

# Money Matters

Second Quarter, 2010

A quarterly newsletter for retirement plan participants of Union Bank & Trust Company

## Taking Aim At Retirement

by Kellee Krick, Education Coordinator, Union Bank & Trust Retirement Plan Services



Planning for retirement can be a daunting and confusing task. Consensus on how much to save and where to save it is difficult to come by from the financial gurus in the media. In addition, lately it seems bad news is reported every day. And, as you many of us would admit, the farther away you are from retirement,

the harder it is to even focus on your goals.

Even in the most challenging financial environment, there are aspects over which you have ultimate control. While you have no control over whether the stock market goes up or down, you can control how well your investments are diversified and how much you contribute to your retirement savings.

In the past, conventional wisdom stated that saving 10% of your annual income for retirement should be adequate. However, today's experts recommend that you stash 15% of your annual income in retirement accounts. That percentage includes not only your salary deferral contribution, but also any matching funds and profit sharing from your employer, as well as any personal savings you may have, like an IRA or Roth IRA.

For example, if your gross income is \$40,000, the new advice of 15% says you should be putting away \$6,000 annually for retirement. Let's say you are contributing 10%, or \$4,000, and your employer match contributes \$.25 for every \$1.00 you contribute, up to 6% of your salary. The company match would add \$600 ( $\$40,000 \times 6\% \times \$.25$ ). That would bring your total retirement contribution to \$4,600. To reach the target of \$6,000 you would need to save an additional \$1,400. Does finding that much cash

sound intimidating? Start small and gradually increase your contributions at a level that is comfortable for you.

While the 15% figure is a good starting point for individuals who have many years before retirement, those who are nearing retirement need to be more precise in their calculations. They will have fewer years to compensate for market swings or to make up for missing contributions.

One target you need to identify in planning for retirement is what percentage of your pre-retirement salary you would like to maintain in retirement. Experts suggest you will need between 70-100% of your pre-retirement annual income in retirement. The newly retired tend to spend more on travel, while older retirees' largest expense is usually health care, so carefully consider what expenses you may have.

Calculate the dollar amount needed annually, and then subtract any income you will have during retirement (such as social security, pension, or rental income) to arrive at the additional income needed. This income gap will need to be filled by your own personal retirement savings, whether that comes from an employer sponsored retirement plan or other personal accounts like an IRA.

Determining the lump sum you'll need to support a comfortable lifestyle in retirement is the most difficult part of the whole equation. One recommendation is to determine how much income you'll need to draw from personal retirement savings during your first year of retirement, then multiply that dollar amount by 25 (which is the approximate number of years most people will spend

*continued on reverse*



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## Taking Aim At Retirement, *continued*

in retirement). That calculation will give you the size of the retirement nest egg you will need to replace 100% of your pre-retirement income.

For a bare-bones budget during retirement, you'd need only half as much or 12.5 times your initial withdrawal. In reality, your personal number is probably somewhere in between.

Another method for calculating your final number that some experts recommend suggests saving 10 times your pre-retirement annual income. This method would result in

a smaller overall number than our previous example, which further illustrates the challenge one faces in determining a final target.

Preparing for retirement is one of the most important financial obstacles you will have to overcome. Securing your retirement is far from simple; it's like trying to hit a moving target. Remember to keep your eye on the bulls-eye and adjust as you close in on retirement. In these challenging times, make sure to stay informed, continue making your contributions, and keep your investments well diversified. Those steps will help keep you on target.

## Keep Up With Current Trends & Industry Info

Union Bank & Trust Retirement Plan Services is excited to announce a new way for you to stay informed about current trends and topics in the retirement industry and the investment marketplace. Each quarter we will host a conference call that all participants and plan sponsors are welcome to listen in on. These short, informative calls will feature the insight of our own staff as they keep you up-to-date on the ever evolving retirement industry.

We invite you to join us for our first quarterly conference call featuring an investment overview from the second quarter and participant education highlights.

The 20-minute call will include a presentation followed by a question and answer period. We hope that you will be able to attend.



*Money Matters* is a quarterly newsletter for retirement plan participants of Union Bank & Trust Company. For additional information or if you would like certain topics to be covered in this newsletter, please forward any questions or comments to:

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