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What Retirement Planning Isn't



According to Northwestern Mutual's 2024 Planning & Progress Study, Americans believe they need nearly \$1.5 million to retire comfortably, a figure that has increased by more than 50% since 2020. The Employee Benefit Research Institute, however, reports that only about half of workers have actually calculated their retirement needs. As a result, employees may easily latch onto

media-driven, generalized figures without fully understanding whether those numbers align with their individual financial circumstances.

The conversation around prudent retirement planning should begin with defining what it isn't ...

... A Magic Number

Gauging retirement readiness requires knowing more than just someone's 401(k) balance. It demands a comprehensive and integrative approach that accounts for factors like health care, inflation, taxes and lifestyle choices. Shortcuts and rules of thumb like the 15% of income "rule" or the 25x annual retirement expenses "rule" overlook individual needs and differences. For example, higher-than-average health care costs alone can derail even the most disciplined savers, especially with long-term care costs outpacing inflation.

... Determined by Generic Advice

Relying on generic advice can lead participants down a perilous path. Without a personalized approach to retirement planning, workers making decisions based on incomplete or outdated information might result in saving too little or overestimating how long savings will last. The consequences of underpreparing could be devastating, forcing retirees to either return to work or drastically lower their quality of life. On the other hand, overpreparing can also come at an emotional cost if it's driven by unnecessary anxiety and fear about the future.

... a One and Done Decision

Retirement readiness is often a dynamic and evolving goal. The amount an employee anticipates needing at age 30 is likely to change as they enter their 40s or 50s. Factors such as changes in family composition, unexpected debt, inheritances, market fluctuations, or health issues can all



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significantly influence retirement planning. For this reason, any assessment of retirement readiness should not be relied upon for extended periods without reevaluation.

What Retirement Planning Is ...

Prudent retirement planning involves a holistic approach and ongoing adjustments. Regular monitoring and check-ins with a knowledgeable advisor help ensure an individual's strategy is on track to meet established objectives. It's making periodic adjustments based on changing personal and economic circumstances — as well as the shifting goals of the future retiree.

The good news is that plan sponsors are uniquely positioned to provide employees with the tools and resources they need for better outcomes. Facilitating one-on-one meetings with an experienced financial advisor can shift the focus from broad-stroke figures to actionable strategies based on calculations that take into account specific circumstances, timely information and any changing wants or needs. Encourage your employees to make informed decisions about retirement readiness by utilizing accurate data and professional guidance, ensuring they gain greater clarity and confidence throughout the planning process.

Sources

<https://news.northwesternmutual.com/planning-and-progress-study-2024>

<https://www.ebri.org/docs/default-source/rcs/2023-rcs/2023-rcs-short-report.pdf>

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