

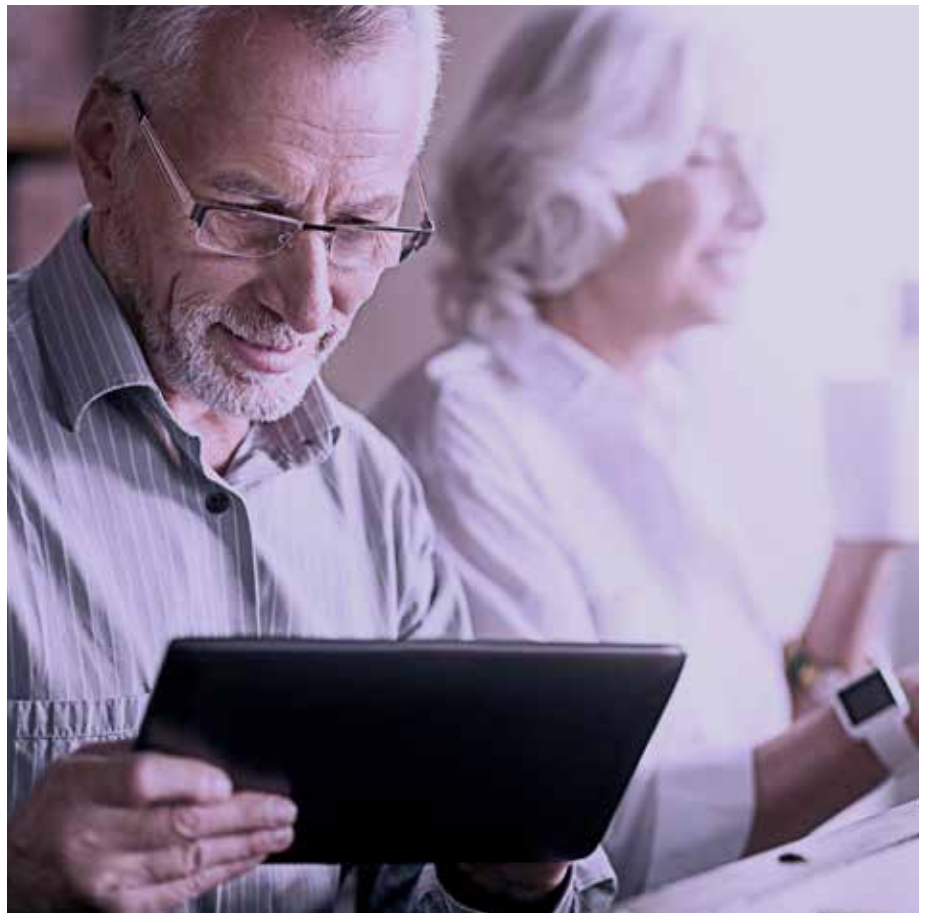
# Smart Money Matters

## Keeping your retirement goals in sight

**ONE DAY IS TODAY® — FINANCIAL PREPARATION GUIDE**

# Smart Money Matters

When it comes to preparing for retirement, there are a lot of things you can't control — like the ups and downs of the market, the future of Social Security, taxes, and inflation, for starters. One thing you can control, however, is how well you prepare. This issue of the One Day Is Today® Financial Preparation Guide offers up some tips and tools to help you balance your financial obligations and help maximize your retirement contributions. Because contributing towards your retirement could be the most important thing you'll do with your money.



## Are you saving enough?

### How a “Bucket” approach may help you reach your goals

When it comes to setting aside money for your various needs and wants, a three “bucket” savings strategy can be a simple way to make progress toward your goals. Here’s how it works. You decide how much of your monthly income you can direct to savings and then you divvy up that amount into these three savings buckets: short-term savings, medium-term savings and long-term savings.

#### *Short-term savings (Your “Life Happens” Emergency Fund)*

An emergency fund is money that you earmark for unexpected expenses — like when your tire suddenly goes flat and you need to replace it or when you chip your tooth and need to see a dentist. It’s the account you tap to repair or replace a broken appliance, or if you find yourself in-between jobs and without a paycheck, to cover your everyday bills.

Industry professionals, such as the Financial Industry Regulatory Authority (FINRA), suggest that you set aside three to six months’ worth of living expenses in your emergency fund.<sup>1</sup> If that amount is out of reach, build your account monthly until you reach your goal.

The money in your short-term savings bucket should be easily available so you could write a check or access your money should an emergency strike. Equally important, your short-term savings should be separate from your checking account or any other savings you may have. That way, you won’t be tempted to tap into it for everyday expenses.

#### *Medium-term savings (Your “Future Needs and Wants” Fund)*

We save for the short-term so that we have cash ready for unexpected expenses and emergency needs. We also save for the long-term so that we can one day stop working and live comfortably in retirement. But what about all the fun years in between?

Maybe you want to buy a new car or take a dream vacation in a couple of years. Perhaps you want to buy a house in three years, go to graduate school or start a business in five years. Or, you may want to help fund college for a child or grandchild in 10 years. The medium-term savings bucket is where you put money for needs and wants three to 10 years away.

Like your short-term bucket, you want the money in your medium-term bucket to be easily accessible. However, where you put your money will depend on your timeline. For more urgent goals, you may want to put your savings in a high-interest savings account, short-term CD, money market account or money market fund. For goals that are a few years further away, you may want to consider a conservative mutual fund that aims to preserve your savings while providing the potential for growth.

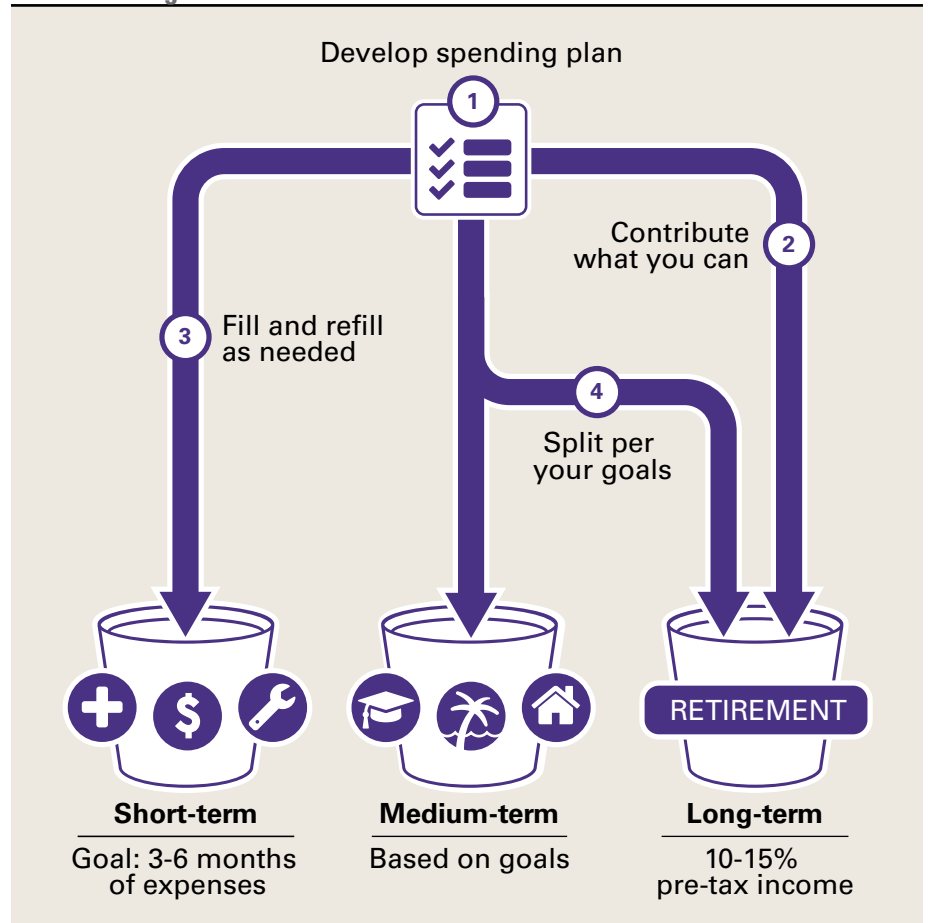
1. FINRA. <http://www.finra.org/investors/start-emergency-fund>

**Long-term savings (Your “Someday I Want to Stop Working” Fund)**

Long-term savings is your plan-for-the-future and save-for-retirement bucket. It’s the money you contribute each month when you participate in your retirement plan at work or when you set aside additional funds for the future through a Roth or Traditional Individual Retirement Account (IRA).

Your goal should be to contribute at least 10–15 percent of your pre-tax income to your long-term bucket. This includes any matching contribution you may receive from your employer. Can’t manage that much now? Aim to contribute at least enough to maximize the match from your employer, if one is available, or start contributing at a rate you can afford now. Then increase your contribution rate steadily (for example, 1 percent each year) until you reach your contribution goal. To get a better idea of how much you should contribute toward the retirement of your dreams, use our [Retirement Income calculator](#). Whatever money you set aside for retirement should remain untouched until you stop working.

**Bucket savings in action**



## Your savings in action

Separating your money into different accounts or savings buckets for short-, mid- and long-term goals can help you more easily track your progress and priorities. It can also help you stay motivated to save — you'll be less likely to raid your “Bali dream vacation” or “your moving to the ‘burbs” funds for an impulse buy than if all your money was lumped into one account.

**Here's how a savings bucket strategy can help you build wealth for the future:**

- 1.** Develop a **spending plan**. Decide how much money you have each month for your needs (your everyday living expenses, such as your rent or mortgage, utilities, transportation and food. Although it is important to include wants (such as your unlimited text messaging plan, gym membership, and happy hour time with friends) in your spending plan, it's also important to contribute toward your retirement plan. What's left over is the money that should go toward savings your emergency fund and your medium-term savings bucket.
- 2.** Sign up for your retirement plan at work, if you haven't already done so and begin contributing. Although your goal is to contribute at least 10–15 percent of your income each month, it is important to start contributing as soon as you can, even if your contribution is less than 10 percent. If you already participate in your plan, check your contribution rate, and consider upping your contributions until you are contributing 10–15 percent.
- 3.** Set up an emergency fund for short-term expenses and begin filling it. Remember, your goal is to save enough to cover three to six months of living expenses. If you need to draw from this fund for an unexpected expense, just be sure to start replenishing the money until it is full again.
- 4.** Once your emergency fund contains three to six months of living expenses, set up an account for your medium-term goals. You may want to split any excess savings evenly into this account and your retirement account (long-term bucket). You may want to create sub-accounts for each of your medium-term goals.
- 5.** If you max-out the contributions to your retirement plan at work (yay, you!), consider investing any excess savings in a tax-advantaged Traditional or Roth IRA or redirect your extra money to your medium-term bucket. By steadily filling each of your savings buckets, you'll build financial security for whatever the future brings.

Aim to contribute at least enough to maximize the match from your employer, if one is available, or start contributing at a rate you can afford now.

## Are student loans crowding out your retirement?

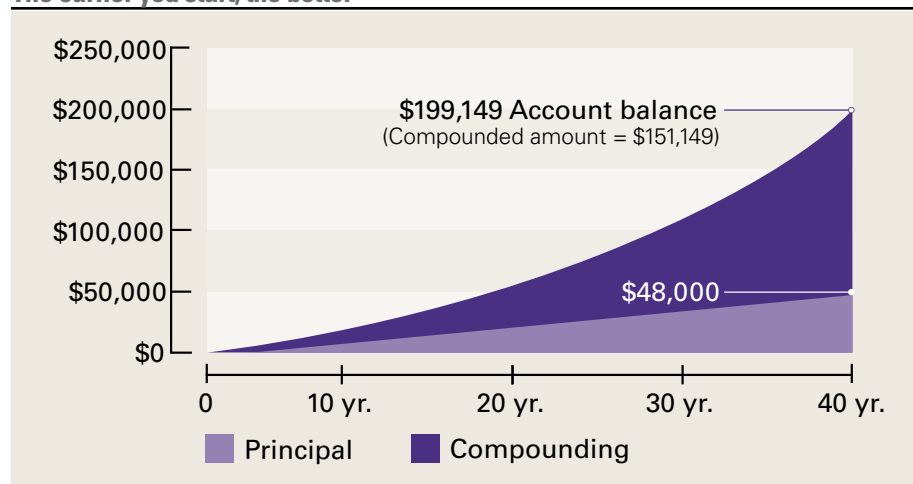
If you're saddled with student loans, you're not alone. Sixty-three percent of 18–29-year-olds, 53 percent of 30–44-year-olds, 44 percent of 45–59-year-olds, and 28 percent of 60+ year-olds have taken out student loans to finance their own education according to the Federal Reserve.<sup>2</sup>

It's no surprise that many workers prioritize paying off their student loans over retirement or other important goals. In a recent survey, nearly nine out of 10 (85 percent) participants who are currently paying on student loans said that this was having an impact on their ability to prepare for retirement.<sup>3</sup>

**So how can you meet your loan obligations without derailing your future goals? Consider these suggestions:**

- 1. Find your balance.** It can be tempting to put off saving for retirement in favor of focusing on paying off your student loan debt. But as the example below demonstrates, postponing retirement saving, even for just a few years, can hamper your ability to build enough retirement savings for the lifestyle you want in the future. How about a compromise? Rather than diverting all your extra cash toward your student loans, strike a balance between paying off your debt and saving for retirement.
- 2. Save what you can.** Don't stress if right now you can only manage to save a small amount toward retirement. What's important is that you get started. Because of compounding, even a small amount invested when you're younger can significantly increase the size of your future savings. Here's why. Let's say you sock away \$100 a month in your retirement plan at work. After 40 years, your account would have grown to \$199,149. To see how much of that amount is due to compounding, look at the chart below.

### The earlier you start, the better



**Note:** Example based on a 6% APR. All numeric examples and any individuals shown are hypothetical and were used for explanatory purposes only. Actual results may vary.

**2.** Federal Reserve Report on the Economic Wellbeing of US Households, 2017. <https://www.federalreserve.gov/publications/2017-economic-well-being-of-us-households-in-2016-education-debt-loans.htm>

**3.** Understanding and Achieving Participant Financial Wellness. OneAmerica®, August 2018

- 3. Consider consolidation.** If you have multiple student loans, consolidating (combining) them into one loan can simplify your debt and, depending on the type of loan, potentially save you money. If you have federal student loans, you can consolidate them with a Direct Consolidation Loan and choose new repayment terms. This may allow you to lower your monthly payment by extending the length of your loan — but be aware: a longer repayment period means you end up paying more interest over the life of the loan. If you have private or federal student loans, you can consolidate them by refinancing through a private lender and possibly qualify for a lower interest rate. Because there are pros and cons to each option, it makes sense to do your research before deciding. You may also want to consider consulting with a financial advisor.
- 4. Put yourself first.** If you cosigned a student loan for your children or grandchildren, you're in good company. Three-quarters of older Americans with college debt took out those loans for a younger family member.<sup>4</sup> To avoid jeopardizing your own financial future and credit rating, be clear with relatives about who will repay the loan and when. Then put your agreement in writing. The reality is that your loved ones have choices about which college to go to and how to pay for it, including qualifying for scholarships. You have no such options when it comes to paying for retirement, so think carefully before taking on debt that could burden your later years.

Postponing retirement saving, even for just a few years, can hamper your ability to build enough retirement savings for the lifestyle you want in the future.

For more information, read our [\*\*Paying Off Student Loan guide\*\*](#).

**4.** *Snapshot of Older Consumers and Student Loan Debt*, Consumer Financial Protection Bureau, 2017. [https://files.consumerfinance.gov/f/documents/201701\\_cfpb\\_OA-Student-Loan-Snapshot.pdf](https://files.consumerfinance.gov/f/documents/201701_cfpb_OA-Student-Loan-Snapshot.pdf)

# Think income, rather than assets

## Retirement contributions for the ages

While the specific amount you'll need to set aside for retirement is based on your own needs, goals and circumstances, these simple guidelines can help you get started.

- **By age 30:** Have the equivalent of your salary saved
- **By age 40:** Have three times your salary saved
- **By age 50:** Have six times your salary saved
- **By age 60:** Have eight times your salary saved

**Source:** BankRate.com. <https://www.bankrate.com/banking/savings/how-much-do-you-need-in-savings-retirement-emergency-fund/>

What if you saved \$100,000 for retirement — would that be enough? What about \$500,000? Or \$1 million or more? One of the biggest fears about retirement is running out of money. But how much do you need to accumulate to have the retirement you dream about? The answer depends on how much you plan to spend once you stop working. That's why, when it comes to measuring whether you're on track for retirement, it makes sense to shift the focus from assets to income.

### Here are four steps to help you get started.

- 1. Estimate how long your savings may need to last.** Before you can determine if you're on track for retirement, you need to figure out your longevity — in other words, how long you (and your spouse/partner, if applicable) are likely to live. The Society of Actuaries' Longevity Illustrator (<http://www.longevityillustrator.org/>) makes it easy to estimate your potential lifespan with different degrees of certainty, based on your age, gender and health.
- 2. Get a handle on expenses.** Retirement rules of thumb — such as you'll need to replace 70–90 percent of your pre-retirement income to cover living expenses in retirement — can be helpful, especially early in your career. But as you get closer to retiring, you'll want to have a more precise picture of how much income you'll need to cover basics like food and housing, and health care costs, along with discretionary spending (your “wants”) like travel and entertainment. OneAmerica has a helpful online [calculator](#) that can help you understand how much you need to save to create the amount of income needed to fund your anticipated lifestyle come retirement.
- 3. Flip assumptions.** Maybe you've heard about the 4 percent rule — it's a commonly used rule of thumb on how much you should withdraw annually once you are retired. As the name implies, this rule states you should withdraw 4 percent per year (e.g. \$1 million retirement plan  $\times 0.04 = \$40,000$  annual withdrawal). But did you know that flipping the equation of the 4 percent rule can help you figure out how much money you may need in retirement? Here's how it works: simply multiply your estimated annual retirement income needs by 25 to get your target. Using the previous example, let's say you anticipate needing \$40,000 per year to meet your expenses in retirement. Using the “flipped” 4 percent rule, you'll need to have at least \$1 million saved ( $\$40,000 \times 25$ ) to meet your needs in retirement.

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**4. Boost your savings.** To make sure you reach your retirement income goal, save as much as you can today. If your plan has an auto-escalation feature, consider upping your contribution rate each year. If your plan doesn't have auto-escalation, increase your contribution rate once a year, for example, on your birthday. You may also consider increasing your contribution rate when you get a raise. That way your retirement contributions will keep growing over time, along with your income level.

...when it comes to measuring whether you're on track for retirement, it makes sense to shift the focus from assets to income.



## 7 questions to ask when interviewing a financial advisor

1. What's your educational background? What specialized certifications have you earned?
2. How long have you been an advisor?
3. What do you like best about the work you do?
4. What services do you provide?
5. How often would you review my financial situation and provide updates?
6. What do you charge for your services?
7. Would you give me the names and numbers of three clients as references?

## Lightening your load

### Why working with a financial advisor may make sense

Everyone has a picture of what they want for their future. But there's a big difference between having a dream and creating a plan to reach it. That's where a financial advisor may help make a difference.

If you think you can't afford a financial advisor, think again. In fact, the right financial advisor may save you money in the long run. That's because a financial advisor can help you understand where you are today, where you want to go, and how to get there. An advisor can create a comprehensive plan for a lifetime of financial needs, including helping you to identify your goals, choosing an appropriate mix of investments, adjusting your portfolio over time, and creating a strategy to turn your savings into income when you decide to finally stop working.

Equally important, an advisor can provide the regular check-ins, portfolio reviews, progress reports, and updates to your plan as your circumstances, needs and goals change over time. An advisor can also help you avoid getting blind-sided by things you may not have considered — like what would happen if you encountered a bear market right before retirement, or if you lost time from work because of illness or a lay-off.

Bottom line: a financial advisor can help simplify your financial life, providing the guidance and encouragement that can help you stay on course through life's ups and downs.







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OneAmerica offers a variety of products and services to serve the financial needs of their policyholders and customers. These products include retirement plan products and recordkeeping services, individual life insurance, annuities, asset-based long-term care solutions and employee benefit plan products.

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