RETIREMENT PLAN Update

Wealth Management

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Because the time is now ...

The inflation equation

Investors should consider these measures to protect their retirement savings from inflation.

Every investor, especially those investing for their retirement, should be familiar with the potential impact of inflation and its power to derail dreams of financial security. At its most basic, inflation is simply the steady increase in the prices of goods and services over time within an economy. As general prices rise, the purchasing power of the consumer decreases.

In real terms, that means that inflation erodes the value of your long-term savings. For example, over a 30-year period, an average annual inflation rate of 3% will cut the purchasing power of a $200,000 savings account to only $82,397.

While the inflation rate over the last several years has been low, investors should still pay attention to it. If you are saving and investing for your retirement, you need to factor it into your planning because inflation has the potential to increase the amount of income you will need to maintain your preretirement standard of living. Moreover, certain expenses, such as health care costs, may increase faster than the inflation rate.

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There are measures you can take now to protect your retirement savings from inflation. One of the most effective is to have a thoughtful asset allocation strategy.* When you invest your retirement savings in different types of investments, you will be able to take advantage of certain asset classes, such as stocks, which have the potential to grow faster than the inflation rate. Historically, stocks have outpaced inflation and produced higher long-term returns than bonds or cash alternative investments. However, past performance is not a guarantee of future results.

Look at the table to compare the average annual total returns for different asset classes with inflation over the past 20 years.

20-year average annual total returns (through December 31, 2020)	
Stocks[1]	7.47%
Bonds[2]	4.84%
Cash[3]	1.52%
Inflation[4]	2.04%

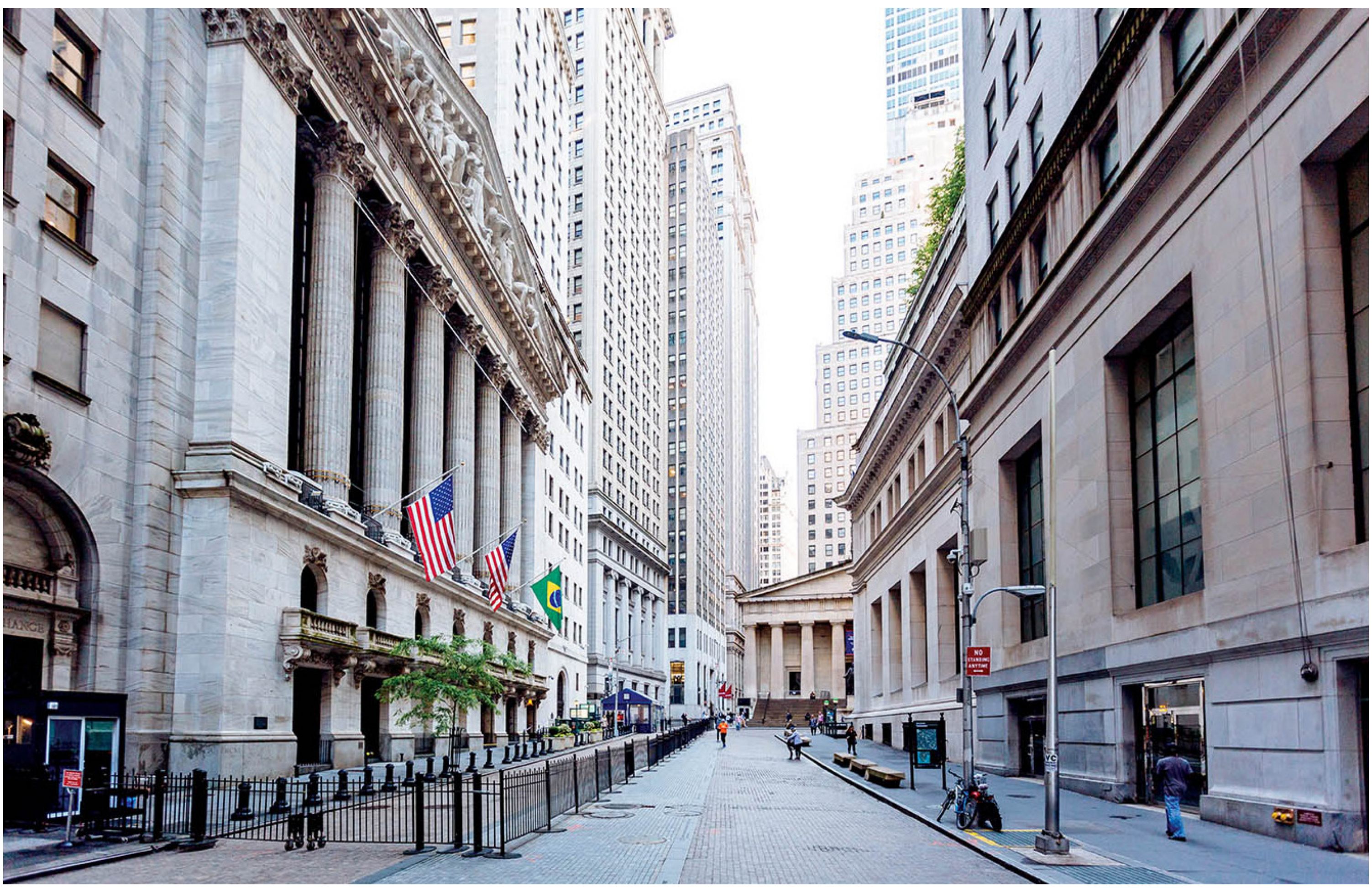
Past performance does not guarantee future results. Your investment results will be different. This chart is for illustrative purposes only and does not represent the performance of any particular investment. Investments cannot be made in an index. Stocks have greater return potential, but are more volatile than other investment types. Unlike stocks and corporate bonds, government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer fixed rates of return and stable principal.
Source: DST Retirement Solutions, LLC, an SS&C company.

Boost your savings rate

You can also help protect your retirement savings from inflation by increasing your savings rate. When you contribute more to your retirement plan each year, you will be helping your retirement plan account keep pace with inflation. Think about contributing some or all of any bonus or pay raise you receive. Even a small increase in your savings rate can make a significant difference in your account value at retirement.

Work with a financial professional

Make sure you are on track to a comfortable retirement. A financial professional can work with you and help you reivew your account to confirm that your savings are staying ahead of inflation.



*Asset allocation does not guarantee a profit or protect against losses.
[1] Measured by the S&P 500 Index, an unmanaged index of stocks of 500 major corporations.
[2] Measured by Bloomberg Barclays Capital U.S. Aggregate Bond Index, an unmanaged index of U.S. government, corporate, and mortgage-backed securities.
[3] Measured by Bloomberg Barclays U.S. Treasury Bill 1-3 month index.
[4] Represented by the Consumer Price Index (CPI).

New life expectancy tables for calculating RMDs

The IRS has released updated tables for calculating RMDs beginning in 2022.

The IRS recently released updated tables for use in calculating required minimum distributions (RMDs) from qualified retirement plans, individual retirement accounts (IRAs) and annuities, and certain other tax-favored, employer-provided retirement arrangements. The updated tables take effect in 2022 and will generally result in smaller RMDs. RMDs for 2021 will be calculated under the current tables.

Background

Current tax law says that individuals with tax-favored retirement plans are required to begin taking annual minimum distributions from their accounts once they reach age 72 (age 70½ if born before July 1, 1949). That's the case even for those with sufficient retirement income from other sources who do not want to touch the money in their retirement plan.

Generally, the required distribution amount is calculated by dividing the individual's account balance at the end of the prior year by an age-based factor taken from the IRS's "Uniform Lifetime Table." However, a different table must be used under certain circumstances.

Account owners have to be careful since there is a penalty for taking out too little. The penalty is 50% on the amount not withdrawn as required. There's no penalty for taking out more than the required annual amount. However, any additional withdrawals are not counted toward RMDs for future years.

Why updates now?

The current tables were put in place almost two decades ago, and life expectancies have since increased. The push to update the life expectancy tables was driven by a recognition that the effectiveness of tax-favored retirement plans could be increased by allowing retirees to retain sufficient retirement savings in their accounts for later years.

Example: Under the current Uniform Lifetime Table, a 72-year-old calculates her RMD by dividing her retirement account balance (as of the end of the prior year) by a life expectancy of 25.6 years. Under the updated table, a 72-year-old individual will use a life expectancy of 27.4 years to calculate her RMD. The updated tables mean that plan participants and IRA owners can now retain larger amounts in their retirement plans to account for the possibility that they may live longer. At right is a portion of the new Uniform Lifetime Table:

Uniform Lifetime Table

Age of Employee	Distribution Period	Age of Employee	Distribution Period
72	27.4	79	21.1
73	26.5	80	20.2
74	25.5	81	19.4
75	24.6	82	18.5
76	23.7	83	17.7
77	22.9	84	16.8
78	22.0	85	16.0
86	15.2	91	11.5
87	14.4	92	10.8
88	13.7	93	10.1
89	12.9	94	9.5
90	12.2	95	8.9

Source: Reg. Sec. 1.401(a)(9)-9.

Consult your financial or tax professional if you have questions about required minimum distributions or would like retirement planning assistance.

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