Retirement Planning Essentials

A comprehensive cheat sheet covering key concepts and strategies for effective retirement planning. From understanding different account types to optimizing your investment approach, this guide provides essential information for building a secure financial future.

Understanding Retirement Accounts

Types of Retirement Accounts

401(k)	Employer-sponsored retirement plan. Contributions may be tax-deferred or Roth (after-tax). **Key Features:** • Often includes employer matching contributions. • Contribution limits set annually by the IRS.
Traditional IRA	Individual Retirement Account offering tax-deductible contributions and tax-deferred growth. **Key Features:** • Contributions may be tax-deductible, depending on income and other factors. • Distributions taxed in retirement.
Roth IRA	Individual Retirement Account funded with after-tax dollars, offering tax-free growth and distributions in retirement. **Key Features:** • Contributions are not tax-deductible. • Distributions are tax-free in retirement, assuming certain conditions are met.
SEP IRA	Simplified Employee Pension plan for self-employed individuals and small business owners. **Key Features:** • Easier to set up than a traditional 401(k) for small businesses. • Contributions are tax-deductible.
SIMPLE IRA	Savings Incentive Match Plan for Employees, available to small businesses. **Key Features:** • Offers both employee and employer contributions. • Simpler to administer than a 401(k).
Taxable Brokerage Account	Investment account where gains are taxed annually. Offers flexibility without retirement account restrictions. **Key Features:** • No contribution limits. • Capital gains and dividends are taxable.

Contribution Limits (2024)

401(k) Employee Contribution	$23,000
401(k) Catch-Up (50+)	$7,500
IRA	$7,000
IRA Catch-Up (50+)	$1,000

Investment Strategies for Retirement

Asset Allocation

Asset allocation is diversifying your investment portfolio across different asset classes, such as stocks, bonds, and real estate.

Key Considerations:

- **Risk Tolerance:** Determine your comfort level with investment risk.
- **Time Horizon:** Consider how long you have until retirement.
- **Investment Goals:** Define what you want your investments to achieve.

A common rule of thumb is to decrease your stock allocation and increase your bond allocation as you get closer to retirement.

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Example:
Young Investor (20s-30s): 80% Stocks / 20% Bonds
Mid-Career (40s-50s): 60% Stocks / 40% Bonds
Pre-Retirement (60s): 40% Stocks / 60% Bonds
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Investment Options

Stocks	Represent ownership in a company. Offer potential for high growth but also carry higher risk.
Bonds	Represent loans to a government or corporation. Generally less risky than stocks but offer lower returns.
Mutual Funds	Pooled investments managed by a professional fund manager. Provide diversification within a single investment.
ETFs (Exchange-Traded Funds)	Similar to mutual funds but trade on exchanges like stocks. Often have lower expense ratios.
Target-Date Funds	A type of mutual fund or ETF that automatically adjusts its asset allocation over time to become more conservative as you approach your target retirement date.

Rebalancing Your Portfolio

Rebalancing involves periodically adjusting your asset allocation to maintain your desired risk level.

Why Rebalance?

- Over time, some asset classes may outperform others, causing your portfolio to drift away from your target allocation.
- Rebalancing helps you sell high and buy low, potentially improving long-term returns.

How Often to Rebalance:

- Annually or when your asset allocation deviates significantly (e.g., more than 5%) from your target.

Retirement Income Planning

Estimating Retirement Expenses

Accurately estimating your retirement expenses is crucial for determining how much you need to save.

Key Considerations:

- **Basic Living Expenses:** Housing, food, transportation, healthcare.
- **Discretionary Spending:** Travel, hobbies, entertainment.
- **Inflation:** Account for the rising cost of goods and services over time.
- **Healthcare Costs:** Healthcare expenses tend to increase significantly in retirement.

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Rule of Thumb: Aim to replace 70-80% of your pre-retirement income.
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Sources of Retirement Income

Social Security	Government-provided retirement benefits. Eligibility and benefit amount depend on your earnings history.
Pension Plans	Employer-sponsored retirement plans that provide a guaranteed income stream in retirement. Becoming less common.
Retirement Account Withdrawals	Distributions from 401(k)s, IRAs, and other retirement accounts.
Annuities	Insurance contracts that provide a guaranteed income stream in exchange for a lump-sum payment or series of payments.
Part-Time Work	Earning income from part-time employment can supplement your retirement savings.

Withdrawal Strategies

Determining how much to withdraw from your retirement accounts each year is crucial for ensuring your savings last throughout retirement.

Common Strategies:

- **4% Rule:** Withdraw 4% of your portfolio in the first year of retirement, then adjust the withdrawal amount annually for inflation.
- **Required Minimum Distributions (RMDs):** Mandatory withdrawals from tax-deferred retirement accounts (e.g., Traditional 401(k), Traditional IRA) that begin at age 73 (or 75, depending on your birth year). *Note: Review the latest IRS guidelines for RMD age and rules.*
- **Bucketing Strategy:** Divide your portfolio into different “buckets” based on time horizon and risk tolerance.

Tax Considerations in Retirement

Tax Implications of Retirement Accounts

Traditional 401(k) / IRA	Contributions may be tax-deductible. Distributions are taxed as ordinary income.
Roth 401(k) / IRA	Contributions are not tax-deductible. Qualified distributions are tax-free.
Taxable Brokerage Accounts	Capital gains and dividends are taxable in the year they are realized.

Tax-Efficient Withdrawal Strategies

Managing your tax bracket in retirement can help you minimize your tax liability.

Strategies:

- **Tax Bracket Management:** Strategically withdraw funds from different account types to stay within a desired tax bracket.
- **Qualified Charitable Distributions (QCDs):** If you are age 70½ or older, you can donate directly from your IRA to a qualified charity. This can satisfy your RMD and lower your taxable income.
- **Tax-Loss Harvesting:** Selling investments that have lost value to offset capital gains.

Estate Planning Considerations

Proper estate planning is essential for ensuring your assets are distributed according to your wishes.

Key Documents:

- **Will:** Specifies how your assets will be distributed after your death.
- **Trust:** A legal arrangement that holds assets for the benefit of beneficiaries.
- **Power of Attorney:** Grants someone the authority to act on your behalf if you become incapacitated.
- **Healthcare Directive:** Specifies your wishes regarding medical treatment.

It is highly recommended to consult with a qualified estate planning attorney to create a comprehensive estate plan.