



Financial Focus

Generation X

LINCOLN BENEFIT LIFE
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Time For A Retirement Reality Check

You were born between 1965 and 1979, huh? Well, welcome to Generation X. Whether you love or hate the label it seems to have taken hold in American culture. As a mid 20's to thirtysomething you're probably focused on money issues like student loans and mortgages. But where does retirement planning fit into your priorities? Right now retirement may seem like a distant event—and in terms of years, it probably is. But planning for retirement is a different matter altogether, and the time to start thinking about it is now.



Survey says!

Allstate's 2003 "Retirement Reality Check" survey, gauges consumers' attitudes about—and preparation for—retirement. Take a moment to answer the questions and then we'll compare your answers to those of the survey respondents.

I am actively saving for retirement.	Yes	No
I feel confident that I know how much money I'll need in retirement.	Yes	No
I expect to retire at age:	_____	
In order to meet daily living expenses in retirement I think I will need:	\$_____ per year	
I'm concerned I'll outlive my retirement savings.	Yes	No

Reality check: As a generation you are decidedly unique from other generations—especially that generation ahead of you: the baby boomers. You're described as highly educated and self-reliant. You're focused on the future of your family and approach retirement planning realistically.



Getting On Track

On the path to retirement there are often twists and turns that send you in unexpected directions. Sometimes it's a good idea to do a reality check and make sure the course you're on is indeed leading you where you intended. Here are some practical steps you can take in that direction.

According to the Allstate survey, your generation is saving for retirement but you're concerned about outliving your retirement savings. The contradiction may have something to do with undefined retirement goals. In order to plan for retirement with confidence you need to have clearly defined goals. Without goals it's impossible to tell if, or even when, you'll be able to achieve a financially secure retirement.

Your retirement goals should follow these basic principles:

Step 1—Define your retirement goals

Specific

Goals need to be clearly defined. Vague generalizations are merely hopes and ideas.

Measurable

Goals need to include items like the time frame, resources required, and expected return.

Achievable

Goals need to be realistic; if they're not you'll be setting yourself up for failure.

"The reason most people never reach their goals is that they don't define them, or never seriously consider them as believable or achievable.

Winners can tell you where they are going, what they plan to do along the way, and who will be sharing the adventure with them."

— Denis Waitley

Notes:

“When?” and “How much?”

In defining your retirement goals, the two principal questions you'll need to ask yourself are:

1. *When do I hope to retire?*
2. *How much income will I need or want in retirement?*

It's likely that—as your circumstances change over the next 20 to 30 years—so could your answers to these questions. That's okay. Retirement planning is a career-long process, and adjustments along the way are to be expected. Nevertheless, it's still important to set clear targets, work towards those targets, and then later make adjustments as your circumstances change.

Write your retirement goals here by answering the following questions:

When? _____

How much? _____

How inflation affects your retirement income goals

In thirty years, \$40,000 won't buy as much as it does today; that's because of inflation. Over time, inflation erodes purchasing power, requiring more money to purchase the same amount of goods and services.

For instance, assuming a 4 percent annual rate of inflation

	A \$40,000 annual retirement income goal becomes ...	A \$70,000 annual retirement income goal becomes ...
in 30 years		
in 50 years		

Reality check: Inflation will have a big impact on your future retirement income needs. According to the Bureau of Labor Statistics, prices increased at a rate of 4.88 percent over the last 30 years.

"In the absence of clearly defined goals we become strangely loyal to performing daily acts of trivia."

— Unknown

Step 2—Determine how much you need to save

Statistics show that many Gen Xers already are saving and investing for retirement. Maybe you're one of them, maybe you aren't. Either way, the act of saving—in and of itself—isn't enough to ensure you're on track for meeting your retirement goals. Rather, you need to make sure you're saving an appropriate amount relative to those goals.

Are you sure you're saving enough?

To give you a rough idea of how much saving and investing it takes to reach a given retirement income goal, take a look at the table below. For two different hypothetical income goals, the table shows—first, the size of nest egg needed at retirement to fund that income goal; and second, the amount of monthly saving and investing needed to accumulate that size of nest egg. For the purposes of this example, the hypothetical income goals are expressed in today's dollars, and we've assumed 30 years of investing followed by 20 years of retirement.

	A \$40,000 annual retirement income goal...	A \$70,000 annual retirement income goal...
... requires a nest egg at retirement of		
... and a monthly saving-rate of		

The calculations here assume an 8 percent annual return—both before and after retirement—compounded monthly, as well as 4 percent annual inflation. These hypothetical investment results are for illustrative purposes only and should not be deemed a representation of past or future results. Actual investment results may be more or less than those shown. This does not represent any specific product. Calculations assume the retirement assets will be exhausted after 20 years.

Step 3—Begin today

It may sound obvious, but the best-laid plans are meaningless unless they're put into action. While the savings required to fund your retirement may seem big, even overwhelming, don't let that stop you from taking the next step. Recognize that there are a number of variables that can affect the amount you will need to save each month. A financial professional can help you identify and alter those variables based upon your retirement goals.

For example, a financial professional can help you:

- Evaluate your situation and help you develop reachable goals.
- Illustrate the impact of hypothetical, retirement planning adjustments you could make before and after retirement.
- Calculate the amount you need to save each month.
- Select investments that meet your return objectives while minimizing your risk.
- Monitor your plan and recommend adjustments, as needed.

Notes:



Staying On Track

Getting on track by implementing a plan is half the battle. Staying on track by following that plan is the other half. On your journey to retirement, there are pitfalls that could get you off track. It's important to recognize where these pitfalls lie in order to avoid them.

The job change pitfall

One of the most common places people get off track is when changing jobs. Like many people your age, you will probably change jobs multiple times during your career. Each time you do so, you'll likely face a decision about your retirement savings at the job you're leaving. You will need to decide whether you should:

- *Cash those savings out for current spending?*
or
- *Keep those retirement savings for retirement?*

If you choose the first option, you'll have to pay income tax on the amount cashed out—plus—you might owe an additional 10 percent penalty tax. More importantly, by cashing out you'll forfeit whatever progress toward your retirement goals those savings represented...and that progress could be significant.

Retirement plan balance	Available at retirement if cashed out	Available at retirement if kept as retirement savings
\$10,000		
\$25,000		
\$50,000		

The future value assumption does not take into consideration inflation and taxes. It is calculated based on a monthly compounding rate of 8 percent over 30 years. This illustration is for hypothetical purpose only and is not a guarantee of future results.

The tax pitfall

Another way people get off track is by not taking advantage of tax advantaged investment accounts. Taxes on your savings and investments can significantly reduce the growth of your retirement accounts. Failure to understand and apply tax laws can delay your retirement. Here is an example of how tax advantaged investing can make a difference.

Below is a comparison of the results of \$3,000 invested annually for 30 years at an 8 percent rate of return in a taxable account vs. a tax-deferred account.

Taxable account value	Tax deferred account value
\$288,012	\$375,074

Calculations for the taxable account assume two-thirds of the investment's total return is subject to current federal income tax at the 25 percent marginal rate (state income tax is not considered). The remaining third is assumed to be capital appreciation and not subject to current income tax. All calculations assume an eight percent average annual return compounded monthly. This illustration does not consider the tax implication of withdrawals or any applicable fees or expenses.

Some types of tax advantaged investments:	
Individual retirement account (IRA)	401(k)
Roth IRA	403(b)
Fixed annuity	457
Variable annuity	

Avoid retirement planning pitfalls with the help of a financial professional

A financial professional can help you stay on track to your retirement goals by avoiding the pitfalls discussed here. Financial professionals routinely handle retirement plan rollovers and can help you avoid unnecessary taxes and penalties when changing jobs. Financial professionals understand tax laws and can help you select investments to minimize your tax obligations.

Developing a Winning Strategy

A successful strategy will contain a variety of components that ultimately help you arrive at your goal.

Use the following checklist to help evaluate whether you have considered several important aspects of a successful strategy.

- I have put my strategy in writing.
- I am confident I have realistically estimated how much I need to save on a regular basis.
- I am confident I have used a realistic inflation estimate in my calculations.
- I have used sound investment principles to choose my investments.
- I am confident I have chosen investments appropriate for my time horizon.
- I am confident I have chosen investments with the potential to meet my rate of return expectations.
- I am comfortable with the level of risk my investments carry.
- I can monitor the progress of my strategy and make changes if necessary.
- I have the means to meet the monthly savings requirements necessary to meet my goal.

If developing and implementing a strategy seems overwhelming, consider working with a financial professional. Financial professionals have the skills and the resources to help you develop and implement strategies to achieve your financial goals.

*"Let me tell you the secret that has led me to my goal.
My strength lies solely in my tenacity."*

— Louis Pasteur

