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Retirement: Financial Considerations at Every Stage

Everyone has a different idea of what retirement means for them, but the need for financial security is shared by all. Retirement planning is a deeply personal, and often emotional, journey. With careful preparation and thoughtful guidance at every life stage, you can work towards achieving the retirement you envision.

Saving for Retirement

Nearing Retirement

Living in Retirement

Saving for Retirement

One-fifth of Americans say they regret not saving for retirement early enough.[1]

No matter your age or level of savings, planning for retirement can be a challenge, marked by countless unknowns. It's common to have questions about your investment strategy, the financial markets, or even just whether you're saving enough.

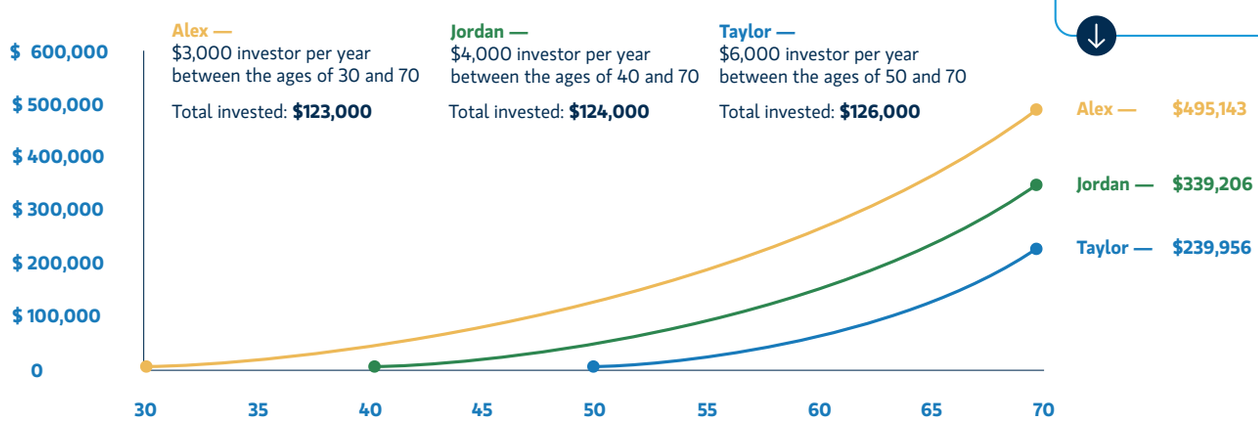
You don't need to have everything figured out right away, but this is where your team of Financial Advisors at **Morgan Stanley Virtual Advisor** can help. We can work together to identify actions to consider and adjust them according to your life stage and how close you are to your golden years.

THE BOTTOM LINE:

Time Really is Money

When it comes to planning for retirement, time really is money. The earlier you start saving, the more time your money has to potentially grow in line with the markets. Even seemingly small contributions in your 20s and 30s can have a major impact on your retirement savings.

All three investors contribute about the same total amount. Alex ends up with more than $150,000 over the other two investors due to compounding interest.



For illustrative purposes only, not indicative of any specific investment type. Assumes an 8% return and the reinvestment of earnings. A plan of systematic savings does not ensure a profit or prevent a loss in a declining market. Actual results may vary.

Here are some ideas to help you start saving and growing your savings:

Start saving in your workplace retirement plan as soon as you're eligible. If your employer offers a matching contribution, try to contribute enough to reach the match limit. And try to increase your contribution levels at regular intervals each year.

Create a Health Savings Account (HSA) to put money away for future health care costs, if you have a high-deductible health plan.

If you have maxed out your workplace plan, **consider additional savings vehicles**, like Individual Retirement Accounts (IRAs), and think about mixing and matching traditional and Roth tax strategies as applicable.

Periodically rebalance your investments to ensure they're aligned with your goals and risk tolerance and pay attention to investment fees that can reduce potential returns.

When you're first starting out, it can be tough to think about setting aside money for retirement when you have so many competing obligations, from student loan payments, to rent and car payments, to larger life events like planning a wedding and starting a family.

If you want to discuss strategies with a professional, consider the **Morgan Stanley Virtual Advisor** team who will work with you to build a goals-based strategy that evolves with you.

Retirement Accounts Cheat Sheet

- **401(k)s** are tax-advantaged retirement savings plans offered at many American workplaces; they're typically funded through payroll deductions, making it easy to contribute.
- **Consider** designating a beneficiary to inherit the asset at your death.
- **IRAs** also provide a tax-advantaged way to invest toward retirement, but they're offered through financial institutions rather than the workplace.
- **The Internal Revenue Service (IRS) limits the amount you can contribute** to these accounts annually, and this figure may increase from year to year.
- Both traditional and Roth 401(k)s and IRAs offer distinct tax features:
  - **Traditional**: funded with pre-tax dollars; withdrawals in retirement are subject to taxes
  - **Roth**: funded with after-tax dollars; withdrawals in retirement are federal tax-free

Look into what applies at your company as not all employers offer both types of 401(k)s. The ability to utilize an IRA may depend on your income, so research potential limitations and consult your personal legal and tax advisors. Financial advisors can provide more education about 401(k)s and IRAs.

Nearing Retirement

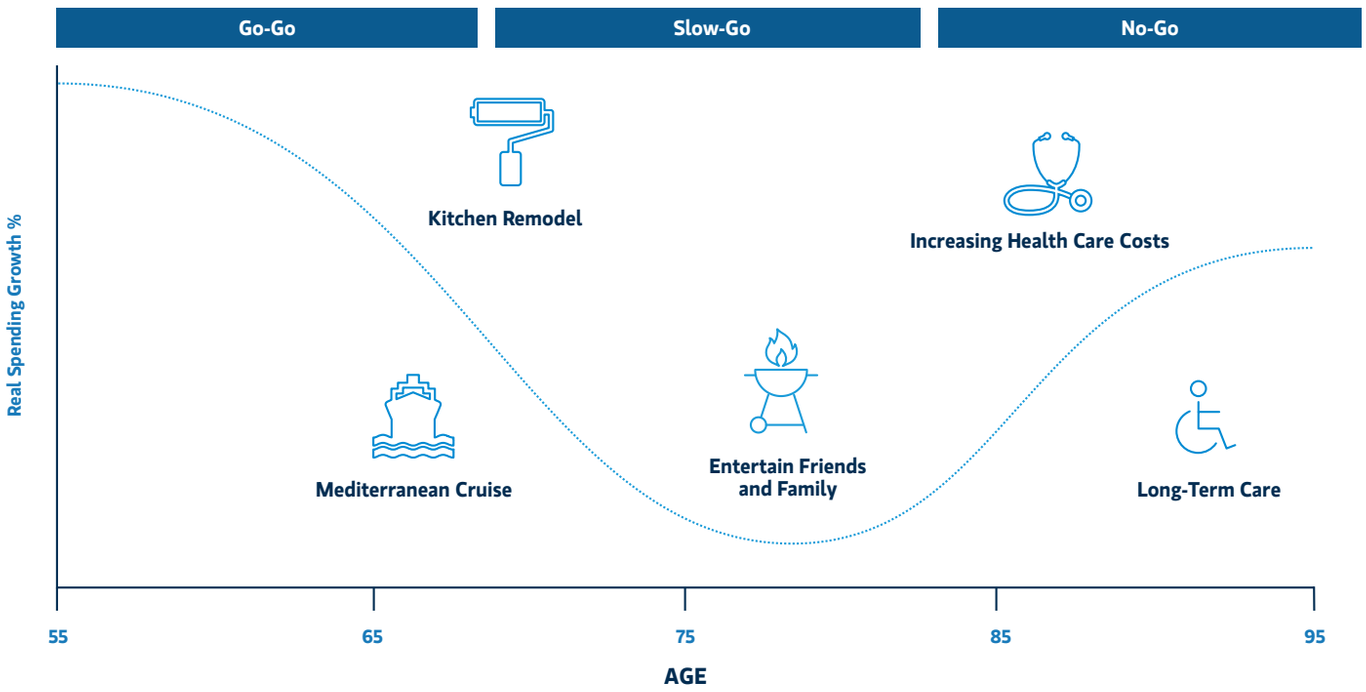
About 80% of pre-retirees expect they'll continue working to help finance their retirement—but among current retirees, less than 30% are actually generating income from working.[2]

Start to picture your future lifestyle. Will you relocate near your grandkids or travel often? Will you continue working? The transition to retirement can be exciting for some but may be fraught for others. Talk to your **Morgan Stanley Virtual Advisor** team about any concerns and other retirement savings strategies. Even though life in retirement has many individual variations, we've seen indications that retirees tend to spend in a "smile curve" that correspond to different phases in retirement, namely: Go-Go, Slow-Go, and No-Go.

The Retirement Spending Reality[3]

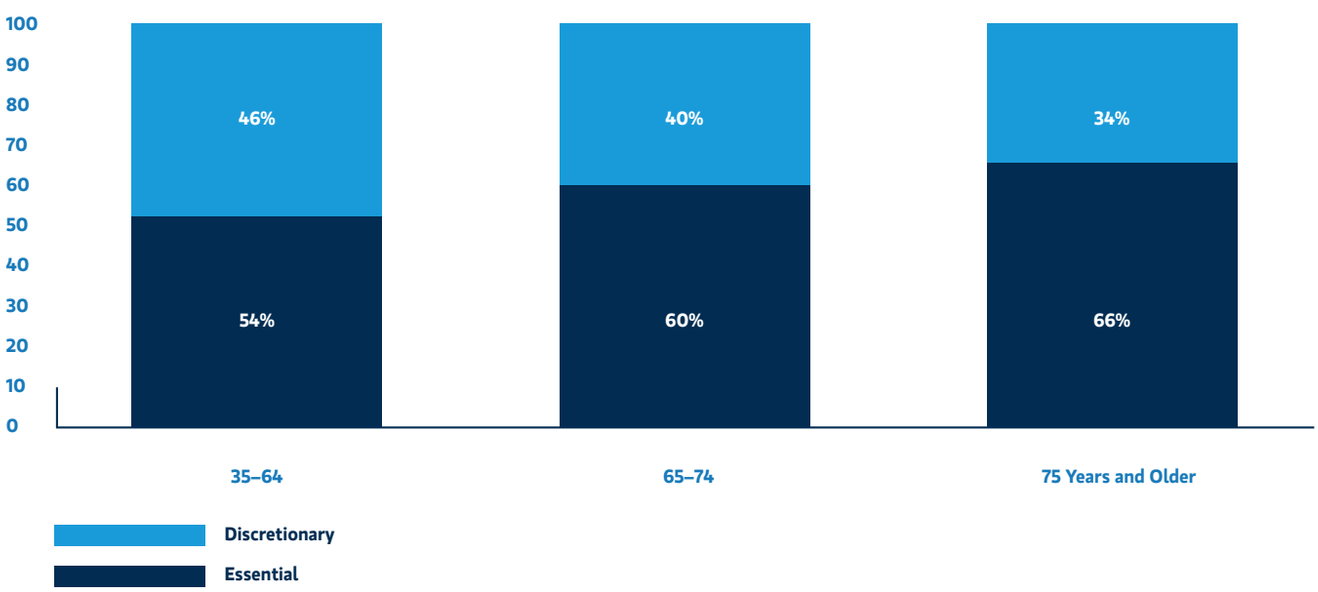
It begins with higher expenses in the "Go-Go" years as young retirees are traveling and otherwise enjoying their work-free years, then declines in the "Slow-Go" years as they begin to age. Expenses start to increase again in the final, "No-Go" years of retirement with end-of-life health care and long-term care spending. This conflicts with typical default spending assumptions, which revolve around "income replacement" and tend to overestimate needs.

Inflation Adjusted Retirement Spending Growth Rate Typically Forms a Smile



Your **Morgan Stanley Virtual Advisor team** uses this "Retirement Spending Smile" pattern to help you build a strategy that accounts for this common pattern of expenses and take steps to mitigate potential risks to your retirement savings. Consider today's retirement reality as a roadmap when budgeting and investing for the next phase of life.

While Total Spending Tends to Decline During Retirement, the Nondiscretionary Spending Portion Increases



Start Strategizing About Your "Retirement Paycheck"

If you have a good sense of the lifestyle you want in retirement, your **Morgan Stanley Virtual Advisor** team can help you create a "retirement paycheck" for future spending needs. Here's how you can start creating something similar to a paycheck once you're no longer taking one home from work:

1 Identify Income Sources

- Current salary
- Working in retirement
- Social Security
- Pension
- Retail income
- Inheritance
- Retirement plan distributions
- Investment income including interest, dividends, appreciation, principal

2 Consider Creating TWO Budgets: One for right now, and one for retirement

Calculate your income

Track expenses

Separate needs and wants in the context of your overall goals and objectives

Consider these steps in the countdown to your retirement date:

T-10 YEARS

- Increase your savings rate
- Build up your emergency reserves
- Identify a target retirement date
- Build a team of professionals you feel comfortable with

T-5 YEARS

- Assess your financial situation
- Evaluate your asset allocation
- Identify gaps between expected income needs and potential income

T-3 YEARS

- Update your estate plan
- Begin increasing cash reserves
- Think about where you want to live if planning to relocate

T-2 YEARS

- Re-run the numbers for your retirement income and expenses
- Map out your tax plan with your team
- Test living on your planned retirement income

T-1 YEAR

- Determine your health insurance plans
- Make a plan for when to access Social Security benefits
- Critically assess your portfolio's retirement readiness
- **Lock in your retirement date!**

Building Your Retirement A-Team

Morgan Stanley Virtual Advisor's team of knowledgeable financial advisors provide educational resources to help you make important decisions about your investments and financial goals, including retirement. We utilize tools—including calculators, scenario planning, simulation modeling, and more—to help you feel more prepared for retirement. We aim to simplify the retirement planning process and help you tailor a plan to your individual goals and ideal lifestyle in retirement.

Living in Retirement

There is a 70% chance that an American aged 65 or older will need long-term care at some point.[4]

The journey to retirement can be complex, and it requires thoughtful planning. The good news is that there is plenty of help available along the way. Along with personal tax or legal advisors, **Morgan Stanley Virtual Advisor** is happy to serve as an educational resource for you.

Here are some items to consider

Solidify your plan for managing health care costs, both routine and unexpected, and consider the possibility of long-term care expenses.

Understand the risks to your retirement portfolio and consider talking to a financial advisor to ensure your portfolio is designed to withstand them.

Take stock of all your sources of retirement income—from 401(k)s and pensions to IRAs to Social Security—and build a "retirement paycheck," determining withdrawal rates and factoring in Required Minimum Distributions (RMDs).

Make adjustments as you go to ensure the amount you're withdrawing from your retirement accounts aligns with your anticipated needs and can last for your anticipated time horizon.

Create an estate plan that will help protect your legacy and those you care about most.

Work with a team of professional advisors to develop a strategy that manages the impact of taxes as you take distributions from your various retirement accounts.

Want to read more about retirement planning?
Check out our **Retirement Spending Reality** report.

Retirement planning is a journey, and not one that you can "set and forget." It's never too early to put a strategy in place and surround yourself with skilled professionals who can help you build towards a secure future. **Morgan Stanley Virtual Advisor** is here to help all along the way!

Disclosures

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Sources

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4. U.S. Department of Health and Human Services, as reported by GOBankingRates. Available here: https://www.gobankingrates.com/retirement/planning/jaw-dropping-stats-state-retirement-america/. *Accessed July 12, 2021.*

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