WEALTH MANAGEMENT

Saving for Retirement

By Gene C. Sulzberger

How much money do you need in order to retire? This is a question that haunts many of us; yet so few of us actually meet with a Certified Financial Planner™ to learn more about what amount each of us needs for retirement and how to budget for retirement.

According to the Transamerica Center for Retirement Studies, only 1 in 10 people have calculated the amount they need for retirement.

Setting long-term financial goals and creating a financial plan are important elements of long-term financial well-being. You may want to seek the assistance of a Certified Financial Planner™ to help you set your financial retirement goals and understand the steps you need to take to achieve them.

There are some general ideas as to a minimum needed for retirement. Please note that as usual, these are generic estimates – personalized planning has not been taken into consideration nor have inflation rates and myriad other figures that can influence each person's distinct numbers. One recommended shortcut to an estimated total needed for retirement is to multiply your annual salary by 12. So, if you make \$100,000 a year, you should have, at a minimum, \$1,200,000 in savings at retirement.

Another consideration is the percentage of your current income you will need annually when retired. Most retirees will need to replace up to 80 percent of their current income. If you currently make \$100,000 a year, in retirement you should budget for \$80,000 a year in expenses. On average though, Americans are only budgeting for close to 60 percent of their income during retirement.

Studies report that American employees contribute 7.5 percent of their income into retirement accounts on average. However, studies also show that most medium wage earners should be saving at least 18 percent of their income each year in order to have enough money on which to retire. Savings rates are based on a number of factors which include income, age of retirement, age that you start saving, and average rates of return.

Many of these general ideas for saving, however, do not take into account some very important issues. Consider, we are living longer, thus requiring more money in retirement. Also, health care costs are rising at alarming rates. Many retirees plan to be very active in retirement … spending more money than retirees have traditionally.

Retiring has also taken a different direction with many workers today. The United States has become a country with fewer pension plans. Pension plans used to be the primary mode of retirement savings for American workers. Thirty years ago, roughly 62 percent of workers received their retirement benefits through defined benefit plans. Today, that number is reversed, with over 60 percent of workers now relying solely on 401(k) plans. Instead of fixed benefits at retirement that had been crafted by your employer; now, more often than not, employees are put in the position of having to plan their savings for retirement and be responsible for investing those dollars (and there are many employees who are not doing a very good job of that).

Certified Financial Planners™ are able to use professional programs – like MoneyGuidePro – to assist in the creation of a detailed retirement model.

Through these programs a Certified Financial Planner™ can look at a client's long-term goals and tailor a financial and spending plan specific to that person. For example, one of the issues typically addressed is when to take your Social Security retirement benefit. The advantages for some retirees in holding off on taking Social Security can be quite substantial. One Social Security study shows that an individual who has an earned income up to the maximum Social Security wage base each year, who then waits to take his/her Social Security retirement benefit at age 70, will receive 77 percent more income per month than if he/she had taken the retirement benefit early at age 62. Understanding the pros and cons of when to take your Social Security benefit is very important.

One thing to remember is that there are many items that need to be taken into account in establishing a comprehensive financial plan. These include, but are not limited to, the following: determining a rate of inflation; determining investment goals and estimated rates of return; estimating health care expenses and the average rate of inflation associated with health care costs; the location of assets, be they in qualified plans or non-qualified accounts; estimating expected financial obligations like children's or grandchildren's college expenses or major planned purchases; and life expectancies.

Planning ahead will save you headaches down the road.

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