GUIDE TO RETIREMENT

ALERUS

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Alerus participants take time to think things through. They don't take the easy way out. They take the high road, the road less traveled. They take responsibility. They take control of their own legacies, take future generations into account, and they take every opportunity to forge a better life.

PREPARING FOR RETIREMENT

"Retirement once seemed a long way off,
but it just keeps getting closer every day."

Sound familiar? If you've reached this stage in your working life, you should be asking yourself whether you're truly prepared for retirement.

That may be a hard question to answer. After all, you can't predict what will happen in the future. But you can make sure you've considered as many of the issues as possible before you make the decision to stop working.

YOUR INCOME NEEDS

Do you know how much income you're going to need during your retirement? An exact figure is difficult to determine. For planning purposes, you may want to assume you'll need 70 percent to 90 percent (or possibly more) of your annual income to fund a year of retirement. Base your calculation on your projected income for the year before you retire, not on your current earnings (see graphic for an example).

Once you have an idea of how much income you might need during retirement, consider your potential income sources, including Social Security and any additional sources other than your retirement savings plan. This will help you determine how much you should be saving in your plan.

If you're worried you might run short, try to increase the amount you contribute to your plan. Even a little bit more now can add up significantly over time. Also, take a close look at your plan investments. You may want to include investments in your portfolio that have the potential for long-term growth.

PROJECTING PRE-RETIREMENT INCOME

Assuming three percent annual pay increases, here's what a $40,000 salary would grow to over different time periods until retirement and what 80 percent of that amount would be.

	ANNUAL INCOME	80% OF ANNUAL INCOME
This Year	$40,000	$32,000
In 10 Years	$53,757	$43,006
In 20 Years	$72,244	$57,795
In 30 Years	$97,091	$77,673
In 40 Years	$130,482	$104,386

This is a hypothetical example used for illustrative purposes only. You may need more or less than 80 percent of your preretirement income to maintain your lifestyle during retirement.

Source: DST

ESTATE AND TAX PLANNING

Navigating tax laws and other legal areas can be tricky. By seeking out resources and experts who can help you build your understanding of these concepts, you're confirming your commitment to your own successful retirement. Resources and tools can include the Alerus participant website, government websites, and even outside experts. At the end of this section we'll provide some additional resources to help you get started.

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SOCIAL SECURITY

How much do you really know about Social Security? Eventually, most people will have to make some decisions regarding their Social Security benefits. Understanding some of the issues that may arise can help you in your retirement planning. Here are some commonly asked questions:

WHEN CAN I RECEIVE BENEFITS?

Your "full retirement age" is the age at which you will be eligible to start receiving benefits. It's based on the year you were born.

IF YOU WERE BORN IN . . .	FULL RETIREMENT AGE IS . . .
1943 – 1954	66
1955 – 1959	Between 66 and 67
1960 and Later	67

You can start collecting benefits as early as age 62. However, your benefits will be reduced a fraction of a percent for each month before your full retirement age, resulting in a total loss of 20 percent to 30 percent.

CAN I DELAY COLLECTING SOCIAL SECURITY BENEFITS?

You can postpone signing up for Social Security until after your full retirement age. If you delay taking benefits, your benefit will increase by a certain percentage, depending on your date of birth, until you reach age 70. If you were born in 1943 or later, your benefits will increase by eight percent each year you delay taking benefits until you reach age 70.

For example, if you were born in 1960 and decide to postpone taking benefits, your benefit will increase eight percent per year up until age 70. Here's how it's calculated:

IF YOU START RECEIVING BENEFITS AT AGE . . .	MULTIPLY YOUR FULL RETIREMENT BENEFIT BY . . .
67	100%
68	108%
69	116%
70 or Later	124%

HOW ARE MY BENEFITS CALCULATED?

To be eligible to receive Social Security benefits, you need to work and pay Social Security taxes. You can earn up to four "credits" for each year you work. Credits are based on income. You need at least 40 credits to receive benefits.

When you retire, your Social Security benefit will be based on the 35 years you earned the most money. Keep in mind there is a maximum benefit amount.

WILL I HAVE TO PAY TAXES ON MY SOCIAL SECURITY BENEFITS?

Depending on your income, a portion of your Social Security benefits may be taxed. Your income includes half of your Social Security benefits plus any wages, self-employment income, dividends and interest (including tax-exempt interest), and any other income you earn.

If you file a federal tax return as an individual, you may have to pay income tax on up to:

- Fifty percent of your benefits if your income is between $25,000 and $34,000.
- Eighty-five percent of your benefits if your income is more than $34,000.

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If you file a joint federal tax return, you may have to pay income tax on up to:

- Fifty percent of your benefits if your income is between $32,000 and $44,000.
- Eighty-five percent of your benefits if your income is more than $44,000.

WHAT IF I WORK PART-TIME DURING RETIREMENT?

If you retire early and then decide to go back to work after you start receiving Social Security benefits, earning too much could reduce your benefits. There is a different limit and benefit reduction formula for the year you reach full retirement age, and only amounts earned before the month you reach full retirement age count. Beginning the month you reach your full retirement age, there is no limit on earnings.

TIPS AND TOOLS

- **Spending Plan Worksheet**: The attached form will help you estimate annual expenses and create a spending plan for retirement.
- View an Estate Planning Basic Video Series at **americanbar.org**.
- View a state-by-state listing of legal resources and get advice on how to find a lawyer at **findlegalhelp.org**.
- Get advice on how to choose a tax preparer at **irs.gov**.
- Create a My Social Security account at **ssa.gov**.

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YOUR OPTIONS

As you near retirement, you may have questions regarding the options available for your employer-sponsored plan savings. There may be a variety of options available depending on your circumstances when it comes to handling your retirement assets. These options include leaving assets in your former employer's plan (if allowed), moving the balance to your new employer's plan (if allowed), rolling the assets over into an Individual Retirement Arrangement (IRA), or taking a cash distribution. Seek tax advice to further understand the impact of your choices.

CURRENT EMPLOYER-SPONSORED PLAN

The easiest solution is to leave your balance in your current plan. This provides you with continued access to the plan's current and future lineup and the funds within the plan may carry lower expenses than the same or similar funds bought outside the plan. You also will not incur any taxes or penalties.

Keeping your retirement savings in your employer-sponsored plan with Alerus will also provide continued access to Alerus' website, Client Service Center, and quarterly statements.

INDIVIDUAL RETIREMENT ARRANGEMENT (IRA)

Between taxes and a possible penalty, the cost of taking a cash distribution is steep. Unless you really need all the money right away, you may be better off either leaving it in the plan (if you have that option) or rolling an eligible distribution over to another employer's plan or to an individual retirement account (IRA). You don't have to roll over the entire amount and have 60 days to complete the transaction. Future distributions are taxed as ordinary income.

Alerus offers an IRA Rollover with flexible distribution options, internet/telephone access, quarterly statements, and a selection of diversified investment portfolios.

For more information about Alerus' IRA Rollover, contact:

Tammy Hoy
Retirement and Investment Advisor
701.280.5175 or 800.279.3200, ext. 5175
tammy.hoy@alerus.com

CASH OUT

Your retirement plan may provide for a cash distribution of your entire account balance upon termination of employment. Like many people, you may find this option appealing because the money will be yours to spend or invest as you see fit. But, before you decide to take the cash, consider your taxes.

When the money comes out of the plan, you'll have to pay income taxes on all previously tax-deferred amounts — quite possibly on the whole distribution. Adding the distribution income to your other taxable income for the year will likely put you in a higher tax bracket, and could result in a substantial tax liability.

The cost of withdrawal can be even greater if you are under age 59½. Then, a 10 percent penalty may be due on the taxable amount of your distribution — in addition to income taxes. Note, however, that distributions from a 401(k) or other qualified plan following separation from service with the employer are not subject to the 10 percent penalty if the separation occurs during or after the year you reach age 55.

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Individuals tend to choose a lump-sum distribution from their retirement plan over an installment. A potential advantage of receiving a lump sum is that you can invest the money. Depending on the investment returns you are able to achieve, you might come out ahead compared to the annuity options offered by your plan.

However, that doesn't mean a lump sum is necessarily right for you. Your income needs in retirement, tax picture, and tolerance for investment risk, along with health/life expectancy, experience handling investments, and asset management fees/costs should all be considered.

ANNUITY OR INSTALLMENT?

Installment payments are a sum of money, divided into portions that are made payable at different times. Installments can be stopped or paused at any time, as well as resumed. Annuities convert your account into a series of fixed payments that cannot be changed. In an installment arrangement, you can change your payment amount, while with an annuity, the payments are predetermined.

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LIVING IN RETIREMENT

Congratulations, you're about to retire! Your many years of hard work have paid off, and now it's time to finally take it easy. So, how do you plan to spend your time? Traveling? Golfing? Visiting your relatives? However you want to enjoy your retirement, you need to think about how you're going to spend your money.

MANAGING YOUR ASSETS

DON'T RUSH IN

It's important not to be impulsive when you first retire. While you may feel you deserve an exotic vacation or a new car, immediately splurging might not be a smart move. You should determine how much retirement money you can afford to withdraw each year.

NO FALSE ASSUMPTIONS

Make sure you carefully calculate how much you will really need to withdraw from your savings. If you just make some general assumptions, you could end up taking out more than you should and risk running out of retirement funds down the road.

Also, don't assume you won't need retirement income for very long and, thus, that you might as well spend a lot of your money right off the bat. Depending on your age at retirement and how healthy you are, you could be retired for over 30 years. With many retirees living active lives well into their 80s, you may want to prepare for a long retirement so that you don't risk outliving your savings.

KEEP TRACK OF EXPENSES

Write down all the expenses you anticipate you will have once you retire. Work-related expenses will likely be greatly reduced. Depending on your anticipated lifestyle, recreational and travel expenses may increase. If you plan to relocate, figure in the costs associated with moving. And, if you will have to pay for part or all of your health care, make sure you include those expenses, too.

LOOK AT YOUR INVESTMENTS

While you may focus on the amount of retirement savings you've accumulated, also project the investment return your savings will generate. The higher your return, the longer your savings are likely to last. In recent years, you may have shifted more of your portfolio into fixed-income investments to help preserve the value of your principal. However, you will probably want to keep a portion of your funds in stocks so that your portfolio will have the potential to produce returns that outpace inflation.

ANTICIPATE INFLATION

While you were saving for retirement, inflation had an impact on the future buying power of your savings. Inflation will continue to have an impact once you retire, especially if your retirement lasts a long time. Over a 30-year retirement, even a low inflation rate can erode the value of your savings. So consider the rate of inflation when you determine your savings withdrawal rate.

TALK TO YOUR FINANCIAL PROFESSIONAL

When it comes to spending your retirement savings, it's important to get it right. Your financial professional can help you figure out how much you can withdraw from your savings so that you achieve your retirement goals and have enough to last throughout your retirement. If possible, get a head start on your planning and talk to someone before you actually retire.

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MONITOR YOUR PLAN

Once you retire and have a spending plan in place, you'll want to review your plan periodically. You may need to make adjustments if your investment returns are lower than anticipated, the rate of inflation increases, or your spending needs change significantly.

REQUIRED MINIMUM DISTRIBUTIONS

Employer sponsored plans offer advantageous tax breaks designed to encourage people to save and invest for their own retirement. Contributions may be tax deductible (if you qualify), while earnings grow on a tax-deferred basis. However, there's a catch. The IRS requires plan participants to eventually pay taxes at ordinary income-tax rates on taxable distributions taken from their plans. And participants must begin taking money out of the plan once they reach a certain age.

If you participate in an employer sponsored plan, the IRS requires that you begin taking required minimum distributions (RMDs) from your account no later than April 1 of the year following the year you reach age 72*. If you take your first RMD on April 1, you will be required to make another withdrawal by December 31 of the same year — for a total of two RMDs in that year. Subsequent RMDs must be taken annually by December 31. If you are not an owner of the business sponsoring the retirement plan, you may defer your RMD while you are still working.

DECIDING ON AN AMOUNT

How much will you have to withdraw from your employer sponsored plan to satisfy the RMD rules? Your plan provider should calculate your RMD amount for you, but you can access the IRS's website for help calculating the amount you must withdraw each year. The calculation uses an IRS life-expectancy-based table. You can also access an RMD Calculator on Alerus' website.

Just be careful — if you take out too little, you'll be liable for a 50 percent excise tax on the amount not withdrawn as required. You can always take out more than the required minimum amount. However, additional withdrawals are also taxable as ordinary income and will not count toward RMDs for future years.

TIPS AND TOOLS

- Get advice on selecting an advisor at **letsmakeaplan.org**.
- Learn about avoiding predatory practices at **sec.gov**.
- View a Social Security benefits calculator and retirement calculator along with extensive current news on social security and retirement issues at **aarp.org**.

*Individuals attaining age 70½ prior to January 1, 2020, (i.e. born June 30, 1949, or earlier) are subject to pre-SECURE Act distribution requirements.

SPENDING PLAN WORKSHEET

LIVING EXPENSES

Housing

Rent/Mortgage	______
Telephones	______
Utilities	______
Cable/Internet	______
Other	______

Household

Food & Groceries	______
Pets	______
Clothing	______
Medical & Dental	______
Child Care	______
Education Expenses	______
Other	______

Personal Care

Medical	______
Hair/Nails	______
Health Club/Gym	______
Other	______

Transportation

Gas	______
Maintenance/Repair	______

Leisure

Vacations	______
Hobbies/Activities	______
Entertainment	______
Restaurants	______
Other	______

Giving

Gifts	______
Charities	______

TOTAL ______

DEBT

Credit Card Payments	______
Car Loans	______
Other	______
TOTAL	______

INSURANCE

Car Insurance	______
Homeowner's Insurance	______
Health Insurance	______
Life Insurance	______
PMI Insurance (mortgage)	______
Other	______
TOTAL	______

SAVINGS AND INVESTMENTS

Retirement	______
Education	______
Emergency Funds	______
Other	______
TOTAL	______

TAXES

Property	______
Income	______
TOTAL	______

INCOME

Employment Income (Gross)	______
Current Pension	______
Other	______
TOTAL	______

Total Living Expenses		______
Total Debt		______
Total Insurance		______
Total Savings		______
Total Taxes	+	______
Total Expenses		______

Total Income		______
Total Expenses	—	______

Surplus/Shortfall ______