Transitioning into retirement

Five steps today for a smoother tomorrow

NEW YORK LIFE MAINSTAY INVESTMENTS℠

We all dream of retiring.

For some, it will mean rest, travel, or spending more time with loved ones. For others, it could be mean volunteering or continuing to work in some capacity. Whatever your plans may be, patience and preparation are the keys for a smooth transition to the next phase of your life. This guide can help you get organized and plan for your retirement by outlining the steps that you need to take today.

What's inside

Did you know...

Only 31% of pre-retirees with a financial professional have a formal plan for managing income, assets, and expenses during retirement.[1]

Step 1: Envision your retirement

Take a moment to step back and envision your typical day in retirement. Will it include pursuing your hobbies, spending time with family and friends, volunteer work, or travel? Maybe you want to further your education or explore a new career. Now think about the money you've put aside for retirement. Do you have a plan to cover your day-to-day *must-have's*, as well as your discretionary *nice-to-have's*? Most important, are you confident that your retirement nest egg will last as long as your retirement?

Put your vision on paper

Where do you start? There are so many variables to consider that planning the transition to retirement may seem overwhelming. Putting your plans, dreams and worries on paper will help you to take that critical first step. We've provided helpful worksheets starting on page 11 that can help you define:

- Your anticipated lifestyle in retirement.
- Retirement issues that may concern you.
- Your expected sources of income in retirement.

Keeping yourself active can help make the retirement transition easier. Consider tackling home improvement projects or cultivating new interests and hobbies with your "new-found time."

1. LIMRA International, Inc., 2010, "Scaling the Pre-Retiree Market," pg. 47.

Step 2: Understand the challenges

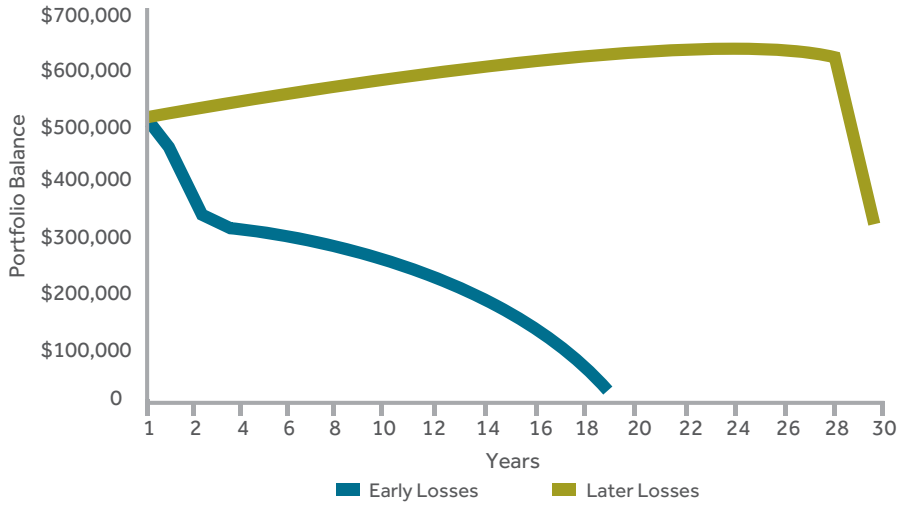
We all face certain challenges when saving and investing for our future, regardless of our age. In addition to the financial considerations associated with retirement planning, there are a number of other factors that you should take into account.

When preparing for retirement, it is important to consider all risks that can impact your lifestyle after you leave the workforce.

The timing of returns is critical

- Losses in the early stage of retirement can influence your long-term plans.
- The impact of taking withdrawals during a declining market can have an irreversible impact on how long your assets will last.
- Beginning your retirement during a rising market can help offset withdrawal amounts because your investments will appreciate given favorable market conditions.

Early Losses in Retirement Can Undermine Your Long-Term Goals



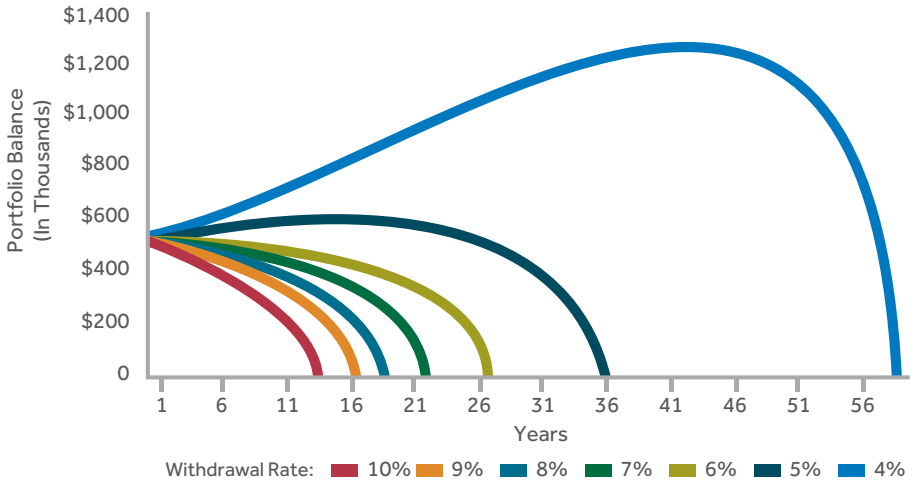
This chart shows the results of early losses of -15% in Year 1, -10% in Year 2, and -5% in Year 3 versus losses of -15% in Year 28, -10% in Year 29, and -5% in Year 30. The hypothetical example assumes a $500,000 initial balance and $25,000 annual withdrawals. Withdrawals are adjusted each year by 4.07% inflation. The inflation figure of 4.07% is derived from the 50-year average of the IA SBBI U.S. Inflation Index based on the Consumer Price Index (CPI), as of 12/31/10. This hypothetical investment assumes an annual 7.41% rate of return (based on the 50-year average annual return as of 12/31/10, and is comprised of 10% IA SBBI S&P 500® Total Return Index and 90% IA SBBI Intermediate-Term Govt. Bond Index. The IA SBBI S&P 500® Total Return Index consists of inflation adjusted large company stock returns, and is tied to the S&P 500® Index, which is an unmanaged index of 500 stocks that are generally representative of the performance of larger companies in the U.S. The IA SBBI U.S. Intermediate-Term Govt. Bond Index is a custom index designed to measure the performance of intermediate U.S. government bonds.) in each year that the account does not have losses and does not take into account taxes or any applicable investment fees and expenses. Index results assume the reinvestment of all capital gain and dividend distributions. It is not possible to invest directly into an index. This example is for illustrative purposes only and does not represent the performance of an actual investment. There is no assurance that similar returns will be achieved.

Source: Morningstar, August, 2011.

High withdrawals impact savings

- The amount of withdrawals should be carefully evaluated.
- By withdrawing too much too soon, you run the risk of outliving your savings.
- A 1% difference in your withdrawal rate can have a substantial impact on how quickly your assets are depleted.
- Liquidating assets in a tax-efficient manner can help preserve your wealth, as you'll generally pay lower taxes on transactions resulting in capital gains versus ordinary income.

High Withdrawal Rates Can Deplete Your Assets



This chart shows the results of withdrawing different inflation-adjusted amounts each year. The hypothetical example assumes a $500,000 balance and each withdrawal rate is adjusted each year by 4.07% inflation, derived from 50-year average of the IA SBBI U.S. Inflation Index based on the Consumer Price Index (CPI), as of 12/31/10. This hypothetical investment assumes an annual 7.41% rate of return (based on the 50-year average annual return as of 12/31/10, and is comprised of 10% IA SBBI S&P 500® Total Return Index and 90% IA SBBI Intermediate-Term Govt. Bond Index. The IA SBBI S&P 500® Total Return Index consists of inflation adjusted large company stock returns, and is tied to the S&P 500® Index, which is an unmanaged index of 500 stocks that are generally representative of the performance of larger companies in the U.S. The IA SBBI U.S. Intermediate-Term Govt. Bond Index is a custom index designed to measure the performance of intermediate U.S. government bonds.) in each year that the account does not have losses and does not take into account taxes or any applicable investment fees and expenses. This example is for illustrative purposes only and does not represent the performance of an actual investment. There is no assurance that similar returns will be achieved.

Source: Morningstar, August, 2011.

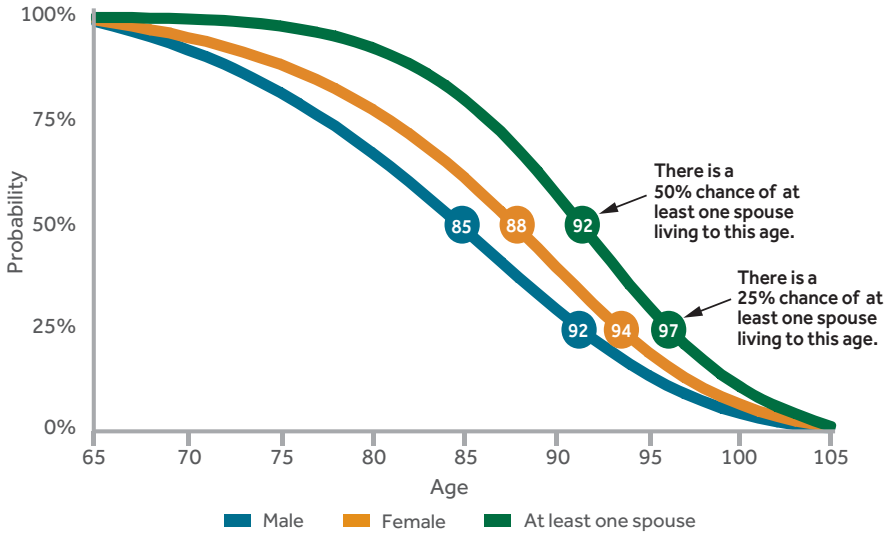
Helpful hint...

When preparing for retirement, it is important to consider all risks that can impact your lifestyle after you leave the workforce.

Life expectancy is uncertain

- Retirees are concerned about outliving their assests.
- If you only plan financially to cover your average life expectancy, you could ultimately outlive your assets.
- Use life expectancy as a starting point, not the end point, when you develop a retirement income strategy.
- At least one spouse who is 65 years old today has a 50% chance of living to age 92.[2]

Average Life Expectancy of a 65-Year Old



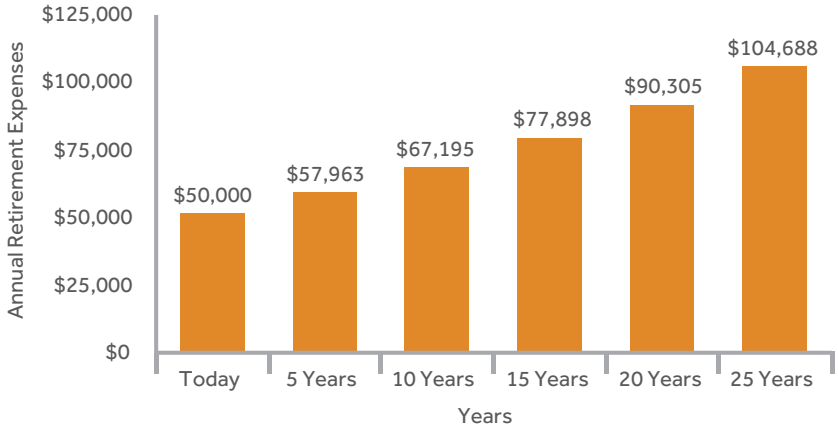
This chart shows the probabilities of a 65-year-old living to various ages.

2. Source: Annuity 2000 Mortality Table.

Inflation impacts retirement expenses

- Rising consumer prices can erode both your purchasing power and the return on your investments.
- A 3% annual rate of inflation can double expenses over a 25-year period.
- Consider cost-of-living increase options/riders on any accounts, contracts, or policies when available.

Inflation Can Increase Cost of Living



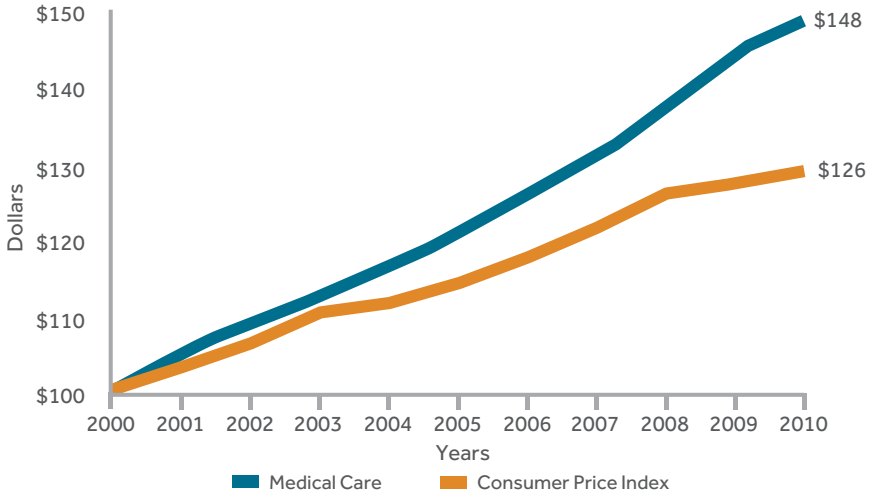
This chart illustrates how 3% annual inflation can double living expenses over a 25-year-period. The hypothetical example is for illustrative purposes only and assumes a 3% annual rate of inflation and annual retirement expenses of $50,000 at the start of retirement.

Source: MainStay Investments, 2011.

Health care can be a major expense in retirement

- Health care costs are high and rising faster than other costs.
- Employer-provided medical benefits for pre-retirees and retirees have been steadily decreasing over the past decade.[3]
- Three out of four retirees are concerned about paying health care expenses not covered by Medicare/ Medicaid.[3]
- You should explore sources of guaranteed income to help pay for the rising cost of medical care and prescription drugs.

Rising Health Care Costs Have Been Outpacing Inflation



The chart shows the difference in the rise of consumer prices and health care costs based on the Consumer Price Index (CPI). The CPI is the index used by the Bureau of Labor Statistics as a measure of the average change over time to the price of consumer goods and services. The chart shows the increase in the cost of consumer and medical goods and services from January, 2000 through August, 2010.

Source: Bureau of Labor Statistics, January, 2000 to August, 2010.

3. LIMRA International, Inc., 2010, "Scaling the Pre-Retiree Market," pg. 67.

Step 3: Take a closer look at your budget

At retirement, you will probably trade in your regular paycheck for other sources of income, like Social Security, a corporate pension, or proceeds from your assets. For some, your new "paycheck" will be less than what you may be used to. This makes it important to manage your spending habits to ensure that you don't run out of money. Your financial professional can help you work through this budgeting process. *MainStay's Personal Cash Flow Statement* can be used to list your cash inflows and outflows, including your basic and discretionary expenses. Regular monitoring of your cash flow is important throughout your retirement because your needs and expenses may change over time.

If the bottom line of your *Personal Cash Flow Statement* (cash inflows minus cash outflows) is a negative number, you'll want to develop a strategy with your financial professional to handle the discrepancy.

Organize your assets and liabilities

You may have multiple financial accounts with multiple institutions. *MainStay's Personal Balance Sheet* can help you organize your account information and keep it all in one place.

Your *Personal Balance Sheet* and *Personal Cash Flow Statement* are powerful tools in managing your finances in retirement.

Here are some tips to help you organize your retirement assets and liabilities:

- **Consolidate your assets.** Maintaining accounts with different institutions can be costly and cumbersome. You may save money and simplify your life by consolidating all accounts with one financial professional. Also, having your assets in one place may simplify the process of settling your estate.

  One day, your heirs and the person you name to manage your estate (your executor) will be grateful that you made a difficult chore easier to complete.

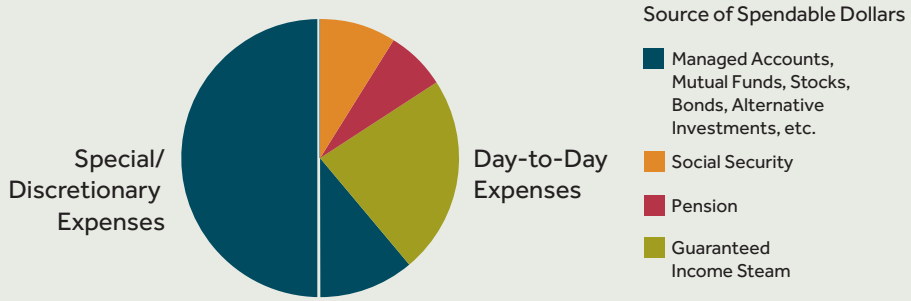
- **Review account types.** You may have a number of different account types, such as bank accounts, 401(k)s, IRAs, annuities, pension plans, and taxable investment accounts. Your financial professional and accountant can help determine which assets should be liquidated at any point in time, since tax consequences vary by asset and account type. Also, for some types of accounts, like IRAs and 401(k)s, you're required to take minimum distributions after age 70. You'll need to plan to meet these requirements.

The importance of asset allocation

Asset allocation strategies in retirement differ from those you might have used while saving for retirement. That's because portfolio volatility becomes a greater concern due to the impact of withdrawals. Typically, you'll want to optimize income to pay for your expenses, while providing growth potential as a hedge against inflation.

As you see in the hypothetical chart below, cash inflows such as Social Security, pension payments, and guaranteed income payments could be thought of as supporting your day-to-day expenses. In contrast, the managed portion of your portfolio could support a smaller portion of the day-to-day, as well as the lion's share of your special or discretionary expenses. This chart is offered to illustrate the point and not to recommend a specific allocation, which you should discuss with your financial professional.

Retirement Phase of Asset Allocation



Source: New York Life Investments, May, 2010.

Step 4: Evaluate your options and make a plan

Some experts say that you need 70%–80% of your current income to maintain your lifestyle during retirement. In reality, your income needs may be much lower, or could be 100%, of what you earned before you retire. How can you figure out the ideal amount of your retirement "paycheck?" As we described earlier, you need to analyze your monthly expenses and compare the total to your guaranteed monthly cash inflows. Next, you need to weigh your options. While not comprehensive, the following are some of the options you might consider during discussions with your financial professional.

If your guaranteed cash inflow covers your basic expenses:

- Set up a Systematic Withdrawal Plan (SWP) from investments to receive a fixed sum on a periodic basis, while you maintain the remainder of your portfolio. This will provide cash for discretionary spending. Be aware that the value of your investments will change as the market fluctuates.
- Invest conservatively (diversified mix of fixed income, equities, and cash), then continually monitor your asset allocation and adjust your risk profile according to your comfort level.[4]
- Collect dividends from your retirement assets to help pay for discretionary expenses.
- Create an emergency fund to help cover unexpected, substantial expenses and reduce the need to access shorter-term investments.

If your guaranteed cash inflow does not cover your basic expenses:

- Reduce discretionary spending. Though not always easy, it's imperative to budget and cut non-essential spending when living on a fixed income.
- Take distributions from your retirement plan assets to meet basic expenses.
- Consider a Systematic Withdrawal Plan (SWP) to provide long-term income, as well as maintain an investment portfolio to provide potential investment growth.
- Consider setting up a guaranteed source of income to help you budget. Just as you relied on regular paychecks while working, a guaranteed source of income creates a financial "floor" that you can count on to cover your fixed expenses.
- Either maintain a conservative investment allocation or increase your risk profile and periodically reassess your portfolio's asset allocation and balance. Speak to your financial professional about your risk tolerance and portfolio allocation.[4]
- Consolidate accounts, wherever appropriate, to reduce annual expenses.
- Start an emergency fund using dividends collected from your retirement assets.

4. Diversification does not guarantee a profit or protect against a loss.

Step 5: Don't go it alone

For many people, retirement plan assets represent the largest portion of their savings. Regardless of how much money you've accumulated, how you manage your assets while retired could seriously affect your long-term financial security. While you could make your own decisions about how to deploy your retirement savings, with so much at stake it's wise to seek the advice of a financial professional.

Share your vision

Your completed worksheets (see pages 11-13) will give your financial professional valuable insight into what's most important to you. Understanding your retirement lifestyle plans and concerns will help your financial professional to assess your total financial picture and set realistic expectations about your income and expenses. *MainStay's RetirementFolio Checklist* can help you collect the documents your financial professional needs to create an effective retirement income plan. Simply check off each item you have, tuck the documents in the checklist, and review them with your financial professional.

Reassess your plan at least annually

Meet with your financial professional at least once a year to monitor your investments and rebalance or reallocate your portfolio as your needs and tolerance for risk changes. With so many variables involved in retirement asset planning, you'll want to keep a close eye on your portfolio to spot any potential problems early. One way to become more comfortable may be to conduct reviews every six months for the first two years of retirement, then cut back to once a year going forward.

Retirement worksheets

The worksheets below are an easy way to record your thoughts about retirement, get organized and create a personal game plan. Check all items that apply to you, note whether an item is either resolved or unresolved, then comment on what you feel needs to be done next.

While some items relate to long-term decisions you need to make, others may require immediate, eventual, or ongoing action on your part. If you are married, please be sure to have your spouse fill out his or her own worksheets and compare notes. Then share these worksheets with your financial professional.

My expected retirement lifestyle

Preference	Resolved	Unresolved	Solution/Comments
Retire traditionally (no work, volunteering, education)			When?
Work full-time, same career field			When? Where?
Work full-time, new career field			When? Where?
Work part-time, same career field			When? Where?
Work part-time, new career field			When? Where?
Volunteer			When? Where?
Continue education			When?
Hobbies			What?
Travel			Where?
Care for grandchildren			How much?
Relocate			Where? When?
Play sports, exercise			How often?
Attend sporting events			How often?
Attend cultural events			How often?
Other			

My retirement concerns

Issue	Resolved	Unresolved	Solution/Comments
Having enough fun			
Living better in retirement than before			
Having enough energy to do what I want to do			
Generating enough income to pay basic expenses			
Government support (Social Security, Medicare, etc.)			
Paying daily health care costs (Rx, MD visits)			
Paying long-term health care/nursing home costs			
Decrease in or complete elimination of my company retiree health benefits			
Completely running out of money			
Growing assets to keep ahead of general inflation (and medical cost inflation)			
Providing financial support for family member(s)			
Providing physical care for family member(s)			
Needing/receiving assistance from family			
Impact of my children moving back in			
Receiving a promised inheritance			
Leaving an inheritance to my heirs			
Being able to make charitable gifts			
Becoming very ill			
Feeling disconnected from people			
Sudden health change (me or my spouse)			
Being forced into nursing home/assisted care			
Living for a long period			
The world situation (danger, instability)			
Being able to work as long as I wish			
Being forced to work or having to go back to work for some time period past retirement			
My kids' expectation that I'll contribute to their child(ren)'s college expenses			
Death of loved one(s)			
Other			

My expected retirement income sources

Sources of Income	Resolved	Unresolved	Solution/Comments
Defined benefit pension plan			
Defined contribution plan (money purchase pension, 401(k), 403(b), 457, Keogh, SEP, SIMPLE, etc.)			
Traditional IRA/Roth IRA/IRA rollover			
Social Security			
Support from family			
Inheritance			
Trust distributions			
Income (distributions) from personally owned business or partnership			
Salary			
CD, cash, money market			
Consulting fees			
Sale of real estate			
Sale of other assets			
Sale of business			
Income annuity			
Deferred annuity			
Rental income			
Liquidate investment portfolio			
Investment interest and/or dividends			
Life insurance policy cash value[5]			
Reverse mortgage			
Other			

5. Policy loans and partial policy surrender will reduce the policy's cash value and death benefit, and may cause the life insurance policy to lapse.

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