

# Build financial confidence

One of a series of papers on the *Confident Retirement*® approach

If you're five or more years away from retirement, achieving financial confidence typically means finding the right balance between today's needs and desires and tomorrow's goals and dreams. It's about making choices in order to live a life on your terms beginning now and for years to come.



*Confident Retirement*® approach

The Ameriprise Financial *Confident Retirement* approach addresses four key needs that can help you balance both current and future financial goals. It is a holistic approach that simplifies a comprehensive financial planning process into actionable steps to cover essentials, ensure lifestyle, prepare for the unexpected and leave a legacy. This exclusive approach can help you build confidence about the financial choices you make today and, when the time comes to retire, begin to tap the savings you've accumulated to meet income needs and retire with more confidence.

## Navigating the road to confidence

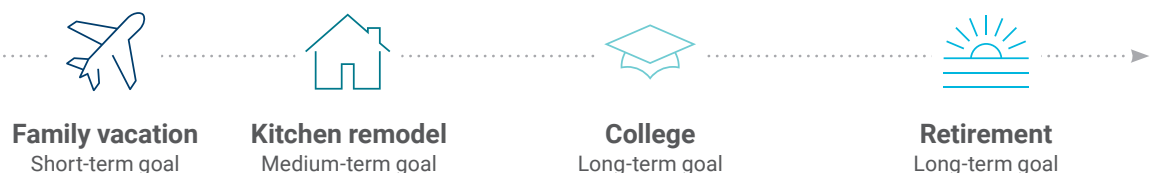
Action steps that can help you balance today and tomorrow at this stage of life include:

- Leveraging workplace benefits and making smart decisions today to build savings for the future
- Tapping into the power of time and sound investing strategies to build wealth for tomorrow
- Protecting your lifestyle and goals by managing cash reserves and utilizing insurance to avoid dipping into savings or being forced to sell investments to cover an emergency
- Planning and taking action to make an impact on people and causes you care about

## It starts by defining goals

Developing a financial wish list and budget are the first steps in turning your wishes into an action plan. List goals according to how long it will take to meet each one (see the sample list below). Listing financial goals this way helps prioritize them within a budget of current expenses, making it easier to plan current expenses with a long-term point of view.

### Examples of goals



# Covering essentials



*Essentials* are the necessities – the monthly expenses that keep your life running. Make the most of your income and build a reserve to cover those expenses.

Enjoying life today while securing your vision for the future takes balance. That's where the *Confident Retirement*® approach comes in. Understanding where money goes and making smart budget choices is a foundational step that helps you identify what's important to you and where you want to put your money. It also helps you establish a savings rate that aligns with your values, priorities and responsibilities.

Today's paycheck helps to meet current expenses such as housing, transportation, healthcare, food and clothing. Current income is also used to establish a cash reserve to help manage financial emergencies, repay debt, if any, and pay the costs of benefits obtained through the workplace such as health insurance premiums and contributions to an employer-sponsored retirement plan. Taking advantage of these workplace benefits today is a way to help meet what will be essential expenses in the future.

## Create a cash reserve

Confidence comes from having a cash reserve when unexpected events such as a job transition, accident or major home repair occur or when money is needed to cover expenses like health insurance deductibles or out-of-pocket medical expenses.

Generally speaking, a cash reserve should equal three-to-12 months of ordinary living expenses. Determining the appropriate number of months is a reflection of personal circumstances, such as job security, level of income volatility, the adequacy of insurance coverage and the condition of any property you own.

## Manage debt

Good debt management helps ensure that you will have credit when it's needed, make wise borrowing decisions and establish and maintain a positive credit record. At the same time, monthly payments to meet mortgage, auto, student loan and credit card obligations can challenge anyone's budget and make it tough to save. In general, it's wise to keep total debt payments under 36% of gross income, seek opportunities to lower interest rates and create a payoff plan, refinance long-term debts when rates are low, and pull a credit report annually.

## Maximize workplace benefits

A paycheck represents only part of the compensation provided to many employees. Most fulltime workers also have access to a suite of workplace benefits that play a role in helping them meet current and future essential expenses. In fact, the value of workplace benefits for the average American worker is estimated to be around 30% of their total compensation<sup>1</sup> so it is important to take maximum advantage of them.

## Disability income insurance

The ability to earn an income is, for those of working age, your single largest asset. Lifetime earnings range, on average, into the millions. Protecting this asset is critical, and that's what makes disability income (DI) insurance so important.

For those facing an illness or injury who cannot work for an extended period, DI insurance can help fill the income gap. Without such coverage, these individuals may have to dip into other savings or retirement accounts to pay the mortgage and other regular expenses. Hard-earned savings and financial security can dwindle quickly. Group DI coverage as part of a benefits package is usually available at a reasonable cost. But since it typically covers just 40% to 60% of

<sup>1</sup> U.S. Bureau of Labor Statistics, *Employer Costs for Employee Compensation; National Compensation Survey*, March, 2025.

income, consider supplementing workplace coverage with an individual policy to more fully cover the gap (see section on “Preparing for the Unexpected”).

### **Health insurance**

Many Americans who have health care insurance obtain coverage through their employers. Those workers rely on their company to help subsidize the costs of health care and this is what makes health insurance such a valuable benefit.

Employer-provided plans offer group health care coverage in different forms:

- Managed care plans, such as health maintenance organizations (HMOs), and preferred provider organizations (PPOs).
- Consumer-driven plans (a more recent development), such as Health Savings Accounts (HSAs) that are used together with high deductible health plans.

### **Health Savings Accounts (HSAs)**

An HSA is a consumer-directed, tax advantaged way to save for out of pocket medical expenses that you incur now or in the future. Contributions to an HSA are pre-tax, which means they reduce your taxable income in the year they are made. Money saved within an HSA grows on a tax-deferred basis and no tax is due on withdrawals that are used to pay for qualified medical expenses. Some employers also make contributions to HSAs for the benefit of their employees or match contributions. They are also portable meaning that it stays with you if you change employers or leave the workplace.

To contribute to an HSA, you must be covered by a high-deductible health plan, which may or may not be right for you. With a high-deductible plan, employees are typically responsible for a larger share of their own healthcare costs. If your current healthcare costs are relatively low it may make sense to choose the high-deductible plan with HSA and take full advantage of this savings opportunity to help cover healthcare costs in the future.

### **Workplace retirement plan**

For most Americans, an employer-sponsored 401(k) or other retirement plan (e.g., 403(b), 457 plans) represents a key employee benefit that is fundamental to building retirement security. Workplace plans like 401(k)s allow individuals to contribute a significant amount of money that can grow over time on a tax-deferred basis.

Besides its favorable tax treatment, one of the biggest advantages of a 401(k) plan is that employers may match at least a portion of the contributions made by an individual to the plan. Taking full advantage of any match means dollars for retirement you otherwise wouldn't have.

### **Life insurance**

Many employers offer group-term life insurance coverage, either for no cost or for a limited cost. Premiums for group life are often reasonable, and qualifying for the insurance up to a certain amount may require no further qualification than simply being an employee. Such coverage is a good start, but since group life coverage is usually limited to a percentage of compensation, supplementing group coverage with a personal policy may be appropriate. Additionally, group coverage is not as portable as individual policies, and if in good health, it may be possible to purchase an individual life policy for less cost (see section on “Preparing for the Unexpected”).



## **How much savings is enough?**

**Most retirees need about 70 percent of their pre-retirement income to meet living expenses once in retirement.**

**To achieve this goal, a good rule of thumb is to save 10-20 percent of gross income, depending on the amount of time available to let money grow before retirement.**

# Ensuring lifestyle







*Lifestyle* is about the things you want to do and how you want to live today and in the future. Build a savings and investment plan for what’s important.

While covering essential expenses for today and tomorrow is an important first step, most people have goals that go beyond the basics, such as college for their children, a kitchen remodel, travel plans and more. Lifestyle is about the dreams people have for their lives – now and in the future. Building a savings and investment strategy to help achieve these lifestyle goals is the second step of the *Confident Retirement* approach.

### Match savings and assets to goals

Different goals require various timeframes and different types of solutions that may have different tax impacts. For goals with a short time horizon, such as a teenager’s college education, a more conservative investment approach may be more appropriate given that tuition payments may begin soon. With decades until retirement, investments in retirement accounts

can be positioned to take more investment risk in an effort to generate potentially higher returns. Generally, the farther away the goal is the more you can afford to invest in investments that have the potential for better returns, but also may be subject to more near-term fluctuation.

Examples of goals				
	Family vacation	Kitchen remodel	College	Retirement
Short-term goals	Mid/long-term goals	Education goals	Retirement goals	
Consider investments offering stability of principal and maintaining liquidity.	Consider putting money to work in less volatile, highly liquid investments that have potential for modest growth, but that still offer access to the money if needed.	When children are younger, a larger percentage of the dollars saved may be allocated to growth investments; when the start of college is within a few years, consider shifting money to more conservative investments to help reduce uncertainty.	When retirement is decades away, a larger percentage of the money can be invested in growth investments, particularly stocks (equities), that offer the potential for higher, long-term returns.  When retirement is 5-10 years away, you might position a greater portion of your nest egg in investments focused on income and preservation of capital. However, due to the longevity of retirement for most, it may still make sense to keep some assets invested in equities even in retirement.	

## Implement effective investment strategies

A key to accumulating wealth to achieve lifestyle goals is to develop and follow a well-thought-out investing plan. While each individual's needs are unique, and custom plans can be developed with the help of an advisor, they typically incorporate four key concepts:

### 1. Systematic investing

A systematic or automatic investing arrangement results in a regular amount of money being periodically set aside from a paycheck or a savings account into an investment account. Those who defer income from their paycheck into a workplace retirement plan already pursue a systematic investment strategy. This is a proven way to help accumulate wealth for three reasons:

- It makes investing for future goals a priority by implementing a strategy referred to as "pay yourself first."
- Regular contributions are built into a monthly budget, making it less likely the money will be spent.
- It allows investors to benefit from the power of dollar-cost averaging.

### 2. Dollar-cost averaging

Dollar-cost averaging is a method of accumulating assets by purchasing a fixed dollar amount of securities, at regularly scheduled intervals, over a period of time. When the price of the securities is high, a fixed dollar amount will buy fewer shares, but when the price of the securities is low, a fixed dollar amount will buy more shares. For example, when the share price is \$25, \$100 will purchase four shares, but if the price drops to \$20 it would buy five shares. This allows investors to take advantage of fluctuations in the market. Dollar-cost averaging a fixed dollar amount each month can result in a lower average investment cost over time.

### 3. Diversification

Diversifying an investment portfolio is one of the key ways to help mitigate the impact of market volatility. Because asset classes often perform differently under different market conditions, spreading investments across a variety of different asset classes such as stocks, bonds, alternative investments and cash vehicles (e.g., money market accounts and other short-term instruments), has the potential to help reduce the impact of overall risk. Ideally, a decline in one type of

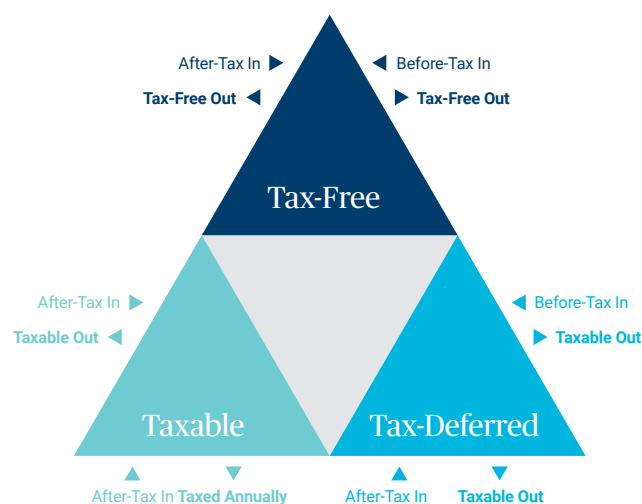
asset will be balanced out by a gain in another, though diversification can't guarantee a profit or eliminate the possibility of market loss.

A disciplined way to diversify a portfolio is through asset allocation. Asset allocation involves identifying the asset classes that may be appropriate for the investor and allocating a certain percentage of their investment dollars to each class (e.g., 70 percent to stocks, 20 percent to bonds, 10 percent to cash vehicles).

### 4. Tax awareness

Specific investments and investment vehicles within a portfolio can generate income and earnings that will be taxed in different ways. Some investment earnings may be taxable, some may be tax-deferred and others tax-free. Some earnings may be classified as ordinary income and taxed at ordinary income tax rates while other earnings may be taxed at the more favorable long-term capital gains tax rates. Investment tax planning strategies take the tax ramifications into consideration so investors can reallocate assets, if appropriate.

By ensuring tax diversification in how you invest – tax-deferred, tax-free and taxable – you can maintain more control over how and when your assets are taxed when you reach the goal, e.g., college or retirement.



# Preparing for the unexpected



The *unexpected* are events that could derail your financial plans. Protect yourself from the certainty of uncertainty.

It is said that the only thing certain in life is uncertainty. Events ranging from the loss of a job, an unanticipated illness or storm damage to a home can derail the best-laid financial plan. The *Confident Retirement* approach includes solutions to mitigate the effect of events that can negatively impact your financial future.

## Consider personal disability income insurance

It bears repeating that the ability to earn an income is most people's greatest asset. Compensation is typically what funds essential and lifestyle goals so protecting earnings through disability insurance is critical. The ability to obtain a basic group disability policy through the workplace is a valuable benefit, but it typically covers only a fraction of one's income. There are additional concerns:

- Most group plans cover a percentage of an individual's base salary, not bonuses, profit sharing, retirement plan matches or other compensation.
- Group coverage ceases when an individual leaves the employer that provided access to the coverage.

Enjoy greater financial confidence by supplementing group disability income coverage with an individual policy to replace more income and to maintain consistent coverage through job changes.

## Explore life insurance options

Most people want their family to be able to meet essential and lifestyle needs even if they are not there to provide for them. That's the critical role life insurance plays. A workplace life insurance benefit can provide a first layer of protection to loved ones at a reasonable cost but can leave some gaps that can be filled by supplementing with individual coverage.

Life insurance can help beneficiaries cope with the financial responsibilities that may result from the premature death of a loved one, such as funding higher education or paying off a mortgage. It can also provide dollars to pay living expenses in the event of premature death. Even those who have no dependents may have other causes important to them that they wish to fund in the event of their premature death, and life insurance is worth considering in those circumstances.

## Help protect against additional risks

It is important to make sure all financial aspects of life are protected. Check auto and homeowner's insurance policies to determine if there are gaps in coverage. In addition, as one's possessions and affluence grow, it is important to consider an umbrella liability insurance policy.

# Leaving a legacy



*Legacy is about the impact you'll make on the people, charities and causes that are important to you. Plan now to maximize your giving and make your wishes known.*

Many people think that a legacy is about what happens after they are gone and the final disposition of their assets has taken place. The reality is that anyone can begin creating a legacy at any time. A starting point is to spend time thinking about people and causes that matter most and how to support them with time, money or both to make a difference.

### Make wishes clear and update necessary documents

Regardless of your level of wealth, it is important to ensure documents that can affect who stands

to inherit assets are in place. It is also important to provide clear direction on desired medical treatment when you are no longer capable of communicating that information to others.

### Important documents to have in place and review regularly

<b>Beneficiary designations</b>	Beneficiaries that are listed on insurance policies and retirement accounts generally supersede any instructions in wills. A periodic review of beneficiary designations for retirement accounts, personal insurance plans, and other financial accounts assures that assets will be distributed properly at death.
<b>Health care directive/Power of Attorney</b>	<p>Consider a:</p> <ul style="list-style-type: none"><li>• Health Care Directive – a written document that informs others of medical treatment preferences in the event of physical or mental incapacitation.</li><li>• Power of Attorney or Durable Power of Attorney – a document that indicates an agent who can act on behalf of a person if that person is not able to represent themselves.</li></ul>
<b>Will</b>	<p>The main purpose of a will is to disburse property to heirs after an individual's death. Without a will, disbursements will be made according to state law, which might not represent a person's wishes. There are two other equally important aspects of a will:</p> <ul style="list-style-type: none"><li>• Naming an executor who will manage and settle the estate.</li><li>• If necessary, naming a legal guardian for minor children or dependents with special needs. Failure to name a guardian in a legal will could result in the state appointing one instead.</li></ul>
<b>Trusts</b>	Trusts can help accomplish various goals concerning the control of one's estate while living and after death. Trusts ensure one's wishes are honored, avoid the costs and time delays of probate, ensure that assets go to intended beneficiaries (e.g. children from a prior marriage), can protect heirs from family disputes, benefit a favorite charity, protect assets from creditors and can reduce tax liability.



## Ensure the financial well being of family

Life insurance is a primary way to help protect family and dependents in the event a household bread winner dies. Permanent life insurance as part of that protection can help with future financial goals. Not only can it be used as a safety net for surviving loved-ones, but it can also provide for a legacy to a loved-ones charity, place of worship, alma mater or medical research foundation.

One legacy many parents want to leave for their children is higher education. A college education does not guarantee financial security. But the evidence is overwhelming that for most people, education beyond high school significantly improves the probability of gainful employment and a stable career with a positive earnings trajectory.<sup>2</sup>

Some people leave a gift to a charity in the form of life insurance because it allows them to make a larger gift than they otherwise could afford. Further, the government encourages charitable giving by providing tax advantages for certain charitable donations (the charity must be a qualified charity). This means that both the donor and the charity could benefit from the donation.

## Ways to begin putting a legacy in place today

### Charitable giving

Charitable giving can be a source of great personal satisfaction. When done right, it also offers tax benefits for individuals and families. These can be in the form of tax deductibility (of gifts), avoidance of capital gains taxes (when donating appreciated property, like stock), tax free IRA withdrawals through Qualified Charitable Distributions or reducing the size of a taxable estate before an individual dies.

### Socially Responsible Investing

Investors can invest with an eye toward promoting social, political, or environmental concerns or avoiding activities that may be considered harmful to society while still pursuing a competitive return on their money. Socially responsible investing has become an increasingly popular way for individuals to further their own economic interests while promoting causes that matter to them.



While you can provide cash gifts, non-cash charitable contributions are also a great option for donations. Non-cash charitable gifting contributions may include: Donation of appreciated stock or assets, donating your life insurance proceeds to charity, or donating clothing and goods to get a charitable donation receipt.

<sup>2</sup> The College Board, *Education Pays 2023: The Benefits of Higher Education for Individuals and Society*.



# Meet the future with more confidence

For 130 years, Ameriprise has been helping people build wealth for the future and manage their investments in retirement. For those who seek balance in managing their financial life, the *Confident Retirement* approach is a process of actionable steps that helps people make smart choices to prepare for tomorrow while enjoying life today. Talk to an Ameriprise financial advisor today.

Pursue financial confidence in the years leading up to retirement	Plan for retirement confidence in the five years before and during retirement
<ul style="list-style-type: none"><li>• Make informed tradeoffs to prioritize saving</li><li>• Build wealth</li><li>• Help protect against unexpected events</li><li>• Plan to make an impact on people and causes</li></ul>	<ul style="list-style-type: none"><li>• Manage retirement savings to generate income</li><li>• Safeguard wealth</li><li>• Help protect assets</li><li>• Secure your impact on people and causes</li></ul>

This information is being provided only as a general source of information and is not intended to be the primary basis for investment decisions. It should not be construed as advice designed to meet the particular needs of an individual investor. Please seek the advice of a financial advisor regarding your particular financial concerns.

The *Confident Retirement*® approach will include a review of your existing financial retirement situation and potential opportunities, gaps, or general strategies. You will not receive a comprehensive review or financial planning services for which fees are charged. It is not indicative nor a guarantee of future financial results.

Ameriprise Financial cannot guarantee future financial results.

Asset allocation, diversification and dollar-cost averaging strategies do not assure a profit or protect against loss.

Before you purchase, be sure to ask your financial advisor about the insurance policy’s features, benefits and fees, and whether the insurance is appropriate for you, based upon your financial situation and objectives.

Stock investments have an element of risk. High-quality stocks may be appropriate for some investments strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with stocks before investing, as they can lose value.

There are risks associated with fixed income investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer-term securities.

**Socially responsible** investments focus on green solutions companies, which present increased risk over a more diversified portfolio by limiting investment choices to a specific sector that may or may not perform as well as other industry sectors.

Ameriprise Financial, Inc. and its affiliates do not offer tax or legal advice. Consumers should consult with their tax advisor or attorney regarding their specific situation.

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