PNC CENTER FOR FINANCIAL INSIGHT

PNC Center for Financial Insight℠ builds bridges from thought to action, creating practical, applicable strategies to help benefit you and your family.

Strategies for Reaching Your Retirement Goals

According to the Center for Retirement Research at Boston College, 50% of households are at risk of not having enough to maintain their living standards in retirement.[1] Whether you're part of this group, or in the 48% who are on track, there are specific steps you can take to help you reach your retirement goals.

"You can be young without money, but you can't be old without it." So said Tennessee Williams, one of America's foremost playwrights. Yet nearly half of U.S. families have no retirement assets at all.[2]

The median retirement assets for all families in America (including those with no retirement assets) is $5,000 and for those families who have retirement assets, $60,000, Economic Policy Institute data show. Even wealthy people who have been saving for retirement may need to put away more to maintain their lifestyles once they stop working. No matter where you are on the continuum, it is not too late to build retirement assets.

Are You on Track?

A rough rule of thumb is you need to contribute 15%[3] of gross household income into accounts you will use to maintain your lifestyle in retirement. This figure assumes you will have other sources of income in addition

Table 1
Balance as Multiple of Salary

Age	Balance as Multiple of Salary
30	.5
35	1
40	2
45	4
50	5
55	7
60	10

Source: PNC

Table 2
Accumulation Rate

Age	Salary Accumulated										
	0x	1x	2x	3x	4x	5x	6x	7x	8x	9x	10x
30	17%	12%	6%	1%							
35	22%	17%	11%	5%							
40	30%	24%	17%	11%	4%						
45	42%	35%	27%	20%	13%	5%					
50	62%	53%	44%	35%	26%	17%	8%				
55		92%	79%	67%	55%	42%	30%	18%	5%		
60							96%	74%	51%	29%	6%

If your balance is in this area, you are well on your way to achieving your retirement goals.

Source: PNC

[1] National Retirement Risk Index, Center for Retirement Research at Boston College, retrieved from http://crr.bc.edu/special-projects/national-retirement-risk-index/

[2] Morrissey, Monique, Retirement Inequality Chartbook, The State of American Retirement, Economic Policy Institute, March 3, 2016, retrieved from http://www.epi.org/publication/retirement-inamerica/# charts

[3] Aicia Munnell, Anthony Webb, and Wenliang Hou, "How Much Should People Save?, Center for Retirement Research at Boston College (July 2014): no. 14-11.

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Case Study

John has hit the big 5-0 this year and, for the first time, he is starting to think about the size of his retirement plan account. He began putting money in the plan when he entered the workforce but did cut back for a few years when his children were young. He is worried about how far behind he might be. He is currently earning $200,000 per year, and the total balance of all his IRAs and 401(k) accounts is $1 million, which works out to five times his salary. Using Table 2 (page 1), he sees he needs to be accumulating 17% of his salary—more than the 15% guideline, but not nearly as much as he feared.

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to your retirement accounts, such as Social Security.

Table 1 (page 1) provides some general guideposts to help you know if your strategy has put you where you may need to be. Each person's situation needs to be individually evaluated.

Regardless of where you find yourself on Table 1 (page 1), there are steps you can take to put yourself on track. Many factors play a role in determining what you need to do and how much you need to contribute from this point forward. They include whether you expect any kind of defined benefit pension plan income and how much of your salary will be replaced by Social Security. The two biggest influencers, however, are how old you are and your current balance (as a multiple of your salary). Table 2[4] (page 1) provides guidance on what your accumulation rate should be based on your balance as a multiple of your salary.

Lowering the Hurdles

We believe knowing what to contribute is the first step. Figuring out how to come up with all the necessary money to contribute the required amount, however, is often not straightforward. There are strategies to get you closer to where you need to be or on track. Working longer and/or living on less in retirement may be the reality for those who have not saved enough. This should not, however, be the sole solution.

"Simply telling someone to spend less or work longer isn't very helpful. But reviewing spending in detail coupled with counseling about priorities and strategies could turn up some opportunities and surprises," said Katherine Kraeblen, senior wealth strategist at PNC Wealth Management®.

"Even people who feel they are well prepared for retirement can be pleasantly surprised by the opportunities that can be uncovered. We believe everyone can benefit from a thoughtful review of their finances coupled with an open discussion of goals and concerns," she added.

Making Your Money Work

Asset allocation is your mix of stocks, bonds, cash, and any other choices, such as real estate or alternative investments. There are many ways to own these asset classes, and most people do not just own individual stocks and/or bonds. Instead, it is much more common that people

[4] Assumes a 4% real rate of return and an initial withdrawal amount of 4% of the age 65 balance replacing 50% of the age 65 salary.

Uncovering Additional Money

A review of personal finances may uncover areas and strategies for families to make more contributions if that is needed. Below are some examples:

- **Credit card debt:** Average interest on credit cards is running as high as 13%.[5] This paid interest is the equivalent of throwing away money. Reducing credit card debt can unleash additional funds that can be reallocated to retirement contributions.
- **Paying for your children's education:** Assisting your children is a great joy of parenthood. But if it is done at the expense of your financial security in retirement, you may not be helping your children as much as you think you are. Being financially independent, or even in a position to help them later in life, may be the greater gift.
- **Employer matches on 401(k) contributions:** Many plans offer matches on contributions up to a set percentage. For example, the average match is 50 cents for each $1 contributed up to 6% of salary.[6] This is essentially free money. At a minimum, individuals should try to contribute enough to maximize the employer match.
- **Pay yourself first:** Use automatic transfers to make contributing easier. If the money does not pass through your hands in the first place, you will be less likely to miss it.
- **The power of compound interest:** The investment magic of earning interest on interest is a key strategy for accumulating wealth painlessly. Resist the temptation to withdraw earnings on funds intended to accumulate for retirement or other goals.

Aligning Goals to Asset Allocation

Some families have more than enough to live on and plan to leave their retirement assets to their grandchildren. That is a long time horizon, and it might make sense to have a highly aggressive asset allocation for the portion of funds intended for the legacy goal.

Alternatively, the family might be more interested in preserving the capital they have in their plan rather than accumulating it. In this case, a more conservative asset allocation would make sense as they have already made more than they expect to and their goal is capital preservation, taking into account inflation.

use mutual funds, exchange-traded funds, and other investments that bundle a whole group of stocks or bonds together. Riskier assets, such as stocks and alternatives, bring with them the potential for higher returns but also higher potential for losses. They are also more volatile over the short term, meaning their prices can fluctuate greatly.

When setting an asset allocation, it is essential to balance short-term and longer-term needs. In general, assets that one needs to draw upon should be in safer investments, in our view, such as cash or certain types of bonds. These types of investments will not, in our current interest rate environment, provide the types of returns to build your assets to the level you will likely need for a comfortable retirement in the long term.

"I don't really think about asset allocation based on age. I think of it more based on the client's goals for the money. And when we are looking at someone who may need to make that money work harder for them, a more aggressive allocation can make sense," counseled Ms. Kraeblen.

Many people are too conservative due to misguided thinking about

[5] As of August 24, 2017, CardHub, www.wallethub.com.

[6] Benchmark Your 401(k) Plan: 2015 — 401khelpcenter.com, www.401khelpcenter.com/benchmarking.html.

> *"If you're working with someone whose retirement assets aren't quite where they need to be, pushing that asset allocation to be more aggressive may be appropriate."*

risk. Some people often think only about the risk of a market downturn and, due to that fear, invest too conservatively. Education from a financial planner in conjunction with an investment advisor can help you understand the different types of risk.

There are other ways to design a portfolio to minimize market fluctuation without avoiding equities or having too small of an allocation to equities, Ms. Kraeblen said. What is safe for one person may not be safe for another. And a person's idea of safety through a conservative asset allocation is not necessarily safe when all forms of risk are taken into consideration. Customization of the asset allocation based on a thorough understanding of the client's financial situation and emotional relationship with money is what is key, she added.

For example, an older person can have a large allocation to equities if they have sufficient cash or other guaranteed sources of income to get them through market downturns. Markets have historically come back.

If you look at any 15-year calendar period since 1926, the S&P 500® has never had a negative return over any of those 15-year periods. Getting comfortable with bear markets is easier to do with a clear plan to fund living expenses and an understanding of how much cash is needed as a cushion to do this, in our view.

"If we're working with someone whose retirement assets aren't quite where they need to be, pushing that asset allocation to be more aggressive may be appropriate," Ms. Kraeblen said, adding, "Not pulling from the investment account gives it time to accumulate. And then the asset allocation can be changed in the future to be less aggressive."

In cases where it is not feasible to accumulate the entire needed amount, you may choose to work longer if that is an option. Working even a few years beyond age 65 has multiple benefits, including:

- additional time for you to contribute to your retirement plan;
- additional time for your retirement assets to accumulate;
- fewer years that your retirement assets will need to support you in retirement; and
- ability to delay Social Security without needing to spend retirement assets for income.

It is never too soon to start planning for retirement. A good review of your personal finances may reveal you can accumulate more than you think. Having the appropriate asset allocation aligned to your individual goals and situation will help you to have the security you seek and make reaching your retirement goal possible.

For more information, please contact your Hawthorn advisor.