Making wise choices as you get ready for retirement
What will your retirement cost?
Current income x 80% Annual retirement budget
Estimate spending changes.
$ Spending Plan:

- Temporary or onetime expenses.
- Monthly expenses.
- Nonmonthly expenses.
Spending Plan

- Savings
- Housing
- Utilities
- Entertainment
- Transportation
- Food
- Health care
- Taxes
- Miscellaneous
Expenses can change throughout retirement.
Determine your retirement income.
Sources of income

- Social Security
- Employer Plans
- Personal Savings
Social Security basics
How benefits change with age

Monthly benefit amounts differ based on the age you start receiving benefits. This example assumes a benefit of $1,000 at full retirement age of 66. Source: Social Security Administration.
### What if you are still working?

<table>
<thead>
<tr>
<th>If you collect benefits …</th>
<th>But earn more than …</th>
<th>You’ll forgo …</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before you reach full retirement age</td>
<td>$17,040</td>
<td>$1 in benefits for each $2 above the limit</td>
</tr>
<tr>
<td>In the year, but before the month, when you reach full retirement age</td>
<td>$45,360</td>
<td>$1 in benefits for each $3 above the limit</td>
</tr>
<tr>
<td>In the month you reach full retirement age and thereafter</td>
<td>No limit</td>
<td>No penalty</td>
</tr>
</tbody>
</table>

*Earnings limit adjusted annually by the federal government. Source: Social Security Administration.*
Will you owe taxes on your Social Security benefit?

<table>
<thead>
<tr>
<th>Single filer</th>
<th>Married filing jointly</th>
<th>Taxes owed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $25,000</td>
<td>Less than $32,000</td>
<td>No. Benefits are not subject to income tax.</td>
</tr>
<tr>
<td>$25,000–$34,000</td>
<td>$32,000–$44,000</td>
<td>Yes. Up to 50% of benefits may be subject to income tax.</td>
</tr>
<tr>
<td>More than $34,000</td>
<td>More than $44,000</td>
<td>Yes. Up to 85% of benefits may be subject to income tax.</td>
</tr>
</tbody>
</table>

Source: Internal Revenue Service.
Estimate your Social Security benefits.

[ssa.gov/estimator]
Understanding your Plan’s distribution options.
Defined contribution

Keep in mind: There are important factors to consider when rolling over assets to an IRA or leaving assets in an employer retirement plan account. These factors include, but are not limited to, investment options in each type of account, fees and expenses, available services, potential withdrawal penalties, protection from creditors and legal judgments, required minimum distributions, and tax consequences of rolling over employer stock to an IRA. Consult your tax advisor and estate planning counsel.

Tax implications: You will be responsible for paying any federal, state, local, or foreign taxes on a distribution or withdrawal from pre-tax accounts. A distribution or withdrawal of Roth earnings is usually also taxable unless the initial Roth contribution was made more than five years ago and you are at least age 59½. Early withdrawals may be subject to a 10% federal penalty tax. To the extent required by law, Vanguard will make the appropriate withholding for tax purposes.
Add up your sources of steady income.
Add up your total retirement savings.

- Employer Plans
- Traditional IRAs
- Taxable Assets
- Roth IRAs
Make your savings last.
A big shift

Accumulation Stage

Years

Retirement Phase

Retirement Assets
Living longer
Age 80

Estimates the probability of one partner in a couple attaining that age. Calculations based on each person at age 65. Source: Society of Actuaries, 2007.
Living longer
Age 85

Estimates the probability of one partner in a couple attaining that age. Calculations based on each person at age 65. Source: Society of Actuaries, 2007.
Living longer

Age 90

Estimates the probability of one partner in a couple attaining that age. Calculations based on each person at age 65. Source: Society of Actuaries, 2007.
Living longer
Age 95

Estimates the probability of one partner in a couple attaining that age. Calculations based on each person at age 65. Source: Society of Actuaries, 2007.
Year 1

Withdrawal amount

Inflation rate

$285,000

3%

$11,400

4%
Year 2

Withdrawal amount

$11,400

x

1.03%

$11,742

2%
Year 3

Withdrawal amount: $11,742
Inflation rate: 1.02%

Result: $11,977
Year 4

$11,977

X

1.04%

$12,456

Withdrawal amount

$11,977

1.04%

$12,456

2%

Inflation rate
Invest with a long-term perspective.
Systematic withdrawal reminders
If a sharp market drop occurs, consider:

• Not adjusting for inflation for a year or two.
• Reducing your withdrawal amount.
Consider an annuity.
If you...

• Want a guaranteed income stream you cannot outlive.
If you...

• Have other money for investing, emergencies, or unanticipated purchases.
If you...

- Aren’t sufficiently covered by a traditional pension plan.

Product guarantees are subject to the claims-paying ability of the issuing insurance company. The underlying risks, financial obligations, and support functions associated with the products are the responsibility of the issuing insurance company. The issuing insurance company is responsible for its own financial condition and contractual obligations.
### Converting a lump sum to monthly income

**Initial monthly payment you get for $100,000**

<table>
<thead>
<tr>
<th>Single life benefit starting at</th>
<th>Immediate fixed annuity*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 62</td>
<td>$511</td>
</tr>
<tr>
<td>Age 65</td>
<td>$541</td>
</tr>
<tr>
<td>Age 70</td>
<td>$609</td>
</tr>
</tbody>
</table>

*Assumes the annuitant is a male. The annuity calculator available on vanguard.com is designed only to provide estimates of potential monthly income based on a onetime, lump-sum premium. Actual quotes from insurance companies will be based upon each individual’s quote information, current market conditions, and the sponsoring organization at the time a quote is requested. Guarantees are subject to the claims-paying ability of the issuing insurance company.

Source: Vanguard and Hueler Investment Services, April 2016.
If you are interested . . .

vanguard.com/income
Retirement income calculator

How much income will you need in retirement? Are you on track? Compare what you may have to what you will need. Use the sliders to see how small changes today could affect your financial future.

- How old are you, and when will you retire? I'm 52 and plan to retire at age 62
- What's your current annual income? $45,000 per year
- How much do you save annually for retirement? $7,000 (16% of your income)
- How much have you already saved for retirement? $130,000
- What percent of your current income do you expect to need in retirement? 79%
- What's your expected average annual rate of return? 5.0%
- Monthly income in retirement
  - What you may have: $785
  - What you'll need: $2,963

Legend:
- Retirement plan
- Pension benefit
- Social Security

† These values are pre-tax and shown in today's dollars. For more information, click here.

[1] Include contributions (by you and your employer) to plans such as 401(k) and 403(b) plans. Also include IRAs and any taxable savings earmarked for retirement. This hypothetical illustration does not represent the return on any particular investment and the rate is not guaranteed. Note: All investing is subject to risk, including the possible loss of the money you invest.
5 WAYS

To get your retirement back on track:
Save more.
Work part-time.
Postpone retirement.
Paying off debt obligations.
Avoid costly taxes and penalties.
Premature withdrawals

Federal penalty tax

10%

59\(\frac{1}{2}\) 60 61 62 63 64 65 66 67 68 69 70 70\(\frac{1}{2}\) 71 72 73 74 75
Premature withdrawals

Exceptions:

• Death or disability.

• Substantially equal periodic payments (SEPP) from IRAs.

• Withdrawals from employer Plan if at least age 55.
Required minimum distributions (RMDs)

- Tax-deferred plans
- Roth IRAs

- Ages: 59 1/2, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 70 1/2, 71, 72, 73, 74, 75
Required minimum distributions (RMDs)

Exception:

- Continued employment beyond age 70½.
Taxable assets first

- Earnings may be taxed at a more favorable long-term capital gain rate.
- Let tax-deferred assets continue to grow.
Tax diversification in retirement

<table>
<thead>
<tr>
<th>Account Type</th>
<th>Tax Rate Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roth accounts</td>
<td>0.0%</td>
</tr>
<tr>
<td>Taxable accounts</td>
<td></td>
</tr>
<tr>
<td>Long-term capital gain</td>
<td>0.0%–20.0%</td>
</tr>
<tr>
<td>Short-term capital gain</td>
<td>0.0%–39.6%</td>
</tr>
<tr>
<td>Nonqualified dividends</td>
<td>0.0%–39.6%</td>
</tr>
<tr>
<td>Pre-tax accounts</td>
<td></td>
</tr>
<tr>
<td>Ordinary income</td>
<td>0.0%–39.6%</td>
</tr>
</tbody>
</table>

Does not include the tax on net investment income. Consult your tax advisor about your situation.
Your action plan

- Complete the Spending Plan exercise.
- Know your retirement savings distribution options.
- Add up your steady retirement income sources.
- Determine the amount you will withdraw from savings each year in retirement.
- If you have a shortfall, review the five ways to get your retirement back on track.
- Know the 4% withdrawal rate rule of thumb and how it would apply to your savings.
vanguard.com/toolbox
For more information about any fund, visit vanguard.com or call 800-523-1188 to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

All investing is subject to risk, including the possible loss of the money you invest. Diversification does not ensure a profit or protect against a loss.

Bond funds are subject to the risk that an issuer will fail to make payments on time, and that bond prices will decline because of rising interest rates or negative perceptions of an issuer’s ability to make payments. U.S. government backing of Treasury or agency securities applies only to the underlying securities and does not prevent share-price fluctuations. Unlike stocks and bonds, U.S. Treasury bills are guaranteed as to the timely payment of principal and interest. Investments in stocks or bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk.