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RAYMOND JAMES®

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 the unpredictable future of consumer prices, most people don't even know where to begin. Here are some suggestions to help you get started.

Determine your retirement income needs

Depending on your desired retirement lifestyle, you may need anywhere from 60% to 100% of your current income to maintain your current standard of living. 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 purchasing power of a dollar declines each year as prices rise. 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 likely 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 may 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 may 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 estimate 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 (which will depend on your risk tolerance), and then determine approximately how much you'll need to save every year between now and your retirement to pursue 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

All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

Taxable distributions from retirement plans, IRAs, and annuities prior to age 59½ may be subject to an additional 10% penalty tax unless an exception applies. Due to the Coronavirus Aid, Relief, and Economic Security (CARES) Act, penalty-free withdrawals of up to \$100,000 are allowed in 2020 for qualified individuals affected by COVID-19.



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.

Consider the various 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 pre-tax contributions (reducing your current taxable income) and any investment earnings grow tax deferred until withdrawn. Some 401(k), 403(b), and 457(b) plans also allow employees to make after-tax "Roth" contributions. There's no up-front tax advantage, but qualified distributions are entirely free from federal income taxes. In addition, employer-sponsored plans often offer matching contributions.

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. However, withdrawals may be subject to surrender charges.

You have several options for saving for your retirement. Here's one approach to consider:

Before investing in a mutual fund, carefully consider the investment objectives, risks, charges, and expenses of the fund. This information can be found in the prospectus, which can be obtained from the fund. Read it carefully before investing.

Annuity and life insurance guarantees are subject to the financial strength and claims-paying ability of the issuer/insurer. Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force.

Be aware that purchasing an annuity in an IRA or an employer-sponsored retirement plan provides no additional tax benefits than those available through the tax-deferred retirement plan.

1 First contribute to employer-sponsored retirement plans, at least enough to get the full company match

- Employer match is "free" money (you may forfeit the match if you don't work for a given length of time)
- Dollars grow tax deferred until withdrawn
- Contributions are deducted from your paycheck — you may hardly notice
- Most plans allow pre-tax contributions resulting in an immediate savings
- Certain plans may allow after-tax Roth contributions — they are tax free when withdrawn, and earnings are tax free if the distribution is "qualified"
- Investment choices might be limited

2 Then contribute to IRAs

- Many investment options
- Traditional IRA contributions may or may not be tax deductible; Roth IRA contributions are made with after-tax dollars
- Dollars grow tax deferred until withdrawn
- Roth IRA contributions are tax free when withdrawn, earnings are tax free if the distribution is "qualified"

3 Other options: annuities, stock plans, life insurance, other investments (e.g., stocks, 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 attractive for retirement planning
- Some options may be complex, and the timing of taxable events may be difficult to control

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