# DICKINSON
## Investment Advisors

www.dickinsoninvestments.com 712.256.4856

**Third Quarter 2014**


# Figuring Out How Much You Need In Retirement

At some point, almost everyone asks this question: How much do I have to save for retirement? Of course, there's no easy answer, but what may be even more disconcerting is the possibility that this may be the wrong question. It might be more beneficial to figure out how much income you will need annually in retirement than it is to pinpoint the amount you should try to set aside.

**Start by Changing Your Mindset**

You are who you are and that isn't likely to shift 180 degrees in retirement. Sure, you'll have more time to travel or pursue other activities, but you'll still be the same person with the same basic values, interests, and inclinations. Armed with this knowledge, you may want to shift from the notion of accumulating a specific amount for your retirement to figuring out what your expenses will be on a year-to-year basis.

Once you understand your financial liabilities, you'll be better prepared to devise a retirement saving strategy and at the same time eliminate fears that your money won't last long enough. Targeting a "magic number" for the future can be stressful. According to a recent survey, 82% of the respondents who have dependents and are age 44 through 49 were more worried about outliving their money than they were about death. Concentrating more on your personal needs can help alleviate concerns.

Begin this process by calculating your true retirement liability. Rather than asking "How much money do I need to retire?" try to determine "How much money in future dollars will I need each year during retirement?"

**Calculate Your Expected Expenses**

Where and how will you spend most of your money during retirement? Everyone's situation is different, but recent statistics from the Bureau of Labor Statistics indicate the typical results, some of which you may find surprising. Here are a few findings to ponder about retirees age 65 and over:

- They spend 34.2% of their money on housing. If you're already an empty nester, or expect to be one in the near future, you might look to downsize soon to take advantage of the equity built up in your home. In any event, consider working out a plan that lets you live more economically than you could when you were in the middle of a career and raising kids.
- They spend 16% of their money on transportation. And it's not paying for gasoline that hurts the wallet most; the bulk of these expenditures come from buying new cars. Instead of succumbing to the temptation to rush out and get a new vehicle every three years, consider keeping your existing car or buying a pre-owned model.
- They spend only 0.5% of their

*(Continued on page 4)*

# *Doom, Gloom And All-Time Market Highs*

Every few months I receive an email stating that someone said the market is going to crash. If I search the internet I easily can find a claim by some seemingly important person who called the last market crash correctly, and now is making a doomsday prediction.

This tugs on our emotional heart strings. We want to believe someone has a unique insight and is here to help us.

The problem is, typically I never have heard of this person, and it's a new person every month.

There are folks out there trying to sell you something or make a name for themselves.

Guess what? Sooner or later, one of them will be right, just like a broken clock is right twice a day. But no one ever holds these people accountable when they are wrong; they just slide off into the dark and next month a new one pops up.

I have a select list of individuals I listen to who have been reliable through all market cycles.

The market will have its high and low points. Emotional responses to the latest news have shown to be a losing strategy.

We strive to apply proven, time-tested solutions to your investment portfolio.

Ron Dickinson

# Don’t Outlive Your Money: 7 Tips *By Bob McGinty*

The scariest financial risk people face in life is running out of money at an old age. I’m 83 and I’m speaking from personal experience. After a long career as a newspaper editor, I retired in 1991 at the age of 60, with my wife, who is 14 years younger and retired in 2004. I’ve learned about financial matters the hard way, and I ghost-write articles like this one to earn some extra income. I’m not scared about running out of money in my lifetime, but I am fearful of not leaving enough money to my wife, who is much younger than I.

Let me share with you some financial lessons I’ve learned. Of course, these are my personal opinions, not anybody else’s.

**1.** DO NOT elect to take Social Security benefits early. If you do take early benefits, you probably will be shortchanged on what you would have received in total payments over the rest of your lifetime. People are living longer these days. You will add 8% a year in payment totals after full retirement age if you can wait until age 70 to take benefits.

**2.** Downsize your home at the earliest opportunity. Once you become an empty nester, the odds are that you do not need a house as large as the one in which you now live. Sell it and buy a smaller one. Pay cash if at all possible.

**3.** Consider moving to a retirement community, which can be a highly desirable and cost-efficient place for the elderly to live. Your neighbors in such communities most likely are like-minded and in your age group. Also, such communities are especially designed for elderly living, and most are located near good health-care facilities. Plus, they offer social, educational and recreational facilities designed specifically for the elderly.

**4.** If you are not already out of debt, get out as soon as possible. When you are not in debt you can live on much less month to month, thereby lessening your chances of outliving your money.

**5.** If you have two cars, sell one. If you only have one, drive it twice as long as you did in the past. You probably will be driving less at this time in your life, and you can most likely drive your current car much longer without encountering excessive repair bills. If you are in the practice of making monthly car payments, once you've paid off your vehicle you can put all of the payments you would have made before into your savings.

**6.** If you are part of a close-knit family, do not move very far from your children and grandchildren. Life-changing occurrences such as death, divorce and disabilities are easier experiences when you have the support of family members around you all the time.

**7.** Finally, and most important of all: Continue to save all that you possibly can. The amount that you can save if you follow the previous six recommendations may be considerable. Where and how should you invest it? Seek out a financial advisor that you are sure you can trust and that you are sure is competent, and turn investment decisions over to him or her. ●

**Bob McGinty is a retired newspaper editor who occasionally ghost-writes articles for financial advisors.**

# Why Roth IRAs Are Still Red-Hot

What’s the next big thing in financial planning? It’s actually something that has been around for years: the Roth IRA. This tax-advantaged account offers the promise of future benefits without some of the restrictions that hamper traditional IRAs.

What makes a Roth so special? With a Roth IRA that’s at least five years old, most distributions after you’ve reached age 59½ are completely tax-free, while earlier payouts may be wholly or partially tax-free under the tax law’s “ordering rules” that treat the first money out of the account as coming from your contributions, which aren’t taxable. Also, you never have to take the “required minimum distributions” (RMDs) that force you to deplete a traditional IRA. Those RMDs and other distributions are taxable at ordinary income rates (except for any portion representing nondeductible contributions) reaching up to 39.6%. RMDs for IRAs become mandatory after age 70 ½.

There are two main ways to establish a Roth and take advantage of its benefits: through annual contributions or with a conversion from a traditional IRA.

**1. Annual contributions.** You can set up a Roth IRA and make contributions each year of as much as $5,500 ($6,500 if you’re age 50 or over). But the ability to contribute to a Roth is phased out at higher-income levels.

**2. Roth conversion.** Anyone can convert a traditional IRA to a Roth, or use a conversion to add to a Roth you’ve already established. In either case, you must pay tax at ordinary income tax rates on the taxable portion of the converted funds. Advance planning can help you minimize the tax damage.

One popular technique is to convert just enough to fill up extra “space” in the lower tax brackets while

# Dispel These 7 Popular Myths About Retirement

Retirement is changing. People are living longer, and many stay healthy and vital into their 80s and 90s. Working, at least part time, has become more commonplace. Yet with fewer and fewer corporate pensions to fall back on these days, the money to pay for a long life after work may not be there. And with change comes confusion and misperceptions about what really may happen during your retirement, however you define it.

Consider these seven common ideas that may prove overly optimistic—and then tweak your plans to make sure you don't fall short of your goals:

**Myth #1: You'll have saved enough for retirement when you get there.**

According to a 2014 survey by the Employee Benefits Research Institute (EBRI), an independent research firm, only 42% of current workers over age 55 say they've saved at least $100,000, while just 23% have set aside more than $250,000. The EBRI survey also indicated that just 18% of all workers were "very confident" they've saved enough for retirement. You easily could find yourself facing a shortfall.

**Myth #2. You'll spend a lot less than you do now.**

Some cash outlays, such as paying off the mortgage and sending the kids to college, no longer may apply. But what do you want your retirement to look like? If you've envisioned globe-trotting or indulging in expensive hobbies, you may find that will erode your nest egg more quickly than you expected. Unexpected expenses—high-priced dental work, say, or a down payment for a child's home—also can siphon away funds.

**Myth #3. You'll save a lot of money when you downsize your home.**

Moving to a smaller place probably will reduce maintenance costs and property taxes. But that doesn't mean you won't still have all the usual expenses associated with home ownership—just on a smaller scale—plus other possible fees that may apply if you've moved into an over-55 community. And if you've relocated to a ritzy neighborhood in a city or resort area, your expenses could go up.

**Myth #4. You'll continue working past the normal retirement age.**

You may want to stay on the job or shift to something else, but such plans don't always work out, and health problems also could pose obstacles. And if you're counting on job income to shore up your finances through many years of "retirement," not being able to do it—or deciding you're just not up to it—could leave a big hole in your retirement income.

**Myth #5. You easily can get a part-time job if you need one.**

When you retire from your full-time position, you might seek part-time employment, but those jobs may be harder to find, and to keep, than you imagine. You may be competing with youngsters who are more tech-savvy than you for jobs requiring computer skills. What's more, if you're living in an area with numerous other retirees, which is often the case, the competition can be fierce.

**Myth #6. You can rely on Medicare for all your medical expenses.**

Retirees often expect Medicare to pick up the entire cost of physician visits, hearing or eye exams, or the like, but that's simply not how the system works. In fact, Medicare covers only roughly half of such expenses, according to data recently provided by the Kaiser Family Foundation. And don't overlook the exorbitant costs of staying in a long-term care facility or paying for in-home nursing care. If you don't have a supplemental policy, Medicare might not provide enough coverage for you.

**Myth #7. You can rely on Social Security for most of your income.**

Different people have different ideas about Social Security. Some almost disregard those payments from the government, thinking they'll be too small to make any difference in funding retirement. Others, though, talk about Social Security like it's the be-all, end-all. It's neither. The fact is, Social Security can be genuinely helpful, often covering some of your essential expenses. But for most people it's not nearly enough to live on. The Social Security Administration says the average monthly benefit in 2014 is $1,294, which works out to $15,528 a year. That's why it's vital to take steps to supplement Social Security with income from investments, employer retirement plans, IRAs, and other sources.

There's one more myth we would like to expose—that it's too late to change your destiny. Reexamine your basic assumptions about your retirement and then make a reasonable retirement savings plan based on your needs and realistic objectives. ●

triggering as little tax as possible in the top tax brackets. This can be particularly powerful if you expect to be in a higher tax bracket in retirement than you are in now.

Suppose you're married and file a joint tax return, you have $500,000 in a traditional IRA, and your adjusted gross income in 2014 is $130,000. Using current tax rates, you are in the 25% tax bracket, but you anticipate being in the 35% bracket during retirement. If you fill up the 25% tax bracket (which tops out at $148,850) by converting $18,850 in traditional IRA funds to a Roth, you'll save 10% in tax (the difference in the current 25% rate and the future 35% rate). Assuming you repeat this strategy over several years, the savings could be as high as $50,000 (10% of $500,000).

This assumes you can pay the conversion tax with funds from outside the IRA, which might be a problem. Other factors also may come into play. So be sure that converting to a Roth IRA in this way makes sense for your situation before you take the plunge. Roth IRAs are hot, but you don't want to get burned. ●

# Are You Confident About Retirement?

Every year, the Employee Benefits Research Institute (EBRI), an independent research firm, gauges the confidence levels of retirement-savers. The results of its 24th Retirement Confidence Survey may make you sit up and take notice.

What jumps out is that an astounding 36% of current workers say they have saved $1,000 or less for retirement. Naturally, this figure is skewed somewhat by younger employees, of whom about half have less than $1,000 in savings, but 24% of the respondents over age 55 still haven't scaled the four-figure mark. At the same time, 42% of workers over age 55 say they've saved at least $100,000, while 23% in that age category have socked away more than $250,000.

As far as the rest of the report goes, Americans are becoming slightly more confident about retirement saving, although there's still plenty of cause for concern.

According to the 2014 survey, based on interviews with 1,000 current workers and 500 retirees, 18% of the current workers were "very confident" they would have enough money to live on comfortably throughout their retirement. That's up from a record low of 13% lasting from 2009 through 2013. Among retirees, the "very confident" figure was 28%, higher than the 18% figure last year.

Significantly, EBRI noted that the numbers haven't bounced back all the way since the downturn year of 2008. In that watershed year, 27% of current workers and 41% of retirees were very confident about retirement. Meanwhile, the percentage of current workers and retirees who are "not at all confident"— 25% and 17%, respectively—essentially hasn't budged since the downturn.

Almost all of the increases in confidence occurred among households with incomes above $75,000. For households with lower incomes, daily expenses don't seem to leave much room for savings. Coincidentally, 53% of respondents in the survey cited a high cost of living to explain why they can't or won't save more.

Here are some other note worthy findings:

• Having a plan helps. Upper-income respondents were much more likely to participate in a 401(k) or other employer-sponsored retirement plan. The mere presence of such a plan seems to boost confidence in retirement saving.

• Many expect to work part-time in retirement. Almost two-thirds of current workers think they'll work during retirement to make ends meet. But only 27% of retires say they've been employed after retiring. The idea of working part-time in retirement is a common misconception.

• Count on a calculator. For respondents with an employer plan, EBRI used the Department of Labor (DOL) Lifetime Income Calculator to estimate monthly income in retirement. The DOL argues that this motivates workers to increase savings.

What about you? If you're not confident in your ability to save for retirement, we can help you create a realistic plan. ●

## How Much For Retirement?

*(Continued from page 1)*

money on education. Just because you're retired doesn't mean you should stop learning. Going back to school on a part-time basis—even if you do it online—could improve your lifestyle and open up new opportunities.

This is just the tip of the iceberg. Also consider health care—often a big expense—food, entertainment, and retirement travel. No one knows better than you do where your money will go.

**4 Steps to Prepare**

It can be challenging to change the way you think about retirement planning, but here are four steps that may help:

1. Make retirement planning a top priority. It's been said that any plan is better than no plan at all. You're one step ahead of the game if you've already started to focus on the challenges ahead. Ignoring it could be the worst option.

2. Seek the counsel of others. We would be glad to provide whatever assistance you need in meeting your goals. It is often helpful if an impartial voice can provide guidance on emotional topics such as selling the family home or bypassing luxuries.

3. Create a range of estimates for what you will spend. Even if you knew with certainty how long you would live and how much you would spend, it still would be extremely difficult, if not impossible, to estimate your retirement liability exactly. Make reasonable estimates within a range and review the analysis annually.

4. Start sooner rather than later. Regardless of your age, it's not too early to begin planning. Your circumstances could change, so you'll need to build some flexibility into the plan. That's far easier at an early age than it is when retirement is knocking on the door. ●

**Dickinson Investment Advisors 533 South Main Street, Council Bluffs, Iowa 51503 (712) 256-4856 Fax:(712) 328-3139**