

RETIREMENT PLANNING



3 SIMPLE WAYS TO BUMP UP YOUR SAVINGS RATE

Investors often obsess about which funds to invest in, or whether they should open a Roth IRA or a traditional IRA. But what investors really should be obsessing about is how much they are saving each month.

By far the most impactful thing you can do to improve your chances of reaching your retirement goals is bumping up your savings rate.

Morningstar.com site editor Jason Stipp recently discussed strategies for increasing your savings rate with director of personal finance Christine Benz:

Jason Stipp: You often hear that every little bit counts when you're saving for retirement. Can you give us an example of how saving just a little bit more can actually have a big impact if you have a long time before you retire?

Christine Benz: If you have compounding on your side, you can make those small sums work very hard for you. For example, if you are a 21-year-old, and you're able to save \$100 a month, and you earn just 5 percent on your money, and you save all the way until retirement, you'd have about \$200,000 when you turn 65.

If you are someone who is able to kick in \$50 more per month — \$150 in total — you'd have \$300,000 by age 65. So those small amounts, if you can find them in your budget, can really be quite impactful, especially when stretched out over a long time horizon.

Stipp: We're talking about some ideas for bumping up your savings rate. The first one is a chunk of money that most folks get around April each year, which is their tax refund.

Benz: That's right. Roughly eight in 10 people get some kind of a tax

refund. The size of the average refund is about \$2,800, but that number is skewed by some high-income taxpayers who receive very large refunds. When you look at refunds for folks in the lowest income tax bracket, the average refund isn't anything to sneeze at. It's about \$2,000. So, when you think about investing that sum of money, especially if you have a long time horizon and can let the money grow, say, over a 40- or 45-year period, you can turn that refund into a pretty nice chunk of change.

Stipp: The refund is, in some ways, forced savings. After all, that tax refund money is essentially yours, but the government is kind of saving it for you.

Benz: That's right. When you look strictly at the numbers, you see that really you should not be giving the government this interest-free loan throughout the year. But for a lot of

people, it is like an enforced savings plan.

The nice thing about refund season is that it also coincides with IRA season. You have until April 15 to fund your IRA for the prior tax year. So try to tie those two things together: Steer at least a portion of your tax refund into an IRA at the same time. That can be a great way to tick up your savings rate.

Stipp: And if you're lucky enough to be getting a raise or bonus this year, before you go out and spend that or increase your standard of living, maybe think about saving at least part of it.

Benz: We've come through a period of wage stagnation for a lot of workers. We're starting to see some indications that that may be changing, that more people may in fact be in line for raises this year. That's great news. If you're lucky enough to have received a raise recently, think about steering

CREATING A SUCCESSION PLAN FOR

BY CHRISTINE BENZ

In a presentation I often give to retired investors, I discuss the key ingredients for successful retirement portfolios. As I talk, I can see attendees mentally sizing up whether their own portfolio plans contain the components that I'm discussing. Stocks for longevity potential? Yes. Inflation protection to help preserve the portfolio's purchasing power? Check. A cash component for near-term living expenses? Got it.

But one ingredient invariably piques their attention more than the others, perhaps because many never give it much more than a nervous thought: a succession plan for their portfolios. Most of these investors have put together savvy investment programs, and many of them have crafted costly estate plans with the help of attorneys.

But as do-it-yourself investors, they have no clear road map for what should happen to their portfolios if they become incapacitated or predecease their partners. Would the spouse have a precise inventory of all of the couple's assets? Would he be aware of the strategies in place to keep the whole thing up and running? Where to go for cash? How much he can safely spend each year? Or whom to turn to for financial advice?

Of course, one simple way to solve the problem is to turn to a financial advisor straightaway. That's

the best method to ensure there's no jarring transition when the first partner dies, and having a trusted advisor can provide a lot of peace of mind while both spouses are living, too. But I also often hear from individual investors who say they're not sure how to find a good-quality advisor, or that the fee-only advisors they'd like to work with have minimum investment amounts that put them out of reach. Even more common, I meet investors who are enjoying managing their own portfolios right now. They can't see themselves delegating that task to anyone else, or they don't want to spend money on advice until they really have to do so.

If any of the above descriptors fits you, your portfolio needs a succession plan—a road map for your partner. Here are the key steps to take.

Create a master directory

This is a basic document you should prepare no matter your life stage, serving as an inventory of each asset you own. Here you should include a brief descriptor ("Jill's Roth IRA"), the financial provider, account number, URL, password, and so forth. Also indicate the beneficiaries for each of these accounts. Once you've drafted such a document, you have two key jobs: to encrypt it (or otherwise keep it safe) and alert your spouse or another trusted loved one of its existence and how to gain access to it.

Draft a short-form explanation of your investment approach

Perhaps you've prepared an investment policy statement documenting your asset-allocation parameters and policies on matters such as rebalancing and selling. That's important. But chances are you wrote your IPS to keep yourself on track, not inform your spouse of what you're doing. If your spouse finds your IPS inscrutable, it's time to go back to the drawing board and draft something more succinct, in plain English rather than investment jargon. Think about the basic questions you would ask if you took over someone's financial plan without much (or any) advance preparation. Headings might include:

- How much you can safely spend each year without running out of money
- Which accounts to tap for living expenses on an ongoing basis
- The basics of required minimum distributions and which accounts require them
- Which accounts to tap as a last resort or that you have earmarked for heirs
- An outline of the three or four most important financial-planning tasks you handle each quarter and each year. (Forget anything that's in the category of "nice to do"; stick to the basics.)

Automate what you can

To help ensure none of your usual financial-planning to-dos fall by the wayside, consider automating the most

