

Retirement Insight

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Here’s a summary of those fees:

If you’re still receiving printed account statements on...	Your account will be charged...
June 1, 2010	\$0.25 per statement or confirmation
December 1, 2010	\$0.50 per statement or confirmation
June 1, 2011	\$0.75 per statement or confirmation



Making it last

You can help your retirement savings go further through systematic withdrawals

Investor profile

Ruth Sawyer, 65, plans to retire next year from her position in public relations at a large manufacturing firm. By diligently saving and investing throughout her career, she has accumulated \$600,000 in her retirement plan. Using an online calculator, Ruth determined that her savings, combined with her Social Security benefit and a small pension, would potentially be enough to meet her expenses once she retires. But to help make her savings last throughout her retirement, this near-retiree plans to use a strategy that involves taking systematic withdrawals from her account.

Calculating withdrawals

Some investors may be advised to take out no more than 4% or 5% a year during retirement, only increasing their withdrawals to keep pace with the rate of inflation (which has historically averaged 3% a year¹). While such limits may be good rules of thumb, the amount you should withdraw each year depends on a number of factors, including investment returns, which your financial advisor can discuss in detail with you.

Creating a plan

After meeting with her financial advisor, Ruth determined that withdrawing 4% of her nest egg each year could potentially meet her financial needs throughout retirement – even if it lasted 25 years or more. To arrive at her annual withdrawal amount, Ruth multiplied her \$600,000 savings by 0.04. The result, \$24,000, is the amount she'll withdraw from her savings her first year in retirement. But Ruth also knows her expenses are likely to increase in future years, partly due to inflation. For this reason, she plans to boost her subsequent withdrawal amounts by 3% each year (the average rate of inflation), bringing her withdrawals to \$24,720² in year two, \$25,462³ in year three, and so on.

Whether you decide to take out the same amount each year – or adjust for inflation – if you continue to follow a regular schedule of withdrawals, you can help to make your hard-earned money last longer.

Is diversification still relevant?

In short, the answer is yes. That's because, while you cannot eliminate market risk when you invest, you can address it by creating a portfolio that's diversified across a variety of asset types and business sectors to help you ride out market fluctuations. Since different types of investments can lead or lag the market at any given time, owning a variety of investments can help temper the effect of market fluctuations on your portfolio.

While diversification does not guarantee that your account won't decline in value, this time-tested strategy can help minimize losses by reducing your risk of excessive exposure to any one market segment. Considering the recent market ups and downs that we've experienced, it's a good time to examine your account and make sure that your current diversification strategy still makes sense for you. Regardless of how you choose to invest, make sure your investment allocation remains appropriate for your age, risk tolerance, and overall financial goals.

Diversification does not guarantee a profit or protect against a loss. It is possible to lose money in a diversified portfolio. ❖

¹ Ibbotson SBBi Classic Yearbook 2009

² \$720 (\$24,000 x .03) + \$24,000 = \$24,720

³ \$742 (\$24,720 x .03) + \$24,720 = \$25,462

This hypothetical profile is for illustrative purposes only.

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Playing catch-up

How one couple made some hard choices

Anna and John Smyth have saved diligently for retirement for years. Now in their 50s, the couple sees retirement approaching—and they're concerned that, despite their efforts, they haven't saved enough to support their current lifestyle in the future.

Maximizing contributions

Combined, Anna and John have \$150,000 saved in their retirement plans. Together, they currently contribute \$20,000 annually—enough to receive \$5,000 in employer matching contributions. If they were to continue at that rate, in 10 years they could have more than \$653,000, assuming a hypothetical 7% annualized rate of return.

They could be contributing more to their plans, however, considering that the pre-tax individual contribution limit for 2010 is \$16,500. And because they are both over age 50, they are eligible to make an additional \$5,500 pre-tax annual “catch-up” contribution. After crunching the numbers to find out how much they could possibly accumulate if they contributed the maximum to their plans, they find that doing so could make a huge difference. Specifically, if they each contribute the \$22,000 maximum (\$44,000 total) and continue to receive \$5,000 annually in matching contributions, in 10 years they could have about \$997,500, assuming the same hypothetical rate of return of 7%.

Coming up with the cash

Anna and John set a new goal: To ramp up their contributions so that each is investing the full \$22,000 within a year.

They decide to take a multi-pronged approach to freeing up the necessary funds, including scouring their household budget for places to reduce spending and making plans to dedicate their future raises to retirement saving. The couple also makes the difficult decision to save less toward their son Peter's college expenses so they can contribute more for retirement. They know that low-interest loans can help pay for college, but not for retirement.

By using a variety of strategies, Anna and John are confident they can meet their goal.

This hypothetical rate of return is shown for illustrative purposes only and is not intended to predict the return of any investment, which will fluctuate.

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Social Security Smarts

You can start collecting Social Security benefits as early as age 62, or as late as age 70. While you may be tempted to sign up for benefits as soon as possible, delaying that move can boost your finances significantly. In other words, the longer you wait, the larger your monthly benefit will be.

Here's how it works: The government determines your full retirement age (FRA) based on the year of your birth. If you start collecting Social Security before your FRA, your monthly benefits are reduced. Say your FRA is 67. If you start taking your benefits at age 62, you'll receive just 70% of your full benefit amount.

If you wait until *after* you reach your FRA to start collecting Social Security, your benefits increase 8% every year you wait until age 70 (after 70 there is no further advantage to waiting). If your FRA is 67, you would increase your monthly check by 24% if you waited until age 70.

Of course, everyone's personal circumstances are different. To determine how a delay in receiving Social Security benefits would affect you, go to www.socialsecurity.gov to use the benefits calculators.

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