

Audio Cast

Building Financial Momentum

Episode 6:

“Retirement Income Planning”

Moderator: Thank you for tuning in today as we continue building financial momentum by prioritizing retirement. In our previous episodes, we learned the importance of retirement savings, how to make the most of the retirement accounts and investments that will help us get there.

Today, we'll be tying it all together as we discuss **“Retirement Income Planning”**. We're joined again by our host, Ryan Burnett a Financial Wellness Specialist with Merrill who will be asking Pat Watson to share his insights on this topic. Pat is also a Financial Wellness Specialist with our Merrill Education Team, and has been in the financial services industry for 6 years. We hope you enjoy this discussion, please stay tuned for important information at the end of the session.

Ryan: Pat, thanks for joining us, I'm looking forward to our discussion. Today, we tackle retirement income planning and questions like “how much do I need to live in retirement” and “what different income sources might I have”? Pat, I think the first question is, where do we start?

Pat: Ryan, the first step is a clearly defined goal, start by asking yourself questions like “what's important to me” and “what do I want to do in retirement, what experiences do I want to have”?

Once you define your goals, you can start to account for them in your plans.

Ryan: Pat, I'm from Chicago, and I love it here but I can tell you that living in a warmer climate is definitely one of my retirement goals! So once we decide what's important to us, what's next?

Pat: Ryan, the next step is calculating how much you might need to cover your cost of living in retirement. There are a few things to consider like, your current age and when you want to retire, how long you may live in retirement as well as where you might live and what you might like to do. Outside of health, the biggest risk many face is outliving their money. Merrill suggests you may need 90% of your current net income, after taxes, to live on each year during retirement. By calculating 90% of your current net income and multiplying it by the number of years you expect to live in retirement, you can establish a target.

Ryan: Pat, that number can be pretty big! How do I start planning to reach it?

Pat: Ryan, that number can definitely be pretty big! That's why it's important to clearly outline what it will cost to fund your retirement lifestyle. Now that we have a target of what it might cost, it's time to create a retirement budget. Using your current expenses as a starting point, tally up your total expenses – both essential expenses like food, housing, utilities, healthcare and insurance as well as any discretionary or aspirational expenses like travel, a vacation home or perhaps paying for a child's wedding. Then, review your current assets and potential income sources. You might include Social Security and any savings or retirement accounts. Clearly laying out a picture of your current situation

will be helpful in assessing your progress towards retirement, and illuminate if you need to pivot to get back on track. Include whether each of these accounts is pre-tax or after-tax and what percentage you're currently contributing to each.

Once you've reviewed your expected annual income, subtract your total annual expenses from it. Do you have enough to cover your needs? Do you have extra or not enough? Make any adjustments as needed

Ryan: How do I know if I have enough – or if I'm saving enough - to cover my needs and wants in retirement?

Pat: If you calculate your income and think your retirement lifestyle will drastically change you may need to budget more, or less, for retirement. For example, if you have several bucket list items you want to check off or you plan on moving to a more expensive place to live, you may need more income. On the other hand, if you'll be retiring with little or no debt, you may be able to budget less for retirement.

Ryan: And what if I am on track? Should I just keep doing what I'm doing?

Pat: First, congratulate yourself if you're on track. But don't stop your momentum. Be sure you're maintaining a sound mix of stocks and bonds to provide your portfolio growth opportunity throughout retirement. Check out our "Investing for your Retirement" audio cast for helpful tips and strategies to do just that.

Ryan: "Plan, Prioritize and Budget" it always comes back to those basic principles. So, paint a picture of what retirement looks like for me, calculate what it will cost, and create a retirement budget. When you put it that way, it actually sounds fun! Just thinking about moving to a warmer climate is motivating me to get on track with a retirement income plan. Pat, now that we've covered the basics, what tips do you have for us?

Pat: Ryan, one thing that's important to know is that your expenses might fluctuate from year to year, and be sure to consider inflation and other life changes. Some costs—like commuting expenses—may decrease in retirement, but others—like health care—may increase. I would also say that if you don't know how much you're eligible to receive, I encourage you to visit the Social Security Administration website at SSA.GOV to understand what you're eligible to receive and at what ages. Lastly, after you've created your retirement budget, test it out while you're still working! Are you comfortable with it? If not, make adjustments that may be needed before you retire.

Ryan: Great point, I bet my commuting expenses will decrease when I retire, but I hope to be spending more money on my golf game! Pat, final question, what can I do now to get on track for retirement?

Pat: Ah, yes, that's the big question isn't it? My first answer would be consider contributing the max in your retirement accounts. After that, I tell people to consider these additional steps: review your investments, avoid taking early withdrawals, delay collecting social security, create an emergency fund and pay off any debt. Second, look at your retirement budget to see if there is anything you can eliminate to put you back on track. You might decide to downsize into a smaller home, eliminate a vehicle to become a one-car household, or plan less expensive vacations Third, see how many more years you would need to work if you wanted to keep the same retirement budget and current contribution rate. By taking action steps today, you're giving yourself more opportunities in the future to

retire when you want to – and how you want to. There are a lot of helpful resources you can use to organize your retirement budget as well as a retirement planning calculator available on our Education Center at education.ml.com.

Ryan: Education.ml.com – got it. Thanks Pat, you’ve given us so much to think about, and made it simple to understand. Plan, prioritize and budget, now you have a framework to plan for the retirement you want.

Moderator: Thank you Ryan & Pat, and thank you all again for joining us today for our session on “**Retirement Income Planning**”. Look for our next audio cast, which can be found at education.ml.com.

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