



Frontier Financial Planning
 Peter J. Passalacqua, CFP
 Financial Advisor
 322 Courtyard Drive
 Hillsborough, NJ 08844
 908-725-9001 Ext.11
 ppass@frontierplanning.com
 www.frontierplanning.com



Saving for Retirement

Although most of us recognize the importance of sound retirement planning, few of us embrace the nitty-gritty work involved. With thousands of investment possibilities, complex rules governing retirement plans, and so on, most people don't even know where to begin. Here are some suggestions to help you get started.

Determine your retirement income needs

Many experts suggest that you need at least 60 to 70% of your preretirement income to enable you to maintain your current standard of living in retirement. But this is only a general guideline. To determine your specific needs, you may want to estimate your annual retirement expenses.

Use your current expenses as a starting point, but note that your expenses may change dramatically by the time you retire. If you're nearing retirement, the gap between your current expenses and your retirement expenses may be small. If retirement is many years away, the gap may be significant, and projecting your future expenses may be more difficult.

Remember to take inflation into account. The average annual rate of inflation over the past 20 years has been approximately 3%. (Source: Consumer price index (CPI-U) data published by the U.S. Department of Labor, January 2007.) And keep in mind that your annual expenses may fluctuate throughout retirement. For instance, if you own a home and are paying a mortgage, your expenses will drop if the mortgage is paid off by the time you retire. Other expenses, such as health-related expenses, may increase in your later retirement years. A realistic estimate of your expenses will tell you about how much annual income you'll need to live comfortably.



Calculate the gap

Once you have estimated your retirement income needs, take stock of your estimated future assets and income.

These may come from Social Security, a retirement plan at work, a part-time job, and other sources. If estimates show that your future assets and income will fall short of what you need, the rest will have to come from additional personal retirement savings.



Figure out how much you'll need to save

By the time you retire, you'll need a nest egg that will provide you with enough income to fill the gap left by your other income sources. But exactly how much is enough? The following questions may help you find the answer:

- At what age do you plan to retire? The younger you retire, the longer your retirement will be, and the more money you'll need to carry you through it.
- What kind of lifestyle do you hope to maintain during your retirement years?
- What is your life expectancy? The longer you live, the more years of retirement you'll have to fund.
- What rate of growth can you expect from your savings now and during retirement? Be conservative when projecting rates of return.
- Do you expect to dip into your principal? If so, you may deplete your savings faster than if you just live off investment earnings. Build in a cushion to guard against these risks.

Build your retirement fund: Save, save, save

When you know roughly how much money you'll need, your next goal is to save that amount. First, you'll have to map out a savings plan that works for you. Assume a conservative rate of return (e.g., 5 to 6%), and then determine approximately how much you'll need to save every year between now and your retirement to reach your goal.

The next step is to put your savings plan into action. It's never too early to get started (ideally, begin saving in your 20s). To the extent possible, you may want to arrange to have certain amounts taken directly from your paycheck and automatically invested in accounts of your choice (e.g., 401(k) plans, payroll deduction savings). This arrangement reduces the risk of impulsive or unwise spending that will threaten your savings plan. If possible, save more than you think you'll need to provide a cushion.



Use the right savings tools

The following are among the most common retirement savings tools:

Employer-sponsored retirement plans like 401(k)s and 403(b)s are powerful savings tools. Your contributions come out of your salary as pretax contributions (reducing your current taxable income) and any investment earnings grow tax deferred until withdrawn. Some plans will also allow employees to make after-tax "Roth" contributions. In addition, employer-sponsored plans often offer matching contributions, and may be your best option when it comes to saving for retirement.

IRAs also feature tax-deferred growth of earnings. If you are eligible, traditional IRAs may enable you to lower your current taxable income through deductible contributions. Withdrawals, however, are taxable as ordinary income (except to the extent you've made nondeductible contributions).

Roth IRAs don't permit tax-deductible contributions but allow you to make completely tax-free withdrawals under certain conditions. With both types, you can typically choose from a wide range of investments to fund your IRA.

Annuities are generally funded with after-tax dollars, but their earnings grow tax deferred (you pay tax on the portion of distributions that represents earnings). There is also no annual limit on contributions to an annuity.

Note: Distributions from retirement plans, IRAs, and annuities prior to age 59½ may be subject to a 10% penalty tax unless an exception applies.



START

You have several options for saving for your retirement. How do you know what to do? Here's one common approach:

Contribute money to employer-sponsored plan when employer matches your contribution - get maximum match possible

Employer match is free money	Match grows tax deferred until withdrawn	You may forfeit match if you don't work for a given length of time
------------------------------	--	--

Remaining money

Make voluntary contributions to employer-sponsored retirement plans

Dollars grow tax deferred until withdrawn*	Some plans allow pre-tax contributions resulting in an immediate tax savings
Systematic payments from your paycheck - you'll hardly notice	Investment choices might be limited

Remaining money

Contribute to IRAs

Many investment options	Dollars grow tax deferred until withdrawal (qualified withdrawals from Roth IRAs are federal income tax free)
May or may not be tax deductible	Can contribute up to \$4,000 (\$8,000 for married couples) in 2006 and 2007; \$5,000 (\$10,000 for married couples) in 2008 and later years**

Remaining money

Other options: Annuities, Stock plans, Life insurance, Other investments (e.g. stock, mutual funds), Nonqualified deferred compensation, Salary continuation plans

Annuities, life insurance, and other options have unique tax advantages	Lower capital gains tax rates make some equity investments more attractive for retirement planning	Some options may be complex, and timing of taxable events may be difficult to control
---	--	---

KEY Definite plus Need more info Potential disadvantage

*Employers can allow employees to make after-tax "Roth" contributions to the employer's 401(k) or 403(b) plan. Qualified distributions of these contributions and related earnings will be tax free.

**Individuals age 50 and over may make additional \$1,000 IRA catch-up contributions.

Disclosure Information -- Important -- Please Review

Advisory services are offered through Frontier Financial Planning & Cap. Mgmt., Inc a Registered Investment Advisor. All securities offered through CFD Investments, a registered broker / dealer, Member NASD, MSRB, SIPC, 2704 South Goyer Road, Kokomo, IN 46902 (800) 745-7776. Frontier Financial Planning & Cap. Mgmt., Inc. is neither a subsidiary of or controlled by CFD Investments.