HOW TO . . .

Get to retirement with sufficient income

There are a few basic calculations you can make, regardless of your income or your age, to come up with a number you need to know.

Ahh retirement. For some folks, it's time to pull up a rocking chair and enjoy a cold glass of lemonade. For others, retirement means traveling to exotic places. And for some, it means finding a job to supplement their income. What does the future hold for your retirement?

Retirement plans are different for everyone, as each individual's situation is different, their goals are different, and their personalities are different. There are some basics, however, that everybody can start out with.

The first step is the realization that your retirement plan is not going to create itself. Start out by asking yourself the following questions:

- How old am I now and at what age do I want to retire?
- What would I like my income to be in retirement?
- How much have I saved for retirement to this point?

Determining your time frame is critical. Do you have 30 years to save or do you have 10? Knowing this number will help you determine how much you will need to save each year.

Would you like to maintain your current lifestyle in retirement? Most experts say that you will need 60% to 80% of your pre-retirement income, but that is just a guideline. To determine your personal requirements, you can start by creating a budget for your anticipated expenses. Include things such as mortgage payments, utilities, travel and food. Also, don't forget a very important expense, health care.

Finally, get the calculator out and add up what you have saved to this point. Take a look at your IRA, your employer-sponsored plan and your annuities. Also include any other monies that you have earmarked for retirement.

So, you have now determined your time frame, created a goal for retirement income and assessed your savings progress. Now ask yourself one final question: How long do you expect to be retired? The Social Security Administration expects a 65 year-old to live another 17.5 years. That's up from only 12.5 years in 1940. It is important to not underestimate your life expectancy.

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Let's do the math. Multiply the years you expect to be retired by your annual income goal. This is the amount of savings required. Next, subtract out your current retirement savings. Finally, divide that number by the number of years until you retire to determine what your annual savings needs to be.

$$\frac{\text{(Years Retired x Income Goal) - Current Savings}}{\text{Years Until Retirement}}$$

This will give you the absolute basic amount needed to retire. There are three additional factors to consider; investment return, inflation and taxes. You should set an investment return goal based on your individual risk tolerance. Do not assume too high of a return however, as volatile markets have had a tremendous impact on retirees in the past few years.

In terms of inflation, most people are comfortable using a 3%-4% rate, and basic rule of thumb is that costs will double every 20 years. And the taxman isn't going anywhere. You still are going to have to pay your share of taxes, although many retirees tend to be in a lower tax bracket. Your financial advisor should be able to help you factor in return, inflation and taxes into your plan. If you prefer to do it yourself, there are a number of very good financial calculators available on the internet.

Now its time to start saving. Remember one important word. Discipline. To reach your goals, you must be disciplined and follow your plan month in and month out. If you have determined that you need to be saving $1,000 per month, then you need to integrate that amount into your budget. Pay it as if you were paying a utility bill, or better yet, set up an automatic investment plan.

Take advantage of your employer-sponsored retirement plan and contribute as much as possible. Remember that any money that is matched by your employer is like getting a raise – don't leave that money on the table. If you meet the income requirements, contribute to an IRA or a Roth IRA. And if you still have more to contribute, establish a taxable account earmarked for retirement or a tax-deferred annuity for additional savings.

Make sure to review your progress annually, rebalance your portfolio and make any adjustments that may be necessary. Do not try to increase your return by taking unnecessary risks, but maintain your disciplined strategy. In addition, it is important to maintain adequate insurance. Don't let an unexpected disability or death undermine your family's retirement future.

It is important to start as early as possible. For example if a 35 year old starts early and saves $5,000 per year with an 8% return, that individual will have accumulated over $600,000 in 30 years. If that individual waited until he/she was 45 to begin saving, they would accumulate about $250,000, a $350,000 difference!

All too often we get caught up in everyday life and creating a retirement plan gets put off until tomorrow. No matter how old you are, it's never too early or too late to get started. Make retirement planning a priority and get started today.

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