Retirement Planning & Savings

Overview

For many people, retirement is one of the rewards for a long and successful career or a lifetime of hard work. Retirees do many things with their time: volunteer, work on hobbies or other interests that may not have received attention during work years, travel, and more. Some retirees even continue to work on a limited or part-time basis to supplement their income or because they are passionate about what they do.

While thinking many years into the future isn't always the easiest task, it's important to think about planning for retirement when you're in a position to do so. This is because if you want to achieve the dream of living sustainably without a regular income from a paycheck, you'll need to be planning and saving for many years.

Overview

According to the 2010 Retirement Confidence Survey, Americans are reporting record-low confidence levels measured during the 2008-09 recession appear to have bottomed out. The percentage of workers very confident about having enough money for a comfortable retirement has stabilized at 16 percent.

Worker confidence about paying for basic expenses in retirement has rebounded slightly, with 29 percent now saying they are very confident about having enough money to pay for basic expenses during retirement.

Clearly, these figures show that retirement planning is a luxury compared to meeting immediate needs in times of economic turmoil. However, in the case that some folks are still in a comfortable enough financial situation to plan for the future, and thinking ahead to the future when the American economy has stabilized, people will once again need help thinking about their retirement options.

Sources of Income

Financial experts have long described sources of retirement income as the three-legged stool: Social Security, company pension, and personal savings. Now with the growing concern over the future of Social Security, the reduction in benefits offered by employers, and the low personal savings rate, many see the three legs of the retirement income stool becoming shaky. Many say that the stool may need a fourth leg—paid work after retirement.

Social Security

Over time, most working adults of retirement age have paid taxes on their paycheck into social security. As a retiree, you may be eligible for social security benefits between ages 65 and 67, depending on the year you were born.

Now that the Social Security Administration has phased in automatic mailing of Personal Earnings and Benefit Estimate Statements to all wage earners, check yours for accuracy. It contains information that provides an excellent basis for retirement planning. Contact the Social Security Administration (Call 1-800-772-1213 or visit the Social Security Online Web Site www.socialsecurity.gov) to obtain a benefit request form.

Visit social security online

Visit the U.S. Social Security Administration online. Here, you can learn in depth about how social security works, check your benefits, see your social security earnings statement, and more.

http://www.ssa.gov/

How Does Age Affect Social Security Retirement Payments?

Essentially, waiting till full retirement age gives 100% of the benefit that is due. Retiring early will see this percentage decrease; retiring later could see it increase. However, this doesn't mean that those that take Social Security later will be paid more in total over their life than those that choose to use it earlier.

As an example, according to the Social Security Online retirement age benefits table individuals born between 1943-54 have a full retirement age of 66. Their payment options include:

- Taking benefits aged 62 will give 75%.
- Taking benefits aged 66 will give 100%.
- Taking benefits aged 70 will give 132%.

Company Pension

Another source of retirement information is your employer's personnel department which may have general tips on retirement as well as specific information about investments available in your pension plan.

A *pension*, also known as a *retirement plan,* is a tax deferred way of saving that allows people to have an income when they are no longer earning a regular income from employment. By paying into a pension, employers, employees, or trade unions will have a tax free accumulation of money that they can later provide to an employee during retirement. If you hear someone refer to retirees as having a "fixed income" it is because in order to sustain pension funds, pensions are paid in regular, set installments. In other words, it is not an infinite pool to draw from— the amount of money in a pension depends on how much has been contributed to it. Pensions should be contrasted with *severance packages*, which are paid in one lump sum.

Retirement plans may be either *funded or unfunded*: in an unfunded plan, no assets are set aside and the benefits are paid for by the employer or other pension sponsor as and when they are paid. Pension arrangements provided by the state in most countries in the world are unfunded, with benefits paid directly from current workers' contributions and taxes.

In a funded plan, contributions from the employer, and sometimes also from plan members, are invested in a fund towards meeting the benefits. The future returns on the investments, and the future benefits to be paid, are not known in advance, so there is no guarantee that a given level of contributions will be enough to meet the benefits.

If a plan is not well-funded, the plan sponsor may not have the financial resources to continue funding the plan. In the United States, most private benefit plans are funded, because the government provides tax incentives to these types of plans. Non-church-based private employers must pay an insurance-type premium to the Pension Benefit Guaranty Corporation, a government agency whose role is to encourage the continuation and maintenance of voluntary private pension plans and provide timely and uninterrupted payment of pension benefits.

Essentially, since these plans are tax deferred, you can reduce your short-term tax costs by contributing to retirement savings.

Medicare

Many retirees will be eligible for Medicare benefits, a social insurance program administered by the United States government, providing health insurance coverage to people who are aged 65 and over, or who meet other special criteria.

To learn more about Medicare, find out if you're eligible, and enroll in the program, visit http://www.medicare.gov/Default.aspx

Personal Savings

Personal savings, as in stocks, bonds, and other investment products, or in different types of savings accounts, can be a very important part of building your retirement fund.

According to About.com:

> The first thing you should do is realize that the sooner you start saving and investing for retirement, the less aggressive you will have to be when it comes to saving. Your retirement money will reach a point where it is growing much faster than the money you are adding to it. So even if you are intimidated it is important to start saving a little bit today.
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> If you have a specific dollar amount in mind or the amount that you want to live on each year once you retire you will have something tangible to work towards. It is much more motivating to save for retirement when you see yourself achieving the goals that you have set for yourself. There are several strategies for determining how much you need to retire comfortably on. You may want to check out retirement calculators to determine how much you should save,
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> Once you have determined what you are working for you need to begin saving for retirement. A good goal is to save fifteen percent of your salary a year towards retirement. You should pay off your student loans and your credit cards before you begin to save this much. However, you can begin by contributing up to your employer's match. This is a good start, and will help you double your saving power.
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> In addition to your 401K or 403b contributions you should consider investing in an IRA. There are many options available to you. The Roth IRA allows your money to grow tax-free. This does mean that you are taxed on the money you contribute initially, but you will end up paying less in taxes since your money will grow. Once you have met your employers match, you may want to contribute the maximum allowed to your Roth IRA, and then go back to your 401k.
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> If you are having a difficult time finding money to contribute to your retirement, you may want to get creative. By living on a budget you may find that you do have money if you are spending with specific purposes and limits in mind. Additionally your contributions may not affect your take home pay as much as you realize since it is deducted before your taxes, and may reduce the amount of tax that you pay.
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> Finally if you are still confused, you should talk to a financial planner. Some financial planners do not sell products, but will simply sit down with you and help you to plan for your future. They explain what each account does and the best way to diversify your investments. Additionally they can help you to understand the options offered by your company.
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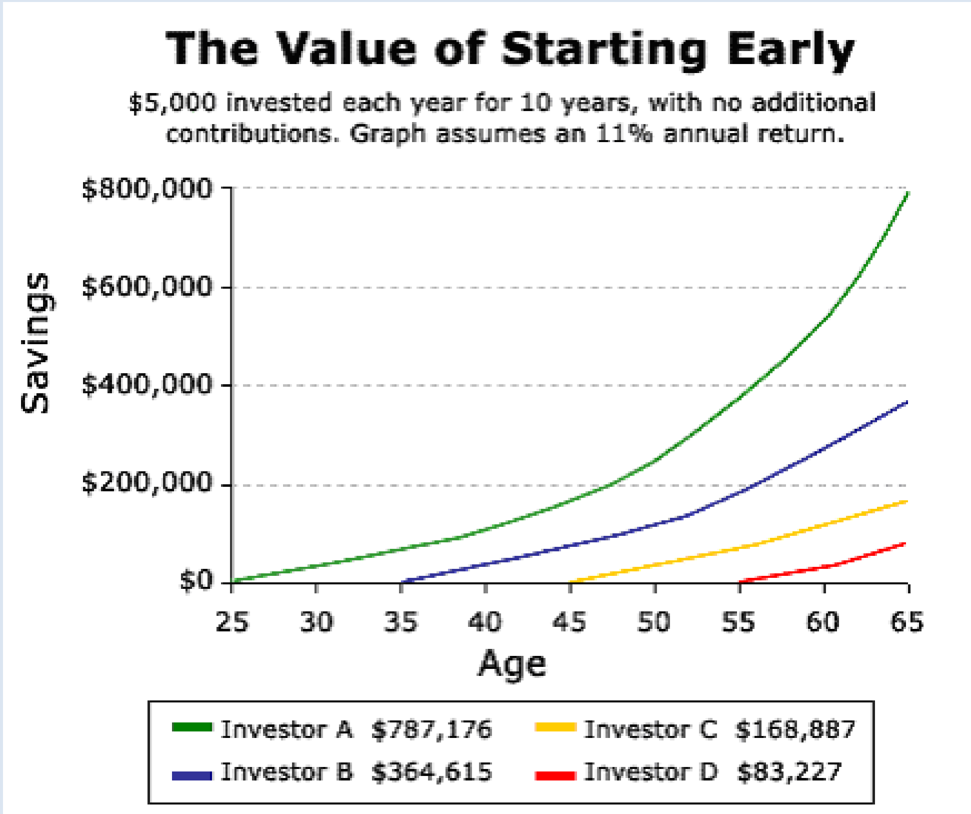
> Source: http://moneyfor20s.about.com



Even though each person invested the same amount of money, they have significantly different amounts at retirement. For example, Investor A began investing $5,000 a year when she was 25 years old and stopped when she was 35. For the next 30 years, she didn't contribute any more money and she didn't withdraw any money. She just left the account alone.

Investor B, on the other hand, waited until he was 35 years old and contributed $5,000 a year until he was 45. As you can see, that difference of a decade is substantial. At retirement, Investor A has $422,5671 more than Investor B -- over twice as much. In fact, each investor in the chart above has more than twice as much as the person who started 10 years later (except for Investor D, of course, but she's a lot better off starting at age 55 than someone who waited until age 65).

Source: www.Fool.com

Paid Work after Retirement

In order to supplement fixed retirement incomes, many retirees do resort to returning to work part or full time to make ends meet. For some retirees, this is a welcome part of their daily routine. For others, the chance for a second career or the opportunity to make money off of a hobby or passion is hugely satisfying. If, after looking at your income and expenses, your retirement plan options, and your financial attitudes, you determine that you'll need more money than your pension, social security, and personal savings can provide, consider looking for employment that meets your needs.

Does Working in Retirement Increase Social Security Payments?

Individuals can also work and receive Social Security benefits at the same time. This could also help increase the payments ultimately made. This system is based on highest earning years so those that work in retirement may be able to use their earnings to replace years when they may not have been paid as much. This may qualify them for higher benefits.

Living Expenses in Retirement

It is important to think about what your expenses will be after retirement. A rule of thumb is that 70 percent to 80 percent of current income will be sufficient in retirement. Retirees who plan to be very active may need the same amount of income in retirement that they presently earn.

Before you use the calculators, you will need to gather information about your current expenses.

A quick and interactive way to do this is by using the Retirement Expense Calculator, courtesy of MSN MoneyCentral: http://moneycentral.msn.com/personal-finance/calculators/determine_your_retirement_expenses_calculator/home.aspx

Your Retirement Lifestyle

The amount of money you will need in your retirement years depends on the lifestyle you plan to lead. The following list of questions will help you decide what you really want in retirement.

1. Will you stay in your current home, move to a different location, or purchase a smaller home or a vacation home?
2. Will you want to work for additional income? Will you want to start a new career?
3. What do you want to do with your time? Hobbies? Travel? Recreation? Volunteer?
4. What will you do for transportation? Use your own car or public transportation?
5. How often will you eat out or entertain friends or family?
6. How will your clothing and personal care needs change?
7. What medical risks are you likely to face?

What would you like to do if your health declines and you need help with daily living? Stay in your own home? Move in with children?

Balancing Income and Expenses

Income during retirement can be increased by reducing debts and expenses.

Debts

One of the most important things you will need to do as you can also be one of the hardest to face: making a list of your *debts*. If you are like most people, you probably have an idea of what your unpaid balances are, but few of us know exactly what we owe, who we owe it to, and what the terms and conditions of our debts really are. Having too much debt (monthly payments that total more than 20% of your net income) can prevent you from reaching the goals that are most important to you.

Your *creditors* are the individuals or businesses to whom you owe money. This may be in the form of student loans, credit cards, bank loans, car loans, collection agencies, medical offices, mortgages, and more. Knowing the interest rate and the other terms of your agreement will help you make smart decisions about which debts you are going to try and pay in which order. Generally, those debts that have the highest interest rates are costing you the most money and should be paid as fast as you can manage.

Regular monthly expenses

Debts are just one part of where we spend income. It is equally important to understand how much money you spend on the *expenses* in your life. There are several different types of expenses to be aware of when making a budget:

Over the course of a month, you will encounter both *fixed* and *variable* expenses. Fixed expenses basically stay the same from month to month (rent, utilities, and car payments). On the other hand, you'll know that you have variable expenses every month, but they may be higher one month and lower the next. An example would be groceries or gas.

Occasional and seasonal expenses

Imagine that you have been going along with your spending plan and you have been able to balance between your income and expenses. Suddenly you realize it's tax season and you're going to owe money this year. The only way you can pay your taxes is by choosing to pay one of your other bills late. Now you are behind in your payments and will be charged a late fee for the bill you could not pay.

One thing that can quickly ruin a budget is to forget to consider those expenses that don't occur each and every month. Some big expenses like property taxes and insurance premiums come up only once or twice a year. Others are seasonal, such as school clothes in the fall and holiday gifts in December.

Item	J	F	M	A	M	J	J	A	S	O	N	D	Yearly Cost	Monthly Average
													$	$
													$	$
													$	$
													$	$
													$	$
Total													$	$

To insure that you have the money to meet these ***occasional*** (also known as ***seasonal*** or ***periodic***) expenses when they happen, figure out a monthly average for each one and set aside money in a special savings account each month.

Comparing your income and expenses

So far, you have laid the groundwork for your spending plan by listing your income, debts and other expenses. Now it is time for the moment of truth. Using your spending plan worksheet, add up all of your income and expenses and your plans for saving.

Ideally, you want to end up with more income than expenses. In real life, it doesn't always work out that way. If your debts and expenses exceed your income, don't panic. You can still get your finances under control by:

- increasing your income,
- reducing your expenses,
- or both.

Additional Resources

American Savings Education Council
www.asec.org

Employee Benefit Research Institute Issue Brief: The 2010 Retirement Confidence Survey
http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=4488

eXtension
http://www.extension.org/pages/Financial_Security:_Retirement_Planning

Iowa State University Extension, Secure Your Dreams
http://www.extension.iastate.edu/finances/personal/retirement/retirement.htm

FDIC Money Smart
http://www.fdic.gov/consumers/consumer/moneysmart?

Purdue University Extension, Planning for a Secure Retirement (on-line modules)
http://www.ces.purdue.edu/retirement/

Financial Planning for Retirement Workbook
http://www.extension.purdue.edu/extmedia/CFS/CFS-685-W.pdf

University of Illinois Extension, Plan Well, Retire Well
http://www.retirewell.uiuc.edu/

University of Minnesota, Plan Ahead for Retirement
http://www.extension.umn.edu/distribution/businessmanagement/DF7775.html