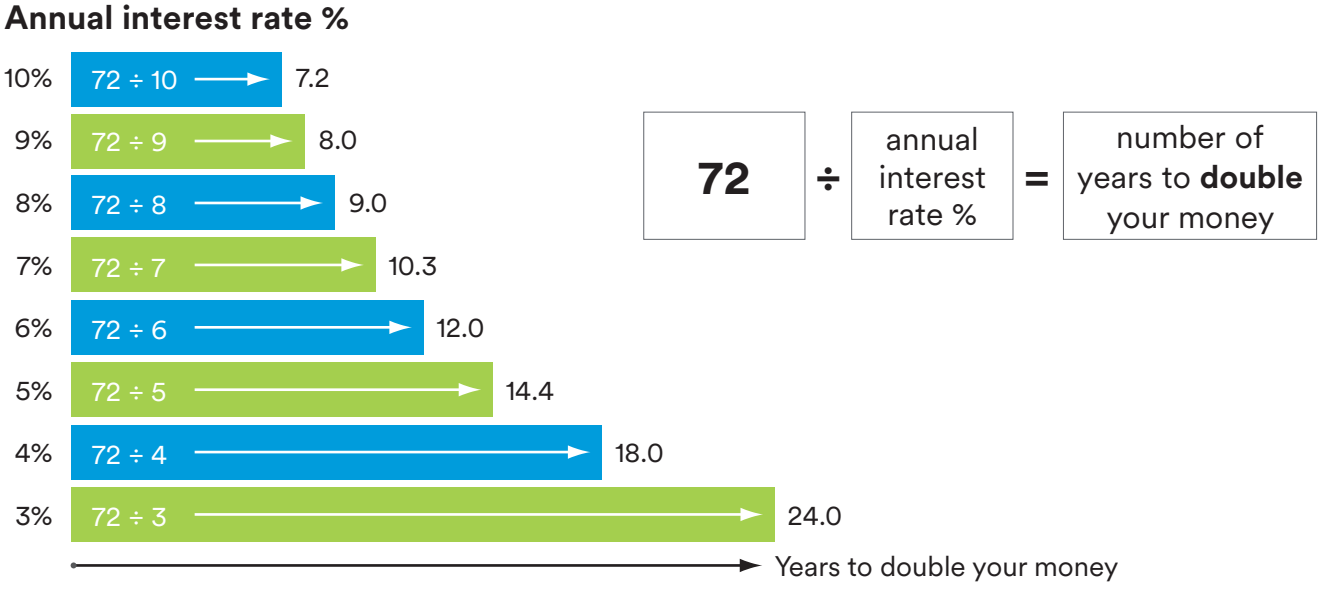
**Remember, every small change you make can add up to a big difference.**

# Rule of 72 – How long will it take to double your money?

**Here's a simple way to illustrate the power of compounding in your retirement and financial planning efforts.**

You can use the Rule of 72 to:

- Determine how many years it will take to double your money at various rates of return.
- Estimate the return you will have to earn to double your money within a specific time frame.




The Rule of 72 is based on a hypothetical illustration and is not a guarantee of future performance. This illustration does not represent the performance of any specific product and there is no assurance that investments would double or triple within any specific time frame.





# How are things taxed?

A key part of any investment strategy is developing the right mix of short and long-term investments. But not all investments receive the same tax treatment — some are taxed at capital gains rate and others as ordinary income.

While it's generally not a good idea to make an investment based solely on tax considerations, it's smart to know the tax consequences on any move you make.

### How are things taxed?

| | |
|---|---|
| **Interest income** | In most cases, as ordinary income |
| **Dividends** | 0%-20% depending on income[1] |
| **Capital gains** | |
| Short-term: asset held one year or less | Ordinary income |
| Long-term: asset held for more than one year | 0%-20% depending on income tax rate |
| **Capital gains distributions from mutual funds** | 0%-20% depending on income tax rate |
| **Tax-deferred investment earnings** | Taxed as ordinary income when withdrawn[2] |

1. Some dividends may still be taxed as ordinary income tax rates. For higher income brackets, a 3.8% Medicare surtax may result in a maximum 23.8% rate.
2. Additional penalties may apply.

## Key Takeaways:

- When calculating capital gains taxes, the holding period matters. Long-term investments gains are subject to lower tax rates.
- Typically, the tax rate on long-term (more than one year) capital gains is 0%, 15%, or 20%, depending on the individual's taxable income and filing status. The tax rate on short-term (less than one year) capital gains is the same as your income tax rate.
- Interest income from investments is generally treated as ordinary income for federal tax purposes.
- The initial cost basis is the amount paid for the investment when purchased.
- Capital gains distributions from a mutual fund or exchange-traded fund (ETF) are taxed as long-term capital gains, no matter how long the individual has owned shares of the fund- which means a tax rate of 0%, 15%, or 20%, depending on the individual's taxable income and filing status.
- Some strategies offset capital gains with capital losses (selling an investment for less than the purchase price) to lower an individual's capital gains taxes.

# When does a Roth make sense?

### Pay tax now, not later

A Roth 401(k) is the reverse of your traditional 401(k). There is no tax break up front as Roth 401(k) contributions are made post-tax. So your current taxable income would be higher than if you contributed to a traditional 401(k). But every dollar you withdraw from a Roth in retirement is tax-free, even gains.

### So, which way to go?

Roth IRA or 401(k) candidates generally include those who:

- Expect a higher income and tax rate in retirement
- Want to tax-diversify to minimize taxes payable in retirement
- Have a desire to leave an income tax-free account to heirs

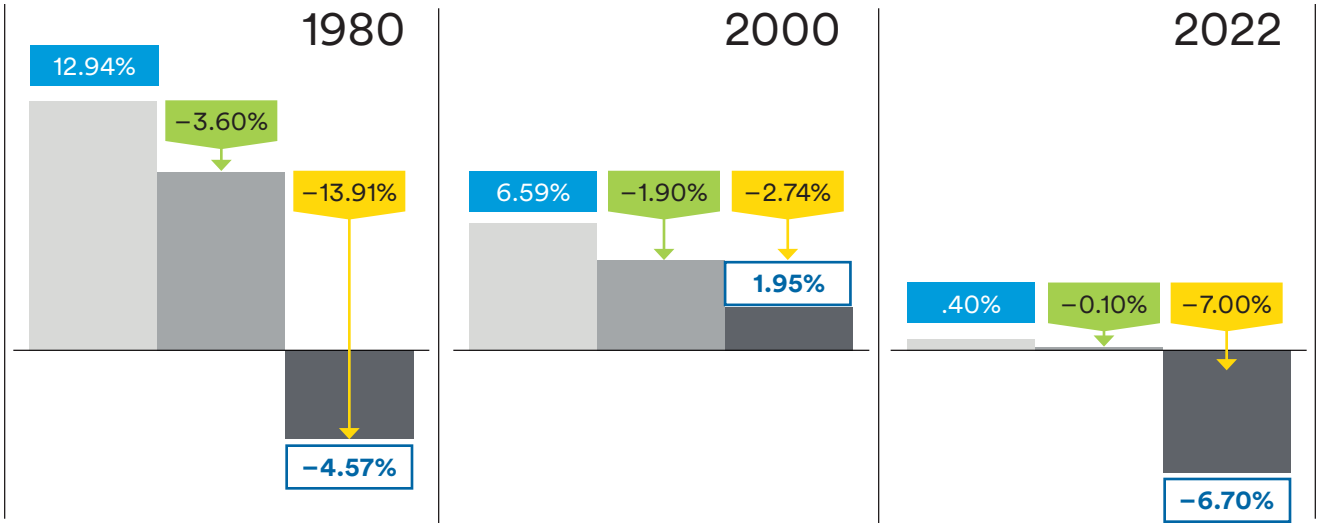
Like all investments, everyone's situation is different. That's why it's important to speak with a financial professional to determine if a Roth is right for you.



# How do taxes and inflation impact your investment return?

### It's not easy to outpace inflation and taxes

Taxes and inflation can put downward pressure on the growth of your investments and savings.




CD rate − taxes (*minus*) − inflation (*minus*) = **real rate of return**

With taxes, you can quantify and see their impact on your savings and investments because, except for tax-deferred accounts, you must pay taxes year after year.

With inflation, no one is taking that money out of their accounts every year, but the downward impact is still there. You may think you are doing fine, but over time inflation adds up. Keeping your money in CDs or a low-interest bank account may seem a good way to preserve your capital, but ultimately, it diminishes your money's purchasing power.

Source: TIAA 6 month CD, Inflation for year end 2021, US Bureau of Labor Statistics, federal tax rate of 24%

# Key action steps

- ☐ Max out my 401(k) contributions, or at least enough to get my company match if it's offered

- ☐ Create and manage a budget and build my emergency fund

- ☐ Start saving now to take advantage of compounding

- ☐ Know how taxes and inflation affect my investments



2

# Creating and Managing Wealth



Creating and Managing Wealth is when we start the discussion about investments. By choosing the right investments, in the right amount and at the right time, you can build a diversification strategy to protect your money.


21 What's the Rule of 25?

22 The value of a diversified approach

23 Annual index returns 2010–2021

24 Determine your risk tolerance

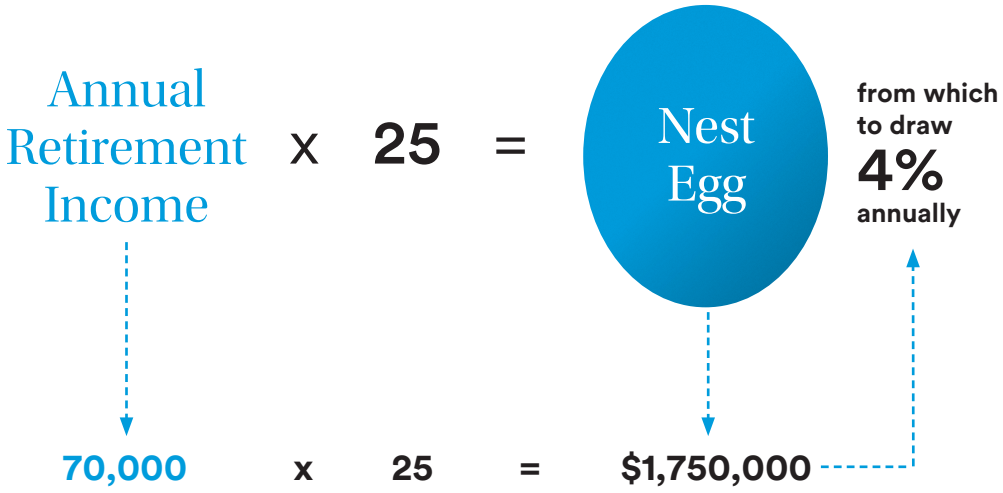
27 Let dollar-cost averaging work for you

28 Key action steps

# What's the Rule of 25?

The Rule of 25 is a way to estimate how much money you need to save for 30-year retirement. It assumes a 4% annual withdrawal rate and works by calculating the annual retirement income you expect to provide from your personal savings and multiplying that number by 25.

Let's assume you've settled on a retirement budget of $100,000 a year and Social Security, pensions, a part-time job, or other income sources cover $30,000 of this amount, so you must cover the remaining $70,000 with your personal savings.




According to the Rule of 25, you would need to save at least $1.75 million to be able to safely withdraw $70,000 of income in your first year of retirement. Remember that depending on the type of account the money is withdrawn from, you may owe income or capital gains tax.

This concept does not account for the potential impact of reducing purchasing power due to inflation and taxes, unanticipated expenses reducing the principal, and the possibility of outliving your money. If you plan to spend more time in retirement, you will need to adjust your savings accordingly.

# The value of a diversified approach

This chart looks a bit like the periodic table you probably last saw in high school chemistry class. It shows the best-performing types of investments each year from 2010-2021.

Can you see a pattern here? The pattern is that there is not a pattern. The boxes circled represent the Small Cap Equity index, and the performance is pretty much all over the place.

The point is that different investment categories fall in and out of favor in different market environments. So how do you know which ones are best for you? The answer is that it depends on your specific objective, risk tolerance, and time horizon.



# Annual index returns 2010–2021

| 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Small Cap Equity 26.85% | U.S. Fixed Income 7.84% | Real Estate 27.73% | Small Cap Equity 38.82% | Real Estate 15.02% | Large Cap Equity 1.38% | Small Cap Equity 21.31% | Emerging Market Equity 37.28% | Cash Equivalent 1.87% | Large Cap Equity 31.49% | Small Cap Equity 19.96% | Large Cap Equity 28.71% |
| Real Estate 19.63% | High Yield 4.98% | Emerging Market Equity 18.23% | Large Cap Equity 32.39% | Large Cap Equity 13.69% | U.S. Fixed Income 0.55% | High Yield 17.13% | Dev ex-U.S. Equity 24.21% | U.S. Fixed Income 0.01% | Small Cap Equity 25.52% | Large Cap Equity 18.40% | Real Estate 26.09% |
| Emerging Market Equity 18.88% | Glbl ex-U.S. Fixed 4.36% | Dev ex-U.S. Equity 16.41% | Dev ex-U.S. Equity 21.02% | U.S. Fixed Income 5.97% | Cash Equivalent 0.05% | Large Cap Equity 11.96% | Large Cap Equity 21.83% | High Yield -2.08% | Dev ex-U.S. Equity 22.49% | Emerging Market Equity 18.31% | Small Cap Equity 14.82% |
| High Yield 15.12% | Large Cap Equity 2.11% | Small Cap Equity 16.35% | High Yield 7.44% | Small Cap Equity 4.89% | Real Estate -0.79% | Emerging Market Equity 11.19% | Small Cap Equity 14.65% | Glbl ex-U.S. Fixed -2.15% | Real Estate 21.91% | Glbl ex-U.S. Fixed 10.11% | Dev ex-U.S. Equity 12.62% |
| Large Cap Equity 15.06% | Cash Equivalent 0.10% | Large Cap Equity 16.00% | Real Estate 3.67% | High Yield 2.45% | Dev ex-U.S. Equity -3.04% | Real Estate 4.06% | Glbl ex-U.S. Fixed 10.51% | Large Cap Equity -4.38% | Emerging Market Equity 18.44% | Dev ex-U.S. Equity 7.59% | High Yield 5.28% |
| Dev ex-U.S. Equity 8.95% | Small Cap Equity -4.18% | High Yield 15.81% | Cash Equivalent 0.07% | Cash Equivalent 0.03% | Small Cap Equity -4.41% | Dev ex-U.S. Equity 2.75% | Real Estate 10.36% | Real Estate -5.63% | High Yield 14.32% | U.S. Fixed Income 7.51% | Cash Equivalent 0.05% |
| U.S. Fixed Income 6.54% | Real Estate -6.46% | U.S. Fixed Income 4.21% | U.S. Fixed Income -2.02% | Emerging Market Equity -2.19% | High Yield -4.47% | U.S. Fixed Income 2.65% | High Yield 7.50% | Small Cap Equity -11.01% | U.S. Fixed Income 8.72% | High Yield 7.11% | U.S. Fixed Income -1.54% |
| Glbl ex-U.S. Fixed 4.95% | Dev ex-U.S. Equity -12.21% | Glbl ex-U.S. Fixed 4.09% | Emerging Market Equity -2.60% | Glbl ex-U.S. Fixed -3.09% | Glbl ex-U.S. Fixed -6.02% | Glbl ex-U.S. Fixed 1.49% | U.S. Fixed Income 3.54% | Dev ex-U.S. Equity -14.09% | Glbl ex-U.S. Fixed 5.09% | Cash Equivalent 0.67% | Emerging Market Equity -2.54% |
| Cash Equivalent 0.13% | Emerging Market Equity -18.42% | Cash Equivalent 0.11% | Glbl ex-U.S. Fixed -3.08% | Dev ex-U.S. Equity -4.32% | Emerging Market Equity -14.92% | Cash Equivalent 0.33% | Cash Equivalent 0.86% | Emerging Market Equity -14.57% | Cash Equivalent 2.28% | Real Estate -9.04% | Glbl ex-U.S. Fixed -7.05% |

Source: Callan Associate Inc., 2022

**Large Cap Equity (S&P 500)** measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-valueweighted index of 500 stocks. The weightings make each company's influence on the Index performance directly proportional to that company's market value.

**Small Cap Equity (Russell 2000)** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index.

**Developed ex-U.S. Equity (MSCI World ex USA)** is an index that is designed to measure the performance large and mid cap equities in developed markets in Europe, the Middle East, the Pacific region and Canada.

**Emerging Market Equity (MSCI Emerging Markets)** is an index that is designed to measure the performance of equity markets in 25 emerging countries around the world.

**U.S. Fixed Income (Bloomberg Barclays US Aggregate Bond Index)** includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.

**High Yield (Bloomberg Barclays High Yield Bond Index)** measures the market of USD-denominated, non-investment grade, fixedrate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

**Global ex-U.S. Fixed Income (Bloomberg Barclays Global Aggregate ex US Bond Index)** is an unmanaged index that is comprised of several other Bloomberg indices that measure the fixed income performance of regions around the world, excluding the U.S.

**Real Estate (FTSE EPRA Nareit Developed REIT Index)** is designed to measure the stock performance of companies engaged in specific real estate activities in the North American, European, and Asian real estate markets.

**Cash Equivalent (90-day T-bill)** is a short-term debt obligation backed by the Treasury Department of the U.S. government.

A mutual funds portfolio may differ significantly from the securities held in the indices. These indices are not available for direct investment, therefore, their performance does not reflect the expenses associated with the active management of an actual portfolio. Past performance is no guarantee of future results and investment results and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Total return includes reinvestment of dividends and capital gains.

# Determine your risk tolerance

Here is a sample tool for you to help determine your risk tolerance. Individuals should work with their financial professionals to determine their financial strategy. Select the statement that best describes your answer to each of the following questions.



Select the statement that best describes your answer to each of the following questions.

| | Points |
|---|---|
| **1. What is your overall investment objective?** | |
| a) Preserving initial investment | ○ |
| b) Generating income and achieving slight growth | ○ |
| c) Achieving moderate to substantial growth | ○ |
| d) Seeking maximum growth | ○ |
| **2. What is your investment time horizon?** | |
| a) Less than 5 years | ○ |
| b) 6–10 years | ○ |
| c) 11–15 years | ○ |
| d) More than 16 years | ○ |
| **3. Over the next 10 years, do you expect your income to:** | |
| a) Decline (High living and education expenses, retirement, slow economy)? | ○ |
| b) Keep pace with inflation? | ○ |
| c) Outpace inflation and grow steadily? | ○ |
| d) Increase considerably? | ○ |
| **4. If the value of your investments dropped suddenly by 30 percent, would you:** | |
| a) Sell all of your investments and move to cash? | ○ |
| b) Transfer some of your money to more conservative investments? | ○ |
| c) Do nothing and wait for the value to come back? | ○ |
| d) Add to your investments to take advantage of low prices? | ○ |
| **5. You can live off your current savings and investments for:** | |
| a) 0–3 months | ○ |
| b) 4–6 months | ○ |
| c) 7–12 months | ○ |
| d) More than 1 year | ○ |
| **6. How much risk are you willing to take to achieve a potentially higher return?** | |
| a) None. You are risk-averse | ○ |
| b) A little risk. You are somewhat concerned about significant market fluctuations | ○ |
| c) Moderate risk. You understand the relationship between risk and reward | ○ |
| d) A lot of risk. You can tolerate significant market fluctuations | ○ |
| **7. How knowledgeable do you consider yourself to be about economic issues, personal finance, and investing?** | |
| a) Virtually no understanding of the economy, personal finance, and investing | ○ |
| b) Not very knowledgeable | ○ |
| c) Somewhat knowledgeable | ○ |
| d) Very knowledgeable | ○ |

**Your risk tolerance score** 0

# What is your investment objective profile?

| 7–10 | 11–14 | 15–18 | 19–23 | 24–28 |
|---|---|---|---|---|
| Income with limited growth | Income with moderate growth | Growth and income | Primarily growth | Growth |

## Income with limited growth 7–10

I am willing to accept limited risk to my investment principal in this account, even if that means this account does not generate significant returns and may not keep pace with inflation. This objective generally focuses on the generation of current income. Accounts with this objective may be invested primarily in fixed income/bonds, with up to 25% in equities/stocks, but actual investment allocations will differ based on individual goals, concerns, and market conditions. This objective has historically been the most conservative on a relative basis and has exhibited lower volatility than objectives that allocate a greater portion of investments to the equity/stock markets; however, past performance is no guarantee of future results.

## Income with moderate growth 11–14

I am willing to accept relatively low risk to my investment principal and will tolerate some volatility to seek a modest level of income and/or objective returns. This objective generally focuses on asset appreciation sufficient to offset inflation over time while also generating current income. This objective may consist of a majority of fixed income/bonds, with up to 45% in equities/stocks, but actual investment allocations will differ based on individual goals, concerns, and market conditions. This objective has historically exhibited modest volatility compared with objectives that allocate a greater portion of investments to the equity/stock markets over time; however, past performance is no guarantee of future results.

## Growth and income 15–18

I am willing to accept moderate risk and volatility to my investment principal to seek higher returns. This objective generally targets a balanced asset allocation approach that seeks to provide growth potential and generation of interest or dividend income. This objective may consist of up to 65% in equities/stocks, with the remainder in fixed income/bonds, but actual investment allocations will differ based on individual goals, concerns, and market conditions. This objective has historically exhibited less overall volatility than objectives that allocate a greater portion of investments to the equity/stock markets over time; however, past performance is no guarantee of future results.

## Primarily growth 19–23

I am willing to accept a relatively higher risk to my investment principal, including greater volatility, to seek higher returns over time. This objective generally targets growth of the portfolio, which may or may not focus on the generation of interest or dividend income. This objective may consist of up to 85% in equities/stocks, with the remainder in fixed income/bonds, but actual investment allocations will differ based on individual goals, concerns, and market conditions. This objective has exhibited greater market value fluctuations than objectives that allocate a greater portion of investments to the fixed income markets; however, past performance is no guarantee of future results.

## Growth 24–28

I am willing to accept significant risk to my initial principal in order to aggressively seek maximum returns. This objective generally seeks maximum growth potential or generation of income from equities or alternative investments. This long-term-oriented objective is typically invested almost entirely in equities/stocks, with the remainder, if any, in fixed income/bonds or alternative investments, but actual investment allocations will differ based on individual goals, concerns, and market conditions. This objective has historically offered the highest level of risk and widest market value fluctuations compared to other objectives, especially in the short term; however, past performance is no guarantee of future results.

**Important Information: The information included in this document is limited to general investment education and does not include any "investment advice". Asset allocation models for various hypothetical individuals may be provided to you for educational purposes. These models do not take into account your particular investment needs, and therefore they should not be viewed as investment recommendations for you personally or as advice regarding the advisability of making a particular investment decision for your plan account. Any investment-related information provided in connection with this document is non-fiduciary in nature. If you are a plan participant, you are responsible for the investment of your plan account. Investors should carefully consider the investment objectives, risks, charges and expenses of any investment they are considering.**

# Let dollar-cost averaging work for you

The goal of dollar-cost averaging is to help even out the cost of investing and cut down the guesswork about the best time to buy. It involves making continuous regular investments, regardless of fluctuating price levels. If you contribute to a 401(k) plan with your employer, you are already using this strategy.

When using this approach, you should consider your ability to continue making purchases in periods of low or fluctuating price levels.

| Monthly | Monthly Investment | Share Price | Shares Purchased |
|---|---|---|---|
| January | $500 | $10.00 | 50.0 |
| February | $500 | $9.00 | 55.6 |
| March | $500 | $8.00 | 62.5 |
| April | $500 | $9.00 | 55.6 |
| May | $500 | $10.00 | 50.0 |

This example is hypothetical and for illustrative purposes only.

Let's take a look at our example. Assume in January, February, March, April, and May you continue to invest $500, even though your investment's share price went up and down. When the price was up, that money bought fewer shares. When it was down, that share price bought more shares. **Because you were continually investing, your actual share price was, on average, $9.13.**

While dollar-cost averaging can reduce your average share price and the average cost per share, it does not ensure a profit or protects against a loss in declining markets.

# Key action steps

- ☐ Figure out my “Rule of 25” to get the basic idea of how big my retirement nest egg will have to be

- ☐ Review my investments and make sure they are properly diversified

- ☐ Complete a risk tolerance assessment so I can create an asset allocation model that works for me

- ☐ Use dollar-cost averaging to balance out the effects of market volatility

- ☐ Evaluate all risks to make sure they are properly managed



# Notes

3

# Establishing Your Retirement Income Stream



Establishing Your Retirement Income Stream is planning for retirement that can last 30 or more years. And that's not easy. But with a sensible and efficient withdrawal strategy, you can learn how to spend your money in the right way to reach the level of income you'll need each year in retirement.


31 Age-related tax and financial planning milestones

32 Order and understand your Social Security statement

33 The benefits of waiting

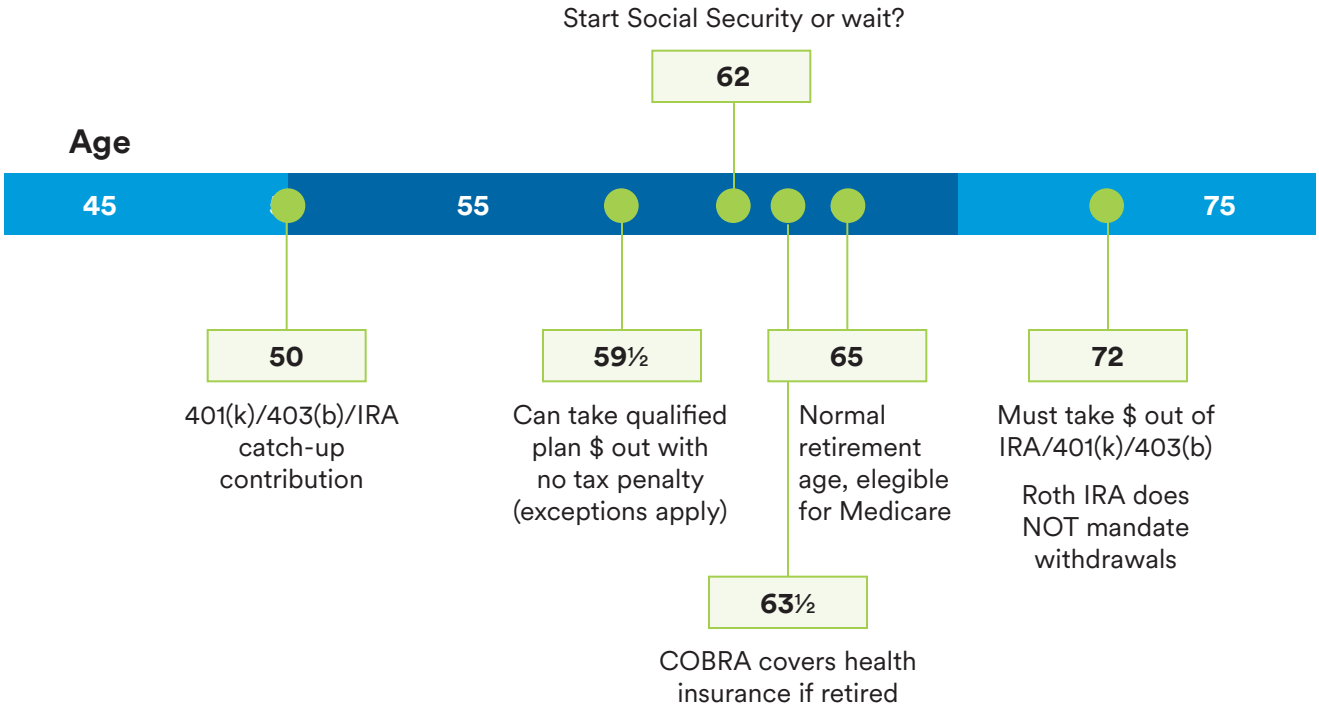
34 Match sources of retirement income with expenses

35 Do you have a retirement income gap?

36 Key action steps

# Age-related tax and financial planning milestones

Yes, age is only a number, but it's an important number to make sure you prepare for these key age-related tax and financial planning milestones.








# Order and understand your Social Security statement

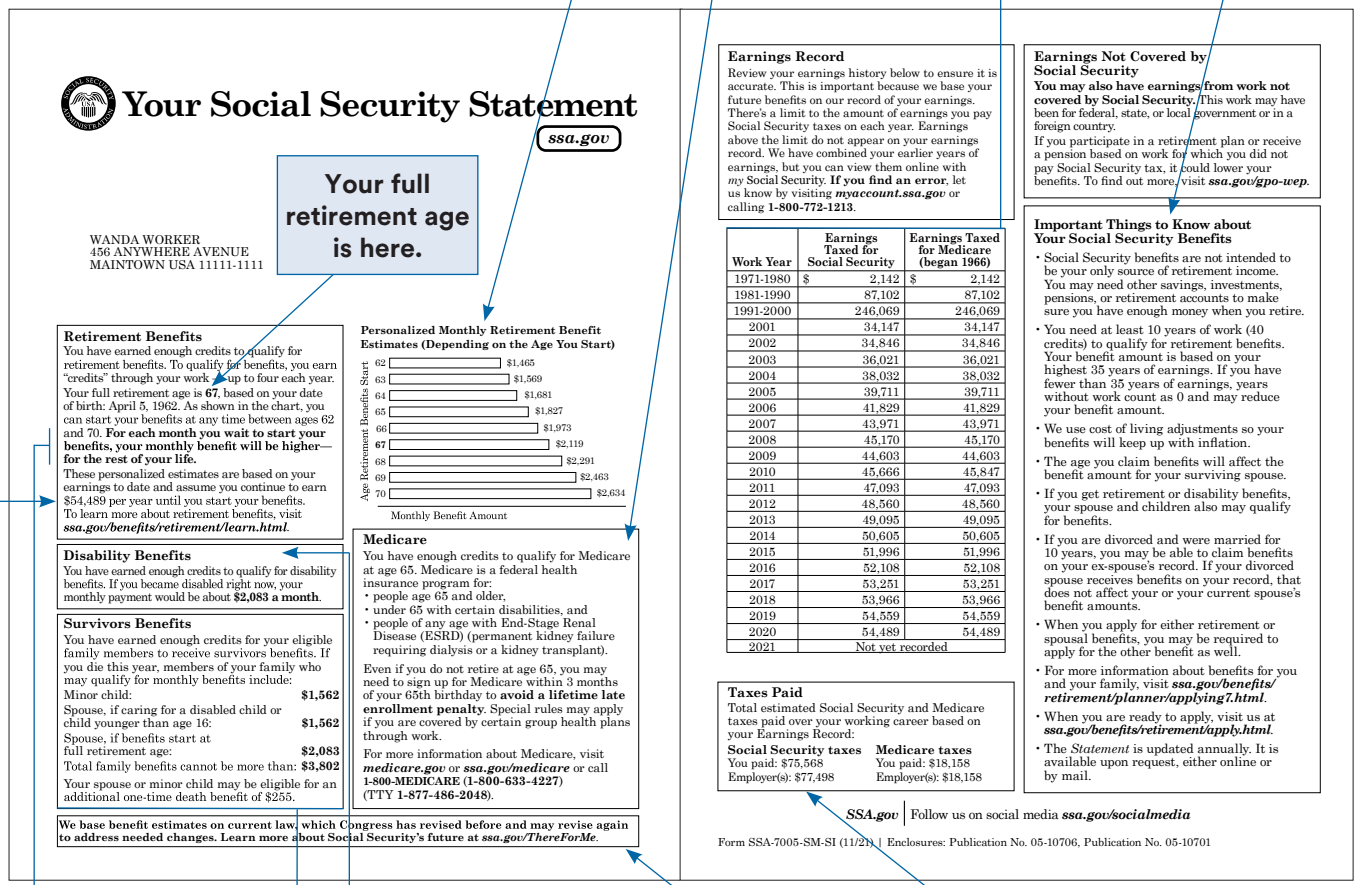
**Get your Social Security statement online anytime by creating your account at ssa.gov/myaccount**

**Your monthly benefits estimates for each year.**

**See if you have enough credits to qualify for Medicare.**

**Check your historical earnings record for accuracy.**

**Summary of 10 important things to know about your Social Security benefits.**



## Your Social Security Statement

ssa.gov

**Your full retirement age is here.**

WANDA WORKER
456 ANYWHERE AVENUE
MAINTOWN USA 11111-1111

**Retirement Benefits**
You have earned enough credits to qualify for retirement benefits. To qualify for benefits, you earn "credits" through your work—up to four each year. Your full retirement age is **67**, based on your date of birth: April 5, 1962. As shown in the chart, you can start your benefits at any time between ages 62 and 70. **For each month you wait to start your benefits, your monthly benefit will be higher—for the rest of your life.**
These personalized estimates are based on your earnings to date and assume you continue to earn $54,489 per year until you start your benefits. To learn more about retirement benefits, visit ***ssa.gov/benefits/retirement/learn.html***.

**Personalized Monthly Retirement Benefit Estimates (Depending on the Age You Start)**




**Disability Benefits**
You have earned enough credits to qualify for disability benefits. If you became disabled right now, your monthly payment would be about **$2,083 a month**.

**Survivors Benefits**
You have earned enough credits for your eligible family members to receive survivors benefits. If you die this year, members of your family who may qualify for monthly benefits include:

| | |
|---|---|
| Minor child: | **$1,562** |
| Spouse, if caring for a disabled child or child younger than age 16: | **$1,562** |
| Spouse, if benefits start at full retirement age: | **$2,083** |
| Total family benefits cannot be more than: | **$3,802** |

Your spouse or minor child may be eligible for an additional one-time death benefit of $255.

**Medicare**
You have enough credits to qualify for Medicare at age 65. Medicare is a federal health insurance program for:
- people age 65 and older,
- under 65 with certain disabilities, and
- people of any age with End-Stage Renal Disease (ESRD) (permanent kidney failure requiring dialysis or a kidney transplant).

Even if you do not retire at age 65, you may need to sign up for Medicare within 3 months of your 65th birthday to **avoid a lifetime late enrollment penalty**. Special rules may apply if you are covered by certain group health plans through work.

For more information about Medicare, visit ***medicare.gov*** or ***ssa.gov/medicare*** or call **1-800-MEDICARE (1-800-633-4227)** (TTY **1-877-486-2048**).

**We base benefit estimates on current law, which Congress has revised before and may revise again to address needed changes. Learn more about Social Security's future at *ssa.gov/ThereForMe*.**

**Earnings Record**
Review your earnings history below to ensure it is accurate. This is important because we base your future benefits on our record of your earnings. There's a limit to the amount of earnings you pay Social Security taxes on each year. Earnings above the limit do not appear on your earnings record. We have combined your earlier years of earnings, but you can view them online with *my* Social Security. **If you find an error**, let us know by visiting ***myaccount.ssa.gov*** or calling **1-800-772-1213**.

| Work Year | Earnings Taxed for Social Security | Earnings Taxed for Medicare (began 1966) |
|---|---|---|
| 1971-1980 | $ 2,142 | $ 2,142 |
| 1981-1990 | 87,102 | 87,102 |
| 1991-2000 | 246,069 | 246,069 |
| 2001 | 34,147 | 34,147 |
| 2002 | 34,846 | 34,846 |
| 2003 | 36,021 | 36,021 |
| 2004 | 38,032 | 38,032 |
| 2005 | 39,711 | 39,711 |
| 2006 | 41,829 | 41,829 |
| 2007 | 43,971 | 43,971 |
| 2008 | 45,170 | 45,170 |
| 2009 | 44,603 | 44,603 |
| 2010 | 45,666 | 45,847 |
| 2011 | 47,093 | 47,093 |
| 2012 | 48,560 | 48,560 |
| 2013 | 49,095 | 49,095 |
| 2014 | 50,605 | 50,605 |
| 2015 | 51,996 | 51,996 |
| 2016 | 52,108 | 52,108 |
| 2017 | 53,251 | 53,251 |
| 2018 | 53,966 | 53,966 |
| 2019 | 54,559 | 54,559 |
| 2020 | 54,489 | 54,489 |
| 2021 | Not yet recorded | |

**Taxes Paid**
Total estimated Social Security and Medicare taxes paid over your working career based on your Earnings Record:

| Social Security taxes | Medicare taxes |
|---|---|
| You paid: $75,568 | You paid: $18,158 |
| Employer(s): $77,498 | Employer(s): $18,158 |

**Earnings Not Covered by Social Security**
**You may also have earnings from work not covered by Social Security.** This work may have been for federal, state, or local government or in a foreign country.
If you participate in a retirement plan or receive a pension based on work for which you did not pay Social Security tax, it could lower your benefits. To find out more, visit ***ssa.gov/gpo-wep***.

**Important Things to Know about Your Social Security Benefits**
- Social Security benefits are not intended to be your only source of retirement income. You may need other savings, investments, pensions, or retirement accounts to make sure you have enough money when you retire.
- You need at least 10 years of work (40 credits) to qualify for retirement benefits. Your benefit amount is based on your highest 35 years of earnings. If you have fewer than 35 years of earnings, years without work count as 0 and may reduce your benefit amount.
- We use cost of living adjustments so your benefits will keep up with inflation.
- The age you claim benefits will affect the benefit amount for your surviving spouse.
- If you get retirement or disability benefits, your spouse and children also may qualify for benefits.
- If you are divorced and were married for 10 years, you may be able to claim benefits on your ex-spouse's record. If your divorced spouse receives benefits on your record, that does not affect your or your current spouse's benefit amounts.
- When you apply for either retirement or spousal benefits, you may be required to apply for the other benefit as well.
- For more information about benefits for you and your family, visit ***ssa.gov/benefits/retirement/planner/applying7.html***.
- When you are ready to apply, visit us at ***ssa.gov/benefits/retirement/apply.html***.
- The *Statement* is updated annually. It is available upon request, either online or by mail.

***SSA.gov*** | Follow us on social media ***ssa.gov/socialmedia***

Form SSA-7005-SM-SI (11/21) | Enclosures: Publication No. 05-10706, Publication No. 05-10701

**Benefits will increase every month you delay filing between ages 62 and 70.**

**Disability benefits if you qualify to receive them.**

**Estimates are based on current law and congress can change the Social Security program.**

**Total paid Social Security and Medicare taxes.**

**Survivor benefits available to family members.**

**Your personalized earnings estimate is based on historical earnings.**

# The benefits of waiting

When it comes to Social Security benefits, the earlier the claim, the steeper the penalty.*

You can collect Social Security as early as age 62, but if you do so, your benefits will be permanently reduced. If you wait until your Full Retirement Age, which is based on the year you were born, you are entitled to 100% of your earned benefit.

**Benefits at age 62** **$1,466 / month**

**Full Retirement Age**

**Benefits at age 67** **$2,119 / month**

**Benefits at age 70** **$2,634 / month**

These examples are based on a hypothetical Social Security statement and current Social Security policy.

As you can see, delaying your Social Security payments beyond the Full Retirement Age results in a significant increase in monthly guaranteed income payments.

**Remember, just because you're retired doesn't mean you have to take Social Security. Generally, if your health is good and you can live without the income, you will ensure the maximum payment for yourself and lock in the maximum spousal benefit by waiting until age 70.**



*CNBC and Bipartisan Policy Center, September 2020

# Match sources of retirement income with expenses

Matching your different income sources with types of expenses can be the first step in determining if you have a retirement income gap that you need to plan for. What's important is to make up any shortfall in your basic needs before contributing to your personal wants. Try this for yourself - don't worry about dollar amounts, just income and expense sources.

| Income sources | Match | Expenses |
|---|---|---|

### Guaranteed

- Social Security
- Pensions
- Fixed annuities
- Veteran's benefits
- Survivor's benefits
- _____
- _____
- _____
- _____
- _____
- _____

**Cover needs** →

### Needs

- Food
- Mortgage or rent
- Property taxes
- Utilities
- House and car maintenance
- Transportation
- Healthcare
- _____
- _____
- _____
- _____

### Other

- Retirement plan accounts
- Variable annuities
- Defined contribution plans
- Earned income
- Investment income
- Rental income
- Alimony
- Income from trusts
- _____
- _____
- _____
- _____

**Cover wants** →

### Wants

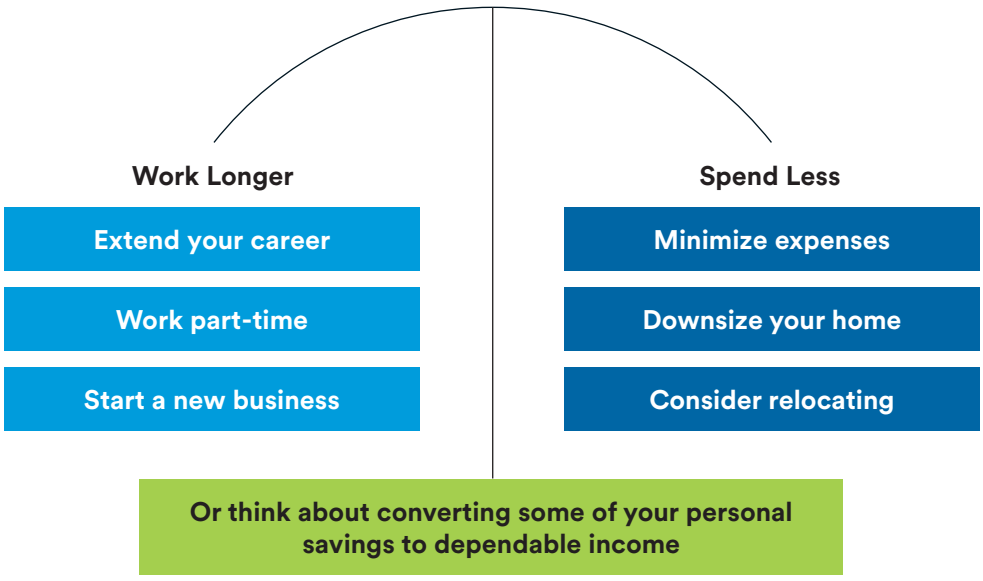
- Clothing
- Memberships/subscriptions
- Entertainment/vacations
- Additional insurance
- _____
- _____
- _____
- _____
- _____
- _____
- _____

# Do you have a retirement income gap?

Here's how to look at some numbers to determine if you have an income gap. You'll need your total expenses and income sources.

| Total anticipated monthly income | | Total anticipated monthly expenses | | Potential monthly income gap | | Potential annual income gap |
|---|---|---|---|---|---|---|
| | – | | = | 0 | x 12 = | 0 |

## If you still have an income gap



# Key action steps

☐ Track my current expenses and think about how they would change in retirement

---

☐ Order and review my Social Security statement

---

☐ Match my retirement income sources with types of expenses to determine if I have an income gap



# Notes

4

# Making the Most of What You Have



Making the Most of What You Have is important to make sure your family is properly protected and have your estate in order. Your employee benefits play a large role in your overall financial and retirement planning process, so it's essential to review them carefully.


39 Common types of life insurance
40 Life insurance planning over your lifetime
41 Understanding life insurance needs
43 How much life and disability income insurance is enough?
44 Long term care costs in your state
45 Separate long term care myths from realities
46 Take time to look at additional benefits
47 Estate planning must-haves
48 What else can get in the way of calculating your estate taxes?
49 Documents you need when your child turns 18
50 Understanding Health Savings Accounts (HSAs)
51 Key action steps
52 Are you ready to take action?

# Common types of life insurance

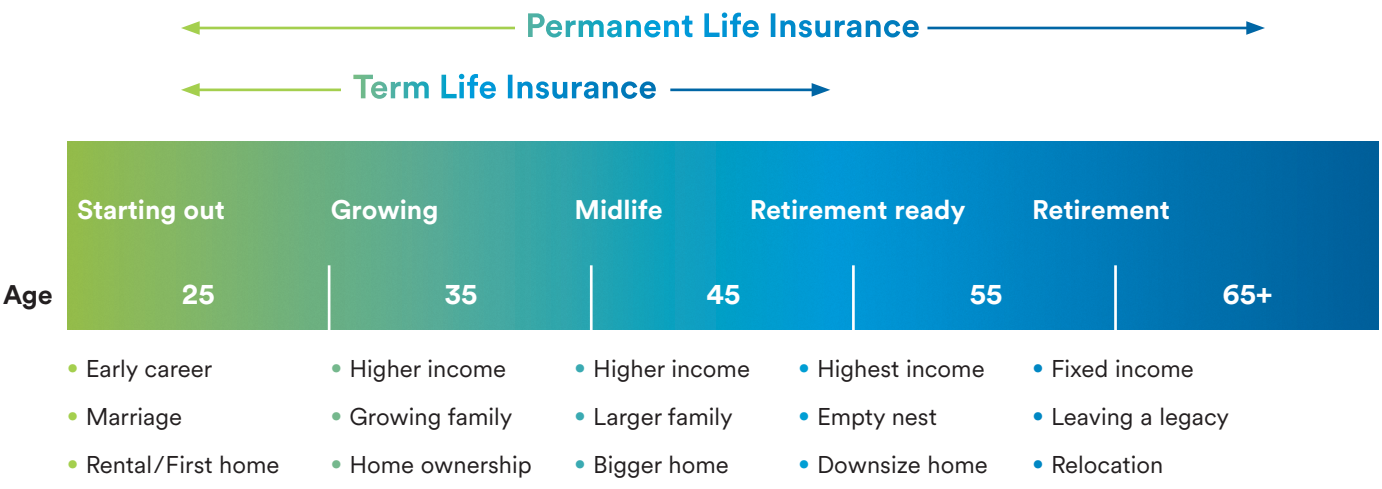
| | |
|---|---|
| **Group** | Sometimes offered by an employer, group insurance pays a death benefit that is typically a multiple of your salary. Since an employer offers it, the premiums are often partially or completely paid by the company. |
| **Term** | Pays if the insured dies during the specified term period (e.g. 10, 15 or 20 years). The longer the policy is in effect, the higher the premiums will be. Premiums typically increase as an insured ages. |
| **Whole** | It will pay at your death. Benefit payment is not limited by time like term life. Premiums are based on an insured's age at issue and remain level for the insured's lifetime. Generally, it costs more than term insurance, and it builds cash value. |
| **Universal** | A form of permanent insurance like whole life. However, premiums and the benefit at death may vary based on the insured's age and the performance of an underlying savings account. You have a degree of control over your premium payment and death benefit. You may have a choice of death benefits. |
| **Variable** | A form of permanent insurance like whole and universal life. However, you choose how to invest your cash values in the sub-accounts offered by the contracts. The policy cash value and death benefits will fluctuate based on the performance of the sub-accounts. Premiums may change based on the age of the insured. |

**Variable life insurance is offered by prospectus only, which is available from your registered representative. You should carefully consider the product's features, risks, charges and expenses and the investment objectives, risks and policies of the underlying portfolios, as well other information about the underlying funding choices. This and other information is available in the prospectus, which you should read carefully before investing. Product availability and features may vary by state. All product guarantees are based on the claims-paying ability of the issuing insurance company. The amounts allocated to the variable investment options of your account balance are subject to market fluctuations so that, when withdrawn or surrendered it may be worth more or less than its original value.**

**When making any life insurance decision, keep in mind that different products have different features which should be taken into account, and different insurers price their insurance products differently because they use different underwriting criteria and have different experience groups based on their customer demographics.**

# Life insurance planning over your lifetime

Life insurance is rarely a “set it and forget it” solution. Like asset allocation, insurance allocation can be just as important by combining the appropriate amounts of term and permanent life insurance based on your current and long term objectives.




Financial professionals suggest reviewing your policy at every life stage to determine whether more, less, or what combination of coverage may be appropriate.



# Understanding life insurance needs

## What type of life insurance do I need?

Some people feel they need life insurance for a certain period of time — just long enough to meet their responsibilities for those who depend on them.

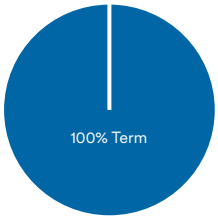
This is typically done with term insurance. Others, however, recognize that owning some form of life insurance for their entire lives can provide them with added protection and flexibility as they prepare for life's possibilities. This is typically done with permanent insurance. Many people find their objectives are best met with a combination of term and permanent insurance.

| Check your preference | Agree | Disagree |
|---|---|---|
| 1. The idea of leaving an inheritance is important to me —either for my family or a charitable organization. I would want to do this in an efficient manner. | ○ | ○ |
| 2. In the future, my adult children and/or parents may rely on me for financial support. I want to make sure my life insurance policy is there if they need it. | ○ | ○ |
| 3. I would prefer the least expensive type of life insurance, even though my benefits may expire at some point in the future. | ○ | ○ |
| 4. I only want life insurance for a limited period of time (e.g., until my mortgage is paid, children finish college, or other financial obligations are met). | ○ | ○ |
| 5. If I die prior to my spouse during retirement, I want to ensure he or she receives a life insurance death benefit. | ○ | ○ |
| 6. If I were to die during my working years, I would want my family to receive a life insurance death benefit that would replace my income. | ○ | ○ |
| 7. Regardless of how long I may live, it's important for me to have my life insurance in place when I die. | ○ | ○ |
| 8. I don't want to commit to permanent insurance today, however I'd like to have the right to convert term coverage into permanent coverage in the future should my situation change, without having to undergo additional medical screening. | ○ | ○ |

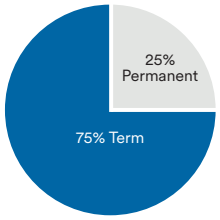
Instructions:
Total your answers in the table to the right. The scores determine the type of policy or policies that should be considered based on your situation.

| Question | Agree | Disagree | Score |
|---|---|---|---|
| 1. | 1 | 0 | 0 |
| 2. | 1 | 0 | 0 |
| 3. | 0 | 1 | 0 |
| 4. | 0 | 1 | 0 |
| 5. | 1 | 0 | 0 |
| 6. | 0 | 1 | 0 |
| 7. | 1 | 0 | 0 |
| 8. | 0 | 1 | 0 |

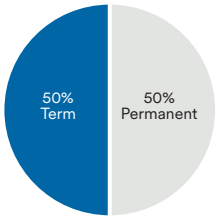
0 Points



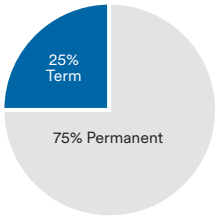

1–2 Points




3–5 Points




6–7 Points




8 Points




| 100% Term | 75% Term<br>25% Permanent | 50% Term<br>50% Permanent | 25% Term<br>75% Permanent | 100% Permanent |
|---|---|---|---|---|
| Clearly you're concerned about protecting those who depend on you; however, today you feel you only want coverage for a limited period of time. Based on your answers, a term life insurance policy with the option of future conversion should be considered. | You recognize the importance of owning life insurance throughout your entire life; however, you also acknowledge that your biggest concern is protecting those who depend on you during your working years. Life insurance products with mostly term insurance and a small amount of permanent insurance should be considered based on your answers. | Your answers show that you appreciate both the benefits of permanent and term insurance. Life insurance products consisting of equal amounts of term and permanent protection should be considered based on your answers. | Protecting those who depend on you for your entire lifetime — regardless of how long you may live — is most important to you. Your preferences indicate that life insurance products consisting mostly of permanent insurance should be considered based on your answers. | You want lifetime protection, to leave a legacy and to protect your spouse's retirement income. A permanent life insurance policy should be considered based on your answers. |

# How much life insurance is enough?

10 x $_____ = 0

**salary** (before taxes)

**approximately how much life insurance coverage you need**

It is important to make sure you have the proper protection in place in the event of an unforeseen circumstance. You can multiply your salary by 10 to determine approximately how much coverage you may need, and your partner should do the same. Of course, this is just a guide, and everyone's situation is different but it's a good starting point.

# How much disability income insurance is enough?

65%-85% x $_____ = $0 - $0

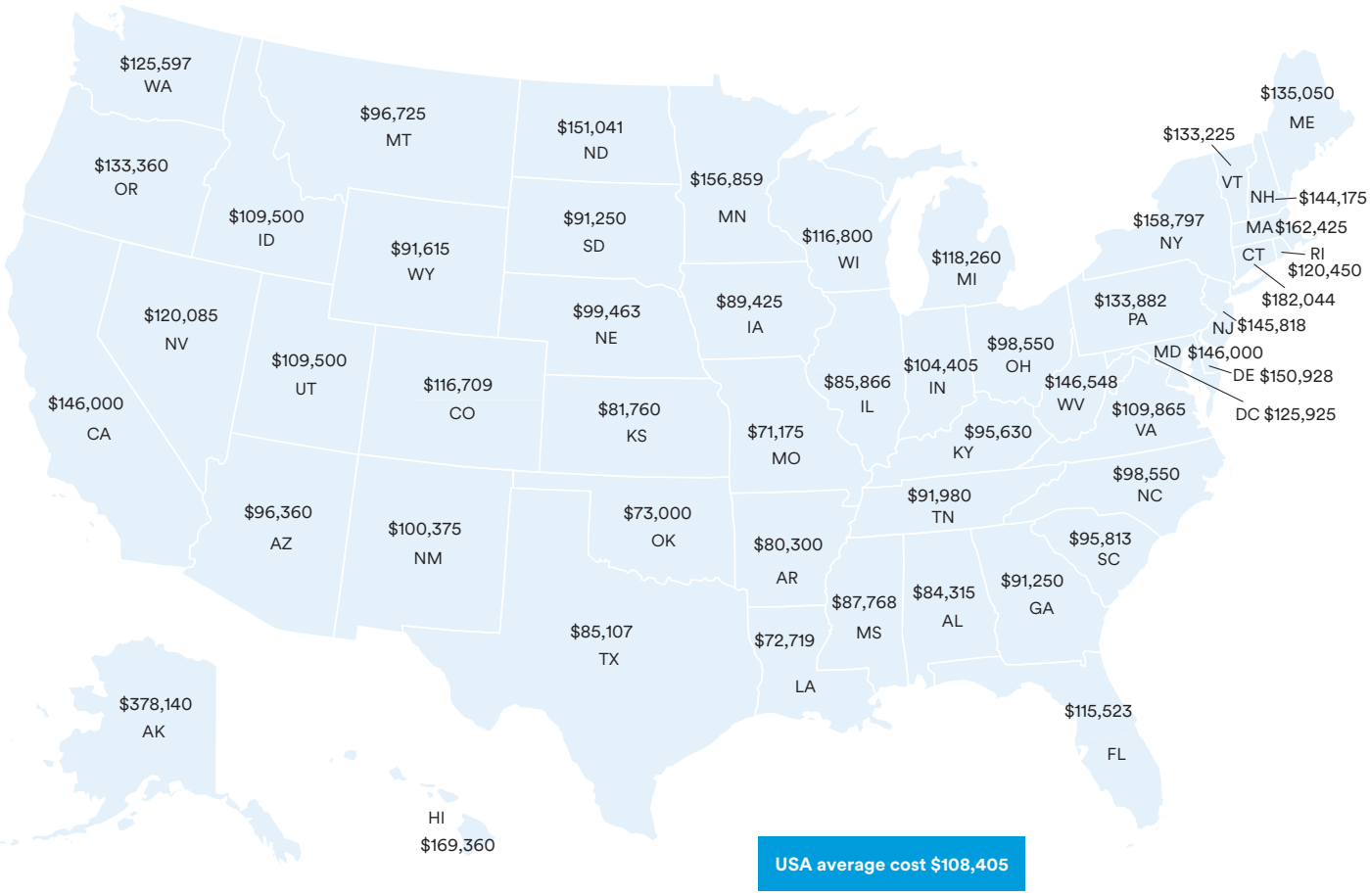
**salary** (before taxes)

**approximately how much disability insurance coverage you need**

We all run the risk of becoming disabled due to an unexpected illness or accident. What would happen if you were no longer able to earn a living? To help their employees prepare for that possibility, employers often offer long term disability insurance. You may be asked to pay for part or all of the cost. Depending on your financial obligations and other sources of income, it's probably a good idea to purchase enough long term disability insurance to replace 65% to 85% of your pay.

# Long term care costs in your state

The cost of care varies based on care setting, geographic location, level of care required, and other factors. Knowing the cost of care is the first step to helping you plan for it.




**Numbers exclude Puerto Rico

Source: Genworth Cost of Care Study, 2022. Annual costs for private room in nursing care facility.

# Separate long term care myths from realities

| Myth | Reality |
|---|---|
| Medicare pays for long term care. | Traditional Medicare does not pay for long term care. Medicaid, the health insurance program for the very low income households, pays for about half of all long term care costs.[1] |
| Most long term care is provided in a nursing home. | 85% of long term care is provided at home or the home of relatives.[1] |
| You can qualify for Medicaid to pay for long term care by transferring assets to other family members. | Upon application, the state will "lookback" over five years to prevent Medicaid applicants from giving away assets at less than fair market value to meet Medicaid's asset limit.[2] |
| Family history, age, and income are all primary factors in calculating long term care insurance premiums.[3] | Age, health, and the type of coverage are the primary factors in calculating long term care insurance premiums.[3] |

1. Five Myths About Long Term Care, Washington Post, September 2020; 2. California lookback period is 30 months. In 2021, New York will be implementing a 30-month lookback period for their Community Medicaid program. 3. American Council on Aging, January 2021; Longtermcare.gov, October 2020



# Take time to look at additional benefits

Many of us don't take enough time to consider the value of the benefits offered by our employers. These additional benefits are typically paid entirely or mostly by employees. They are important because they can close gaps in employer-sponsored coverage, allow easy access through payroll deduction, and help ease the burden of what can be high and unpredictable out-of-pocket expenses. Here are some of the traditional additional benefits your employer may offer:*

**Accident insurance:** Accidents and their costs not covered under your employer's existing medical plan can be covered with accident insurance. It generally provides a lump-sum payment after an accident that can be used with out-of-pocket expenses such as deductibles, copays, transportation to medical centers, child-care, and more. Some of the injuries covered are: fractures, dislocations, concussions, lacerations, eye injuries, torn knee cartilage, ruptured discs, and second and third-degree burns.

**Cancer insurance:** A cancer diagnosis can mean unexpected expenses such as deductibles, copays, and costs for out-of-network care. Cancer insurance typically pays for a lump sum payment after a covered cancer diagnosis. Even if you have a disability plan, it may only cover a portion of your income, so you may have to supplement it for other living expenses like utilities, groceries, and rent.

**Critical illness insurance:** Critical illnesses can happen when you least expect them, which can be costly. Even quality medical plans can leave you with extra expenses to pay. Costs like plan deductibles, copays for doctor visits, and additional costs for out-of-network care can add up fast. A critical illness insurance policy can help deal with extra costs.

**Hospital indemnity insurance:** A hospital stay can be expensive. Be ready for costs such as those not covered by your medical plan with hospital indemnity insurance which may pay a lump sum benefit for hospital admission, accident-related inpatient rehabilitation, and hospital stays.

**Legal services:** Group legal plans provide affordable, convenient access to a highly qualified network of attorneys for everyday personal legal matters, which may include preparation of wills, living wills and trusts, purchase, sale, and refinancing of a residence, debt collection, and foreclosure defense, identity theft defense, tenant negotiations, civil litigation defense, and adoptions.

**Pet insurance:** Vet visits can be expensive. Pet insurance helps cover the cost of injuries and illnesses so you can give your pet the best possible care.

**Auto insurance:** Whether it's a car, boat, or RV, auto insurance protects your vehicles, yourself, and family. Policies generally offer various coverage options, including liability protection, collision, and comprehensive coverage, personal injury protection, and uninsured motorists' coverage.

**Home insurance:** If you own a house, condo, or apartment, a homeowner's insurance policy can protect you if you have to rebuild your home or replace lost or damaged property. Some policies may also include customizable coverage in the event of tornadoes, hail, fire, theft, and vandalism.

**Health Savings Accounts:** You may have heard about Health Savings Accounts (HSAs) growing in popularity. When paired with high-deductible health plans, HSAs offer tax benefits** and are designed both to help you with current healthcare costs of and to save for future medical expenses.

*Not all companies will offer these benefits

** HSA contributions can be made pre-tax from a paycheck or made directly and then deducted on a tax return. HSA assets grow tax-free and, when used for qualified medical expenses, can be withdrawn tax-free. HSA funds used for non-qualified expenses are taxed and subject to a 20% penalty if the HSA holder is less than 65 years of age. Beginning at age 65, HSA funds for non-qualified expenses are taxed, but do not incur any penalty.

# Estate planning must-haves

If you hear the phrase "estate planning" and immediately tune out, you're not alone. An estate plan is not only for the wealthy who own an actual estate, complete with manicured lawns and a mansion. It's for everyone—because estate planning is much more than just dividing up your assets.

Your estate plan should be made up of a set of legal documents that will collectively protect you, your loved ones, and your assets when drafted correctly. Here are the items every estate plan should have:

**Will.** This is about as basic as it gets. You typically hire an attorney to draft a document that reflects your wishes. Can you write a will on your own? Yes — there's lots of software you can use. But if you do, we strongly suggest you hire an attorney to check it for clarity. If you have a workplace legal plan, they can conveniently provide access to qualified attorneys.

**Durable power of attorney.** There may come a time when, because of physical or mental incapacity, you're not reasonably able to act on your behalf. If you previously designated your spouse/partner or other trusted individual, that person can legally make financial and other decisions and take actions when you're not able to.

**Living will and health care proxy.** Estate plans don't just help protect your assets and your family members after you're no longer here—they can protect you while alive, too. A living will specifies what measures should be taken to keep you alive under certain circumstances, while a health care proxy appoints an agent to make health care decisions for you.

**HIPAA release form** ensures that your family and other people you identify can receive confidential medical information about your condition that will enable them to make decisions on your behalf.

**Beneficiary designations.** It's important to maintain the beneficiary and contingent beneficiary designations you make on your employer benefits and other accounts because they can pass without being dictated in a will.

**Digital fiduciary.** Digital is a relatively new and often overlooked category of assets. Many states allow people with powers of attorney, executors, and trustees to access digital assets on behalf of another person or estate.* Since most of us have many digital accounts, it's important to consider this as part of your estate plan.

**Special needs plan.** If you are a caregiver for a dependent with special needs, it is essential to be mindful of planning issues and options. There are many concerns that come with special needs planning which can include: eligibility for government benefits; types of special needs trusts and determining which one works best for a particular situation; appropriate financial funding vehicles, including life insurance, to enhance the dependent's quality of life.



*BMO Wealth Management, July 2019

# What else can get in the way of calculating your estate taxes?

As the saying goes, not only can you not "take it all with you" but something called Income in Respect of a Decedent (IRD) may also prevent your beneficiaries from "taking it all with them" too.

**Income in Respect of a Decedent (IRD) refers to untaxed income – such as remaining employee compensation or IRA distributions- that a decedent had earned or had a right to receive during their lifetime.**

**IRD is taxed as if the decedent is still living.**

**The beneficiaries of your estate are responsible for paying taxes on IRD income under most circumstances.***

*Investopedia 2021



# Documents you need when your child turns 18

Turning 18 is a big deal, not just from a parent's emotional perspective, but legally too. Parents may not realize they can no longer make legal decisions. If your child is going away to college, many of them do a good job of notifying parents of these matters. However, it is probably a good idea to take the initiative by having documents in place. Here are some of the primary ones to consider.

**Health care power of attorney/Proxy:** When we think of a Health Care Power of Attorney, it is frequently for an older parent, but it is just as important for college-age adult children. This document gives parents the ability to make decisions about their child's health care. Usually, this is not used unless a child becomes incapacitated. If a student goes to school in a different state it is suggested to have a document from each state.

**Living will:** Also known as an advance directive, addresses your child's wishes regarding life-extending medical treatment and organ donations. Having this document in place can help avoid the potential pain and anxiety of family members, relatives, or close friends being at odds about handling a tragedy, such as an automobile accident.

**HIPAA authorization:** This authorization allows doctors to speak about a student's medical condition with whomever the student chooses. Students can also set limits on how much and what type of information can be shared. This authorization should be kept in a handy place because you will need to show it to a local medical professional or hospital if you should need access to otherwise private information. Even with this authorization, students might still need to sign a release form that is specific to their college, as many have varying policies and procedures.

**Financial power of attorney:** This document is a way to allow parents to manage their child's finances. It can become effective immediately upon signing or at a point in the future. It can also permit parents to act on all financial matters or have limits on their authority. This would be especially useful if the child has a car accident or is ill, leaving him or her unable to make financial decisions. It may also be useful if a child is planning on traveling abroad or has an overdrawn bank account due to fraud.

**Educational record release:** The Family Educational Rights and Privacy Act (FERPA) require students age 18 and older to provide written consent (with very few exceptions) before grades, transcripts and disciplinary actions can be shared with parents. This would also include notifications of financial-aid documents. Colleges usually notify parents of this requirement but even so, many may not understand the implications or forget to act upon it.



# Understanding Health Savings Accounts (HSAs)

As you probably know, health insurance plans have consistently topped the list of employees' most precious benefits. You may have heard about Health Savings Accounts (HSAs), which are growing in popularity. When paired with high-deductible health plans, HSAs offer tax benefits and are designed both to help you with the rising costs of healthcare and to save for future medical expenses. But is an HSA right for you?

## Advantages of an HSA:

- You decide how much money to set aside for out of pocket healthcare costs – puts you in control (subject to IRS limits)
- You can use it tax- and penalty-free for qualified healthcare expenses today or allow it to accumulate for future needs
- You always own the account – even if you change jobs, retire or stop contributing, the money is yours
- Any unused money accumulates year over year – there is no "use it or lose it" rule

## Disadvantages of an HSA:

- Healthcare can be unpredictable making it difficult to budget
- Depending on your situation, it may be challenging to set aside money to put in an HSA
- If you take money out for nonmedical expenses, you will have to pay taxes on it

## So... is an HSA right for you?

As you consider your choices, think about your budget and what healthcare you may need. If you are generally healthy and want to save for future expenses, it may make sense to have a savings vehicle that can help. As a result, an HSA may be the right choice. And, if you are near retirement, you may also want to put aside funds for healthcare costs in retirement.

Alternatively, if you think you might need expensive medical care over the next year, you may not want to participate in a high deductible health plan, even with the option for an HSA.

What is right for you? Get all the information and help you need to make the most of your plan options.

HSA funds used for non-qualified expenses are taxed and subject to a 20% penalty if the HSA holder is less than 65 years of age. Beginning at age 65, HSA funds for non-qualified expenses are taxed, but do not incur any penalty.

# Key action steps

- ☐ Determine how much disability income and life insurance I need

- ☐ Look at my additional benefits that can close gaps in my benefits package and may help with possible high, unpredictable out of pocket expenses

- ☐ Know how much long term care costs in my state

- ☐ Review the five basic elements of an estate plan, and create or update my will



# Are you ready to take action?

## Building the Foundation

- ☐ Max out my 401(k) contributions, or at least enough to get my company match if it's offered
- ☐ Create and manage a budget and build my emergency fund
- ☐ Start saving now to take advantage of compounding
- ☐ Know how taxes and inflation affect my investments

## Creating and Managing Wealth

- ☐ Figure out my "Rule of 25" to get the basic idea of how big my retirement nest egg will have to be
- ☐ Review my investments and make sure they are properly diversified
- ☐ Complete a risk tolerance assessment so I can create an asset allocation model that works for me
- ☐ Consider using dollar-cost averaging to balance out the effects of market volatility
- ☐ Evaluate all risks to make sure they are properly managed

## Establishing Your Retirement Income Stream

- ☐ Track my current expenses and think about how they would change in retirement
- ☐ Order and review my Social Security statement
- ☐ Match my retirement income sources with types of expenses to determine if I have an income gap

## Making the Most of What You Have

- ☐ Determine how much disability income and life insurance I need
- ☐ Look at my additional benefits that can close gaps in my benefits package and may help with possible high, unpredictable out of pocket expenses
- ☐ Know how much long term care costs in my state
- ☐ Review the five basic elements of an estate plan, and create or update my will

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