THE

PROS, CONS

AND

HOW-TOS

OF

EARLY RETIREMENT

Who Hasn't Dreamed of **EARLY RETIREMENT?**

Retiring with a protected and adequate income is one of Americans' top six life priorities.[1] How do you know if early retirement could be a reality for you?

The fact is, building a healthy savings portfolio and making a commitment to debt-free living can give many of us a solid financial foundation to take an early plunge into retirement. But, like any choice in life, early retirement involves trade-offs.

Yes, you'll gain time for family, friends and fun pursuits, but you may also pay a price in sacrificed opportunities. Understanding such pros and cons is a critical step in figuring out **your retirement reality**: How do you maximize the benefits and minimize the risks of leaving your regular paycheck behind?

In short, retiring early only makes sense if you can do it confidently — ensuring you can afford the retirement lifestyle you want and maintain it for the rest of your life. So, let's get started and **explore the factors** impacting your decision.

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A smooth retirement can be good for your health.

ONE SOURCE SUGGESTS IT CAN REDUCE THE CHANCE OF A SERIOUS DISEASE BY

20%[2]

BENEFITS OF Early Retirement

In the U.S., the majority of people retire at age 63, or two years earlier than the long-established retirement age of 65.[3] Why?

Just as every retirement is unique, every early retirement happens for a reason. Perhaps hard work and good planning have put you in a position to consider taking the leap early. Retirement is said to be good for your health, correlating with a 20 percent reduced chance of a serious disease.[4] But for 78 percent of those who retire earlier than planned, a **health issue** or layoff was the cause.[5]

Whatever your reason for retiring early, let's review some of the pros.

PRO: Opt for a New Beginning

Retiring doesn't mean slowing down or stopping completely, with nearly 40 percent of retirees planning to work during retirement.[6]

Your fresh start may be a different role in the same industry, in a different industry altogether or sharing your talents in the non-profit sector. In all cases, personal accomplishment, not compensation, is usually the prime motivator.

Start Thinking About...

Your Passions

Take time to consider your ideal retirement role. What skills do you have to support it? Which skills would you need to acquire?

Take Action

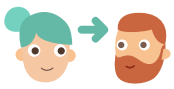
See if you can find a way to test-run a new industry or career now in your spare time to carry into retirement later.

Imagine transitioning to one of these roles in retirement:

Consult. Many recent retirees keep one foot in their profession through consulting. Highly skilled retirees are in high demand, enabling them to set flexible employment terms, such as reduced hours or working from home.[7]

Apprentice. Maybe you want to switch to a new field. In a tight job market, many employers offer part-time opportunities for mature workers with a track record of success. In return, you can learn a new discipline from the inside, while earning supplemental income.

Teach. How better to crown a lifetime of skill development than to pass on your expertise to others? Many early retirees take positions at the elementary, secondary or college level.



Mentor. A world of volunteer opportunities — literally — is available to retirees who want to share their passion and knowledge with others. Organizations are eager to accommodate people interested in personally satisfying careers in the nonprofit sector.

PRO: Nurture Your Relationships

If early retirement is a real possibility for you, you've likely logged some long hours to get there. Early retirement gives you an infusion of free time to replenish your relationship accounts.

Start Thinking About...

Your Schedule

If connecting with the people in your life is a retirement priority, don't wait. Set a regular date with a friend or loved one, attend a community event or reconnect with a former co-worker.

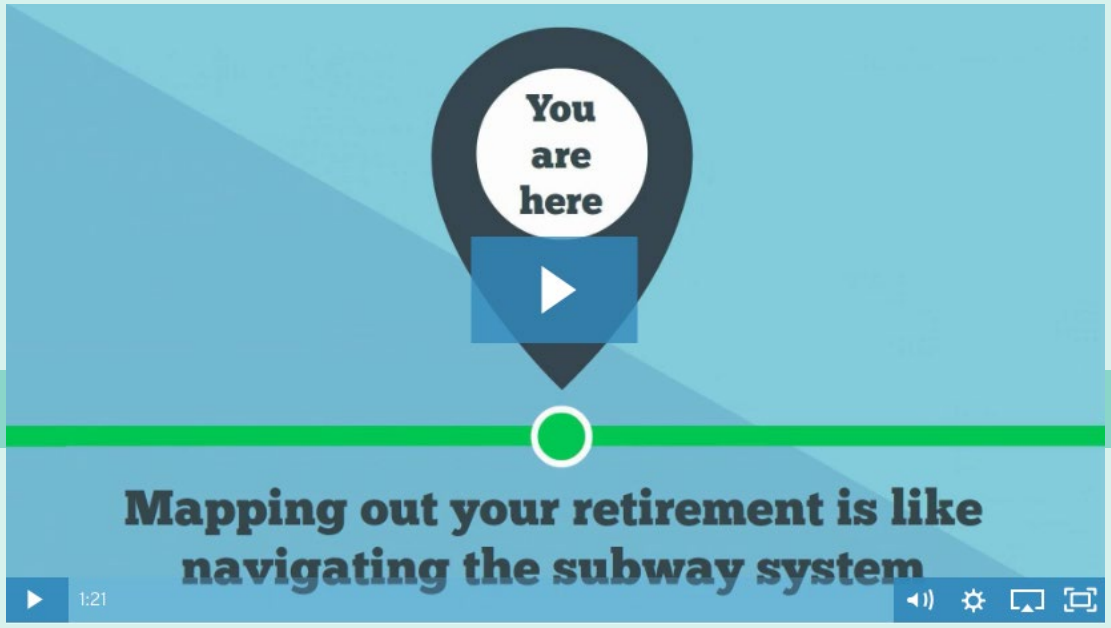
✔ Take Action
Can't find what you're looking for? Start a group based on your interests. Social media can help to make this a snap.

You can reconnect with your partner. Spend quality time with your children and grandchildren. Tear up those rainchecks and actually meet your friends for dinner. Reintroduce yourself to the dog on long walks.

The socialization opportunities in retirement are wide and varied, and they're key to maintaining your mental and physical health throughout retirement. Isolation is a real risk for early retirees, especially if your children are older or your partner and friends are still working regular jobs.

Make an effort to find and regularly engage with people who share your interests and values. Harvard research suggests that maintaining close, interpersonal relationships has a significant impact on emotional, physical and mental health.[8]

DON'T BE A TOURIST on Your Retirement Journey



Unfortunately, only

37%

of working Americans have a written financial strategy to help them get where they want to go.

PRO: Scratch Your Travel Itch

Whose retirement plan doesn't include at least some travel?

Whether your leisure style is relaxing on an exotic beach or swimming with the sharks, both time and opportunity abound. An early retirement often comes with good health, agility and stamina. Adventure-based vacations and bucket-list experiences such as rock climbing, extended hiking, white water rafting and more are approachable — and potentially safer — at a younger age.

Travel can serve another purpose as well. Since you're no longer tied to one geographic area for work, you can use your journeys to scout out potential **new locations to live**, within the U.S. or beyond.

Nearly half a million American retirees reside in foreign countries, drawn by the prospect of a high-quality lifestyle — favorable climate, affordable health care and cultural opportunities — at a lower cost.[9] Other retirees simply make the road their home with an RV.[10] Monthly expenses can be lower than maintaining a home, but it's the flexibility to roam that's the real appeal.

That's not to say travel is all smooth sailing. Traveling can be pricey, so a travel-heavy retirement requires careful budgeting and planning to ensure your savings last. Similarly, living abroad may mean contending with less robust medical care than you'd receive at home, so you'll have to plan for emergencies.

Start Thinking About...

Your Itinerary

Retirement travel is about more than just the destination. Give yourself a moment to daydream: What have you always wanted to experience?

Take Action

Write down a list of your top three destinations, travel partners and experiences you want to have along the way. Then, set up a special travel account and budget.

PRO: Rejuvenate Your Mental and Physical Health

Here's some great news: In addition to improving your health, retiring early may also help you to live longer.[11] Researchers think this is due to several factors:

- **More time to invest in your physical health:** Without work demands, you have the opportunity to up your exercise, get more sleep and cook healthy meals.
- **Reduced stress:** Abandoning the daily grind (long commutes, deadlines, job reviews) can reduce stress, a major risk factor for hypertension and other diseases.
- **Greater focus on social relationships:** Linking social activities to exercise (such as walking with friends, bowling, tai-chi class) can improve health outcomes even more.[12]
- **Grow yourself:** Kicking back with a personal development book or enlightening podcast can help you grow in ways you may have never expected.

The key is to remain active, social and engaged in life, because vegging out on the couch by yourself will undo any of the positive effects to be gained by retiring early.

Start Thinking About...

Your Development

For each of the factors mentioned, choose one behavior or activity to start in retirement and one thing to stop. Write them down, prioritize them and use them to craft a personal development plan.

Take Action

Experts recommend 150 minutes of moderate (or 75 minutes of vigorous) aerobic activity per week, complemented with full body strength training twice a week.[13]

An average retired couple age 65 in 2021 may need approximately

$300,000

saved (after tax) to cover health care expenses in retirement.

THAT'S A:

7%

INCREASE FROM 2018[14]

RISKS OF Early Retirement

The word "risk" is related to the Latin word for "cliff." That's an apt metaphor for identifying potential pitfalls that could come between you and your early retirement dream.

As with most things in life, there are **risks in retirement**. Understanding these risks is essential to a confident retirement, no matter how long or short that may be. Simple math tells us that the earlier you retire, the longer your money needs to last and the greater the risk that you might outlive your savings. That, potentially, is a very steep cliff!

The thing is, once you know where the cliffs are, you can find ways to safely navigate your **retirement reality**.

CON: You Might Outlive Your Money

Living to a ripe old age is seldom considered a negative, except when you're planning for income in retirement — especially early retirement. Longevity risk is the probability that you'll outlive your assets and you'll be unable to support yourself or your lifestyle in your later years.

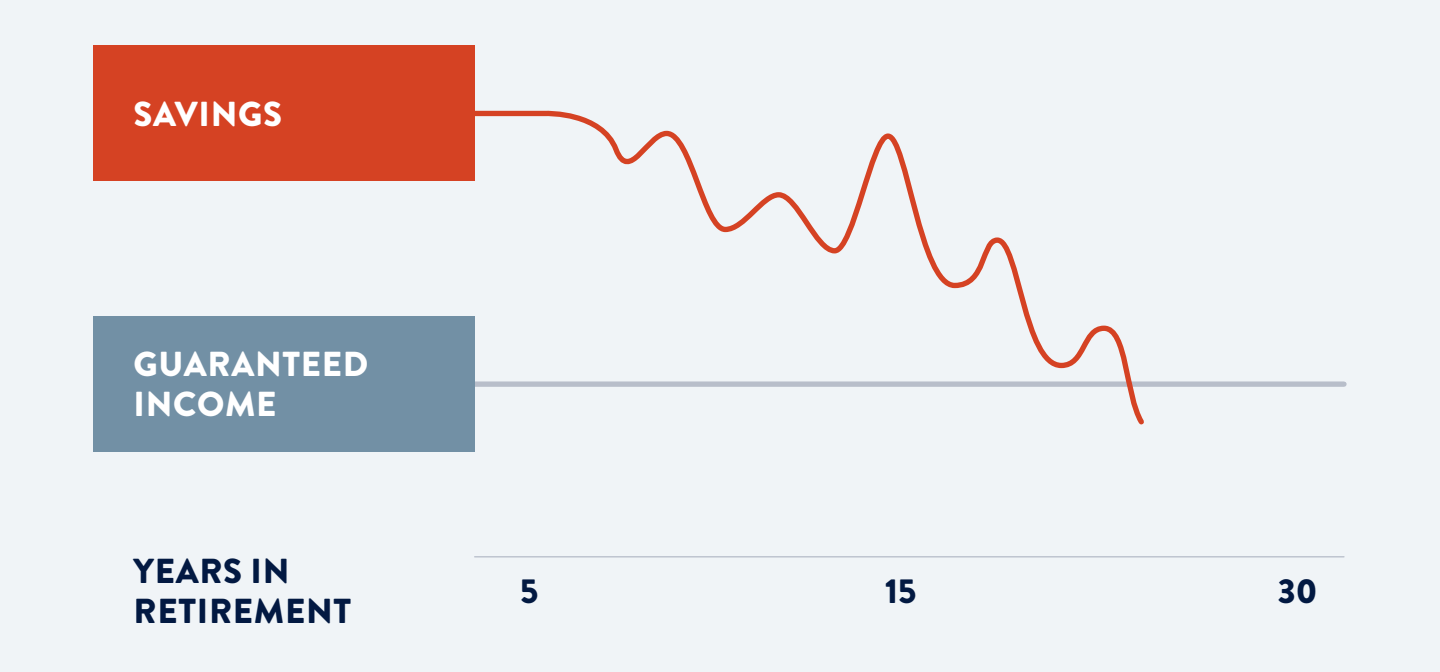
This is a real concern: As longevity increases you should plan to have your assets last past 98.[15]

So, if you are looking to leave the workforce at age 55, you may have to find retirement income sources that will reliably cover your needs for over 40 years. That could even surpass the time you spent working.

When Income is Guaranteed — and When It's Not[16]

SOURCES OF **GUARANTEED** INCOME	SOURCES OF **NON**-GUARANTEED INCOME
• Social Security	• Bank and investment accounts
• Pensions	• Individual retirement accounts (IRA)
• Bonds, CDs	• Health savings accounts (HSA)
• Annuities*	• Employer-sponsored 401(k), 457(b), 403(b)
• Whole life insurance**	

A lifetime income annuity may be helpful because it can provide a fixed stream of guaranteed income for the remainder of your years. In contrast, retirement savings decrease over time, as illustrated here:



So, as a rule of thumb, if longevity runs in your family and you are in good health, ask a professional about your options.

Start Thinking About...

Income in Retirement

What are all of your sources of potential income in retirement? Which of these sources, if any, are guaranteed? Make a list and start a conversation with your family and friends who have retired, and even a financial professional.

Take Action

Are you in better health than your peers? Do members of your family often live into their 90s, or beyond? If so, plan for a longer retirement and the income to fund it.
A lifetime annuity can provide guaranteed income, no matter how long you live.

CON: Rising Costs of Health Care

No matter when you retire, count on higher health care costs to come. Taking care of our health becomes more expensive as we age, and the costs really start to accelerate after age 50.

On average, women accrue

1/3 MORE

in health care costs over a lifetime, compared to men, mainly due to longer life expectancy.[17]

Obviously, if you're thinking about retiring in your 50s, you'll need to plan for even higher expenses spread over a longer time. A financial professional can help you project a reasonable budget to cover what may be decades of rising medical costs and help optimize ways to manage them.

For

44%

OF AMERICANS,

saving for unexpected expenses in retirement is a top financial priority, but so is saving for routine expenses.[18] Health care costs can fall into both categories.

Start Thinking About...

A Health Savings Account (HSA)

If you already have an HSA, consider how you can build it. If you don't, consider how you can build a similar savings vehicle to cover future medical costs. Though it won't have the tax advantages of an HSA, you can set up a separate brokerage account and contribute to it on a fixed schedule.

Compounding matters, Medicare coverage doesn't kick in until age 65, so if you retire earlier, you'll need a backup plan to cover your medical, hospitalization and prescription drug costs.

Even if you're in good health now, you can't forgo health insurance without assuming serious risk to your nest egg. In general, your options may include:

Continuing coverage. Some private businesses and government agencies offer continuing coverage for early retirees for a fixed time period or until the retiree becomes Medicare-eligible.[19]

Employer-sponsored coverage through your partner. If your partner intends to remain working, it may be possible to get better-priced coverage under his or her employer-sponsored plan.

Individual health insurance. For many, an individual plan through a private insurer is the only option to cover the gap until Medicare takes effect. Keep in mind that an early retiree can obtain coverage under the Affordable Care Act outside of the normal enrollment period and may qualify for an income-based subsidy.[20]

Keep working, at least part-time. A fourth option is to trade some of your retirement lifestyle for a part-time job with health care coverage. Some of the biggest retail brands, provide affordable plans for employees working a certain number of hours.[21]

✔ Take Action

Make note of your family's health history. This step can help to give you insight into areas you need to think about related to preventive care and future coverage. Are there supplemental plans to enroll in now (such as hospital insurance, or cancer insurance) to keep costs lower over the long haul?

CON: Health Decline Caused by Early Retirement

Even though early retirement gives you time to recharge physically and mentally, research also shows a correlation with increased mortality risk, especially for men.[22] There's no doubt that retirement can be a double-edged sword for your health, and the mortality risk findings are a wake-up call. The physical, mental and social changes that often accompany retirement can be profoundly disruptive.

Depression, stress and a sedentary lifestyle are the key drivers of ill health for retirees at any age.[23] Recognizing these pitfalls and planning ways to avoid them can help you retire early and enjoy many more years.

The focus and drive that enable you to declare financial independence in your 50s or early 60s can't be automatically turned off when you retire. Getting off the treadmill of long work weeks doesn't mean you need to get off the treadmill of life entirely.

Even if you can't wait to chuck your weekly planner in the trash, planning to fill those gaps can be a huge differentiator in having a confident, and healthy, retirement. How will you occupy your mind when your day isn't scheduled down to the last minute?

Start Thinking About...

Your Day

What daily activities will get you moving? Will these changes depend on the climate where you live? Write out your perfect day in retirement, one that you can really see yourself doing, and enjoying, for years to come.

CON: Cost of Accessing Your Own Money

You've been saving for retirement, but where is all that money, and now that you've spent years putting it there, how do you get it out?

Tax-sheltered investment accounts, such as 401(k)s and IRAs, are the most popular ways to save for retirement. In planning an early exit, you may earmark these funds to help support your post-work life, but be aware, taking it out may not be as easy as putting it in. In fact, it could even cost you more to withdraw from accounts designed specifically to support you in retirement.

Yes, you can withdraw contributions any time, but you may owe taxes and penalties on earnings accessed before age 59½.[24] Is your head starting to spin? Financial professionals know all of the nuances of retirement account pros, cons and everything in between.

To manage this risk, investigate any financial **penalties** associated with dipping into IRAs or other types of investment or savings accounts before appointed ages and factor this cost into your retirement budget. Also, keep building your other savings accounts and look into sources of guaranteed income, such as whole life insurance and annuities, as part of a holistic retirement strategy. Having some kind of guaranteed income in retirement is the number one financial priority for working Americans.[25]

Taking money out of a traditional IRA before age

59½

or a traditional 401(k) plan before age

55

may incur a

10%

penalty

Start Thinking About...

Having it All Come Together

Go ahead and daydream about what early retirement can actually look like! Having a clear vision of your future makes you more likely to achieve it!

Delaying retirement can make a big difference in Social Security benefits[26]:

AT **62** YEARS

If you're entitled to a monthly benefit of

$1,575

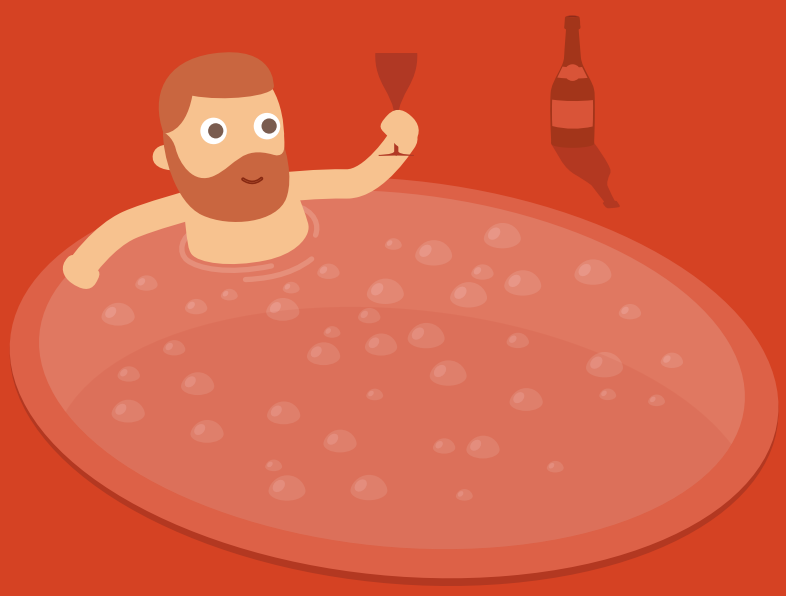
PER MONTH

WAITING UNTIL **70** YEARS

You would be entitled to a monthly benefit of

$2,772

PER MONTH



CON: Leaving Money on the Table

When you walk away early from anything — whether it's a ballgame or a five-course meal — there's a good chance you're going to miss something worthwhile.

Retire at age 55 and you will potentially forfeit the opportunity for 10 years' worth of stocking your retirement accounts. And we're not just talking the money you would put into it.

Over that decade, both you and *your employer* would likely have made tens of thousands of dollars in contributions, your earnings would have continued to grow thanks to compounding interest and your investments would have had the buffer of additional time to bounce back from any dips in the market. That's a lot to give up.

Plus, there's your Social Security benefit to consider. An estimated 40 percent of retirees rely on Social Security for most of their income, while even wealthy retirees draw one-third of their income from the program.[26]

Your Social Security benefit grows roughly eight percent per year until age 70, so the earlier you retire, all that potential growth is left behind. You can learn more about Social Security benefits **here**.

Start Thinking About...

Your Budget

How will you fill the gap of not only withdrawing from your retirement savings but also not contributing to it for an extra decade? Work on the **budget** now and start stockpiling the extra savings you'll be missing out on.

Take Action

Work with a financial professional to create a strategy to stage out your retirement income payments so you can wait as long as possible to access your accounts and maximize their benefits.

It will cost a couple

$219,000

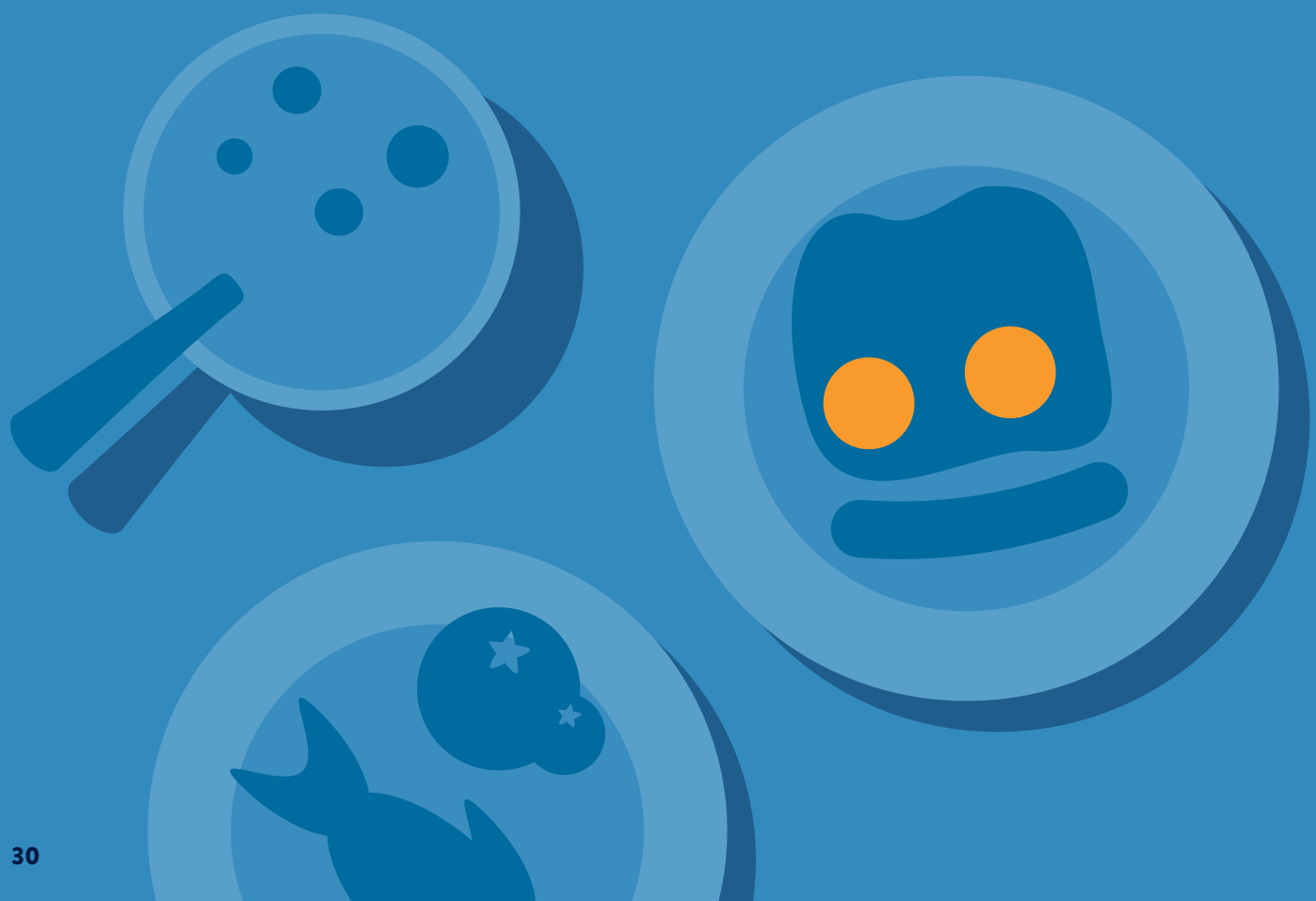
just to eat over the span of 20 years

BASED ON THREE FRUGAL

$5 meals

PER DAY

Where's your extra cash going, and can it be put to better use? Find out with the **Cash Stash Dash**.



TRICKS TO Planning for Early Retirement

We've looked at the benefits of early retirement — the positives that make you eager to exit the working world and live life on your own terms. And we've investigated potential negatives — the emotional, physical and financial risks that need to be carefully managed.

Now let's put it all together and discuss the elements of a diversified financial strategy.

A confident, early retirement all starts with a protection-first philosophy.

HOW TO: Use the Protection Principle

Research shows that working Americans with the highest financial and emotional confidence are willing to live within their means, delay gratification, stick with a strategy to achieve their long-term goals and work with an unbiased professional to help them stay the course.[27]

Additionally, they prioritize protection, meaning they understand the importance of putting financial stability in place as a foundation of their overall strategy. The following four principles of protection can help establish a strong retirement strategy.

Start Thinking About...
Your Worth
What do you make per year and what is that number multiplied out for 10, 20 or 30 years? That can give you an idea of what is at stake in the event of illness, injury or death.

Protect your todays ... from the unexpected.[28]

Taking control of your finances and protecting your loved ones with disability income insurance and whole life insurance is critical to establishing financial confidence and long-term independence.

Protect your purchasing power ... with world-class savings.[29]

The earlier you retire, the more financial resources you will need. Substantially more. With a standard increase in the cost of living of about two or three percent per year, the money you earn will need to cover cost increases.

Protect your flexibility ... with a separate life events fund.

Early retirees in good health are able to seize life. Save aggressively for unexpected events both now and in the future, create a sound written financial strategy and establish good financial habits.

Protect your independence ... with debt-free living.

The leap into early retirement might end with a thud if you're weighted down by high-interest debt. Common sources of debt are credit cards, student loans and medical expenses and should be monitored carefully.

HOW TO: Anticipate Life's What-Ifs

Without adequate protection, your wealth may be vulnerable to many hazards and your early retirement dream could be derailed. Full insurance protection on your valued assets, from your home to your health to your life, can be the best defense against a financial calamity that could shatter your early retirement dream.

What if … your key assets were destroyed, damaged or lost? Major assets, such as your home and cars, go on the assets side of a balance sheet and would need to be replaced if lost. Protect them with insurance equal to each asset's full appraised value. Otherwise, you may limit your growth opportunities and need to divert funds earmarked for early retirement to replace them if disaster strikes.

✔ Take Action
Even when a partner dies, you may still be entitled to their Social Security benefits, even if you haven't already reached retirement age.[33]

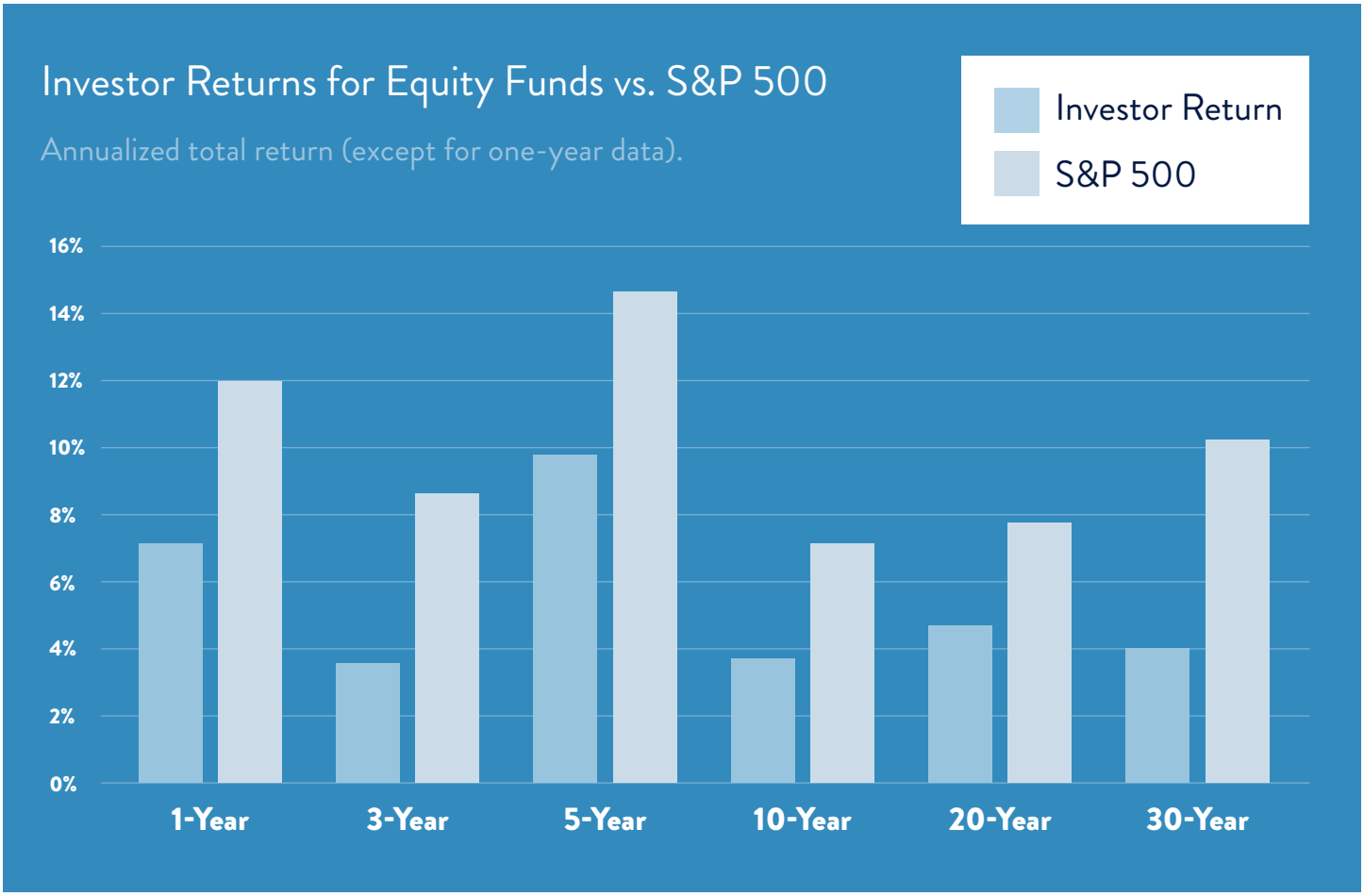
What if … your income stream was disrupted by illness or injury? Disability happens more often than you think, with one in four people in their 20s likely to become disabled during their working years, and the average individual disability claim lasts over two and a half years.[30,31] What's more, the most common causes of disability are not injuries, but common disorders such as arthritis, multiple sclerosis, heart disease, cancer and depression. It comes down to **protecting your paycheck**. Your earning power is your greatest asset and the fuel for your future goals, including early retirement, and a strong income protection strategy can help to maintain your lifestyle and keep saving for retirement, even under difficult circumstances.

What if … you or your partner dies? A life insurance policy provides protection to loved ones by providing a financial payout in the event of your death. In addition to the confidence that life insurance offers, some whole life policies even let you build cash value to help fund retirement.[32] Consult with a lawyer and a financial professional to ensure you're covering all your bases.

HOW TO: Make the Most of Your Assets

Once you have secured adequate protection, it's time to think about growing assets in order to build the wealth for retirement. To retire in your 50s, you should have a diversified investment portfolio that's robust enough to support your lifestyle for 40 years or more.

To get there requires a sizable nest egg built using smart, strategic investment choices guided by an unbiased, clear-eyed professional who can help you stay the course before emotions and personal biases take hold. See for yourself:[34, 35]



The first step in growing your investment assets is to have a financial professional review your current situation.

Have you thought about:

Are you saving and earning enough to keep pace with the cost of living over your retirement? What is your tolerance for the inherent risks (the possibility that investments will decrease in value) and the volatility (the ups and downs) of the market, and how do you balance that out? What is your tax burden, and is there a way to reduce it? Some of your options include:

Start Thinking About...
Sources of Income
When you lose a workplace income, you need to supplement it from somewhere else. Thinking in terms of lifetime income can help you frame the opportunity.

Take Action
Diversifying your investments and staying in the market, rather than trying to time it, are time-tested best practices for financial growth.

Individual retirement accounts (IRAs). A traditional IRA, funded with pre-tax income, can help reduce your tax bill during your highest income years. Contributions to Roth IRAs are taxable today in exchange for tax-advantaged growth and withdrawals. *Plus:* Both are tax-advantaged plans for different parts of your retirement journey. *Minus*: If you withdraw money before age 59½ you may incur penalties.

401(k) retirement savings plans. An employer-sponsored 401(k) lets you save and invest part of your pre-tax income, deferring tax payments until you withdraw. In addition to traditional accounts, there are now Roth 401(k)s that follow the model of Roth IRAs and tax your deposits now, but not when you withdraw in the future. *Plus:* These retirement plans often have employer matches. *Minus*: Withdrawing money before age 59½ may incur penalties.

Annuities. An annuity can be a way to guarantee income in retirement.[36] They can supplement other retirement sources as a way to help ensure you never run out of money. *Plus*: Annuities can help generate guaranteed income for a designated period or for a lifetime. *Minus*: It may be harder to access money with additional tax implications and you may incur penalties for accessing money sooner than expected.

Whole life insurance. While the primary purpose of whole life insurance is the death benefit, it can also supplement your retirement income through accumulated cash value, which is independent of market fluctuations.

Bonds and CDs. These lower-risk financial instruments may be suggested for a well-rounded retirement portfolio. *Plus*: There may be some tax advantages. *Minus*: Yields are typically more steady than stellar, so they may not fit with an investment strategy designed for growth.

HOW TO: Reset Your Debt Philosophy

✔ Take Action
If you must take on debt, think in terms of responsible debt. Is your debt supporting an appreciating or depreciating asset? If appreciating, like real estate perhaps, it may be considered responsible.

Americans are taking on record levels of debt.[37] That can be a major stumbling block if you're planning on early retirement.

The less you owe, the lower the drag on your cash flow month-to-month and the more confidence you can have that your retirement income will see you through. Here are three quick ways to lessen your load.

Eliminate credit card debt. If you carry lots of high-interest debt, you're throwing money away. U.S. households with revolving credit card debt pay an average of $1,141 in interest annually.[38] Once you put protections such as savings and insurance in place, focus on paying down your credit cards and living within your means to free up money for retirement. Caution: Don't empty your savings to pay off your debt because an unexpected expense could send you right back into the debt trap.

Reduce taxes. Certain assets can affect your tax bill when they are sold, including stocks and homes, so you want to be aware of this possibility and do what you can to minimize the impact of these "hidden" taxes. Talk to your accountant and your financial professional to understand what hidden taxes might be lurking in your future.

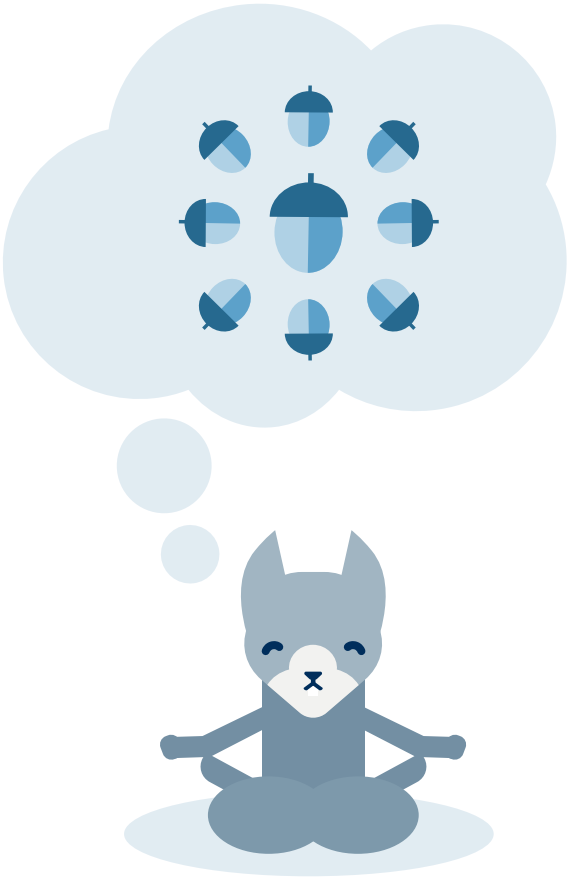
Right-size your mortgage. If your mortgage payment is too high, it could be crowding out your ability to properly fund your retirement savings. Typically, your mortgage payment should be 15 percent of your monthly gross income, or less.

Start Thinking About...
Downsizing
Is your home becoming too big for your needs? You may be able to do more with less, especially in retirement.

HOW TO: Think Positive About Cash Flow

We all have cash flow. Some of us live paycheck-to-paycheck — not in debt but unable to save. Others have negative cash flow in which expenses exceed take-home pay. In short, we spend more than we have. The ideal is positive cash flow.

When your income exceeds expenses, you can live confidently today and save money for your retirement goals.



Increase your total income. Take a fresh look at your investment earnings and, rather than automatically reinvesting all those earnings into the same accounts, use the cash for other goals, such as paying down loans before you retire.

Maximize insurance coverage before your next half birthday. Almost every type of insurance costs more as we age. To get the most coverage for the least expense, look into key coverages now, such as disability and life insurance.

Create a budget. Begin by tracking your expenses and income for a few months. Then build your budget using a worksheet. Begin by paying and protecting yourself. Cover your regular living expenses and then create an emergency fund to cover unexpected costs. The rest of your monthly income can be put toward your goals. Coming up short? Time to tighten your belt and trim expenses.

Start Thinking About...
Where It All Goes
What are your fixed costs? What are your variable costs? How do these costs work together and how can they be reduced to achieve your early retirement dream?

Take Action
Assess your 30-day cash flow by tallying up your monthly income and subtracting your monthly expenses. You may be surprised to find money you can use to fund income and life protection.

IT'S MORE ABOUT WHAT YOU KEEP than what you make.

Even 15% of high-income earners with annual incomes over

$300,000

admit to having a hard time keeping up with monthly expenses.[39]

DREAM BIG. Plan big.

Many of us have fantasized about early retirement. But making that dream a reality takes planning and professional guidance to help you develop the strategy that's right for you — and stick to it.

If you've followed the guidebook to this point, you know the benefits and the pitfalls and critical financial plays to help you bridge that gap. By taking the right steps now, you can be on the road to early retirement.

As a quick assessment to see where you are on the road to an early retirement, check the appropriate box below. Don't think too hard on it, but go with your best guess.

✔ Take Action
Financial professionals are highly skilled in putting a strategy into action and helping their clients stick to it, one of the key behaviors of the financially and emotionally confident. To learn more about how to make your early retirement a reality, **click here** and contact your financial professional.[40]

Are You Ready?

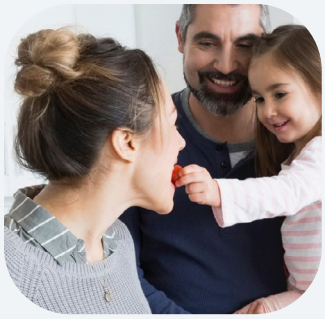
How do you know if you're ready to talk early retirement? Check the boxes below. If you have five or more yeses, talk to a financial professional to find out how to make your dream a reality.

Question	Yes	No
Are you ready for a new beginning?	☐	☐
Would you like to nurture your relationships?	☐	☐
Do you often daydream about travel?	☐	☐
Would you like to manage your health better?	☐	☐
Are you protected against life's what-ifs?	☐	☐
Are you making the most of your financial assets?	☐	☐
Are you paying off your debts?	☐	☐
Do you understand the basics of cash flow?	☐	☐

Helpful Resources

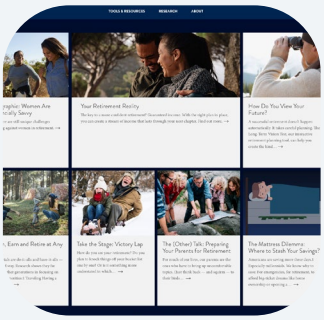
Your Retirement Reality

The Whole Perspective



Bridge the (Paycheck) Gap

Whole•istic Thinking



Living Confidently

Interactive Retirement Planning Tool

Visit **irs.gov** for additional information on **tax for retirement plans** and **types of retirement plans**.

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