Forum Wealth Management
Office: 623-236-9263
Fax: 623-242-9814
learnmore@forumwealthmgt.com
www.forumwealthmgt.com

Members of the Military: Planning for Retirement

Military reservist retirement

National Guard and Reserve servicemembers with at least 20 "qualifying" years of service may be eligible for military retired pay beginning at age 60 (age 50 in some cases). At least 50 retirement points in a given year are needed to earn a qualifying year. Guard and Reserve servicemembers may begin drawing retired pay before age 60 if they spent at least 90 days deployed for war or a national emergency.

Planning for retirement is an important and sometimes difficult endeavor. As a member of the military, you may have some special opportunities and challenges when preparing financially for retirement. Often, retiring from the military leads to a second civilian career--and a second retirement.

Military pension

Generally, servicemembers who serve a sufficient time on active duty or in the Reserves or Guard may receive retired pay. Generally, if you serve at least 20 years, you may be eligible for a pension that is a percentage of your base pay. This military version of a private pension is guaranteed for life, adjusted annually for inflation, and immediately available upon retirement from military service, regardless of your age. All military retired pay options are eligible for cost-of-living adjustments based on changes in the Consumer Price Index. In addition, servicemembers who become disabled while on active duty may receive medical disability retired pay.

There are four basic retirement plans: Final Pay, High-36 or Career Status Bonus/REDUX (CSB/REDUX), and Disability. Each plan determines monthly retired pay based on a percentage of the servicemember's retired pay base. Retirement pay and how it's calculated differs depending on the plan. The Final Pay plan is available to servicemembers who entered service before September 8, 1980; High-36 is the plan for members entering service between September 8, 1980, and July 31, 1986; and members beginning service on or after August 1, 1986, can choose between the High-36 or CSB/REDUX plan upon reaching 15 years of service. Servicemembers who have been determined to be unfit for duty with a disability may be eligible for Disability retired pay. For more information on military retirement plans, go to militarypay.defense.gov.

How much will you need to save?

Even if you have a pension and/or Social Security, it might not be sufficient to meet your retirement income needs. That's why it's important to save for retirement on your own. To help maximize your chances of attaining a financially comfortable retirement, start with a realistic assessment of how much you'll need to save. Some experts suggest that you may need anywhere from 60% to 90% of your current income to maintain your current standard of living in retirement. But this is only a guideline.

To determine your specific needs, estimate your annual retirement expenses. You can use your current expenses as a starting point, realizing that your retirement expenses actually may differ quite significantly. For instance, you may have a mortgage now but not when you retire, and your health-care expenses may increase during your retirement years. Remember to take inflation into account as well.

Once you have an estimate of your retirement expenses, take stock of your estimated future income. Sources of income may include Social Security, military and private pensions, rental income, etc. If your estimated annual retirement expenses exceed your estimated retirement income, the shortfall or gap likely will have to come from additional personal retirement savings.

By the time you retire, you'll need a nest egg that will provide you with enough income to fill the gap left by your other income sources. To gauge how much you'll need to save, consider the following factors:

- At what age do you plan to retire? (the younger you retire, the longer your anticipated retirement will last)
- What is your life expectancy?
- What rate of growth do you expect from your savings?

When you know roughly how much money you'll need, your next step is to map out a savings plan that works for you. You may be able to determine approximately how much you'll need to save every year between now and your retirement to reach your savings goal.

Distributions from retirement plans, IRAs, and annuities prior to age 59½ may be subject to a 10% tax penalty unless an exception applies.

All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful.

Annuity and life insurance guarantees are subject to the claims-paying ability of the issuer/insurer.

Thrift Savings Plan

The next step is to put your savings plan into action. As an active servicemember, you can contribute to the government's Thrift Savings Plan (TSP).

The TSP is a retirement savings plan for federal employees, including servicemembers. When you make traditional contributions to the TSP, you get the same types of savings and tax benefits as you would if you contributed to a 401(k) plan offered by a private-sector employer. It's simple to contribute; your regular contributions are deducted from your paycheck before taxes (which can lower your taxable income for the year), and your contributions and any earnings accumulate tax deferred until withdrawn. You can also opt to make after-tax Roth contributions. They won't reduce your current tax liability, but qualified withdrawals in retirement will be tax free (assuming IRS requirements are met).

You can enroll, change, or cancel your contributions whenever you'd like. You can contribute as little as 1% or as much as 100% of your basic pay (or a designated dollar amount) each pay period, up to what's called the elective deferral limit for the year. You may also contribute a percentage of your incentive pay, special pay, bonus pay (but you can't make catch-up contributions from these types of pay), or tax-exempt pay during deployment subject to contribution limits.

When you leave the military, you can't continue to contribute to the TSP, but you may have the option of keeping your money in the TSP (depending on your vested account balance) or rolling it over to another retirement account, such as a traditional or Roth IRA, or other eligible employer plan. For more information on the TSP, visit www.tsp.gov.

Post-military savings options

There's a good chance that even if you remain in the military long enough to be eligible for retired military pay, you'll be young enough to enjoy a post-military career. The opportunity for a second career opens the possibility to participate in employer-sponsored pension plans and retirement plans like 401(k)s and 403(b)s. Your contributions to employer-sponsored retirement plans come out of your salary as pretax contributions (reducing your current taxable income); contributions and any investment earnings accumulate tax deferred until withdrawn. Some 401(k), 403(b), and 457(b) plans allow employees to make after-tax "Roth" contributions. There's no up-front tax advantage, but qualified Roth distributions are free from federal income taxes. In addition, employers often offer matching contributions. Employer plans may be your best option when it comes to saving for retirement.

IRAs also feature tax-deferred growth of earnings. If you are eligible, traditional IRAs may enable you to lower your current taxable income through deductible contributions. Withdrawals, however, are taxable as ordinary income (except to the extent you've made nondeductible contributions).

Roth IRAs don't permit tax-deductible contributions but allow you to make tax-free withdrawals under certain conditions. With both types of IRAs, you can typically choose from a wide range of investments to fund your IRA.

Annuities are generally funded with after-tax dollars, but any earnings grow tax deferred (you pay tax on the portion of distributions that represents earnings). There is also no annual federal limit on contributions to an annuity.

Note: *Distributions from retirement plans, IRAs, and annuities prior to age 59½ may be subject to a 10% tax penalty unless an exception applies.*

Benefits of saving early

The sooner you start saving, the more time your investments have to accumulate. The chart below shows how just $2,000 invested annually at a 6% rate of return might grow over time.

Age you begin saving for retirement:	**Amount you'll have saved by age 65:**
20	$451,016
30	$236,242
40	$116,313
50	$49,345
60	$11,951

Note: *This is a hypothetical example, and does not reflect the performance of any specific investment. Results assume reinvestment of all earnings and fees, expenses, and taxes are not considered, which would reduce the performance shown if they were included. Actual results will vary.*