Planning for Retirement

What does the future hold for you 20 or 30 years from now? Whatever it is, you'll likely need money to pay for it. That means you need to save today to pay for tomorrow.

What to Know

It's generally accepted that you'll need to replace approximately 70 to 100 percent of your pre-retirement earned income to cover your living expenses during your retirement years. While Social Security may provide minimum benefits, most of your income sources during retirement will come from what you saved during your working years. It's on you to save.

What to Do

How do you save more? The answer is easy: spend less or make more. It's the "doing it" that gets a little challenging. Here are four easy tips that may help you save more:

1. **Pay yourself first**
   - Contribute to your employer-sponsored retirement plan or IRA. For employer-sponsored retirement plans, it's generally recommended that you contribute a minimum of 15% of your gross pay, or the maximum amount allowed by the IRS.
   - Build up a saving account that ultimately equals 3 to 6 months of your earned income. This will help pay for unplanned expenses or periods of un/under-employment.
2. **Reduce spending**
   - Take a critical look at your fixed expenses. Find ways to reduce expenses that are unnecessary or find alternatives that are less expensive.
   - Reduce frivolous or impulse buying. For a real eye-opener, track your expenses for a month or two. It may surprise you how much you're spending on things that offer no value, or on things you don't even remember buying! Think before you spend.
3. **Earn more money**
   - Don't get "stuck in a rut" at work. Look for ways to maximize what you earn for the skills or talents you offer. Keep on the lookout for new employment opportunities or advancement within your company or organization.
   - If feasible, taking a second job is a great way to increase your savings potential. It's an extra bonus if your second job is doing something you enjoy.
4. **Make more money**
   - Evaluate how your employer-sponsored retirement plan account is invested. If you are in your 30s or 40s, are you allocating among investments that offer the most potential for growth based upon your investment time horizon, objective and risk tolerance?

Final Note

Plan and act on what you know and what you can control. Be careful with projections and assumptions about the future. Your assumptions may mislead you into being either overly-optimistic or overly-pessimistic about your future which can lead to saving and planning decisions that could negatively affect the quality of your life during retirement.

Where to Turn

For more information on the importance of saving and creative ways to save, visit the following websites:

http://www.smartaboutmoney.org
Hover on "Your Money" and under "I'd like help on," choose "Ways to Save Money."

Smart About Money is a program of the National Endowment for Financial Education (NEFE), a nonprofit national foundation dedicated to inspiring empowered financial decision making for individuals and families through every stage of life.

http://publications.usa.gov Click on "Money" under "Categories" then click on "Investing & Saving" under "Money Categories." There are lots of helpful brochures.

The Publications.USA.gov website is where consumers can go to get accurate, complete and concise government information when, where, and how they want and need it to make important life decisions.

http://msue.anr.msu.edu/program/info/mimoneyhealth

Michigan State University Extension helps people improve their lives by bringing the knowledge resources of MSU directly to individuals, communities and businesses.

Mirror, Mirror on the Wall—Will I Have Enough Money to Retire at All?

Nearly half of Americans will run short of money in retirement, according to a recent report from the Employee Benefit Research Institute (ERBI)[1]. On which side of the divide are you? The only way to know is to take a hard look at where you stand now and how far you need to go to reach your retirement goal.

Here's a rough rule of thumb: If you need $50,000 a year to live on in retirement, your retirement nest egg should be in the ballpark of $750,000 to $1 million. Assuming you also have Social Security, your money should last for 30 years in retirement, at a withdrawal rate of 4 percent per year, depending on your investment returns.

Naturally, the closer you are to retirement, the more you'll need to save to reach your goal. You may even have to face the difficult reality that you aren't likely to get there and need to explore alternatives to make up the shortfall. For example, can you bridge from work to retirement in stages so you continue to generate income from your job for a few more years? What skills and experience could you bring to a part-time job or your own business during retirement? Do you have a second property that could be converted to a rental to produce income? If you are married (or were married for at least 10 years in the past), have you evaluated the best strategy for taking your or your spouse's Social Security benefits?

With the help of a competent, trusted financial advisor, you likely can cobble together a comfortable retirement even when your nest egg falls short of the ideal.

[1]Source: *Fast Facts, "How Many Will (Not) Run Short in Retirement," EBRI, March 6, 2014, #271.*