



# Retirement Planning Guide

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*Debunking  
Common  
Retirement  
Planning Myths*

**2025 Edition**

Whether you're just starting out in your career or getting ready to retire, it's critical to have a plan in place for how you will replace your income when you're no longer working. Yet, figuring out how much you may need to support your lifestyle goals for a potential 20 or 30 years in retirement can be hard to determine on your own. It becomes even more complex when you factor in the amount of information—and misinformation—you have to sort through to determine the best strategy for your needs and goals.

This guide will help debunk common retirement planning myths and provide the information you need to confidently pursue your goals on your journey to and through retirement.

## What Is Retirement Planning?

While many people view retirement planning through the narrow lens of setting money aside now for some future date, retirement planning encompasses far more than simply planning for distant goals. That's because retirement planning is part of a comprehensive approach to financial planning that focuses on how you will provide for essentials and your lifestyle needs both now and over time. It provides a framework for financial decision-making and the flexibility to accommodate change at every stage of your life. By viewing retirement planning as part of your overall financial plan, you gain a clearer understanding of how each financial decision you make supports or detracts from your ability to accomplish your goals within the time frame you determine. That begins with understanding how you'll generate the income you need when you're no longer working.



## Where Will Your Income Come From In Retirement?

Income in retirement generally comes from three primary sources:

1. Social Security retirement benefits earned over the course of your working years
2. Employer retirement plans and benefits, which may include 401(k), 403(b), and profit-sharing plans, as well as any pension benefits earned
3. Income from personal savings and investments, including traditional and Roth individual retirement accounts (IRAs) and other sources, such as real estate investment income



**MYTH:** “Social Security will replace my income in retirement.”

**REALITY:** According to the Social Security Administration, Social Security benefits will cover about 40% of the average American's income needs in retirement.

## Understanding your Social Security benefits

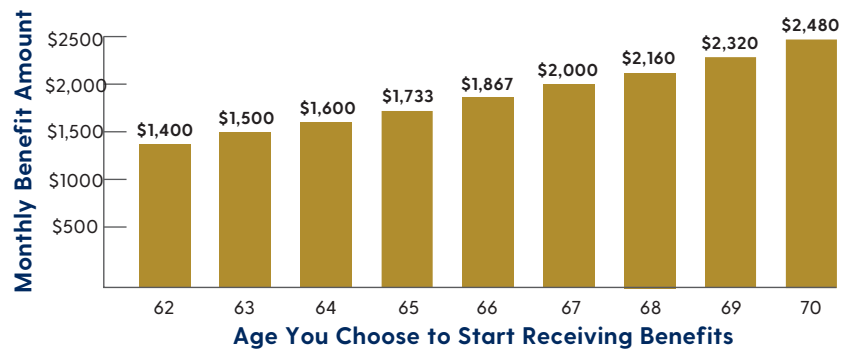
While most people will rely on Social Security benefits to fund a portion of their income needs in retirement, how much you receive and how far it may go is largely dependent upon when you choose to begin taking benefits. You can begin taking Social Security retirement benefits as early as age 62. However, according to the Social Security Administration, if you began taking benefits at age 62 in 2024, you would have received approximately 30% less than if you had waited to begin receiving benefits at what the Social Security Administration calls your full retirement age, which is 67 for someone born in 1960, or later. Keep in mind: That's a permanent decrease in benefits for the duration of your life in retirement.

### When you begin taking Social Security benefits matters

As the graph indicates, your monthly benefit amount increases for each year you delay taking benefits. But notice what happens if you wait until after full retirement age to begin taking benefits: You get an 8% boost in benefits each year in the form of delayed retirement credits until you turn 70. So if you wait until age 70 to

## Monthly Benefit Amounts Differ Based on the Age at Which You Start Receiving Benefits

This example assumes a benefit of \$2,000 at a full retirement age of 67.



Source: Social Security Administration, 2024

begin receiving Social Security, you can expect to receive approximately 77% more than you would have received at age 62. Once you turn 70, there are no additional retirement credits, so there's no reason to wait any later to begin taking benefits.

Once you begin taking benefits, in most cases, you can't stop and restart at a higher monthly benefit later. You're generally locked into a monthly amount, adjusted for inflation, for the duration of your retirement. While there are exceptions to this, penalties apply, so it's important to do your homework before claiming benefits.



**MYTH:** "I'm too young (or too old) to start saving for retirement."

**REALITY:** You've heard it before, but it really is true: You're never too young or too old to begin saving for retirement or other long-term goals. However, the earlier you start, the greater the potential benefits due to the power of compounding. By contributing regularly to qualified retirement plan accounts, such as a 401(k) plan or IRA, your money can potentially grow even faster due to tax-deferred compounding.

## What Is Full Retirement Age?

Full or normal retirement age is the age at which a person may first become entitled to unreduced Social Security retirement benefits. For example, if you were born in 1959, your full retirement age is 66 and 10 months. For anyone born in 1960 or later, full retirement age is 67. Visit [SSA.gov](https://www.ssa.gov) to determine your full retirement age based on the year of your birth.

# 77%

The additional amount you can expect to receive if you wait until age 70 to begin Social Security versus starting benefits at age 62.

Source: SSA.gov., 2024

# Benefits Of Participating In An Employer-Sponsored Retirement Plan

- Plan contributions can grow tax-deferred while in the account
- Many employers offer matching contributions up to a certain percentage of your contribution.
- Plans offer a variety of investment choices to fit your goals and risk tolerance
- Portability: If you leave your current employer you can transfer assets to a new employer's plan, move it to an IRA, or cash it out. You can also leave it in your former employer's plan (if permitted). A combination of these options is also possible

## Qualified retirement plans offer significant tax benefits

Qualified plans are simply retirement plans that comply with Section 401(a) of the tax code. The most common types of qualified plans are IRAs, profit sharing plans (including 401(k) plans), defined benefit pension plans, and money purchase pension plans.

## What is a 401(k) plan?

A 401(k) plan is an employer-sponsored plan that allows you to make retirement plan contributions and direct how that money is invested within your account. When contributions are made on a pre-tax basis, distributions or withdrawals are taxed as ordinary income and, if taken before age 59½, may also be subject to a 10% federal income tax penalty. As of January 2023, the SECURE 2.0 Act of 2022 allows for one distribution per year of up to \$1,000 for unforeseen emergency expenses, with the option to repay the distribution within three years and permits certain penalty-free early withdrawals in the case of domestic abuse not to exceed the lesser of \$10,000 (indexed) or 50% of the vested account balance. The Act also increased the age when required minimum distributions (RMDs) begin, to 73 (if the account owner turned 72 in 2023 or later), and eventually to 75, in 2033. The penalty for not taking RMDs is 25% of the amount required to be withdrawn, which is reduced to 10% if corrected within two years.<sup>3</sup> Many 401(k) plans allow you to make traditional or Roth contributions. Both allow contributions and earnings to compound on a tax-deferred basis. The primary difference is how and when plan contributions and withdrawals are taxed.

- **Traditional 401(k) plans** allow you to defer taxes on the portion of your wage income contributed to the plan until the funds are withdrawn in retirement, at which point contributions and earnings are taxed as



ordinary income. In addition, because the amount of your pretax contribution is deducted directly from your paycheck, your taxable income is reduced, which in turn lowers your tax burden.

- **Roth 401(k) plan** contributions are made on an after-tax basis, so withdrawals are tax-free in retirement. While there is no immediate tax benefit under a Roth, plan balances have the potential to grow tax-deferred; you pay no taxes on qualified distributions.

One of the biggest advantages of a 401(k) plan is that many employers offer matching contributions. Typically, an employer will match a portion of your contributions: for example, 50% of your first 6%. Employers may permit Roth (after-tax) matching and non-elective contributions.<sup>4</sup> Note that employer contributions may require a “vesting” period before you have full claim to the money and its investment earnings.

Employers may also match workers' student loan payments with contributions to their 401(k), 403(b) or other retirement accounts, so long as certain requirements are satisfied. The match structure depends on the plan's policy, and employees must certify annually that qualifying student loan payments were made.

Employer plans may offer short-term emergency savings accounts (PLESAs) funded by participants' after-tax Roth contributions. Participants should contact the plan administrator to learn about the features and benefits specific to their plan.<sup>5</sup>

Most 401(k) plans provide you with multiple investment options. These may include stock funds for growth, bond funds for income, or cash equivalents for protection of principal. This flexibility allows you to spread out your contributions, or diversify, among different types of investments, which can help keep your retirement portfolio from being overly susceptible to disparate events that could affect the markets.

### What is a 403(b) plan?

A 403(b) plan, also known as a tax-deferred plan, is a retirement plan for certain employees of public schools, employees of certain tax-exempt organizations, and certain ministers. Similar to a 401(k) plan, 403(b) plan investment earnings are tax-deferred until withdrawn. Earnings and returns on amounts in a Roth 403(b) are tax-deferred if the withdrawals are qualified distributions. Employees aged 50 or over can make catch-up

contributions to both plan types, and employees may be eligible for matching contributions, which vary by employer.

### “Super catch-up” contributions

Beginning in 2025, the SECURE 2.0 Act allows for increased catch-up contributions in 401(k), 403(b) and governmental 457(b) retirement plans for people ages 60–63. Known as a “super catch-up” contribution, this change is designed to help plan participants nearing retirement to maximize their savings. (Employers are not required to offer this option, so check with your employer plan for more information.)<sup>6</sup>

Starting in 2026, those making \$145,000 or more will be limited to Roth catch-up contributions in their employer plans. While Roth contributions are made on an after-tax basis, withdrawals are tax-free in retirement.<sup>7</sup>

### What is an IRA?

IRAs can be a good choice for individuals who are not eligible to participate in an employer-sponsored plan, or those who have already contributed the allowed

maximum to their employer's plan and meet the eligibility requirements to invest more through an IRA.

- **Traditional IRAs** are funded with pre-tax contributions, and taxes are applied at ordinary income rates when the funds are withdrawn, usually after retirement age. Contributions may be deducted for the tax year in which the contribution was made. However, if you or your spouse is covered by an employer-sponsored retirement plan and your income exceeds certain levels, you may not be able to deduct your entire contribution. Unless certain criteria are met, IRS penalties and income taxes may apply to any withdrawals taken from traditional IRAs prior to age 59 ½. RMDs must generally be taken by the account holder within the year after turning 73.
- **Roth IRAs** are funded with after-tax contributions. Withdrawals of both contributions and earnings are tax-free in retirement, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59½ or prior to the account being opened for five years, whichever is later, may result in a 10% IRS penalty tax.

## 2024 and 2025 Retirement Plan Contribution Limits\*

2024	Contribution limit	Catch-up contribution for ages 50+	Total contribution limit		
401(k) Plans	\$23,000	\$7,500	\$30,500		
Individual Retirement Accounts (IRAs)	\$7,000	\$1,000	\$8,000		
2025	Contribution limit	Catch-up contribution for ages 50-59 and 64+	Total contribution limit for ages 50-59 and 64+	Catch-up contribution for ages 60-63**	Total contribution limit for ages 60-63**
401(k) Plans	\$23,500	\$7,500	\$31,000	\$11,250	\$34,750
Individual Retirement Accounts (IRAs)	\$7,000	\$1,000	\$8,000	\$1,000	\$8,000

\*Find more information at <https://www.irs.gov/newsroom/401k-limit-increases-to-23500-for-2025-ira-limit-remains-7000>.

\*\*Employer plans that allow age-based catch-up contributions for employees aged 50 and older are not required to offer “super catch-up” contributions for employees aged 60-63. Check with your plan administrator for more information.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

# How Much Will You Need?

While studies indicate that many people are likely to need between 60% and 80% of their final working year's income to maintain their lifestyle in retirement, many retirees may need significantly more. Because of the declining availability of traditional pensions and increasing financial stresses on Social Security, future retirees may have to rely even more on income generated by personal investments than today's retirees.

Determining how much money you may need to support your life in retirement depends on a number of factors, primarily how much you will need to cover your daily living expenses, including housing, food, clothing, transportation, and healthcare. Also consider how you will spend your time in retirement. Will you travel, enjoy a hobby, or spend more time cooking at home or eating out?

While these are costs you can reasonably anticipate, other circumstances are outside of your control, such as how long you may live in retirement or whether you'll require long-term care due to a decline in health. That's why a dollar amount alone can't answer the question: Will you have enough income in retirement? Only a thoughtful planning process including an evaluation of your goals, needs, and potential unpredictable expenses can help determine how much you may need.

That's why identifying your goals is the first step in the planning process when you work with a financial professional. Your financial professional will help you clarify and document your goals and work with you to develop strategies aligned with your needs and goals.

## Budgeting now and in retirement is important

Once you've established your goals, it's important to develop a budget for each stage of your life in retirement—from the early stages when you may be more active and spend more money traveling and socializing, to the later stages when a larger portion of your income may be needed to pay for healthcare expenses.

Yet, retirement isn't the only stage of life where establishing a budget is critical. As you accumulate assets during your working years, it's important to budget to ensure adequate savings for daily living expenses, emergencies, and your short- and long-term goals, which include retirement savings.

## The Three Stages Of Spending In Retirement

### EARLY – Ages 60–74

Retirees in the early stage of retirement tend to be the most active and spend the most money. Many will need 80% or more of their annual pre retirement income to support their lifestyles. However, overspending at this stage can impair your long-range goals if it leads to a reduction in the investment principal needed to generate the additional income you'll need in later stages of retirement.

### MID – Ages 75–84

Spending tends to level off in mid-retirement for a number of reasons, including paying off a mortgage or downsizing, selling a second car or boat that you no longer use, pursuing a less active lifestyle, or losing a spouse.

### LATE – Ages 85+

Spending tends to pick up again in late retirement, primarily due to the increasing costs of goods, services, and medical expenses associated with aging. Even retirees in good health who move to an independent living facility may see an increase in daily living expenses such as rent and other facility charges if they had previously been living mortgage-free.

# 74%

**of retirees are confident they will have enough to live comfortably in retirement; which is up slightly from 73% in 2023, but continues to lag 77% in 2022.**

*Source: EBRI 2024 Retirement Confidence Survey.*

Regardless of your income level, a budget can:

- Provide a clear and consistent picture of your cash flow—what’s coming in versus what’s going out
- Help identify ways to optimize savings and spending, and seize important opportunities to grow your wealth
- Enable you to pursue your personal and financial goals with confidence

Best of all, budgeting doesn’t have to be tedious or complicated. Dozens of online and mobile apps make it easy to aggregate data in real time from accounts at different financial institutions. To stay on track, review your budget at least once a month and keep an eye out for trends in spending that need to be addressed or reined in.



**MYTH:** “I’m too young (or too old) to start saving for retirement.”

**REALITY:** While many Americans plan to continue working in retirement either by choice or out of necessity, it’s important to keep in mind that unexpected circumstances can derail even the best-laid plans. For example, an injury, illness, layoff, or other situation outside of your control can force you to stop working earlier than you planned. So relying solely on income from work to support your daily living expenses later in life can be a risky proposition.

## Managing retirement risks

At its core, retirement planning is about anticipating and managing the various risk factors that could impact your plans and your lifestyle in retirement. Three of the most common risk factors in retirement are:

- **Longevity:** Longer average life spans mean, retiree savings will need to last for a longer period of time. In addition, the longer people live, the more likely they will require long-term care.
- **Inflation:** The inflation rate measures the rise in the cost of goods and services over time. It’s a particularly important economic indicator for retirees, as inflation decreases buying power, which has the impact of shrinking your income over time.
- **Market and economic events:** Market and economic risks include the day-to-day fluctuations in asset prices as well as more dramatic impacts from periods of increased volatility, market declines, or economic recession.



**MYTH:** “Medicare will pay all of my healthcare costs in retirement.”

**REALITY:** While Medicare Parts A and B (“original Medicare”) cover a portion of healthcare costs in retirement, the costs that aren’t covered can add up quickly.<sup>8</sup> Also, keep in mind that Medicare does not cover some of the highest costs retirees may incur in retirement, such as long-term care and extended skilled nursing care.



## Average Costs Of Long-Term Care In The U.S.

The national median cost for assisted living in the U.S. is roughly \$64,200 per year, while home health aide services average \$75,500 per year. Nursing home care—the most expensive of all—runs about \$104,000 annually for a semiprivate room to over \$116,800 for a private room. These are only averages; the costs for care in different states or regions of the country can vary greatly.

Source: Genworth: Cost of Care Survey 2023

### Weighing the impact of longevity and healthcare costs.

As retirees enjoy longer average lifespans than previous generations, healthcare costs will remain a significant expense in retirement. This is particularly true for women, who, on average, live longer than men and may need to pay for healthcare costs for a longer period of time.

For example, a recent study on retiree healthcare costs indicates that, on average, a 65-year-old couple who retired in 2024 would need \$351,000 to cover healthcare and medical expenses throughout retirement.<sup>10</sup> That's among many reasons why a comprehensive approach to planning is critical for evaluating how key retirement risk factors—such as longevity, rising healthcare costs, or the need for long-term care—may impact your strategy.

### Managing investment risk

Contributing the maximum amount to your retirement accounts annually, including IRAs and employer plans such as 401(k) plans, is an important step toward building your retirement assets. But how you allocate your assets within and outside of your retirement accounts can be just as important. Asset allocation is how your investments are distributed across asset classes such as cash, stocks, and fixed-income investments, such as bonds. Each class generally carries a different level of risk or potential for gain, and the percentage you choose to allocate to each will depend on factors such as your risk tolerance and years to retirement.\*



**MYTH:** “I’ll avoid market risk by turning to cash during periods of uncertainty.”

**REALITY:** By avoiding the stock market, you’re not eliminating risk, but shifting it to the possibility that your money may not keep up with inflation over time. That can have serious implications when it comes to managing the risks posed by longevity or the need for long-term care. That’s why your investment portfolio is often designed to keep working for you throughout your years in retirement to generate new income even as you draw down on your accounts.

While investing involves risks, a long-term, disciplined approach to portfolio management—emphasizing broad diversification across different investment types and asset classes—can help manage risk resulting from a downturn in any one investment or asset class as you remain invested through different market cycles. Having a disciplined buy-sell process in place can also help reduce the risk of emotional decision-making during periods of uncertainty.

\*Asset allocation does not ensure a profit or protect against a loss.

# Questions To Ask At Every Stage Of The Retirement Planning Process

## Saving and investing for retirement

- How much do I need to save annually?
- How do I determine the right investment strategy for my circumstances and goals?
- Am I eligible to invest more through an IRA?
- I'm self-employed. What are my retirement plan options?

## Nearing retirement

- Are my retirement assets properly allocated?\*
- Should I consider converting my traditional IRA to a Roth IRA?
- Do I need long-term care insurance?
- When can I afford to retire?
- Can I retire earlier than planned?

## Living in Retirement

- Are my retirement assets properly allocated?
- Will my income last the full duration of my retirement?
- How can I guarantee income will be there when I need it?
- How will required minimum distributions (RMDs) affect my income and taxes in retirement?

## How We Can Help

While there's no question that the retirement planning process can be complex, requiring significant time and effort, you don't have to go it alone. Your financial professional can do the heavy lifting for you, bringing the value of experience and insight to developing a strategy to address your income needs while helping to monitor and manage your risk exposure at every stage of your journey to and through retirement. Yet, choosing who to work with is critical. You want to make sure your financial professional has a vested interest in the success of your strategy and is able to serve your needs.

Partnering with an experienced, independent financial professional who places your best interests first can help you not only work toward your goals, but make confident decisions about your wealth and your future by:

- Developing a written financial and retirement plan based on your goals and objectives
- Providing experienced guidance, insight, and advice
- Recommending opportunities to better position your strategy and asset allocation
- Monitoring your progress against goals
- Helping you adjust your strategy over time

## Questions?

If you have questions about saving for or structuring your income in retirement, contact us to schedule time to talk about your retirement planning needs.



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<sup>1</sup> <https://www.ssa.gov/benefits/retirement/planner/delayret.html>

<sup>2</sup> <https://www.ssa.gov/pubs/EN-05-10147.pdf>

<sup>3,4</sup> [https://www.finance.senate.gov/imo/media/doc/Secure%20202.0\\_Section%20by%20Section%20Summary%202012-19-22%20FINAL.pdf](https://www.finance.senate.gov/imo/media/doc/Secure%20202.0_Section%20by%20Section%20Summary%202012-19-22%20FINAL.pdf)

<sup>5</sup> <https://www.irs.gov/newsroom/irs-provides-initial-guidance-to-employers-setting-up-emergency-savings-accounts-for-their-employees>

<sup>6</sup> <https://www.irs.gov/newsroom/401k-limit-increases-to-23500-for-2025-ira-limit-remains-7000>

<sup>7</sup> <https://www.irs.gov/newsroom/irs-announces-administrative-transition-period-for-new-roth-catch-up-requirement-catch-up-contributions-still-permitted-after-2023>

<sup>8</sup> <https://www.medicare.gov/basics/costs/medicare-costs>

<sup>9</sup> <https://www.medicare.gov/providers-services/original-medicare/not-covered>

<sup>10</sup> <https://www.ebri.org/content/projected-savings-medicare-beneficiaries-need-for-health-expenses-increased-again-in-2023>

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