

## The Retirement Planning Guide

Retirement is a concept that many of us grew up believing to be the ultimate goal of our working careers. Put in the years necessary to build a sufficient nest egg, stay with the company long enough to receive the pension, then add in the social security benefit and walk away to relax. However, today retirement means different things to different people. Some continue to work because they enjoy it, others because they want to stay active and involved, and of course some simply have to in order to keep up with household expenses.

What is important is to understand your goals. Have you set a target age for retirement and then gone back to evaluate what it will take to achieve that goal? Is your desire to walk away from work all together or do you simply want to change careers to something you feel is more rewarding? It is crucial to understand your retirement income needs BEFORE you walk away from the workforce.

In this guide we'll help you to understand the considerations that go into determining your retirement goals and the factors that should be weighed in your decisions.

### Understanding What Retirement Means to YOU

Before you can determine what you need to save and when you set a date for achieving your financial freedom you have to know what you want to do when you get there. Most of us are not going to stay home caring for the house and occasionally going out to dinner – although we'll likely do some of that!

- Do you want to travel the United States or maybe journey abroad?
- Are you going to stay in your current house or will you downsize?
- Do you want to move somewhere closer to family?
- Will you volunteer with an organization you feel close to or take on a career with lower pay but a higher sense of purpose?

Some of these things will require you to save more money where others will actually put money into your pocket or at least offset some of your income needs. In the 2015 Retirement Confidence Survey conducted by the Employee Benefit Research Institute (EBRI), they found that only 63% of workers had given serious thought to how they would occupy their time in retirement<sup>1</sup>.

Do you have “other” goals that should be included? Weddings, education costs, vacation home, etc. Best to have these items accounted for early.

***If you don't know what you want to do, how can you quantify what you'll need?***



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## Evaluate Your Income Needs

According to the EBSI, both pre-retirees and those already retired actually spend very little time on retirement planning. In fact, they spend more time planning vacations and social events! While nearly 40% said they spent 8+ hours planning these events, 1/3 or less said that they put that same amount of time into working on their retirement planning. Additionally, only 48% of people reported even attempting to calculate their retirement needs<sup>1</sup>. Since you're reading this you likely want to know what you must consider when trying to determine your income needs.

Monthly expenses – even if you pay off your mortgage you still need to keep the house warm/cool and keep the lights on. Having a budget is critical to understanding your baseline income requirements.

- If you are staying in the same home, what have your utilities been traditionally?
- What about your property taxes and any homeowner's association fees?
- Food – both at home and eating out.
- Don't forget the cars! Insurance, gas, registration fees, etc.
- Will you be carrying any debt into retirement?

What are the non-essential things that you want to factor into your retirement budget?

- Travel
- Gifting – your alma matter, a non-profit, church
- Grandchildren's educational costs

## Who is relying on your income?

While your first thought may be adolescent children, we are also referring to grown kids and parents as well. According to the NY Times, 20% of 20 and 30-somethings are living with their parents and 60% receive some sort of financial assistance from parents<sup>2</sup>. On the other end of the spectrum, more than 20% of people in the US have indicated that they are currently, or have in the past, been responsible for caring for an aging parent<sup>3</sup>. Even if you aren't the caregiver there could be a need to provide financial support to the one who is providing care (family or professional). In both cases it is important to be prepared so that these situations do not sneak up on you and significantly impact your retirement.

## Medical Costs

Unfortunately as we get older our need for medical care goes up. It's practically inevitable. Even if you remain healthy there are likely medications that are needed to ensure continued health. According to the Fidelity Investments 2015 Retirement Healthcare Cost Estimate, a 65 year old couple retiring today will incur \$245,000 of medical costs in retirement! (This assumes Medicare enrollment, but does not account for Long-Term Care.)<sup>4</sup>.

***Knowing your budget is critical to understanding if your goals are feasible.***



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## How Will You Pay for All of This?

As important as determining what your retirement income needs will be, you must understand and review what sources of income will be available to you in retirement. Once you understand the sources you can then work to build on them or at least determine the most appropriate timing to begin collecting the benefit.

### Workplace Retirement Plans

Many of us have access to retirement savings vehicles through our employers. Whether 401(k), 403(b), SIMPLE IRAs, and more, these vehicles give us the ability to take retirement savings into our own hands. This savings is often on a tax deferred basis although a Roth option is being included more frequently today. In many cases a company match will allow you to grow the account more quickly.

### Pension Plans

A workplace pension can be a very nice addition to a retirement income plan. It is important to request a copy of your statement to help you understand your projected benefit. There will be decisions to make – single life payment or would you like to preserve a survivor benefit for your spouse? What age should you take it? Often ages 55, 60, 62, and 65 are given as starting points.

Nearly 78% of public sector workers are covered by a pension<sup>5</sup>. Depending on the type of Federal pension, or which state you work in, there can be consequences for Social Security. It is important to understand this in advance as you may be receiving a Social Security statement that is incorrect for your situation.

Private sector pension plans (known as Defined Benefit plans) have been disappearing quickly. Once the predominant corporate retirement savings vehicle, only 18% of people were covered by a pension in 2011<sup>5</sup>.

### Social Security

For most retirees, Social Security benefits will be an important part of the retirement income. It is important to understand your benefit, whether the Social Security Administration is tracking your earnings correctly and of course the important consideration of when to claim your benefit. You can create an account at [www.ssa.gov](http://www.ssa.gov) to review and download your latest statement.

Although nearly 48% of people claim their benefit at age 62, this could have serious long-term effects on your retirement income planning<sup>6</sup>. You must consider things like – will you continue working when you begin collecting? Will your spouse be claiming based on your benefit? How is your health and do you have a family history of longevity? Engaging a financial professional may be helpful before making this decision.



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## Other Income Sources

Do you have rental property or receive royalties of some sort? Will this income continue? Does the income derive from an asset that can be resold? Do you have an annuity that will provide guaranteed income? For how long and what are the terms?

## Savings

This is a critical part of both retirement and pre-retirement to help prevent short notice liquidation of assets or being forced to take on debt when an emergency occurs. We strongly advocate for 3-6 months of expenses in savings, but your situation may warrant more.

## The Wild Card: Working Longer

If you are prepared in advance and understand your retirement income needs before making the leap, you can always decide to work longer! This will allow you continue to add to your savings and delay the time you need to begin drawing down your retirement assets.

Even if you don't continue working your current job, finding another, even if it pays less, can at least delay the amount and timing of taking distributions from your accounts.

***Understand your retirement income sources to determine if you are on track***

## **Time to Evaluate What You Are Currently Doing to Prepare**

Once you have determined your retirement income goal, and evaluated the sources that will provide that income, you can begin the work of determining the gap and what you need to do to fill it. The key is to complete an assessment of what it will take to close the gap. Is an additional \$300/month required or will it take \$1,000/month? Is the monthly or annual savings needed achievable? If not, maybe the answer is that you need to work another year or couple of years.

If you are 50 or older you have the ability to make "catch-up contributions". Many workplace and individual retirement plans have this feature allowed by the IRS. Here are some of the contribution limits:

- 401(k)/403(b)/457(b): max individual contribution \$18,000 + catch-up of \$6,000
- SIMPLE IRA: max individual contribution \$12,500 + catch-up of \$3,000
- Traditional/Roth IRA: max individual contribution \$5,500 + catch-up of \$1,000

Remember, contributions to pre-tax or deferred savings vehicles is not necessarily a dollar-for-dollar commitment on your part. Since these contributions will lower your taxable income what you would have paid in taxes on that dollar will remain in your paycheck.

If you have a retirement plan at work it may be the easiest place to begin saving more. Are you contributing to the company match? Did you stop at the match percentage and if so, why? It is



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important to remember that if your company provides a match it is not meant to imply that it is proper rate of savings to achieve your retirement needs. It was simply chosen for plan design purposes or because that is all the company was willing to contribute.

Earlier we mentioned some “other” goals. If they will occur before age 59 ½ any distribution from your IRAs will incur a 10%. Would it be better to save or invest in non-retirement accounts to prepare for these goals? If the goal is in the short – medium term, setting aside the money in savings is likely best.

***You must determine the gap in between your need and current savings rate to reach the goal!***

### **You Can't Forget to Protect Your Assets**

As we work diligently toward our financial goals it can be easy to overlook the risks along the way. We will often consider things like stock market risk in our invested portfolio or the impact of interest rates and inflation on our savings. However, as we try to maximize savings based on our budgets it can be easy to dismiss the need for asset protection. By assets we aren't just referring to our investments. What happens if you die in an accident or are seriously injured in an accident? What if you develop dementia, debilitating arthritis or other significant medical injury in retirement?

#### Disability

For those who are a bit younger and reading this, your largest asset may be your ability to earn income. What will you do if that income stops for one of the above mentioned reasons?

- 64% of wage earners believe they have a 2% or less chance of being disabled for 3 months or more during their working career<sup>7</sup>
- The actual odds for a worker entering the workforce today are about 25%<sup>7</sup>

We think you'll agree that it will be hard to achieve your retirement goals if your income stops.

#### Long-Term Care

For many reading this a likely concern is the possibility of having long-term care related needs in retirement. With the cost of care climbing significantly each year, this could have a major impact on your portfolio as the national average cost of a private room at a nursing home has exceeded \$7,600/mo<sup>8</sup>. Most states now have a partnership program that will allow you to preserve additional assets (above the Medicaid maximums) for those with long-term care policies that meet certain requirements. You can see your state's requirements here:

<http://www.longtermcareinsuranceonly.com/long-term-care-insurance-partnership-states.html>.



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## Life Insurance

Whether you still have several years to go before retirement or are getting close, but are still not there yet, life insurance is a consideration that must be made to protect your family or estate. As you likely know, it is there to pay off remaining debt if you pass or can be used to fill the retirement gap for your surviving spouse or partner.

***You're working too hard to reach your retirement goals to let an accident derail the effort***

### **Focus on What You Can Control**

There is a lot to consider in getting to whatever version of retirement is right for you. Focus on the things within your control in the process. As we have indicated in this guide, you must first and foremost put in the time and effort to understand:

- Your wants and needs
- Your income sources
- Where you are today
- What is the gap and how to close it
- Protect what you've worked so hard to achieve

There are many places to turn for advice and guidance on the internet, radio, or by sitting down with a professional. Let me offer a word of caution - beware of advice for the masses. Even when the principles of the message are sound, and may even provide a common sense approach, each of our goals and circumstances have their differences.

**Sitting with a financial professional can help provide the tailored guidance you deserve and help to keep you focused on your goals even when life gets busy.**

1. [https://www.ebri.org/pdf/briefspdf/ebri\\_ib\\_413\\_apr15\\_rcs-2015.pdf](https://www.ebri.org/pdf/briefspdf/ebri_ib_413_apr15_rcs-2015.pdf)
2. [http://www.nytimes.com/2014/06/22/magazine/its-official-the-boomerang-kids-wont-leave.html?\\_r=0](http://www.nytimes.com/2014/06/22/magazine/its-official-the-boomerang-kids-wont-leave.html?_r=0)
3. <http://caregiveraction.org/resources/caregiver-statistics>
4. <https://www.fidelity.com/about-fidelity/employer-services/health-care-costs-for-couples-retirement-rise>
5. <http://www.epi.org/blog/private-sector-pension-coverage-decline/>
6. <http://money.usnews.com/money/retirement/articles/2015/06/01/the-most-popular-ages-to-sign-up-for-social-security>
7. [http://www.disabilitycanhappen.org/chances\\_disability/disability\\_stats.asp](http://www.disabilitycanhappen.org/chances_disability/disability_stats.asp)
8. <https://www.genworth.com/about-us/industry-expertise/cost-of-care.html>



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