SUMMER 2017

OnTrack

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HOW MUCH Will You Need?

Putting aside money for retirement can be difficult enough, but how do you know if you're saving enough? After all, you can't predict how long you'll live or what expenses may come up. Answering the following questions may help you prepare.

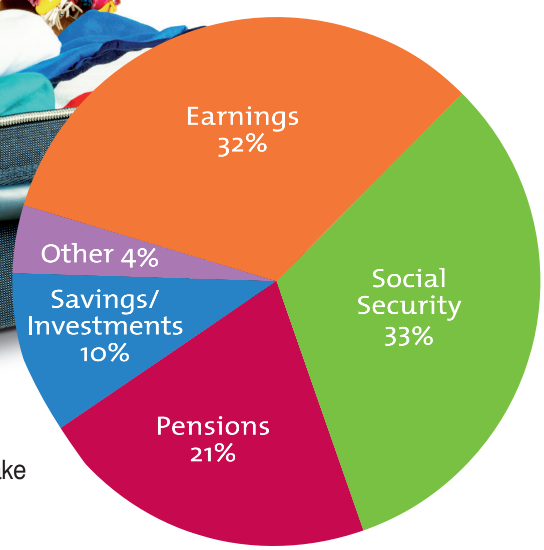
What Do You Plan To Do?

If you're expecting to travel frequently or take up expensive hobbies in your retirement, you'll need to save more to afford those activities. And if you're planning on retiring early, you'll need to put aside additional money to pay your expenses and to make up for fewer years of retirement saving.

What Sources of Income Will You Have?

Social Security will probably be another source of retirement income. Check your Social Security statement for an estimate of what your benefit may be. If a recent paper copy isn't available, you can access your statement online at *www.socialsecurity.gov/myaccount*.

If you plan on working after you retire from your primary job, you may want to include those earnings as part of your projected retirement income. But remember that health issues (including someone else's) could prevent you from working. You might consider setting a savings goal that will provide enough income in case you're not able to work.



Sources of Retirement Income (for Those 65 and Older)

Source: *Fast Facts and Figures About Social Security, 2016*, Social Security Administration

When Do You Plan To Retire?

The more years you have to save for retirement, the less you may need to set aside each month to reach your goal. Steady contributions invested over an extended period can potentially grow into a significant amount. Check your progress against your goal at least once a year and, if necessary, adjust how much you are contributing.

An Action Plan

Once you've set a target retirement savings amount, you can determine how much you should contribute with each paycheck to pursue your goal. Your retirement plan may offer tools and calculators to help you set a goal and contribution amount. You may also want to talk to a professional advisor.

CASHING OUT? Consider All Your Options First

When you leave your current employer, what will you do with the money in your retirement plan account? One option may be to cash out your retirement savings by receiving a lump sum payment. But you may want to first compare the pros and cons of this strategy with those of your other alternatives.

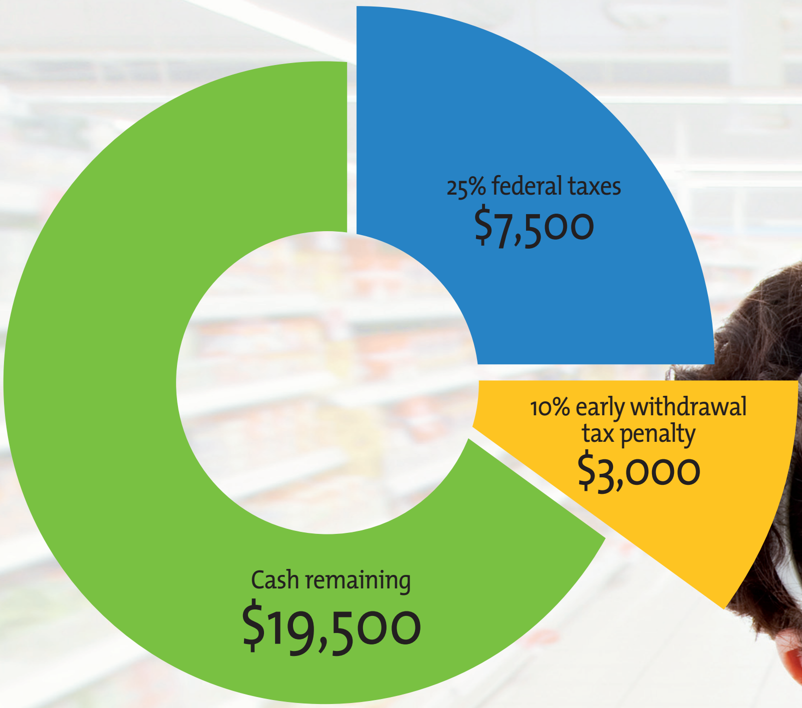
Consider Taxes and Penalties

If you have the option of cashing out, you may think you're benefiting from a windfall. But bear in mind that you won't get to keep the full amount of your retirement savings. The money in your retirement account generally has not been taxed,* so you'll have to include the distribution in your income on your federal (and possibly state) income tax return.

Your retirement plan is required to withhold 20% to send to the IRS as a prepayment on your overall federal income tax liability for the year. Moreover, if you are under age 59½, you generally will owe an additional 10% early withdrawal penalty unless you meet one of a number of limited exceptions.**

Paying a Share to the IRS

Here's what the effect of cashing out a $30,000 retirement plan account might look like.



This hypothetical example is for illustrative purposes only and assumes a federal income tax rate of 25%. Your tax rate may be different, and you may be eligible for an exception to the 10% penalty for early withdrawals. Source: DST

** Some retirement plans also offer a Roth contribution option. Unlike pretax contributions, Roth contributions do not offer immediate tax savings. However, qualified Roth distributions are not subject to federal income taxes when all requirements are met.*

*** The penalty is not deducted from the gross amount of the distribution but is payable when you file your tax return, unless you qualify for a penalty exception.*

Less Money for Retirement

Spending your plan savings now may be tempting, but it could mean less money for your retirement. Not only will you get less than the full amount when you cash out, but also taking a distribution and not reinvesting the money for retirement could hamper your ability to meet your goals.

Other Alternatives

An alternative to cashing out is to keep your savings in a tax-deferred account. For example, your former employer's plan may allow you to leave your retirement savings in that plan. Or you may be able to roll over your money into your new employer's plan, assuming it accepts such rollovers. Another possibility is to roll your money over into an individual retirement account (IRA). Make sure you understand the potential advantages and disadvantages of each option before making a decision.

Rules for Rolling Over

If you choose to roll over your funds to another tax-deferred account, generally, the easiest way to do so is with a "direct" trustee-to-trustee transfer. You don't receive the distribution, so you owe no income taxes on it and no penalty applies.

Alternatively, you may choose to use an "indirect" transfer by taking the distribution and completing the rollover yourself. However, this strategy is generally more complicated. First, you must complete the rollover in 60 days. In addition, the distribution is subject to mandatory 20% income tax withholding. To roll over the full amount, you will need to replace the withheld tax with funds from another source. Otherwise, the withheld amount will be deemed a taxable distribution for the year, and the 10% early distribution penalty may also apply.

Your situation is unique, so be sure to consult a professional before taking action.

Make Compounding WORK FOR YOU

If you've recently looked at your retirement account balance, the total consists of both contributions and any investment earnings on those contributions. But what you may not notice is that your balance may be getting an extra boost from compounding. When combined with your plan contributions, compounded investment earnings can help build the balance you'll need for retirement.

Money Making More Money

How does compounding work? First, your contributions to your plan are invested. Any earnings produced from investing your contributions are then added to your account and reinvested. Your contributions and earnings combine to create a larger amount of invested money, which means you have the opportunity to generate even more earnings.

Time and Compounding

The potential benefit you may realize from compounding is even greater when you save and invest for many years. Although investment returns aren't guaranteed, years of making regular plan contributions can give your savings the potential to grow through compounding. Consider increasing the amount you are contributing to your plan to help boost your savings even more.

Continuous Contributions

Discontinuing your plan contributions for a period of time could decrease the potential benefits of compounding. Here's an illustration using two hypothetical retirement plan participants:

- At age 25, Jane starts contributing $200 a month to her retirement account and continues throughout her 40-year career (a total of $96,000).
- At age 25, Jerry also starts contributing $200 a month for 10 years. He then stops contributing to the plan for the next 10 years but he resumes thereafter, making contributions of $300 a month for 20 years to make up for the gap. (Like Jane's, Jerry's total contributions are also $96,000.)
- Both earn an average annual total return of 6% on their investments (compounded monthly).
- Jane's balance at age 65 is $398,298.
- Jerry's balance at age 65 is $336,007.

The information is hypothetical and is used for illustrative purposes only. It assumes an average annual total return of 6% (compounded monthly) and is not intended to show the performance of any particular investment. Actual returns cannot be predicted and will vary. Income taxes will be due on accumulated amounts when received from the plan.
Source: DST