



10 Rules for the Retirement Road



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Financial advisors or investment professionals recommend various strategies for investors to follow as they plot their way toward retirement. If you are worried that your retirement investment plan is adrift, consider these 10 strategies which could help steer you in the right direction.

Rule 1: Pay yourself first.

Many financial advisors or investment professionals start their pre-retirement pep talk with the same three words: Pay yourself first. This includes putting the maximum amount possible into your 401(k) plans and investing additional amounts in IRAs and mutual funds through deductions from your bank account or, if your employer offers it, deductions directly from your paychecks. Automatic investment plans are an easy way to stick with a retirement investing program because the money is invested before it can get spent on anything else. While automatic investing does not guarantee a profit or protect against a loss in declining markets, it does make retirement investing a priority.

Rule 2: Don't let today's bills sink tomorrow's needs.

Supporting yourself and your family is not easy. Chances are your household expenses will grow over time. That is why it is important, especially

through times of difficulty and new expenses, to keep contributing toward your retirement.

When you are thinking of reducing or ceasing investing for your future to cover current expenses, stop, think and try to find another way to cover or reduce your current expenses.

Rule 3: Put time on your side.

It's simple. When you give your money more time to accumulate, the potential earnings on your investments — and the annual compounding of those earnings — can make a big difference in your final return.

Consider a hypothetical investor who saved \$2,000 per year for 10 years, then did not add to her nest egg for the next 10 years. She has \$50,042 before taxes after 20 years, assuming she earned 6% annually in a tax deferred account. Another hypothetical investor waited 10 years, then tried to make up for lost time by investing \$3,000 annually for the next 10 years. Even though he invested more — \$30,000

KEY POINTS

Today is the best time to start planning for retirement. Why?

- Time can be an investor's greatest asset.
- Once you have a plan in place, it is easy to modify.
- Investing is a habit that is best started as soon as possible.
- Your retirement is ultimately your responsibility.



This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

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versus the early bird's \$20,000 — he still ends up with a smaller nest egg. Assuming he also earned 6% per year, his final account value is only \$41,915. Most of the procrastinator's nest egg — 72% — is the principal he invested. Most of the early bird's account — 60% — is earnings.¹

Rule 4: Don't count on Social Security as your primary source of income.

According to the Social Security Administration, Social Security benefits are estimated to replace about 30% of the average worker's lifetime earnings.² While the dollars and cents result of this growth is hard to determine, you may want to consider having a variety of outside retirement assets.

Rule 5: Resist borrowing from your 401(k).

Loans are a popular feature of 401(k) plans. People like being able to access their money. But many financial advisors or investment professionals recommend clients consider borrowing from other sources, such as the equity in their homes, before taking 401(k) loans.

Here are some reasons why:

Fixed return. When you pay yourself interest as you pay back a 401(k) loan, your interest rate determines the amount you earn on that money. This may be a modest return compared with what your money could earn if you were to leave it invested in the financial markets.

Payback challenge. Repaying a 401(k) loan when trying to maintain contributions may be difficult. There is a real chance that your retirement plans may suffer when you try to repay and continue to invest simultaneously.

Tax penalties. Switching jobs before a 401(k) loan is repaid can bring unwanted tax consequences. You may be able to pay off or transfer your loan to your new employer's plan, but if neither option is available to you, your loan balance will be considered a distribution from your plan. The distribution is taxable as ordinary income and may be subject to a premature distribution penalty tax of 10% unless you meet the age exemption provided for in the Internal Revenue Code.

Rule 6: Do not "cash out" retirement plans when switching jobs.

When you leave a job, the vested benefits in your retirement plans are an enticing source of money. It may be difficult to resist the urge to take that money as cash, particularly if retirement is many years away. But generally you will have to pay federal income taxes, state income taxes (if applicable) and a 10% penalty if you are under age 55. This can cut into your investments significantly.

For example, if your state income tax is 7.5% and you are in the 24% federal tax bracket, you could lose 41.5% of the amount you take.

$$\begin{array}{r}
 24.0\% \text{ (federal tax)} \\
 + \quad 7.5\% \text{ (state tax)} \\
 + \quad 10.0\% \text{ (penalty)} \\
 \hline
 = \quad 41.5\% \text{ (total tax and penalty)}
 \end{array}$$

When changing jobs, you generally have three options for leaving your retirement money invested in a tax-deferred vehicle. You can keep the money in your old employer's plan, roll it over into an IRA or into your new employer's plan, if that plan accepts rollovers. Ask your financial advisor or investment professional about these three options before deciding which will work best for you.

Keep in mind that there are advantages and disadvantages to an IRA rollover depending on the investment options, services, fees and expenses, withdrawal options, required minimum distributions, tax treatment and your unique financial needs and retirement goals. Your financial advisor or investment professional can assist in determining if a rollover is appropriate for you.

Rule 7: Take advantage of your IRA options.

Different types of IRAs have different eligibility requirements and different advantages and features, but almost everyone can have some kind of IRA. The Roth IRA has become a popular way to expand retirement investing for many investors because, although contributions are not tax deductible, Roth distributions can be tax free if certain conditions are met. While traditional IRA owners are required to begin taking distributions at age 73,³ Roth owners are not required to take any distributions during their lifetime. But with the various IRA options available today, it is important to know why you are investing — to reduce current taxes, to save for your own retirement or to pass assets on to heirs — before you decide where

¹ These hypothetical examples are for illustrative purposes only and are not intended to predict the returns of any investment choices. Rates of return will vary over time, particularly for long-term investments. There is no guarantee the selected rate of return can be achieved. The performance of the investments will fluctuate with market conditions. Regular investing does not ensure a profit or protect against a loss in declining markets. Investors should consider their ability to continue purchasing shares during periods of low price levels.

² Source: Social Security Administration, "Replacement Rates for Hypothetical Retired Workers", March 2023.

³ Under the "Setting Every Community Up for Retirement Enhancement Act" of 2019, as revised in 2022 ("the SECURE Act 2.0"), the required beginning age of RMDs is raised from age 72 to 73 for any person who attains age 72 after December 31, 2022. There is no change to RMDs for people who turned age 72 prior to January 1, 2023.

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to start. And, once you decide on a direction, it is important to make your annual contribution. Annual contribution limits have increased over the years, making IRAs a more valuable way to invest for retirement. Individuals over age 50 can make additional “catch-up” contributions each year. Your financial advisor or investment professional can help you determine which IRA could work best for your situation.

Rule 8: Compare the merits of Roth contributions and pretax contributions.

Different retirement accounts have different tax benefits. Contributions into a traditional 401(k) account reduce your current taxable income but are then taxable upon withdrawal. A contribution to a Roth will not reduce your current taxable income but is tax free if withdrawn after five years and after you reach age 59½. Is it better to get a tax advantage now or later? The answer depends on many factors, including how many years you have left until retirement, your current tax rate and your estimated tax rate in retirement. Work with your financial advisor or investment professional to determine which type of contribution offers more advantages for you.

Rule 9: Do not try to time the stock market.

Some investors, even those for whom retirement is still many years away, frequently shift their money in and out of the stock market. They will get out when they fear a crash and get back in when they expect a boom. The problem with trying to time the market is that no one can consistently predict the short-term events that push the market up or down. It may be better to consider an investing plan adjusted for your goals, time frame and risk tolerance that diversifies your investments, allocates them among different asset classes and rebalances your portfolio.

Rule 10: Allocate, diversify and rebalance (ADR).

You have certain long-term financial goals in mind. You also have a certain tolerance for risk when it comes to investing your money. ADR — as part of a *disciplined diversification*® investment strategy — can help you find and maintain your balancing point so you can pursue your goals at a risk level you find comfortable.

Allocate your assets across the major asset classes — stocks, bonds and cash — to pursue the optimal returns for the risk level you are willing to undertake.

Diversify within each class to take advantage of different investment styles — such as growth and value stocks — and various market sectors — such as government and corporate bonds.

Rebalance regularly. Market activity can shift the percentage of your portfolio that you have dedicated to each asset class. Rebalancing will help you maintain your desired allocation. Keep in mind that no investment strategy, including diversification or ADR, can guarantee a profit or protect against a loss.

All investments, including mutual funds, carry a certain amount of risk, including the possible loss of the principal amount invested.

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Before investing, consider the fund's investment objectives, risks, charges, and expenses. For a prospectus or summary prospectus containing this and other information, contact your investment professional or view online at mfs.com.

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