

Insight



A QUARTERLY PERIODICAL DEDICATED TO HELPING YOU PREPARE FOR TOMORROW

YOUR INCOME IN RETIREMENT

Setting aside enough money now will make a big difference after you leave the workforce and draw on your savings and other sources to cover expenses.

Your retirement should be about doing all the things you've dreamed of doing over the years—and it may even involve new interests and hobbies. Spending more time with your family, traveling, and starting your own business are just some of the possibilities. No matter what life you envision for yourself, you will need to plan ahead to build a sound retirement income plan. A solid plan starts with some standard guidelines.

SAVE ENOUGH NOW

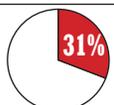
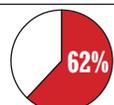
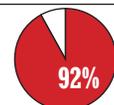
An effective rule of thumb is to plan on replacing 75% of the gross salary you earn the year before you retire to maintain your current lifestyle after you leave the workforce. As a starting point, around 50% of your preretirement income should come from savings, 20% from Social Security benefits, and the rest from sources such as a pension or part-time work. How much should you save as a percentage of your income to fund that 50%? Most investors should aim to set aside at least 15% of their annual income, including any employer contributions, to try to build enough savings to draw from throughout their retirement.

Retirement accounts.

Traditional 457 plan contributions offer a convenient way to work toward that 15% goal. The most important step is to contribute. Otherwise, make traditional 457 plan contributions and then maximize a Roth IRA for its tax-free benefits. Once you've contributed up to the limit in a Roth IRA, you can continue making traditional 457 plan contributions to your employer's Plan.

HOW MUCH SAVINGS IS ENOUGH?

*Three investors, each 30 years old and earning \$50,000, retire 35 years later at a salary of \$136,595, having saved at different rates. They each want to replace 50% of their final salary in income from savings that first year. Here's how each investor would fare by taking 4% of his or her retirement assets in the first year of retirement.**

	Investor 1	Investor 2	Investor 3
Savings rate	5%	10%	15%
Total savings at retirement	\$525,819	\$1,051,639	\$1,577,458
4% of total savings	\$21,033	\$42,066	\$63,098
Amount needed to replace 50% of final salary	\$68,298	\$68,298	\$68,298
Target amount generated by savings			

*Assumes 3% annual raises and a 7% annual return. Assumes contributions made at the start of the period and returns compounded at the end of the period. The above examples are for illustrative purposes only and are not meant to represent the performance of any specific investment option.

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CONSIDER YOUR OPTIONS

Traditionally, retirement involved leaving your job at a set date in your mid-60s. Today, retirement is more fluid, with many people choosing to stay on the job longer or to retire in phases. Longer life spans have transformed the model for how you should save and invest for retirement; now you'll spend more over a post-work life that could last to age 95 or longer. Consider the following ways to stretch your money during retirement.

Delay Social Security.

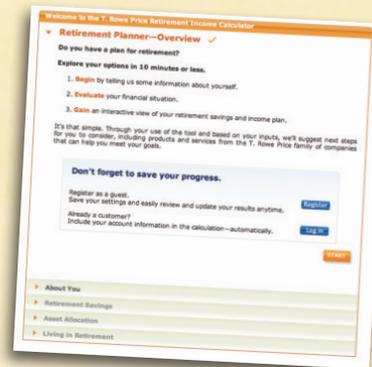
Most individuals will get the maximum Social Security benefit by beginning to take it at age 70. Each year that you take benefits prior to age 70 decreases the amount you receive by 7% to 8%. In other words, the amount you would receive by taking Social Security benefits at age 62 could be 55% to 60% of the amount you would collect at age 70.

Practice Retirement®.

Staying in the workforce throughout your 60s can help you preserve your savings. If you stay in the workforce, you can also use this time to begin exploring ways to enjoy your future retirement. If you stay in the workforce, you can consider taking the money you were contributing to your retirement savings accounts and redirect it toward new hobbies or interests. Working longer allows you to delay taking Social Security benefits and postpone

tapping your reserves. This could allow your retirement nest egg to grow tax-deferred for several more years, which may enhance your overall retirement income when you decide to fully retire or start taking withdrawals. Working longer allows you to continue to maintain your salary and benefits while enjoying some of the activities you would have put off until you were fully retired.

Log in to the participant website at rps.troweprice.com and make use of the T. Rowe Price Retirement Income Calculator to give you a clearer picture of your retirement readiness. If you have questions about the website or need information about your Plan, call a trained retirement specialist on business days between 7 a.m. and 10 p.m. eastern time, at **888-457-5770**.



RESIST THE URGE TO REDUCE RETIREMENT SAVINGS

The legislation approved by Congress and President Obama to avert the so-called “fiscal cliff” largely spared middle-class workers, raising income and investment taxes only on individuals earning more than \$400,000 and on married couples earning more than \$450,000. But all workers are being financially hit in another way, possibly tempting some to lower their retirement plan contribution rate to make up the difference.

The payroll tax sprang back to 6.2% this year, after two years at 4.2%. That's a difference of about \$38 per biweekly paycheck for someone making \$50,000 annually, reducing his or her take-home pay by \$1,000 per year.

You might think it's a good idea to make up the difference in your paycheck by cutting back on retirement savings. Doing so, however, could leave you struggling financially in retirement.

While you may need to trim your budget to cope with less take-home pay, it's generally in your best interest to continue maximizing your workplace retirement plan. Here's why: Let's say a couple, both age 40 and each with \$150,000 in existing retirement savings, makes about \$100,000 a year and manages to save about 15% of their salaries in workplace retirement plans. The T. Rowe Price Retirement Income Calculator shows

that the couple will have about \$6,848 per month, including Social Security, to live on after age 65—more than the \$6,250 per month they will likely need—assuming they continuously contribute 15% of their pay until retirement.

If that couple decides to cut their contribution rate to 10% of income, they will only have \$6,166 per month to live on after age 65, which is \$84 short of what they will likely need each month. If they cut their contribution rate to 5% of income, they will only have \$5,492 per month to live on after age 65, a shortfall of \$758 a month.

These examples illustrate how important it is for all investors to continue saving for retirement, even though it may be harder as a result of the increased payroll tax rate.

HOW CAN I DETERMINE MY FUTURE SOCIAL SECURITY BENEFITS?

Currently, Social Security represents an important source of income in retirement, and deciding when to take your benefits is an essential part of financial planning, says Christine Fahlund, CFP®, a senior financial planner with T. Rowe Price.

Social Security benefits can help you maintain your current lifestyle throughout your retirement. When you decide to take your benefits can make a difference in how much money you will receive over your lifetime. Most individuals will get the maximum benefits by waiting until age 70 to start taking them. Each year you take benefits prior to age 70 decreases the amount you receive by 7% to 8%.

MAKE INFORMED DECISIONS

A common misperception of Social Security is that it provides fixed payments, with few options to reflect your retirement needs. The reality is you'll have a great deal of control over the income you can receive from Social Security. However, making an informed decision about when to take your Social Security benefits is critical.

Consider factors such as your marital status. If you are single, the decision about when to take benefits will only directly affect you, not your heirs. However, if you are married, the choices you make as a couple may result in a significantly different financial outcome for both of you later in retirement.

Other factors to weigh when determining when to take Social Security benefits include your goals for retirement, other income sources, and your anticipated income needs in your later years. Identifying an optimal strategy for receiving an income stream from Social Security in your preretirement years can help you maintain your quality of life later on and may result in a substantial increase in the benefit amount you collect over your lifetime.

It may be tempting to rely on Social Security to boost your cash flow right away. However, few strategies can do more to enhance your retirement income over the long term than delaying the payout of your benefits.

PLAN AHEAD

In addition, your Social Security benefits are increased periodically to keep pace with inflation. These inflation adjustments strengthen the case for delaying benefits as long as possible—the higher your initial benefit, the larger the dollar value will be of any cost-of-living adjustments. And if you deplete your savings early, you will still have a predictable, steady stream of inflation-adjusted income for the rest of your life.

The new T. Rowe Price Social Security Evaluator shows the financial impact your decisions will have on your Social Security benefits. Investors can use the T. Rowe Price Social Security Evaluator to estimate what their benefits will be, based on their marital status and a range of other factors. Visit rps.troweprice.com and click on the Tools tab from the homepage. Then select Launch Tool within Retirement Income.



TEST YOUR KNOWLEDGE OF CATCH-UP CONTRIBUTIONS

1. Catch-up contributions can be made by investors age 50 or older.

- A. False.
- B. True.
- C. Only if they've saved more than \$1,000.

2. Catch-up contribution amounts for 2013 are...

- A. \$1,000 for IRAs; \$5,500 for workplace retirement plans.
- B. Yet to be determined.
- C. \$100 for all types of retirement accounts.

3. Making catch-up contributions can...

- A. Increase your income today.
- B. Lower your monthly expenses.
- C. Help you build a larger nest egg.

ANSWERS

1. B. True. Catch-up contributions enable people age 50 or older to make additional contributions to their 457 plan and/or IRAs. You're eligible for the higher limit as long as you reach age 50 by the end of the calendar year; you don't have to wait until your actual 50th birthday to increase your contribution amount. In order to make catch-up contributions, you have to contribute the maximum amount permitted by the Plan.

2. A. You can contribute up to an additional \$1,000 to a Traditional IRA or Roth IRA each year. For your workplace Plan, the IRS permits you to contribute \$23,000 in 2013—a figure that consists of the \$17,500 basic annual contribution limit plus an extra \$5,500 in catch-up contributions.

3. C. Consider an investor at age 30 who sets aside 15% of her \$50,000 salary each year. Thirty-five years later, at retirement, she would have \$1.58 million, assuming annual raises of 3% and an average annual return of 7%. With additional contributions of \$5,500 each year beginning at age 50, she would amass \$1.725 million in retirement savings.

TELEPHONE NUMBERS

Deferred Compensation

Plan Rules/Options Information

800-442-1300/217-782-7006

TDD/TTY: 800-526-0844

Internet: <http://www.state.il.us/cms/employee/defcom>

Recordkeeper

T. Rowe Price Retirement Plan Services, Inc.

Account Value Information and Investment Changes:

888-457-5770 or TDD/TTY: 800-521-0325

Internet Access: 800-541-3022

Internet: <http://rps.troweprice.com>