

The Basics of Retirement Planning



When planning your retirement, it is important to remember that money, more than any other factor, will dictate most of your retirement decisions. Your level of financial preparedness for your retirement years will determine when you retire, what type of lifestyle you and your family will enjoy during retirement, and what might be left as a legacy to your heirs.

He Who Fails to Plan, Plans to Fail

It has been said that no one plans to fail, they simply fail to plan. Nowhere is this idea more applicable than when it comes to meeting our retirement objectives. A sound financial plan can be the difference between meeting one's retirement objectives and facing the discouraging surprise of one caught unprepared and with too little time remaining to change their financial course.

At the very least, ongoing retirement planning will help you understand the financial demands of retirement, and make those decisions that are best suited to applying limited resources to potentially unlimited demands.

Retirement Income Needs

Recent government studies have found that during retirement the average American needs between 60 and 80 percent of their pre-retirement income in order to maintain their pre-retirement standard of living. Almost everyone needs less money during retirement than before. How much you need during retirement will be a function of your personal spending habits. Consider the following factors in estimating your retirement income needs:

- You may be supporting children now who will be self-sufficient by the time you retire.
- Your work related expenses would be dramatically reduced, if not eliminated, once you retire (commuting costs, daily meal expenses, licensing fees, etc.).
- For many, their mortgage will be paid off either by the time they retire, or within a matter of a few years after retirement, reducing housing expenses.

- Hopefully you are saving money on a monthly basis for retirement. During retirement you can plan your needed monthly income without factoring in a “retirement saving” amount.
- Many retirees find themselves in a lower income tax bracket. This is due, in part, to having their main sources of income change from fully taxable earned income to tax advantaged income sources.

Sources of Retirement Income

Once you have estimated your target retirement income, you are ready to begin to evaluate what sources of income will be available to you to meet your monthly needs. Generally speaking, your sources of retirement income fall into three categories, which we will discuss below.

- **Government Sources** The federal government has created something of a “safety net” for retirees called Social Security. Social Security is available to everyone, but the amount you receive will be based on how much you earned during your working years. The most you might expect to receive is currently \$1,741 per month, but your actual benefit may be significantly lower than the maximum.
- **Company Sponsored Plans** Many employers offer company sponsored retirement plans. These plans come in many forms but generally can be broken into two categories. *Defined Benefit Plans* are normally funded entirely by the employer and guarantee a retirement benefit based on a combination of years of employment and employment earnings. A *Defined Contribution Plan* may be funded by the employer, employee or a combination of the two. The employee owns an account balance (subject to vesting) made up of contributions and earnings. At retirement, the employee decides how they will withdraw the balance they have accumulated.
- **Personal Savings** The most important, and often most overlooked, source of retirement income is one's own personal savings. Savings directed to IRA accounts, directly held assets, home equity, etc. will largely determine how financially secure your retirement years will be.

Changing Your Current Course

No one plans to fail, they simply fail to plan.

There are many ways that proper planning can improve your current retirement outlook. The more time you have to prepare, the more change you can effect in your retirement income. A sound financial plan and ongoing professional advice can help you obtain your retirement objectives.

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