5 MUST-DO'S WHEN SAVING FOR RETIREMENT

You've probably heard that you should save early and as much as you can for retirement. But for most it's easier said than done. Retirement might seem so far off that it's just not a burning issue for you. And if you're in 30s and 40s, other expenses like mortgages, child care, and college savings might take priority.

But the reality is that no matter where you are in your life or what you had saved until now, there are certain "rules of the road" that should be adhered to. In this guide, you'll find Must-Do's when saving for retirement and how to align them to your personal situation, including:

- **Understand the Numbers:** Learn why shooting for a number may not be the best strategy.
- **Save Early and Often:** See how your savings strategies change and evolve over time.
- **Diversification:** Learn about the most common sources of income in retirement and why you may need to have more than one.
- **Plan for the Unexpected:** Protect from risks that can derail your retirement savings goals.
- **Avoid Pitfalls:** Learn about the common mistakes that others have made (so you don't).

More than

2 IN 5 U.S. ADULTS

have not spoken to ANYONE about retirement.

Source: Planning and Progress Study 2015

MUST-DO #1—YOUR CURRENT NUMBER MAY NOT BE YOUR NUMBER LATER.

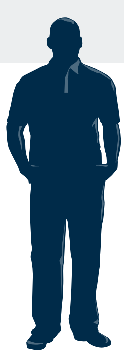
Unfortunately, there's no silver bullet to the question "How much money do I need for retirement?" Some companies will give you a number; others will tell you to save a certain percentage and you'll be "OK". But what does that really mean?

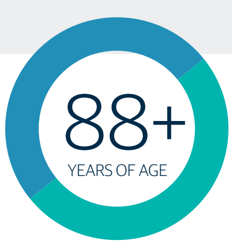
No one has a crystal ball that tells us how long we'll live, if we'll win the lottery or what we'll be doing 10, 20 or even 40 years from now. What happens if you end up hating golf 30 years from now? Your plan to golf every day in retirement could change your retirement plan dramatically.

What you plan to do in retirement? Are you someone who stays close to home or a world traveler? Will you want to live somewhere else? These types of decisions will impact your retirement budget and the amount you need to save today to meet your goals. Use our short workbook to plan out your ideal retirement. Update it every two to five years and see how your plans change and evolve.

Are you close to retiring? It's important to give your retirement a test-drive. The idea of golfing every day or relocating to another state might seem like a dream. But until you actually do it, you won't know if it's exactly what you'll want "full time."

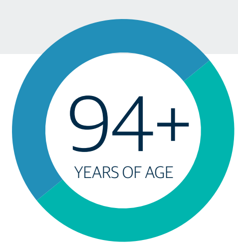
How long will you live? Two generations ago, the typical retirement lasted about eight years. Today, you might need to live off of your retirement funds for more than 30 years. Now more than ever, the types of income sources you'll have in retirement are critical to helping you ensure your money will last as long as you do.





Single: 50% chance a 65-year-old man will live beyond the age of 87.

Single: 50% chance a 65-year-old woman will live beyond the age of 90.

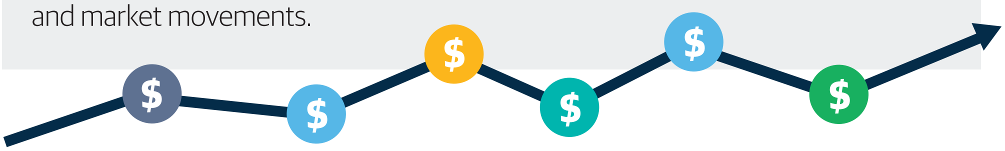


Married: 50% chance one of them will live beyond the age of 94.

Source: Annuity 2012 Table with mortality enhancements determined using Projection Scale G2.

How much of your savings will go to taxes? The tax laws may change multiple times before or during your retirement, but one thing is for certain: You will definitely need to pay some taxes.

How much tax you pay will be based on your sources of income. That's why you'll want to have a mix of tax-free and tax-deferred sources of income, which will allow you to strategically access your money at optimal times based on tax and market movements.



How much can you actually save? Having a vision of living on a private island in the Caribbean is great, but most people can't afford that. However, a great lake cottage could definitely be an option. A certain level of financial empowerment comes in knowing that you can achieve the goals you set. Continually re-evaluate your retirement plans against your ability to achieve them. You may find that you need to scale back or that you can actually do more than you had hoped.

The common assumption is that you will be in a lower tax bracket during retirement. While that may be true, your income and your tax bracket could actually be higher than you expect during retirement.

MUST-DO #2—SAVE EARLY AND AS MUCH AS YOU CAN.

These time-honored strategies can help you make saving for retirement easier and less painful, helping you increase your chances of realizing your retirement goals.

MAKE SAVING A HABIT.

Saving a portion of each paycheck is the single most reliable way of getting and staying on track to reach your retirement goals. Part of the saving habit involves these two important rules:

RULE 1

Pay yourself first. Save a portion of your paycheck before the money even reaches your checking account. Pre-tax contributions like a 401(k) or automatic transfers to investment accounts are great options.

RULE 2

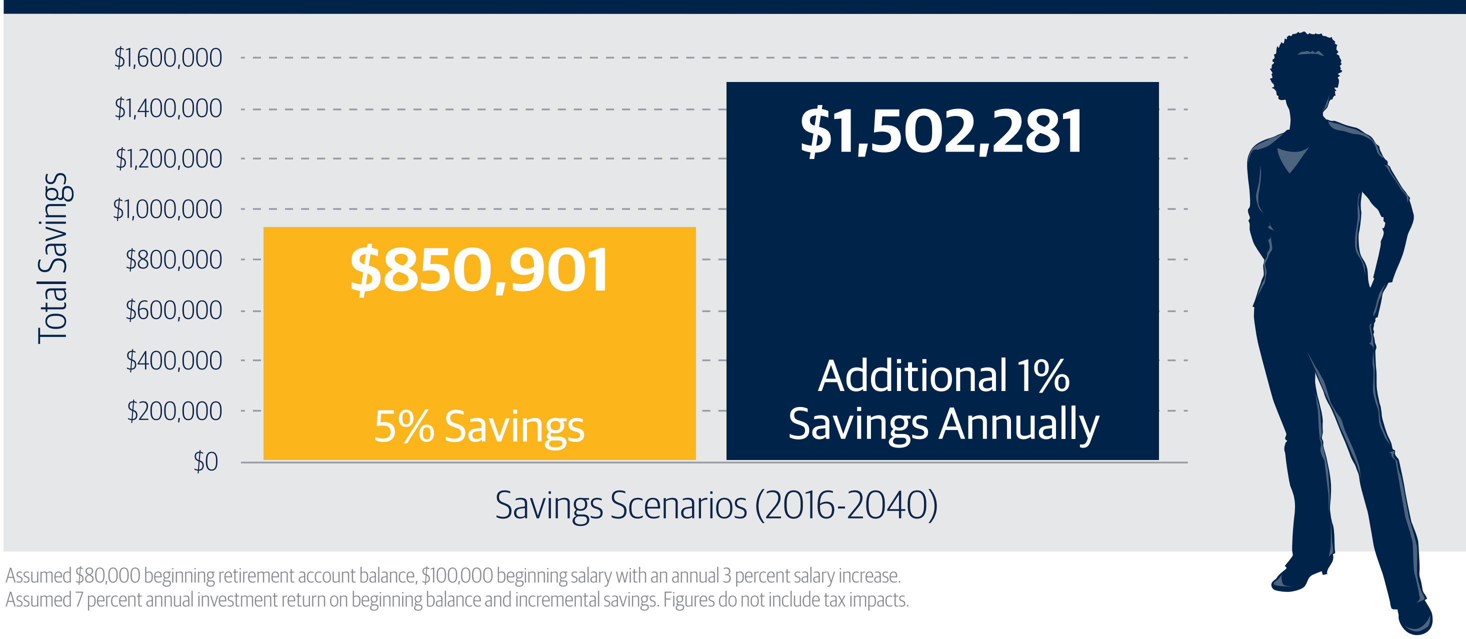
Bank your bonuses and raises. Each time you get a raise, increase the percentage of your savings. We recommend you take some of your income now and enjoy it; you earned it. But if you don't "need" the money, bank it for later.

Let's look at the impact a 1 percent increase has on your retirement savings.

For this example, we look at an individual who currently makes $100,000 per year and has 25 years until retirement. She currently has $80,000 in retirement savings and saves 5 percent of her salary each year. If she maintains the current 5 percent rate, she will have accumulated over $850,000 at the end of year 25.

However, if she increases her savings percentage by 1 percent each year until she reaches 15 percent (and then contributes 15 percent thereafter), she'll accumulate at least $650,000 more in retirement savings at the end of 25 years than if she had maintained her flat 5 percent contribution.

IMPACT OF A 1% INCREASE ON RETIREMENT SAVINGS



Assumed $80,000 beginning retirement account balance, $100,000 beginning salary with an annual 3 percent salary increase.
Assumed 7 percent annual investment return on beginning balance and incremental savings. Figures do not include tax impacts.

START EARLY.

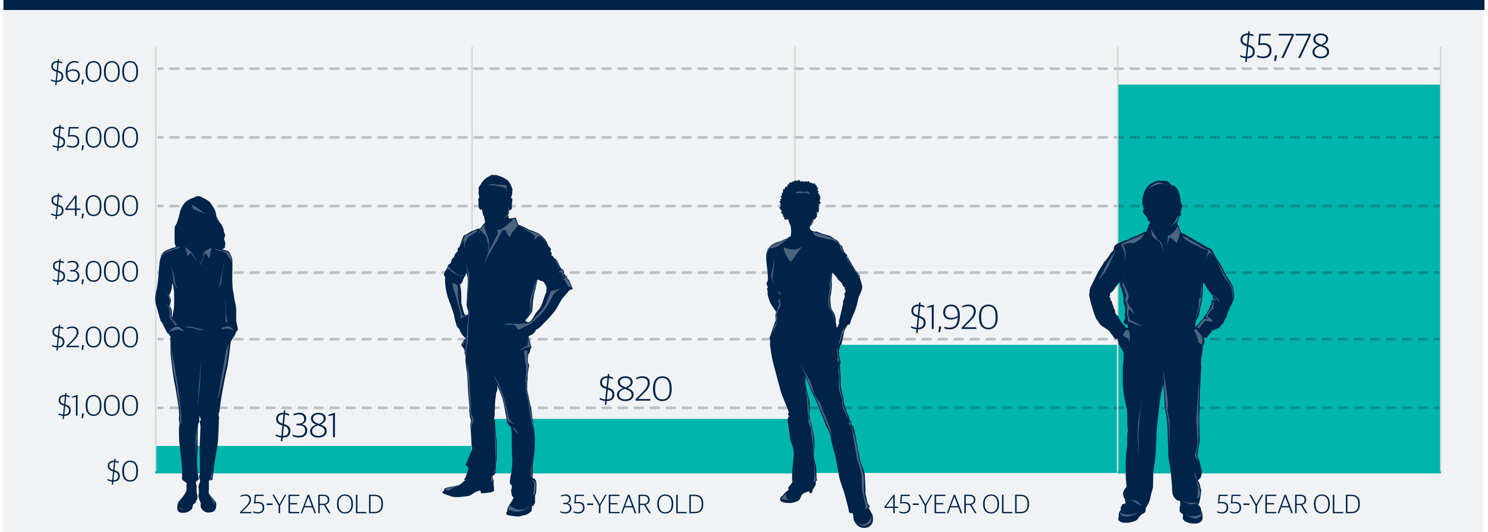
The answer to "When should I start saving?" should always be "Now." The reason is the power of compounding, which simply means that you are earning interest on your interest. When you reinvest your returns, dividends or interest, it's as if your money has made additional investments for you.

The graphic below shows how much you'd need to save each month to reach $1 million by the age of 65 based on when you started saving. As you can see, the value of time and compounding growth has a dramatic impact on the amount of monthly savings required.

If you didn't start a retirement savings program at 25 or even 35, it's not too late to start. If you are unsure where to begin or how much you can save, a financial professional can help you set up a realistic program to get you started saving toward your retirement goals.

THE EARLIER YOU START INVESTING, THE EASIER IT IS TO REACH YOUR GOALS

MONTHLY SAVINGS NEEDED TO ACCUMULATE $1 MILLION BY AGE 65



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © 2013 Morningstar. All Rights Reserved. 3/1/2013. Assumed 7% return compounded.

SAVE AS MUCH AS YOU CAN.

As a rule of thumb, many industry experts recommend saving 15 to 20 percent of your income. How you divide that savings may vary greatly depending on your age and circumstances. We've outlined some of the common approaches based on your age below.

In your 20s. Your short-term goals are likely focused on paying rent, tackling student loans or even buying a car. Retirement is decidedly a long-term goal, but an important one—so take advantage of the power of compounding and contribute to your employer-sponsored retirement plan or IRA, even if it's $25-$50 a month.

30s and 40s. Your earnings potential is strongest, but your home and other assets probably require a larger portion of your paycheck. Ideally, you also have less high-interest-rate debt, like credit cards. As you experience promotions or raises, increase your savings percentages (as shown previously in the "Make saving a habit" section) to benefit from both a higher disposable income and larger retirement saving contributions.

50s and 60s. Your earnings potential may continue to be strong. With the mortgage paid off and the kids out of college, you might be able to save more than 20 percent of your income if you need to catch up to your retirement saving goals. If you're looking to catch up on retirement after 50, make sure you evaluate the additional options available to you, especially with IRA, 401(k) and Roth accounts, which we'll discuss further in the next section.

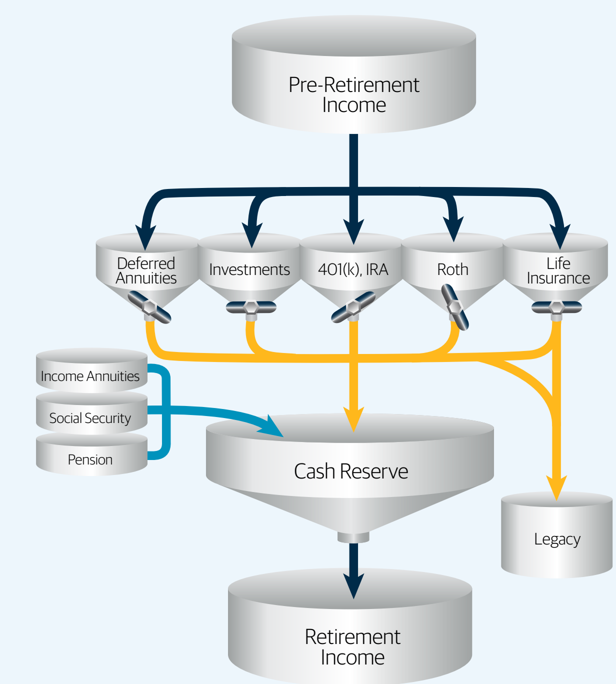
Whatever your age, the key to successful retirement saving is to not wait. If you've had a financial setback or have a large amount of debt, make sure you pay off your debt and save at the same time. Prioritize your debt, paying off high-interest credit card debt as quickly as possible. Other debt, such as student loans and mortgage loans, may have lower interest rates and provide tax deductions, so you may choose to not pay them off early.

MUST-DO #3—DIVERSIFY YOUR INCOME SOURCES.

The graphic to the right shows the most commonly used options for creating income in retirement. The top of the graphic highlights where your working income can be saved for retirement. These are discretionary income sources; you control how much you put in today and how and when you access them in retirement. The income sources on the left represent guaranteed or fixed income sources, such as Social Security and pensions.

The cash reserve typically holds about two years' worth of your short-term cash needs. Holding funds here allows you to be more strategic about when you access funds from your retirement accounts so you won't have to liquidate assets at inopportune times.

- **Deferred annuities.** Funded by either a single deposit, such as a 401(k) rollover, or a series of deposits, deferred annuities allow you to accumulate retirement funds on a tax-deferred basis and then turn them into a stream of lifetime income during retirement.



The primary purpose of permanent life insurance is to provide a death benefit. Using cash values to supplement your retirement income will reduce benefits and may affect other aspects of your plan.

- **Investments.** There is no limit to the number of investments available to you, such as stocks, bonds, and mutual funds. Investments are bought with after-tax dollars, and when sold, the growth (amount earned beyond your initial investment) is generally taxed at capital gains tax rates. The capital gains tax rate is typically lower than your ordinary income tax rate.

- **401(k).** These employer-sponsored retirement plans allow you to make pretax contributions today while saving for retirement on a tax-deferred basis. You're not taxed on the money until you take it out of your retirement account. These accounts generally have penalties if you access your funds before 59½.

  Employers often provide matching programs that contribute to your account in addition to your contributions. You can contribute $18,000 with an additional $6,000 catch-up provision if you're over 50.

- **Traditional IRA.** Contributions to a traditional Individual Retirement Account (IRA) may be tax deductible, depending on your income and whether you also participate in an employer-sponsored retirement plan. Similar to 401(k)s, earnings in a traditional IRA grow tax deferred. You are able to contribute up to $5,500 per year, with an additional catch-up contribution of $1,000 if you're over 50.

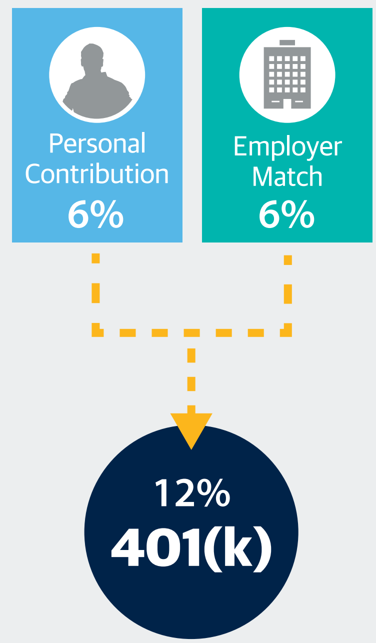
- **Roth IRA.** Contributions are made to a Roth after tax, so they will not reduce your taxable income today; however, your money grows tax free, and distributions from your Roth are generally tax free during retirement. This is a good option for those who feel they will be in a higher tax bracket when they retire and for those who want some tax diversification across their assets.

  You can contribute up to $5,500 ($6,500 for those 50 and over) to Roth IRAs, but the ability to contribute is limited based on your income. Contribution limits are reduced at income levels of $117,000 for singles and $184,000 for married couples filing jointly.

- **Roth 401(k).** The Roth 401(k) is a Roth option offered within an employer-sponsored 401(k) plan. In order to participate your employer must offer this benefit. It carries all of the characteristics (tax-free growth and tax-free distributions) of a Roth IRA except there are no income limits for contributions. You are permitted to contribute up to $18,000 to a traditional 401(k) and a Roth 401(k) combined. If you're over 50 years old, you have the option for an additional $6,000 catch-up contribution.

SHOULD I MAX OUT MY 401(k) OR JUST CONTRIBUTE TO THE EMPLOYER MATCH?

Always begin by contributing to your 401(k) up to the employer match. For instance, if your employer offers a 100 percent match up to 6 percent of your gross income, it's advisable to take full advantage of that benefit and contribute at least 6 percent of your gross income to your 401(k).



Above and beyond that level, the decision to continue contributions to your 401(k) depends on your financial plan and the other options available to you for achieving your goals.

- **Permanent life insurance.** Permanent life insurance will provide a death benefit to your survivors to ensure financial security. In addition, the policy accumulates equity, known as cash value, that grows tax free and generally can be utilized tax free up to the amount you've contributed. This equity can be used for any reason, including supplementing your retirement income needs.[1]

A comprehensive financial plan should show you where you are today, what you'll need in retirement (based on your goals) and how your saving strategy today will meet your goals. Additionally, it should be able to show the impact to your plan as you make adjustments through life and your income and personal situation changes (for example, having children, getting married or starting a business).

Below, you'll see retirement income forecasting (hypothetical) for two couples:[2] the Dixons, who are just starting out; and the Lopezes, who are more established. Each forecast has a series of colors that represent the assets available to provide income in retirement. The red indicates a shortfall of assets to provide the income the couple wants.

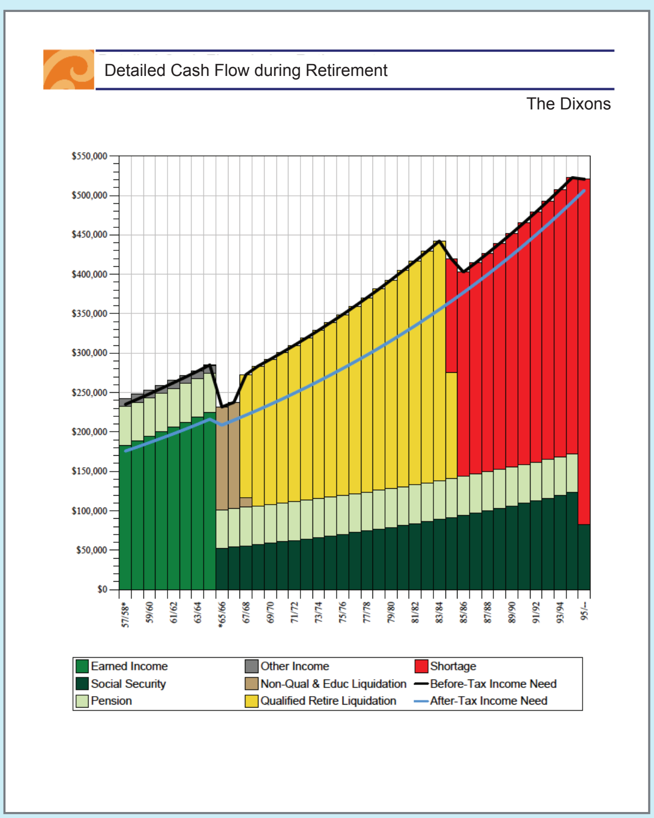
The Dixons have only a few sources of income, and their shortfall begins at age 84. This is common for their stage of life, as financial priorities often include paying down debt or possibly buying a house. But over time, as income and financial needs change, so should saving strategies.

The Lopezes, on the other hand, have experienced increases in income and have paid off debt, allowing them to contribute more to retirement. As a result, they are projected to have their retirement assets last well into their 90s.

Knowing where you are regarding your goals, the options available to you and how savings adjustments impact your plan is critical to helping you live the retirement you envision.

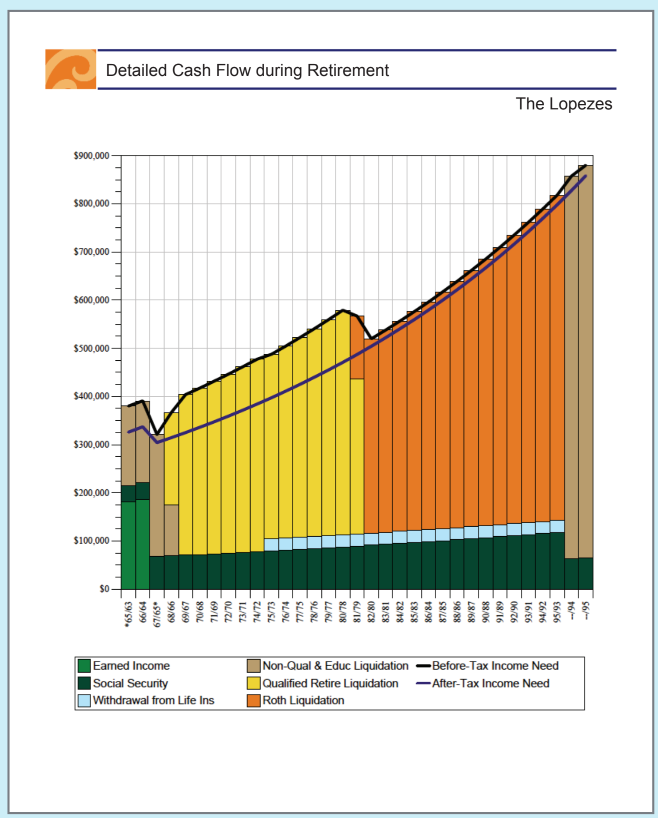
THE DIXONS

(Ages 29 and 30)



THE LOPEZES

(Ages 43 and 45)



MUST-DO #4—PROTECT YOUR RETIREMENT ASSETS FROM THE UNEXPECTED.

When most people think of risks to their retirement assets, they think of investment risks, such as losing a portion of their principal because of a correction in the market. While it's important to remain aware of investment risks, you should be aware of one of the biggest risks to reaching any of your financial goals: your ability to earn income.

All retirement strategies require funding from income, so if you're not earning income, there is no savings plan. Passing away early or a long-term disability could significantly impact your retirement plan and those of your loved ones.

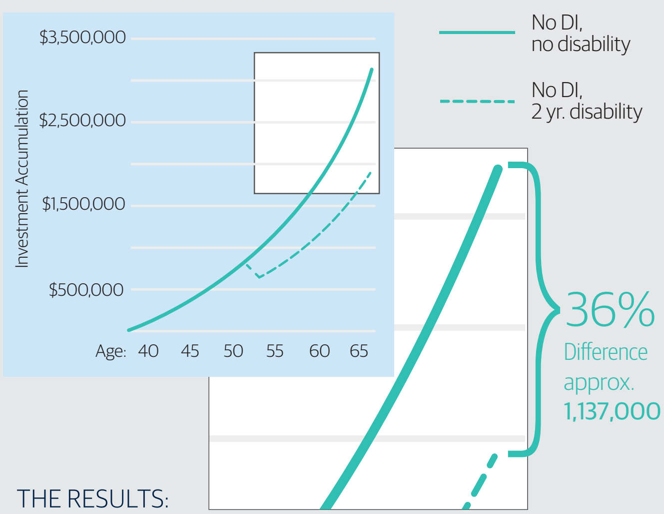
Untimely death. If you should die unexpectedly during your working years, your family will suffer the loss of not only your paycheck for current needs, but also the financial stability of the retirement savings you would have continued to build for retirement. Life insurance can provide for both your family's current lifestyle as well as your spouse's plans for retirement.

Disability. A long-term disability is an illness or injury that prevents you from working, typically longer than 90 days. People in their working years run a greater risk of being disabled for 90 days or more than they do of dying.[3] And for most, disability is the result of illness rather than accident. Being unable to work during your prime earning years could greatly impact your retirement savings plan.

The chart below illustrates the long-term impact a two-year disability has on savings. As you can see, there's a significant difference in portfolio values if a disability occurs without insurance.

INVESTOR A[4]

Investor A contributes 10% of income annually to the investment portfolio and purchases no individual disability income (DI) insurance.

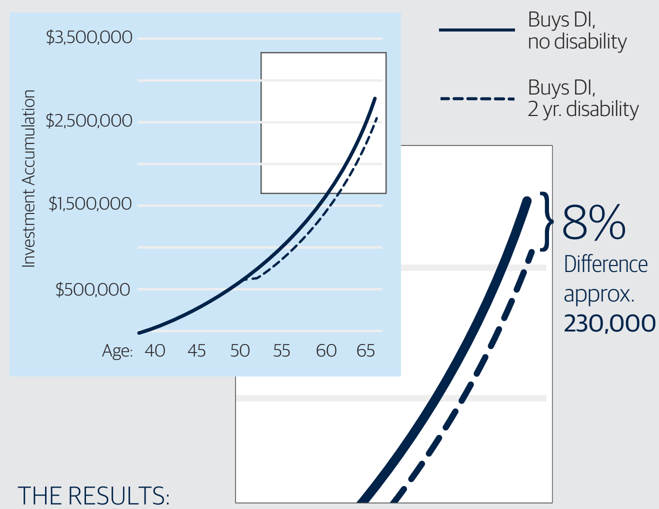


THE RESULTS:

Just a relatively short, two-year total disability at age 50 (dashed line) could have a significant impact on the investment account, reducing total investment accumulation in this scenario by 36%—a difference of more than $1.13 million in this case.

INVESTOR B

Investor B contributes 10% of income annually to the investment portfolio, minus an amount used to purchase individual disability income (DI) insurance.



THE RESULTS:

While investment accumulation (solid line) is less than Investor A by age 65, if this investor experiences a two-year total disability at age 50, total investment accumulation is reduced by only about $230,000 (8%)—or less than a third of the reduction Investor A would experience.

Assumed annual increase of 3% and investment return of 6%.

MUST-DO #5—AVOID COMMON PITFALLS.

Once you've developed your retirement savings plan, stick to it as closely as possible. Don't be tempted by a well-meaning friend with a tip that's a "sure thing" or distracted by the next "shiny object." Also, be aware of these common pitfalls to avoid along the road to retirement:

Over-diversification. Diversification is one of the foundations of risk management, but when you overdo it—spreading your investments among common mutual fund families—you may actually end up paying extra fees. The key is to maintain a diversified portfolio in which the underlying investments—the stocks, bonds and mutual funds—are spread among several types and sectors.

Too much tax deferral. Deferring taxes until retirement sounds like a great idea during your prime earning years, but you also want to make sure don't leave yourself cash strapped today. Also, if all of your accounts are tax deferred, all of your retirement income will be taxed. Have a balance of tax-free and tax-deferred accounts.

Depending too much on Social Security. Even today, people who rely solely on Social Security for retirement income have to live a very modest lifestyle. According to the Social Security Administration, Social Security benefits replace on average about 40 percent of a retiree's income in retirement.[5]

Anticipating lower costs in retirement. Many retirement planning scenarios call for reduced living expenses: 70 to 80 percent of your current budget. That may not be the case at all. You may wish to travel, reward yourself with an expensive hobby, move to a more desirable climate, hire out home maintenance services. Also, health care in retirement may be considerably higher. Our Detailed Budget worksheet will help you get a clearer idea of your expenses during retirement.

Planning to work during retirement. An industry study of pre-retirees found that 67 percent of them planned to work during retirement, yet less than 25 percent of retirees actually do work during retirement.[6] Often times, people leave work earlier than planned because of health problems that are out of their control.

SUMMARY

No matter what your age, saving for retirement should be a top financial priority. The earlier you start and the more you save each month, the more likely you are to reach your goals retirement. Don't let previous financial setbacks cause you to procrastinate—there are strategies for every age and situation.

The key is to ensure that your retirement savings strategy is part of a comprehensive plan that accounts for your short-, mid- and long-term goals.

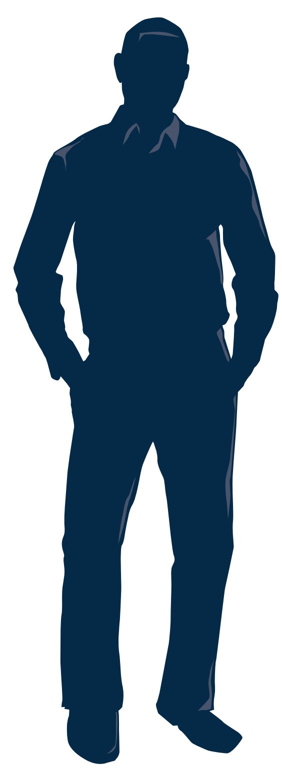
This plan should provide a detailed analysis of your optimum retirement saving strategies, and it should be adjusted over time as changes occur in your life and income. Northwestern Mutual, for instance, has developed and tested retirement solutions that provide lifetime income to meet retirement and legacy goals with a 90 percent confidence level.[7] Contact a Northwestern Mutual financial professional today to get started on the right path.

THE NORTHWESTERN MUTUAL RETIREMENT INCOME PLANNING DIFFERENCE

Across the industry, financial professionals have used a simulation called the Monte Carlo as a research tool to determine the maximum amount of retirement income in real dollars that can be supported each year by someone's nest egg with a certain probability of success. This research has focused on risks such as market volatility and inflation for a retirement income plan and often uses a 50/50 chance of meeting your goals as the standard.

Learn How You can Increase Your Probability of Success in Retirement >

However, it is critical to plan for not only the risk that your investments will not perform as expected, but also the risk that your retirement may be longer or more expensive than you expected. Northwestern Mutual secured Ernst & Young (E&Y) to assist in developing our Retirement Strategy. Using their Monte Carlo tool, called Retirement Analytics™, we were able to randomize not only economic events such as inflation and investment returns or losses, but also the risks of living or dying during a given year, as well as the probability of having a long-term care event during retirement. To learn more about our research and unique approach to retirement income planning, visit NorthwesternMutual.com.



[1] Each method of utilizing your policy's cash value has advantages and disadvantages and is subject to different tax consequences. Surrenders of, withdrawals from and loans against a policy will reduce the policy's cash surrender value and death benefit and may also affect any dividends paid on the policy. As a general rule, surrenders and withdrawals are taxable to the extent they exceed the cost basis of the policy, while loans are not taxable when taken. Loans taken against a life insurance policy can have adverse effects if not managed properly. Policy loans, including any accrued interest, must be repaid in cash or from policy values upon policy termination or the death of the insured. Repayment of loans from policy values (other than death proceeds) can potentially trigger a significant tax liability, and there may be little or no cash value remaining in the policy to pay the tax. If loans equal or exceed the cash value, the policy will terminate if additional cash payments are not made. Policyowners should consult with their tax advisors about the potential impact of any surrenders, withdrawals or loans.

[2] Values above the before-tax need line represent a surplus. Return rates used for the growth of investments are hypothetical assumptions that are reasonable for this plan and are not guarantees or projections. The projections or other information generated by this Asset Allocation output regarding the likelihood of various outcomes are hypothetical in nature, do not reflect actual investment or life results and are not guarantees of future results. Results may vary with each use and over time. Other investments not considered may have characteristics that are similar to or superior to those being analyzed.

THIS OUTPUT RELIES ON NUMEROUS HYPOTHETICAL ASSUMPTIONS ABOUT YOU AND THE WAY YOU IMPLEMENT YOUR PLAN THAT MAY NOT APPLY TO YOU AND RELIES ON PROJECTIONS ABOUT FUTURE EVENTS THAT MAY NOT BE VALID.

Based on a Non-cancellable Guaranteed Renewable policy for a 40-year-old male non-smoker, 5A occupation class, with 3 percent "cost of living" benefits that increase coverage annually before, during and after disability. The premium is individually paid with after-tax dollars and increases annually as a result of monthly benefit increases when not disabled. The premium used in the scenario is net of dividends.*

Investor A withdraws funds from the investment account to meet ongoing expenses, which are assumed to be equivalent to the amount of individual disability income benefit received by Investor B during the same two-year total disability. Investor B withdraws no funds, instead meeting ongoing expenses with individual disability income benefits received. Assumes the full monthly benefit received for the duration of the two-year total disability.

Dividends used in this scenario reflect Northwestern Mutual's 2010 dividend scale. Dividends are not guaranteed. Decisions with respect to the determination and allocation of divisible surplus, if any, are left to the discretion and sound business judgment of the company's Board of Trustees. There is no guaranteed specific method or formula for the determination or allocation of divisible surplus. Accordingly, the company's approach is subject to change. Neither the existence nor the amount of a dividend is guaranteed on any policy in any given policy year. Some policies may not receive any dividends in a particular year or years even while other policies receive dividends.

[3] CDA 2013 Advisor Disability Awareness Study, Council for Disability Awareness, 2-2013.

[4] Disability insurance policies are subject to full underwriting, which could affect the amount of coverage available as well as the actual premium charged. They also contain exclusions and limitations that could affect individual coverage. Product availability is subject to state approval, and premiums may vary by product and by state. For costs and more complete details, consult a Northwestern Mutual Financial Representative. Assuming a 6 percent after-tax rate of return.

[5] Source: http://www.socialsecurity.gov/pubs/EN-05-10024.pdf.

[6] Source: 2014-2015 EBRI Retirement Confidence Survey.

[7] Northwestern Mutual tested Retirement Allocation Strategies with the Retirement Analytics Monte Carlo tool running 500 trials. A plan with a 90% confidence level means that in 90% of the trials (450), the plan met both goals of providing a specified amount of income over the lifetime of a hypothetical retiree and of meeting that retiree's assumed legacy objective. A 75% confidence level option is also available.

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