Retirement Planning

Discover the three components needed to plan a comfortable retirement.

Are you doing enough to save for retirement? How will you know? Most people spend more time planning a vacation than they spend planning for retirement. The path to a successful retirement starts with creating a well-thought-out plan. A good retirement plan has three components:

1. Understanding how much savings and income you'll need to sustain the lifestyle you want in retirement.
2. Determining the types of savings and investment accounts you will utilize, and the sources of income you will have in retirement.
3. Adjusting and balancing your spending and savings behaviors between retirement and other financial goals in the time you have between now and your planned retirement age.

Step 1: Understanding how much savings and income you will need to sustain the lifestyle you want in retirement.
So, where do you start? We recommend you begin by understanding how much savings and income you will need to sustain the retirement lifestyle you envision. Most people need 70%-100% of their pre-retirement income during retirement, depending on many factors. Consider the following:

- If you have never tracked your spending, this might be a good time to start. Any money you can allocate toward your retirement savings increases your odds of reaching your savings goal.
- Make sure you have an emergency fund, with an initial goal of $1,000 and a plan to build an amount equal to at least three months of living expenses. You will need money for unexpected expenses before and during retirement.
- Build your budget to afford a contribution to your employer's retirement plan, especially if they match your contribution. In your budget, treat your retirement savings as a recurring and unavoidable expense, just like you would your rent/mortgage and utilities. Consider using an online calculator to help anticipate how your 401k/403b contribution would affect your paycheck:
    - bankrate.com/calculators/tax-planning/payroll-tax-deductions calculator.aspx
    - smartaboutmoney.org/Tools-Resources/Calculators/How-will-payroll-adjustments-affect-my-kehome-p.aspx
- Once you understand how much money you're spending monthly and annually, you can make assumptions about how much money you will need in retirement. Don't rush through this process! Ask yourself these questions: Do you plan on continuing to work in some capacity during retirement? Do you want to help support your children by paying a portion of your grandchildren's education costs? Do you plan on volunteering your time or traveling? The more you consider all the ways you might want to spend money in retirement, the better job you will do allocating more of your current income toward these goals.
- There are several calculators available to help you estimate how much money you need to save monthly and annually to reach your goal. Here are some suggestions for calculators to help you get started:
    - American Association of Retired Persons (AARP): aarp.org/benefits-discounts/all/retirement-calc/
    - Bankrate.com: bankrate.com/calculators/retirement/retirement-plan-calculator.aspx
    - Financial Industry Regulatory Authority Inc. (FINRA): tools.finra.org/retirement_calculator/

After reviewing the results of the calculators, you may decide to make some changes to your anticipated lifestyle, or the result may confirm that you have been taking the right steps to secure your retirement savings.

Step 2: Determining the types of savings and investment accounts you will utilize to help you reach your retirement savings goal.

Most effective retirement plans utilize tax-advantaged savings plans like 401(k), 457 or 403(b) plans, Thrift Savings Plans (TSP) or other employer-sponsored plans like a Roth 401(k). Some employers offer defined benefit pension plans. Employers differ in their offerings, so it is important to understand what is available to you, especially if your employer matches your contributions, as part of their benefits package. Some investors also choose to put savings into Individual Retirement Accounts (IRAs), Roth IRAs, or other savings vehicles.

Step 3: Adjusting and balancing your spending and savings behaviors between retirement and other financial goals in the time you have between now and your planned retirement age.

Here are some tips to consider as you try to achieve all of your financial goals:

- If you feel that you need to increase your retirement savings, working more, saving more and spending less are good ways to increase your nest egg.
- If saving for retirement is causing you to incur debt to cover your everyday expenses, you may be doing more harm than good to your future finances. The interest that you have to repay on the debt will usually outweigh the net benefits of adding to your retirement savings.
- Pay off consumer debt, such as credit card debt, personal or car loans to be able to approach your retirement years with minimal consumer debt.
- If you need an Investment Advisor to help you select investments, it is wise to find an advisor who specializes in retirement planning and will keep your plan up to date.
- If you are close to retiring, now is the time to start anticipating how your monthly expenses will change when you do retire. Most people assume their expenses will decrease when they are no longer working. However, this may or may not be the case, depending on your hobbies, health and desire to travel.
- Consider health care costs. As you get older, the likelihood that you'll need medical care increases. These costs can be offset with health insurance, Medicare and long-term care insurance. Signing up for Medicare at age 65 can help to reduce associated costs. If you delay signing up for Medicare, it will cost more later.
- Consider a long-term care policy; it is often used by individuals who want to prevent having to use their retirement savings to cover nursing home or home care expenses. Individuals should consult with a financial advisor before deciding to obtain long-term care insurance.
- If you are close to retirement, start to develop your strategy for withdrawing retirement income. Consult a tax advisor to determine how your distribution of retirement assets could affect your net income. For instance, taking distributions from tax-deferred accounts could increase the amount of income tax you pay on any Social Security income; withdrawals from after-tax accounts and Roth accounts are non-taxable.
- Taking Social Security income later, rather than sooner, means larger payments. To determine how the age you elect to begin receiving Social Security income could affect your monthly payment, use the Social Security Administration retirement calculator at ssa.gov.
- Check out these additional online resources to assist with your retirement planning:
    - Social Security – Retirement Estimator: ssa.gov/benefits/retirement/estimator.html
    - Calculating the Cost of Relocating: retirementliving.com/
    - Taking the Mystery Out of Retirement Planning: dol.gov/sites/default/files/ebsa/about-ebsa/our-activities/resource-center/publications/taking-the-mystery-out-of-retirement-planning.pdf
    - Save and Invest/FINRA Investor Education Foundation: saveandinvest.org/
    - American Association of Individual Investors/Investing Basics: aaii.com/classroom