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INVESTMENTS & FINANCIAL PLANNING

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Your Retirement Planning Questions Answered

Planning for retirement often seems to involve more questions than answers. Below, we answer some of the most common questions, so you can make more informed decisions when planning for the future.

How Much Do I Need to Save?

You probably wish there was a simple answer to this question. Unfortunately, there's not. How much you need to save depends on a lot of factors, including your current age, the age when you plan to retire, your expected lifestyle, how much income you might get from Social Security and pensions, and even how long you expect to live. There are plenty of online calculators that can help, but meeting with a financial advisor can help you draw an even clearer picture. We can work with you to model different scenarios, so you can see how far your savings will really go.

When Should I Retire?

Many people assume they should retire as soon as they're eligible for Social Security — that's age 62 for most people. But choosing to retire based on that single metric isn't a great idea. For one, given longer life expectancies, a healthy 62-year-old can expect to live for another few decades. You may simply not be ready to give up work that soon. Two, the earlier you retire, the longer your money needs to last. If you haven't saved a lot, you may need to keep working to save more, preserve what you've already set aside, and potentially increase your Social Security benefits.

The fact is, determining when to retire is a very personal decision based on your health, your spouse's health, your total savings, and more. Meeting with a financial advisor to determine a realistic retirement date based on your financial situation is likely to lead to more success.

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Segregating Risk

Your willingness to assume risk with your investments is not necessarily a static concept. You may be less willing to take risk with investments designated for an essential financial goal, while you may be more willing to take risk for nonessential goals. However, those varying risk levels may be difficult to assess if all your investments are commingled.

For instance, assume you have three goals — to ensure you have enough funds to support yourself through retirement, to send your children to Ivy-league colleges, and to purchase a vacation home. The most crucial goal is to ensure you don't run out of money during retirement. Thus, you want a high level of assurance that you'll reach that goal, devoting a substantial portion of your resources to the pursuit of it. Your investments for that goal are likely to be somewhat conservative. The next important goal is sending your children to Ivy-league colleges. You have more limited resources to devote to that goal, plus your children can attend less-expensive colleges or pay part of the costs themselves. For that goal, you may be willing to assume more risk. Your goal for a vacation home is clearly last, so you may have few resources to devote to it. For that goal, you may be willing to use very aggressive investments, since that may be the only way you can achieve that goal. ❍❍❍

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Your Retirement

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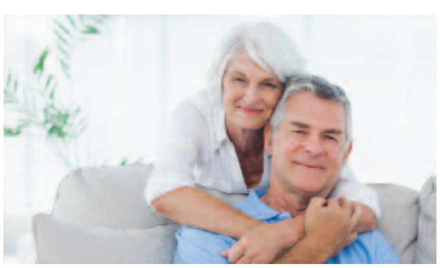
Is It Realistic to Plan on Working Part-time in Retirement?

Many people plan to make up a retirement savings shortfall by continuing to work part-time in retirement. There are a lot of advantages to that plan, including staying active and engaged and also avoiding depleting your savings. But assuming that you'll be able to work through your 70s may not be a safe bet. First, there's no guarantee you'll be able to get a job in retirement — the economy can be fickle and age discrimination is real, making it harder for some older people to find employment. Plus, there's the health question. Your chances of becoming disabled increase as you age, which could make it impossible to work. Your best bet? Save as much as you can now, and don't count on being able to work in retirement.

How Much Money Can I Take from My Portfolio Every Year?

For years, the rule of thumb has been that you can withdraw 4% of your portfolio value every year in retirement. That's a ballpark number that should keep you from spending down your principal and exhausting your savings, assuming your retirement lasts 30 years. But what do 4% withdrawals really look like? If you have $500,000 in retirement savings in a diverse portfolio, you'd generate income of about $23,000 per year if you followed the 4% rule. That doesn't exactly promise a life of luxury.

Some people think the 4% rule is out of date. They believe stock and bond returns could be lower in the future than they have been historically, which could make 4% withdrawals too aggressive. These people would advise taking out even less every year, which of course means saving even more.



I'm in My 50s and Worried I Don't Have Enough Saved. What Should I Do?

First, the good news. You will probably be able to retire. Eventually. But you may have to work longer than you want. And you may have to make some lifestyle adjustments to avoid running out of money. The answer really depends on how much you have today and what you expect your retirement to look like. If you have healthy savings but are still worried about falling short, you may be able to make up the difference by saving more aggressively in the next decade and perhaps cutting spending (getting rid of extras like RVs and fancy vacations, or moving to a smaller, less-expensive home).

If you're really far behind, you have your work cut out for you. But you can improve the situation. First, start saving as much as you can now. And plan to work for as long as possible so you can keep saving and get the most out of Social Security (if you don't claim until age 70, your benefits will be permanently higher by 8% for each year you delay past full retirement age). You'll also want to look for ways to reduce expenses and increase your income. Please call if you'd like to discuss your retirement plans in more detail. ❍❍❍

Staggered Retirements

Often, spouses don't retire at the same time. Frequently, one spouse may retire first due to health problems or a layoff, not necessarily because the spouse chooses to retire early. No matter what the reason, keep these points in mind if you are in that situation:

✔ **Try to minimize withdrawals from retirement accounts.** Although you will only have one salary instead of two, it's best to minimize withdrawals while one spouse is working. It's a good opportunity to test your retirement budget and reduce expenses.

✔ **Utilize all available benefits from the working spouse's employer.** One of the most significant retirement expenses, especially if you don't qualify for Medicare, is health insurance. So, before one spouse retires, find out if that spouse is eligible for health insurance through the working spouse's employer.

✔ **Delay Social Security benefits.** Especially if you are retiring before full retirement age, it typically makes financial sense to delay Social Security benefits. For a significant number of married couples, the man is older, has higher earnings, and will not live as long as the woman. Because a surviving spouse can elect to receive 100% of the deceased spouse's benefit, it typically makes sense for the man to wait until age 70 to claim Social Security benefits to provide his wife with the highest possible benefit after his death. On the other hand, there is usually no reason for the woman to wait beyond ages 62 to 66 to start Social Security benefits, provided she can claim benefits on her own earnings record.

✔ **Consider all defined-benefit plan payment options.** If you are lucky enough to be covered by a traditional pension plan at work, make sure to consider all the payment options carefully before selecting one. Typically, you will have numerous options, but your choice will be irrevocable. ❍❍❍

How Much Do You Really Need to Retire?

There are a lot of reasons people don't save for retirement or don't save enough. They feel they don't make enough, they have more immediate financial needs, or they're not sure how to get started. One other reason? People aren't sure how much they need to save, which can make it hard to get started. After all, if you don't have a clear destination in mind and a plan for reaching that destination, getting started is hard. In fact, only 44% of people have even attempted to calculate how much they might need to save for retirement, according to the 2014 Retirement Confidence Survey.

Unfortunately, there's not a magic retirement number that applies to every single person. We're all different, and we all have different retirement needs. There are a variety of ways to estimate how much you might need to enjoy a secure retirement. We'll review a few of them below.

The Goal: $1 Million

When it comes to retirement savings goals, people often fixate on one number: $1 million. Why? It's a nice round figure and it seems like a lot of money. Who wouldn't want to be a millionaire, after all?

One million dollars isn't a bad place to start as far as retirement saving goals go. But the problem is that it isn't calibrated to your particular needs. A $1 million portfolio translates into an income of about $40,000 a year over a 30-year retirement. That, combined with income from Social Security, could mean a comfortable or strained retirement budget, depending on your lifestyle. If your expenses are modest and you live in a relatively inexpensive area, that $1 million portfolio could be more than adequate (some people may even be happy living on less). But if you live in a big city, are still paying your mortgage, or want to travel a lot, you may not have enough. To really plan for retirement, you need a more specific number.

The Goal: Replace 70% to 80% of Your Preretirement Income

Retirement planning experts often talk about income replacement rates. In simple terms, this is the percentage of your preretirement income you would need to maintain roughly the same standard of living you had before retirement. The rule of thumb is that most people will need between 70% and 80% of their preretirement income. This estimate is based on the idea that your expenses will shrink once you stop working — you'll spend less on transportation and eliminate 401(k) contributions, for example — so you'll need less money day-to-day.

That sounds reasonable on the surface, but many retirees find that their expenses don't actually decrease when they retire. In fact, they may even grow. Freed from the 9-to-5 grind but still feeling energetic and healthy, many people use the early years of retirement to indulge in all the fun activities they put off while working and raising a family. These people may need to plan on replacing 100% or more of their preretirement income. One other thing to keep in mind: Lower-income people tend to need a replacement rate that's closer to 100%, since they usually have fewer areas where they can cut spending.

The Goal: Save 10% to 15% of Your Current Income

Often, you'll see recommendations to save somewhere between 10% and 15% of your income for retirement. That's not a random number. Researchers from Boston College's Center for Retirement Research found that saving 10% of income starting at age 25 meant that a person could retire at age 65 with a 70% replacement rate. Start saving later, and you'll need to save more — wait until age 45, and you'll need to set aside more than a quarter of your income. That's just not realistic for most people. If you're young and not sure about what your retirement lifestyle will really look like, give yourself a solid foundation by setting a saving target in the 10% to 15% range. That will position you for success decades down the road.

The Goal: Your Personal Retirement Number

Rules of thumb are just that — rules of thumb. You'll see a lot of them out there. But the important thing is to use those numbers as a guide to develop your own personal retirement number, which should consider how you want to live, where you want to travel, your health, how much you want to leave to your kids and charity, and more. Along with details about your current savings, you can reach a target retirement number that is achievable *and* will allow you to live the lifestyle you want. Please call if you'd like to discuss this in more detail.

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Financial Conversations before Marriage

Money is one of the leading causes of divorce in America, usually due to a misalignment of attitudes about money. Having a conversation about money — not just about how much you have today, but about how you value it — is indeed the key to a long, happy union.

It's important to know about and work through money issues before you tie the knot. So as you sit down to have the money conversation with your future spouse, be open and honest.

1. Goals — Goal setting offers you a point of measurement to keep your financial plan on track; goals define where you are heading. So if your spouse has very different goals than you do, you'll end up heading in different directions. Share with each other the financial goals you currently have set.

2. Budget — Show each other your current budgets. You'll get a view into each other's philosophies about earning and spending, as well as an idea of where you both stand financially. Talk about how you'll combine your incomes and your expenses into a single household budget. Take the opportunity to draft a budget.

3. Debt — Look at each other's credit reports to see not only how much debt the other person has, but also to see how responsible the other has been to date in paying down that debt. Take each person's debts and combine them, then make a plan for paying it off.

4. Savings — Savings is one of the linchpins in a sound financial plan. Does he/she have three to six months of living expenses tucked away in an easily accessible rainy day fund? Is he/she saving for any particular future goal? How much has he/she already saved for retirement? Combine your incomes and your expenses and determine how much you as a couple will likely need for retirement; then make a plan to save accordingly.

5. The big day — Traditionally, the bride's parents footed the wedding bill, but it is increasingly common for the bride and groom together to pay for some or all of their own wedding. If that's the case for you, think about the value of a big, fancy wedding, and think about the other ways you could use that money. Come to a mutual consensus about a realistic budget for your wedding and stick to it, just as you do your day-to-day budget.

Please call if you'd like to discuss this topic in more detail. ❍❍❍

Jennifer

The Need for IRAs

You'll probably need the additional funds for retirement. Even with Social Security and pension or 401(k) benefits, you'll probably need other savings to fund your retirement.

You'll lower your taxes. You can lower your taxes currently by contributing to a traditional deductible IRA or in the future by contributing to a Roth IRA.

You're more likely to use the funds for retirement. If you save in a taxable account, it's easy to use the funds for other purposes. However, the government discourages the use of IRA funds for other purposes by assessing a 10% federal income tax penalty when funds are withdrawn before age 59½ (except in certain limited circumstances). That makes it more difficult to withdraw the funds and more likely they'll stay in the IRA.

You have a wide variety of investing options. With a 401(k) plan, you typically have a limited number of investment options. However, with an IRA, you can invest in a wide variety of investments.

Please call if you'd like to discuss IRAs in more detail. ❍❍❍

Financial Thoughts

The typical raise for top performers in 2014 was 4.6% (Source: *Money*, December 2014).

In a recent survey, when asked how they were doing financially compared to last year, 24% said doing worse, 22% said no change, 33% said doing a little better, and 21% said doing a lot better (Source: *Money*, December 2014)

Approximately 43% of individuals between the ages of 18 and 33 describe themselves as conservative investors (Source: *Rep.*, November 2014).

Almost 63% of individuals between the ages of 18 and 33 have earned a bachelor's degree or higher, making them the most educated generation in American history (Source: *Rep.*, November 2014).

The median accumulated individual retirement account balance as of 2011 was $34,000 (Source: General Accountability Office, September 16, 2014).

In a recent survey asking how they would like to spend retirement, 48% of respondents said traveling, 23% said pursuing hobbies, 16% said spending time with family, and 13% said volunteering or working (Source: *Money*, November 2014). ❍❍❍