

Update



Safe and Secure?

Do you picture Social Security as a safety net that will easily pick up the slack between what you've saved and what you'll need for retirement? If you're relying on Social Security benefits to provide the bulk of your retirement income, you could be putting your financial future at risk.

BEST ESTIMATE

Unless you're very near retirement age, you can't be sure exactly how much you will receive from Social Security. The Retirement Estimator you can use on the Social Security Administration's website (www.ssa.gov) will give you a projected estimate of your future retirement benefits. You should still look at the estimate closely and consider what current retirees receive. You may then decide to save even more in your employer's retirement plan.

FACE THE FACTS

The average monthly Social Security benefit for retired workers receiving benefits at the end of 2010 was \$1,175* — or \$14,100 a year. Compare that amount to your current income. To maintain your current standard of living during retirement, you're probably going to need quite a bit more money than Social Security provides. Among current retirees, Social Security benefits represent only about 40% of their income.*

FUTURE UNCLEAR

Social Security is basically a "pay-as-you-go" program with today's taxpayers paying the benefits of today's retirees. In the future, fewer workers will be paying the benefits of more retirees. By 2035, it's projected that there will be nearly twice as many older Americans as there are in 2011. In 2010, there were 2.9 workers paying Social Security taxes for each Social Security beneficiary. In 2035, that ratio is projected to drop to 2.1 workers for every beneficiary.* Changes may need to be made if the Social Security system is to be sustainable over the long term.

JUST ONE SOURCE OF INCOME

Counting on Social Security to be your main source of retirement income is a risky strategy. Instead, make sure you have several sources of income available when you retire, including your retirement savings plan. Contributing as much as possible to your employer's plan can help you prepare for your future.

VOLUME VII, ISSUE II

INSIDE THIS ISSUE

SAFE AND SECURE?
..... 1

MULTIPLE ACCOUNTS, ONE
ASSET ALLOCATION
..... 2

TO YOUR ADVANTAGE
..... 2

T MINUS TEN YEARS
..... 3

RETIREMENT INCOME
GET WHAT YOU NEED
..... 4



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* Social Security Administration, 2011

Multiple Accounts, One Asset Allocation

Working for more than one employer during your lifetime may mean you have more than one retirement account. Add to that any investment or individual retirement accounts you've opened, and you may end up with portfolio "clutter" — and lower returns than you'd hoped for.

STANDALONE ACCOUNTS

One drawback of having multiple accounts is that you may have a lot of similar — or even the same — investments. This can happen when you choose the same asset mix for each account. But different retirement accounts offer different investment choices.

One may include a strong bond choice, while another may excel in its stock offerings. By not taking advantage of the particular strengths in each account's investment lineup, you could be forgoing potentially higher returns.

Another drawback of having multiple accounts is that owning many different investments makes it much more difficult to monitor your portfolio's performance. If you can't easily tell how your investments are doing, you might not make changes when they're needed.

A PIE WITH MANY SLICES

Instead of treating each account separately, consider coming up with a target asset allocation to apply to your overall portfolio. Then select the strongest investment offerings from each account to create a diversified* asset mix that reflects your risk tolerance and time frame. By taking this approach, you'll have fewer investments to keep track of, which could boost your portfolio's overall returns.

It may take a little effort. But with the help of your financial professional, you can get your retirement accounts in sync.

** Diversification does not ensure a profit or protect against loss in a declining market.*

To Your Advantage

It's to your advantage to participate in your employer's retirement savings plan. Why? Because your employer's plan provides you with built-in benefits that can help you achieve your retirement goals.

START WITH THE SAVINGS

Saving for retirement is simple when you participate in your employer's plan. Once you decide how much you want to contribute, that amount is automatically taken out of your paycheck and deposited in your plan account each pay period. You don't have to make any trips to the bank or face the temptation of spending that money on other things. Your retirement plan makes saving easy and convenient.

MORE MONEY FOR YOU

If your contributions are made on a pretax basis* you don't pay current income taxes on that money. You also don't have to pay taxes on the growth of your plan investments as long as your money stays in the plan. Over time, the potential earnings generated by your tax-deferred investments can really add up.

If you qualify, you can claim a credit on your federal income-tax return for contributions to your retirement plan. The Saver's Credit is 10%, 20%, or 50% of a maximum of \$2,000 in qualified retirement savings contributions for the year. Eligibility and the applicable credit rate depend on your income and filing status.

DIVERSIFICATION ON DEMAND

Diversification** — spreading your money among a variety of investments to help manage risk — is another built-in feature of your plan. Each fund or portfolio that your plan offers likely holds a number of securities. A loss in one fund security may be offset by gains in others. You can diversify even further by choosing to invest your retirement dollars in a variety of funds that hold different asset types, such as stocks, bonds, and cash equivalents.

** 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.*

*** Diversification does not ensure a profit or protect against loss in a declining market.*

Continues on page 3

SAVE IN TWO WAYS

When you save in your employer's plan, you also save on current income taxes. Essentially, you're saving in two ways just by participating in your plan.

Tax Bracket	Annual Pretax Contributions	Actual Cost in Take-home Pay	Annual Tax Savings
10%	\$1,200	\$1,080	\$120
15%	\$1,200	\$1,020	\$180
25%	\$1,200	\$900	\$300
28%	\$1,200	\$864	\$336
33%	\$1,200	\$804	\$396
35%	\$1,200	\$780	\$420

Amounts are rounded to the nearest dollar. State income taxes are not considered. Source: NPI

T Minus Ten Years

When you first started working, retirement may have seemed light years away. But the years have passed more quickly than you anticipated, and now you find yourself only ten or so years away from your anticipated retirement date. Going forward, you'll want to focus closely on your retirement savings and investment strategy.

BOOST YOUR BALANCE

Are your retirement savings on target to meet your goals or did saving for your retirement take a backseat to buying a house, raising a family, and helping your children with their college costs?

Also, how hard was your retirement portfolio hit by the recession and financial crisis? Your financial professional can help you come up with a plan to grow your nest egg.

A LATE LAUNCH?

It's never too late to start saving more for your retirement. In fact, you may be able to save more than ever if you're age 50 or older. Your employer's retirement savings plan may allow you to make "catch-up" contributions of up to \$5,500 in 2011 in addition to \$16,500 of elective deferrals — for a total possible contribution of \$22,000 to your plan. (Other limits may apply.) If you take advantage of this opportunity, the decade ahead could be a period of significant savings.

ADJUST YOUR HOLDINGS

As you near retirement, your ability to recover from market downturns is generally reduced. You may want to shift a larger portion of your portfolio out of stocks and move the money into bond and cash equivalent investments, which tend to be more stable.

However, you probably will want to keep some stock holdings since they have the potential to outpace inflation. Inflation can decrease the buying power of your retirement savings before and during retirement, so it's important to include investments in your portfolio that can keep pace.

POSTPONING LIFTOFF

If you're concerned about not having enough money for your retirement, consider working longer. That way you'll have more time to save, and your savings will have more time to compound before you start drawing on the money. Postponing retirement also means you'll need to live off your savings for fewer years.

EXPLORE DISTRIBUTION OPTIONS

Consider your plan's distribution options and their tax impact well before you reach your retirement date. Your financial professional can help you determine which option may be appropriate for your situation and devise a plan for managing your money in retirement.

Retirement Income

Get What You Need

Housing, food, and health insurance vs. hobbies, travel, and entertainment. When it's time to retire, you want to have enough money to cover your expenses and still have some fun. Planning your investment strategy carefully can help.

The number of years you're retired and the rate of inflation play a role in the amount of money you'll need for living expenses in retirement. How your money is invested and the performance of your portfolio will affect how long your savings last. Coming up with a plan for investing some of your retirement assets to meet current needs and positioning others to benefit from potential long-term growth can set you on a course for success.

Your "Needs" Strategy. You'll want to make sure your basic expenses are covered by creating a strong foundation to provide the necessary income. Figure out how much additional money you'll need for essential expenses each year after taking Social Security and any other sources of regular income (e.g., an employer's pension or an annuity) into account. Then put enough cash to last several years into low-risk investments that you can easily access.

Your "Wants" Strategy. Once you have a plan for covering the basics, think of all the "extras" you may need money for in retirement. You may see travel in your future. Maybe a new car will catch your eye. And, if you relocate, moving expenses may loom large. All of these things take serious cash. The money for nonessential expenses will probably come from your savings and investments.

Consider keeping at least some of your money for nonessentials in investments with the potential for earning higher returns. Then you can periodically liquidate a portion of your higher risk investments and put the money in more conservative alternatives. These amounts will be available for the things you'd like to do in retirement. You can leave the rest invested to benefit from possible long-term growth.



RBC Wealth Management[®] 60 SOUTH SIXTH STREET • MINNEAPOLIS, MN 55402-4422

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