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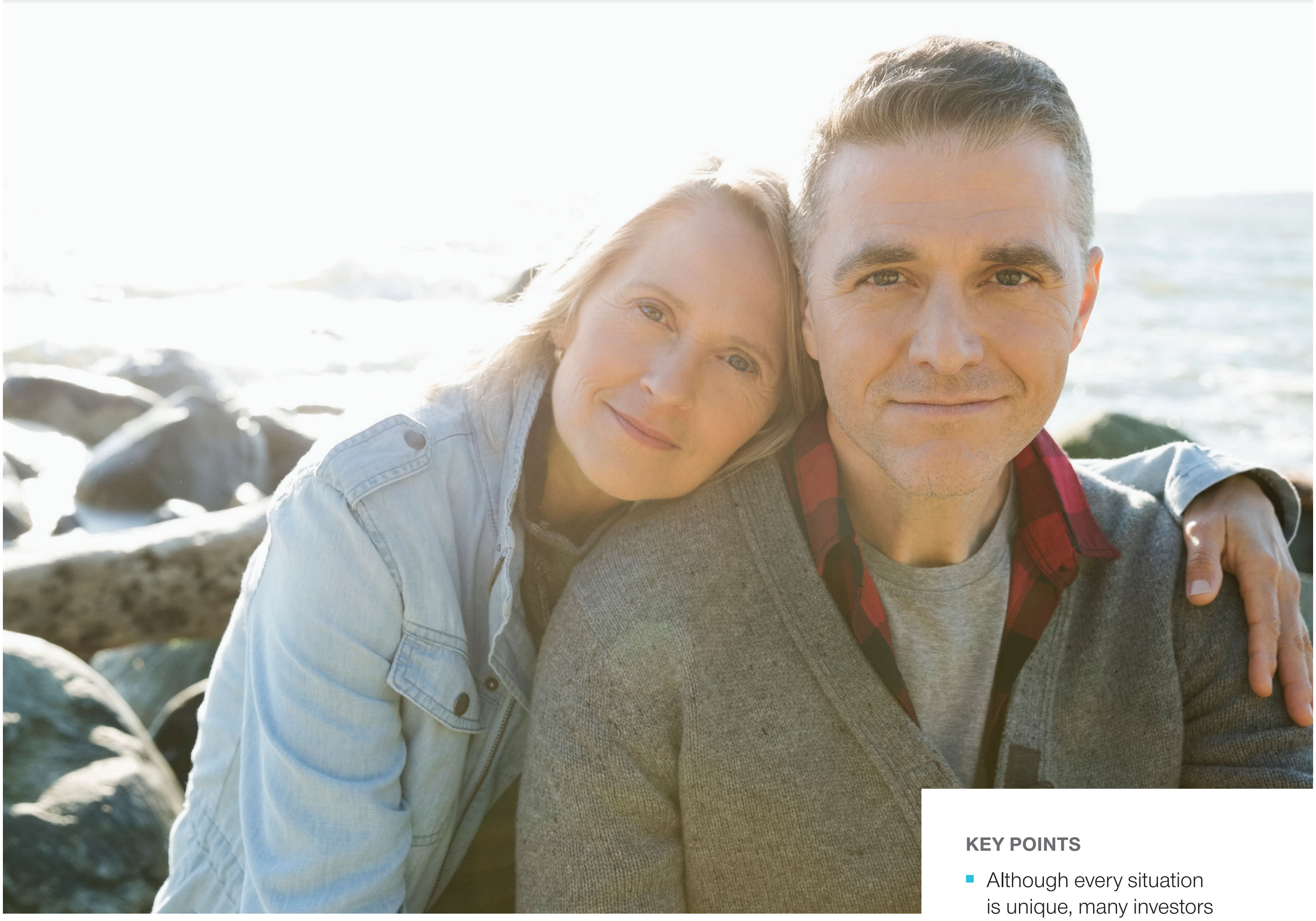

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Plan Confidently for Retirement

Answers to these 5 questions can help put the future you want within reach.

KEY POINTS

- Although every situation is unique, many investors share similar concerns about saving for retirement.
- Guidelines can help investors get started even when they're uncertain about the future.
- Investors should regularly revisit their strategies and assumptions to keep their plans and goals aligned.

Saving for retirement represents an important long-term financial goal for most investors. Although your savings strategy will reflect your personal circumstances and the type of retirement you envision, certain challenges are common to nearly everyone. For instance, those still in the workforce frequently want to know whether they are saving enough for retirement, while retirees often wonder how

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much they can afford to spend. The answers to these common questions may vary from person to person, but the following recommendations can help start you down the path toward retirement success.

1 How much should I be saving for retirement?

"Exactly how much you need to save depends on several factors, including your lifestyle, how much you earn, and your unique vision for this next stage of life," says Judith Ward, CFP®, a senior financial planner with T. Rowe Price. However, by aiming to save at least 15% of your income—including any employer match—you can give yourself a good chance to maintain your current lifestyle in retirement.

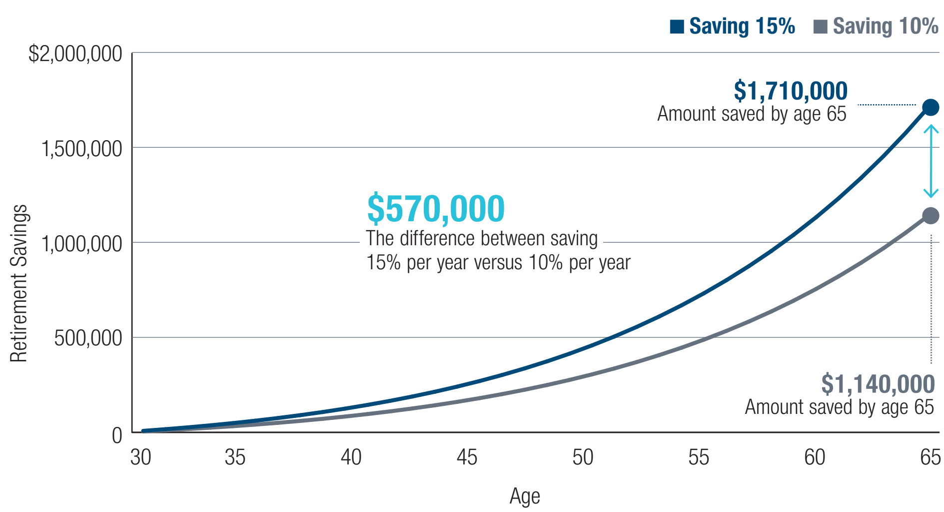
Each extra percentage point you save will make a difference in your retirement savings. (See "Every Little Bit Helps.") T. Rowe Price's 15% guideline is based on several factors, including the potential that your retirement will last 30 years or longer, exposing you to increased risks from inflation and higher health care costs. A 15% target can help your savings generate a robust income stream in the face of these long-term challenges. Many individuals may look to their workplace plan, like a 401(k), to set their savings rate. Investors also can supplement these savings with an IRA or a regular, taxable account.

2 Have I saved enough for retirement so far?

Considering you may spend 30 years or more in retirement, it's important to save enough so that your money will last. "A quick way to check your progress is to assess how much you've saved by certain ages," says Ward. "We refer to the target levels as savings benchmarks."

Every Little Bit Helps

Contributing a few percentage points more each year could make a big difference in your retirement savings.



Assumes 7% average annual return in a tax-deferred account, a $50,000 starting salary at age 30, and a 3% annual salary increase. The savings estimates are rounded and shown in future dollars. This chart is for illustrative purposes only and does not represent the performance of any specific security. *All investments involve risk, including possible loss of principal.*

Your savings benchmark

To find your retirement savings benchmark, look for your approximate age and consider how much you've saved so far. (See "Savings Benchmarks by Age.") Compare that amount with your current gross income or salary.

These benchmarks assume you'll be dependent primarily on personal savings and Social Security benefits in retirement. However, if you have other income sources (e.g., a pension), you may not have to rely as much on your personal savings, so your benchmark would be lower.

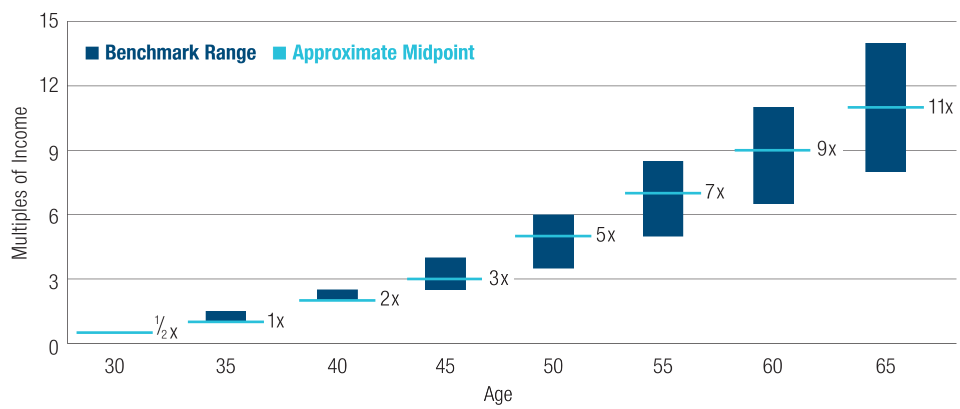
The midpoint benchmarks are a good starting point, but circumstances vary by person and over time. Key factors that affect the savings benchmarks include income and marital status. Depending on your personal circumstances, you may want to consider other benchmarks within the ranges. As you're nearing retirement, think about analyzing your spending and income sources more carefully (going beyond benchmarks).

3 Should I contribute to a Roth IRA or a Traditional IRA?

Setting money aside in a Roth individual retirement account (IRA) offers a few distinct benefits over saving in a Traditional IRA. (See "Comparing IRAs" on page 4.) In particular, withdrawals from a Roth IRA are tax-free in retirement (provided you are age 59½ or older and have held the account for five years). By comparison, withdrawals from Traditional IRAs generally are taxed as ordinary income. This difference in tax treatment means that a Roth IRA offers the potential for greater income flexibility and tax diversification in retirement.

Savings Benchmarks by Age

Find your retirement savings benchmark by looking for your approximate age.



Assumptions: Benchmarks are based on a target multiple at retirement age and a savings trajectory over time consistent with that target and the savings rate needed to achieve it. Household income grows at 5% until age 45 and at 3% (the assumed inflation rate) thereafter. Investment returns before retirement are 7% before taxes, and savings grow tax-deferred. The person retires at age 65 and begins withdrawing 4% of assets (a rate intended to support steady inflation-adjusted spending over a 30-year retirement). Savings benchmark ranges are based on individuals or couples with current household income between $75,000 and $250,000. Target multiples at retirement reflect estimated spending needs in retirement (including a 5% reduction from preretirement levels); Social Security benefits (using the SSA.gov Quick Calculator, assuming claiming at full retirement ages and the Social Security Administration's assumed earnings history pattern); state taxes (4% of income, excluding Social Security benefits); and federal taxes (based on rates as of January 1, 2018). While federal tax rates are scheduled to revert to pre-2018 levels after 2025, those rates are not reflected in these calculations. For the benchmarks, we assume the household starts saving 6% at age 25 and increases the savings rate by 1% annually until reaching the necessary savings rate.

Moreover, Roth IRAs aren't subject to the required minimum distributions (RMDs) that apply to most retirement accounts starting at age 70½, so you can let any Roth assets continue to benefit from potential tax-free growth for the rest of your life, if you choose. "Roth contributions can be a good choice if you don't expect your tax bracket to decrease in retirement or if you already have significant Traditional assets and won't need all of those funds for income," says Roger Young, CFP®, a senior financial planner with T. Rowe Price.

4 Which retirement account should I fund first?

The order in which you contribute to your retirement accounts can help increase future spendable income. Your best contribution order will depend on your personal situation. When deciding on the right approach, make sure not to miss out on any matching contributions if offered by your employer's retirement plan. Also, consider taking advantage of the potential tax-free withdrawals from a Roth account—both within your employer's retirement plan (if available) and through a Roth IRA (if you meet income qualifications).*

Let's look at an example: Suppose Roth contributions make sense for your situation and you're eligible to contribute to a Roth IRA, but your company doesn't offer a Roth option in its 401(k) plan. In this case, contribute enough to your Traditional 401(k) to earn any company match, then to a Roth IRA. Then direct any supplemental savings to your Traditional 401(k) and/or a taxable account, depending on your circumstances and other financial goals.

Comparing IRAs

When it comes to making a thoughtful decision between a Roth IRA and a Traditional IRA, it helps to understand the differences.

	Traditional IRAs	Roth IRAs
Contribution limits	$6,000 ($7,000 if age 50 or over) or 100% of taxable compensation, whichever is less, in 2019	
Eligibility requirements	Must be under age 70½ and have earned income; no income limits	No age limits; must have earned income; income limits apply*
Tax considerations	Contributions may be tax-deductible depending on your income; withdrawals are generally taxable	Contributions are not tax-deductible; withdrawals are generally tax-free
Required minimum distributions	Required at age 70½	None for the account owner

*In 2018 and 2019, eligibility to make the maximum Roth IRA contribution requires a modified adjusted gross income (AGI) of less than $120,000 and $122,000, respectively, for single filers and less than $189,000 and $193,000, respectively, for married couples, filing jointly. (A modified AGI of less than $135,000 and $137,000, respectively, for single filers or less than $199,000 and $203,000, respectively, for married couples is required for partial contributions.)

5 What should I consider when establishing an income plan for retirement?

"Starting to draw down your savings can be a challenge after years of putting money aside," says Young. "A strategy that includes a sustainable withdrawal rate and a sequence for which accounts to draw from can help ensure you make the most of your savings."

T. Rowe Price suggests the 4% guideline as a starting point for a withdrawal strategy. This means that in the first year of retirement, you should look to withdraw up to 4% of your retirement account balance and reevaluate your spending needs each year. If you have multiple retirement accounts, the order in which you make withdrawals can help you manage your tax bill and maximize the continuing growth potential of your assets. You'll want to assess and plan out your strategy well before required minimum distributions (RMDs) kick in.

Also, consider your options for Social Security. You can start taking Social Security benefits at age 62, but waiting just a few years until your full retirement age (FRA) will allow you to claim your full benefits. And the longer you wait—up to age 70—the higher your annual benefit may be. Consider coordinating your claiming strategy with your spouse. For instance, to maximize the benefit for a surviving spouse, the higher earner should wait as long as possible before claiming benefits.

Finally, remember that, in general, you'll need to take RMDs from retirement accounts by April 1 of the year after you reach age 70½. (Roth IRAs generally are exempt from the RMD rules.) If you don't initiate this distribution, you may have to pay a 50% tax penalty on the amount not withdrawn.

For more detailed information, see the full report about various withdrawal strategies at **troweprice.com/withdrawalstrategiesreport.**

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