

## Retirement Planning to Reach Your Goals

We are living longer, healthier lives. As a result, retirement, for many, may last 20 years or more. So, if “time is money,” how many years do *you* have in the bank? Because inflation will most likely *decrease* the purchasing power of your money, your dollars may buy less during your retirement than they do today. For example, at 3.5% inflation, \$100 today would be worth only \$42.31 in 25 years, and would be further reduced to \$30.00 in 35 years.

The sooner you start building your nest egg, the longer it has to grow. Consider the following examples that assume no taxes or inflation. Suppose, at age 25, you save \$100 per month for 20 years and earn 6% interest. If you make no additional contributions after the age of 45 and your savings continue to earn 6% interest, at age 65 your savings will be worth \$148,182. However, if you begin at age 45, save \$100 per month for 20 years, and earn 6% interest, at age 65 your savings will be worth *only* \$46,204. In order to achieve savings of \$148,182 over 20 years, you would need to earn interest at a rate of approximately 15% per year—or save significantly more money per month!

While both scenarios illustrate the same amount of money being saved, the additional 20 years and the **compound interest** factor make all the difference in the world. If you are in your prime earning years and start setting money aside *now*, you have a better opportunity to save for the retirement you desire.

### Identify Your Goals

The first step in developing a savings strategy that best meets your retirement needs is determining your objectives. How do you envision your “golden years”? Spend some time thinking about what is really important to you. Allow yourself to dream about what you want your future to look like. Thinking about it *early* puts time on your side. At what age do you want to retire? Where do you see yourself living? Do you enjoy travel? Would you like to continue to work at least part-time? Are you imagining yourself playing golf every day? These questions and others will help you shape a vision for your retirement.

Once you have a sense of your objectives, it’s time to estimate your financial needs. A good, general rule of thumb is that a person’s living expenses in retirement will be roughly 30% less than his or her current expenses. While some costs may increase, such as health care and leisure activities, others most likely may decrease. For example, retirees tend to spend less on mortgages and education.

### Know Your Resources

The second step in planning is to determine from where you will attain your retirement money. Most people draw on three main sources of income during retirement—**Social Security**, **employer-sponsored plans**, and **personal retirement savings**. Each offers important resources that will add to your overall retirement plan. The choices you make *today* will invariably influence your financial security in your later years.

With Social Security, the benefits received are based on the income you have earned over the course of your life, subject to a maximum amount. It offers, for most, only a base level of income, which many retirees supplement with savings from employer-sponsored plans, such as pension plans, 401(k) plans, 403(b) plans, Simplified Employee Pensions (SEPs), and Savings Incentive Match Plans for Employees (SIMPLEs). The tax advantages and, in many instances, **matching contributions** from employers, make these savings vehicles a popular complement to personal retirement savings, which often include *traditional* Individual Retirement Accounts (IRAs) and Roth IRAs.

### Make a Plan

Now that you’ve thought about your retirement objectives and your potential sources of income, the last step is developing a plan that works for *you*. Analyze your present spending habits to find out *where* your money is actually going, and *how much* you have available to put aside for retirement savings. If you’re like most people, you probably could save more money. It may be worthwhile to investigate ways in which you can adjust your lifestyle to decrease spending, and thus increase the amount available for savings. Can you “nip and tuck” without detracting from your quality of life? Are there short-term sacrifices you are willing to make for long-term gain?

When it comes to saving, stick to your plan, but monitor it regularly. Make sure your disciplined approach to saving continues to meet your current needs and your future retirement goals. It’s never too late to start saving, and the sooner the better. Put yourself in a position of working toward your retirement goals, as soon as you can.