

Introduction to Retirement Planning

For many people, the popular dream of retirement as golden years of leisure and comfort has been overshadowed by financial difficulties. Our longer life spans mean longer reliance on a fixed income. And threats to the Social Security system may mean that it will be of little help to retirees in the future. To ensure that you have the resources you will need to have the kind of life you want after retirement, it is important that you plan carefully and act immediately to provide for your future income.

As with all planning, the key to a successful retirement plan lies in setting clear and realistic retirement goals. While retirement may be many years off, you probably already have some ideas of what that retirement might look like. Start there. Then consider what resources you will have available to achieve those goals as well as what resources you can commit now. Put your plan into writing. Goals that are not written down are nothing more than wishes.

The Importance of Retirement Planning

The persistent cry to "save Social Security" is fueled by the realization that there are serious threats to the system. The Social Security benefits of today's retirees are largely paid by the contributions of people who are currently employed. As the Baby Boom generation enters retirement age and as retirees live longer, the number of people collecting Social Security is growing faster than the number of workers paying into the system. No simple fix can remedy this problem in the foreseeable future; any saving of the system will probably involve higher retirement ages, lower benefits, and possibly increased Social Security taxes.

Additional Challenges

The shakiness of Social Security is only one challenge facing tomorrow's retirees. Longer life spans mean more time for inflation to eat away at the buying power of your income. As people grow older, they may eventually need such services as ongoing healthcare and assisted living arrangements—expensive services that can quickly wipe out a life's savings. All this is beyond the cost of travel, retirement homes, and leisure activities that are part of the dream retirement for many people.

If we want our retirement to be anything like our dreams of leisure and security, it is clear we have to plan carefully to make sure we will have the resources we need.

Determining Your Retirement Goals

The first step in planning for your retirement is to determine how much money you'll need for retirement; to know that, you first have to determine the retirement lifestyle you want. You'll want to answer these questions:

- *How early do you want to retire?* The earlier you want to leave the workplace, the less time you will have to get your financial act together and the more time in retirement you will need to fund.
- *What other plans will you have?* Do you want to buy a sailboat, retirement home, or the camper of your dreams? Does your health suggest you may need more medical care?
- *What will inflation do to your income?* You need to consider how inflation will change your income needs. In 20 years, a 4-percent inflation rate will more than double the amount of money you'll need to keep your current standard of living.
- *What percentage of your current living expenses will you require?* You may not need the large home, several cars, or funds to pay for raising children and holding a job. But if you plan to travel or live the country club lifestyle, certain expenses may increase.

When you've determined how much money you'll need to retire on, you'll be able to compare that with your current savings and investments and plan for a way to make up the difference.

Determining Your Retirement Resources

If you have taken the time to determine what your needs for income in retirement will be, the next step in retirement planning will be to add up the resources you expect to have from your current saving and investment.

Start with Income

Start by determining the income that will be provided by your current sources of retirement income: your pension plan and any employer-sponsored savings and investment plans you may participate in at work; any individual retirement accounts (IRAs) you have established; other investments and annuities; your savings accounts; and, of course, the value of your home and other property.

Social Security

What about Social Security? You might plan based on current benefit levels, but remember that the longer you postpone taking Social Security benefits, the more benefits you can receive until your full retirement age. If you are in your 20s, 30s, or 40s, it may be best not to include Social Security benefits in your planning at all.

Put Them Together

Next, you will need to convert all your sources of retirement income into an annual income stream and make an estimated adjustment for inflation. When you subtract your estimated annual income from your estimated needs, you will know where you stand.

Is There a Gap?

If you are like many people, there is probably a gap between where you would like to be at retirement and where your current rate of saving and investing will bring you. The next step in retirement planning, then, is to determine what you will do about the shortfall.

Planning to Meet Your Retirement Goals

Perhaps you're one of the lucky few whose current retirement resources are greater than their anticipated needs. Good for you! You might consider shifting some of those resources to your current needs or making some more adventurous investment decisions.

Your Options

For the rest of us, the task will be planning to make up the shortfall between what we'll have and what we'll need. You might start by deciding to decrease your needs: retire later, live on less, or do without the block-long Winnebago. Or you might decide to act now to increase your income when you retire. Establish a personal budget that lets you set aside some money from your current expenses and invest it in your future. There are lots of good reasons for doing so.

Tax Savings

The government has established a number of tax advantages that help you to save and invest for your retirement. The tax-deferred savings program, such as a 401(k) plan or 403(b) plan, that your employer may offer is an example:

you can invest your contributions in a variety of investment choices, and both your contributions and the earnings on your investments are tax-deferred until you take them out. IRAs and tax-deferred annuities are other examples of retirement investments that reduce the tax bite.

The Power of Compounding

When you invest into an account with compounding (fixed or variable) interest, your money earns money, and then that money earns money, and then—well, you get the idea. As an example, \$1,000 invested at a relatively modest 5-percent interest rate will grow to a value of over \$7,000 in 40 years (compounded annually, before taxes). The sooner you start building for retirement, the less you should have to take out of your current spending, and the more you will theoretically have to live on later.

Generally, the sooner you put your retirement plan in place, the more likely it will be that your retirement will be all that you want it to be, and the less likely that economic worries will take some of the gleam off your golden years.

Summary of Retirement Planning

In order to have the kind of retirement you desire, it is very important to plan for it. Leaving it to chance just doesn't work. Planning requires that you identify what your goals are. This doesn't mean that your goals can't change, but it does mean that you must start somewhere.

Goals also need to be realistic. It's not enough to say that when you retire you want to be rich and live in a palace. Is it possible to be rich and live in a palace without having to kiss a magical frog? Can you amass sufficient assets to support your retirement goals given your resources, earnings, and ability to save?

This process requires great introspection and personal assessment. Determine what resources are needed to support your retirement goals and how you will come by them. Finally, you will need to map out a strategy to meet your retirement goals, being flexible to change your goals if your circumstances change. Live for today, but keep your eye on the future.

Practical Ideas You Can Start with Today

- Identify all active sources of income for retirement.
- Estimate how long your savings will last. Use this calculator:
 - <http://www.calcxml.com/calculators/i-am-retired-how-long-will-my-savings-last?skn=23>.
- Calculate how much you will need to live comfortably in retirement, accounting for inflation. Use these calculators to get started:
 - <http://www.calcxml.com/calculators/retirement-calculator?skn=23>.
 - <http://www.calcxml.com/do/qua05?skn=23>.

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