Retirement readiness

Paying for your retirement vision

How do you picture your retirement? Maybe you'll be traveling the world. Or golfing. Or just relaxing and enjoying the grandkids. Now ask yourself how you're going to turn that picture into reality. Will your current path allow you to pay for your vision of retirement?

"The future ain't what it used to be"

Baseball legend Yogi Berra may have summed up retirement best with this colorful, yet insightful, quote. For better or worse, retirement is indeed not what it used to be. The days of leaving the company at age 65, gold watch in hand and retiring to the rocking chair on the porch is no longer a typical retirement scenario.

The new vision of retirement, for many, is to be active, involved and engaged in life. Paying for that vision, though, is another story. A number of factors could put your retirement income goals at risk. Without the right planning, outliving your savings is a real possibility. So, are you ready for your retirement?

Longer life, longer retirement

People are living longer than ever nowadays. That's the good news. The bad news is that means you'll need more money for retirement. A 65-year-old male has a life expectancy of 82 while a 65 year old female is expected to live to 85.[1]

Trying to figure out how long you'll live isn't realistic. Your best bet is to count on living longer than you think, and consider the possibility that you'll need retirement income into your 90s.

Expenses can be so expensive

According to general retirement guidelines, your savings will need to replace 70% to 80% of your pre-retirement income in retirement – depending on how active (or expensive) a lifestyle you plan. While some expenses may disappear when you stop working, others will quickly replace them or increase.

You can likely say goodbye to work-related expenses, such as clothes, lunches out, payroll taxes and retirement plan contributions. But you'll have plenty of new expenses, like travel, health insurance and medications. An estimated 70 percent of Americans who reach age 65 will need some form of long-term service and support.

The bottom line is that during retirement, you'll likely be in a spending mode, as opposed to a saving or earning mode. You'll need to take that into account when planning your retirement savings.

"A nickel ain't worth a dime any more"

Another amusing Yogi Berra quote helps sum up the impact inflation can have on your retirement savings goals. Even low inflation can damage your purchasing power in retirement. For example, if you bought a gallon of milk today for $3.73, if you project a 3% inflation rate over the next 25 years, that same gallon would cost you $7.81 in 2039.

Will your retirement savings let you afford an eight-dollar gallon of milk? If the rate of return on your investments isn't outpacing inflation, affording a gallon of milk could be the least of your worries.

The rest is up to you

What about Social Security and pension plans? In recent years, these traditional sources of retirement income have become a smaller part of the equation. Consider that for the average worker, Social Security replaces only about 40 percent of pre-retirement income.[3]

Invest wisely

Between living longer, expenses and inflation – even with Social Security – you'll need to save more than you think. And you'll need to invest more wisely, too. Even a small difference in the rate of investment return can make a huge difference in your total earnings when you retire.

Investing in a retirement plan

Whether you choose to invest aggressively or conservatively, the key to a long-term investment plan is taking advantage of tax-deferred savings opportunities. Your employer-sponsored retirement plan is one such option that may be available to you. Opening an IRA is another.

A traditional IRA is similar to anemployer-sponsored plan in that it lets you contribute before-tax money and accumulate interest on a tax-deferred basis. That means you won't pay income tax until after you begin taking withdrawals at retirement – when you'll likely be in a lower tax bracket. With a Roth IRA, you contribute after-tax dollars. Investment gains, if any, are also accumulated on a tax-deferred basis, but when you retire, distributions are tax-free.

For more information on retirement plans and the impact of tax-deferred growth opportunities, see Special Reports on Tax Deferral, Investments 101, Cost of Waiting and Missed Opportunity.

A plan to get there

No matter what your vision for retirement, be sure to understand the importance of a long-term approach to saving; expect to save more than you thought; invest aggressively enough to outplace inflation; and take advantage of tax deferral opportunities, such as an IRA or your employer- sponsored retirement plan.

Yogi Berra also once said, "You got to be careful if you don't know where you're going, because you might not get there." If you don't have a clear picture of your retirement, then you may indeed never get there.

1 National Vital Statistics Reports "United States Life Tables, 2009". January 6, 2014
2 Robert Wood Johnson Foundation. :Long-Term Care: What Are the Issues?" February 2014.
3 Social Security Administration, "Understanding the Benefits" 2014.