How Will I Know If I'm Ready to Retire?

Forget the Fortunetelling Ball, Use the M-A-G-I-C Formula

November 12, 2020

American Century Investments®

Wouldn't it be great if you could wave a magic wand and have all the answers for retirement? Use our M-A-G-I-C formula to help you plan.

What's Not Magic About Retirement?

There's no magic age.
There's no magic number.
There's no magic way.

Being ready for retirement depends on your circumstances and timing financially, emotionally and physically. That's where the M-A-G-I-C Plan comes in.

M – Your Money Plan

All great retirement plans start with a budget. If you're not retired, today's budget can help you:

1. Find potential ways to free up more to save.
2. Plan better for retirement.

Read **"New Normal? New Budget?"** for tips and download our budget worksheet to start or refine your budget.

A – Your Action Plan

Your Action Plan that includes the elements listed below.

A Retirement Budget

Your retirement budget needs to include all resources of income and expenses.

INCOME:

- Lifetime Income – Social security benefits, pensions and annuities
- Savings/Investments – 401(k)s, IRAs, mutual funds, CDs, stock/bonds, and their estimated returns
- Earnings – Full- or part-time job
- Other Assets – Real estate and home or business equity

EXPENSES:

Include essential and discretionary spending. Base it on your current budget, then adjust up or down for retirement.

See How Ready You Are for Retirement

Take the **M-A-G-I-C quiz**.

Take our **Budget Quiz** to find out if yours is ready for retirement and develop a budget discussion guide.

Read **"Do I Still Need a Budget in Retirement"** for an even deeper dive.

Get Help With Your Retirement Plan

Request A Call at https://invested.americancentury.com/magic-plan

Budget for Each Stage of Retirement

Your budget will need to change through retirement, based on the five stages*

- Imagination – 15 to 5 years before
- Anticipation – Pre-Retirement Budget
- Liberation – Year One
- Reorientation – 2 to 15 Years
- Reconciliation – 15 Years*

Source: Gerontologist and author Ken Dychtwald.

Find more ways to increase retirement savings with **"3 Smart Retirement Savings Tips for Every Age"**

A Social Security Strategy

Social Security is a main source of income for many retirees and should be part of your overall planning strategy.

Facts About Social Security

1. Full retirement age does not mean 65.
2. Social Security is not a given.
3. Drawing early may not be best
4. Everyone does not get the same benefit

A Withdrawal Strategy

A withdrawal strategy outlines which funds you will withdraw from during retirement and in what order (ie., taxable account, retirement accounts. etc.).

Get more specific ideas about how to combat these retirement risks and build a **Retirement Portfolio** with retirement portfolio strategies.

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Not taking your benefit? Read **"Maximize Social Security: It's Personal"**

Taking your benefit? Read **"Social Security Forecast: Changes are Partly Sunny"**

Find out more by downloading the flyer **"Five Facts You Wish You Knew About Social Security"**

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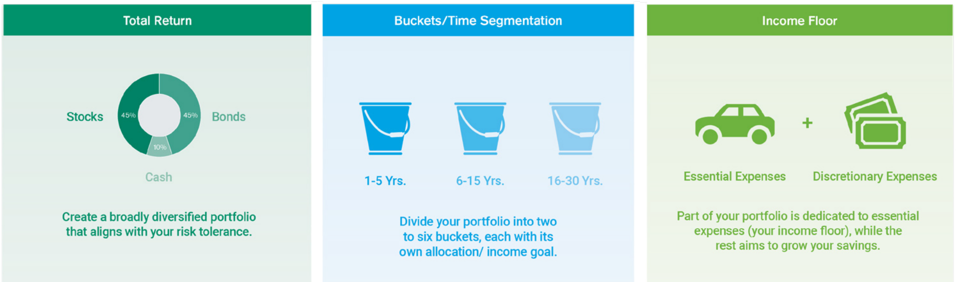
THREE POPULAR WITHDRAWAL STRAGIES:



WHERE SHOULD YOU WITHDRAW FROM FIRST?

Most financial professionals recommend this order because of taxes:

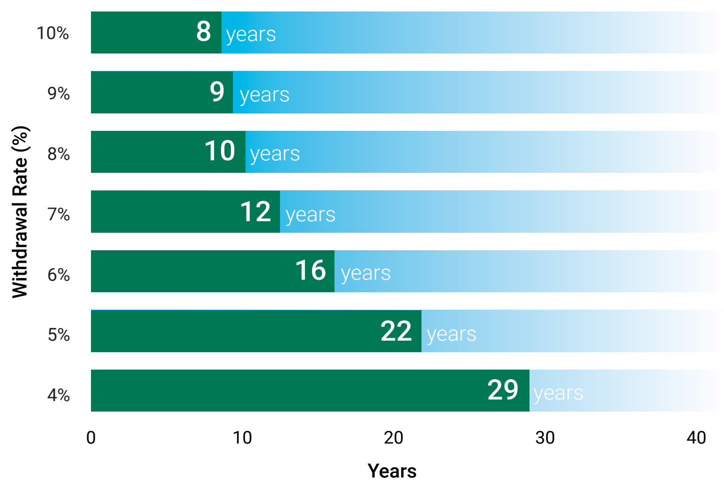
1. Taxable Accounts – Non-retirement accounts
2. Tax-Deferred Accounts – Traditional IRAs and 401(k)s
3. Tax-Exempt Accounts – Roth IRAs
4. Bonus – Health Savings Account (HSA)

HOW MUCH SHOULD YOU WITHDRAW?

A withdrawal strategy helps you not overspend.

Lower Withdrawal Rates Could Make Your Money Last Longer

(Hypothetical Example)



These hypothetical situations contain assumptions that are intended for illustrative purposes only and are not representative of the performance of any security. There is no assurance similar results can be achieved, and this information should not be relied upon as a specific recommendation to buy or sell securities. Assumes a portfolio with 50% equity, 45% bond, 5% cash allocation over 30 years at a 90% confidence level, with the following average monthly capital market returns: Stocks: 7.90%, 18.90% standard deviation; Bonds: 5.00%, 4.95% standard deviation; Cash: 2.25%, 1.00% standard deviation. The correlation between Stock and Bond returns is 0.2. Inflation rate is assumed to be 2% annually and is included in each of the withdrawal rates depicted above.

Standard deviation defines how widely returns vary from the average over a period of time.

Source: American Century Investments, 2019.

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An Investment Strategy

An investment strategy helps combat three common retirement risks:

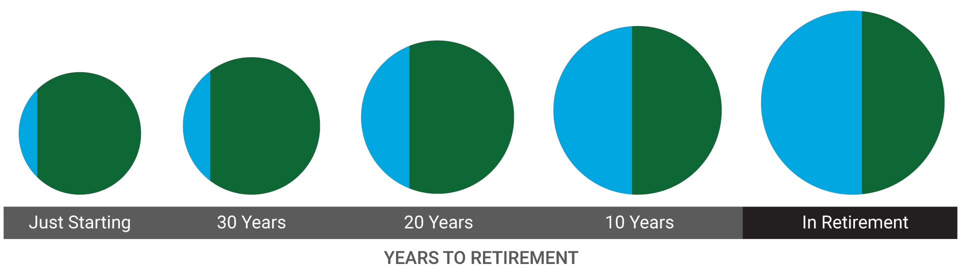
1. Longevity Risk – The risk of outliving your money
2. Inflation Risk – Your dollar being worth less in the future
3. Sequence of Return Risk – Market volatility and declines

Get more specific ideas about how to combat these retirement risks and build a portfolio with **retirement portfolio strategies**.

The Portfolio Transition

You'll want to be conservative enough to buffer against market declines but still have enough growth potential.

Bonds/money markets may help manage risk in retirement, and stocks may provide continued growth potential.



Our research indicates 35% to 55% may be an appropriate amount of stocks for a 30-plus year retirement span, assuming a 4-5% withdrawal rate.

The examples indicate hypothetical allocations. The circles assume increased contributions over time and are not meant to indicate gains based on market performance.
Source: American Century Investments, 2019.

Choose the Right Asset Allocation for Your Reality

You'll want to be conservative enough to buffer against market declines but still have enough growth potential. The appropriate mix of stocks, bonds and cash may improve your odds of retirement success.

You may want more stock exposures when:

- Your time frame is longer
- Inflation is higher
- Your withdrawal rate is higher
- You can tolerate more risk

You can have lower stock exposure when:

You are well funded and conservative investments will sustain your retirement income.

G – Your Game Plan

Your game plan includes what you will do and who you will do it with. It's important to plan ahead and make sure you can afford it.

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Learn more about retirement realities in **"What Will Retirement Really Look Like?"**

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I – Your Insurance Plan

Consider how your insurance needs may change in retirement. The big one is health insurance.

Health Care in Retirement

- Medicare won't cover 100%
- Consider Health Savings Accounts (HSAs)
- Long-term care insurance is cheaper earlier on

An average 65-year-old married couple retiring today may pay:

$607k

for retirement health care costs*

Source: HealthView Services 2019 Retirement Health-care Costs Data Report.

**Includes all average expenses not covered by Medicare, such as additional premiums for Medicare Parts B and D, supplemental insurance, deductibles, copays and costs for hearing, vision and dental care.*

Women may spend more on health care in retirement.

2 — Husbands are **2** years older than their wives, on average.

+ 2 — Life expectancy for women is **2** years longer than men.

= 4 — The surviving female spouse may live an additional **4** years in retirement.

Sources: Social Security Administration, What Every Woman Should Know, July 2020.

C – Your Caring Plan

Your Caring Plan is your estate plan. Consider the following:

- Advanced directives and medicare directives
- Designated beneficiaries
- Family conversations to make your wishes known.

Learn more about estate planning with **"Plan Your Legacy at Any Age"**

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