Do You Have a Plan?

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Imagine two couples in retirement. The first couple worked for their entire adult lives. But once they retired, they had to make the hard decision to sell their house and move into a rather cramped but much more affordable condo in a nearby retirement village. Even combining the proceeds from the house sale with their Social Security and pension benefits, this couple finds their monthly budget a tight fit. Retirement is just not what they had hoped it would be.

The second couple also retired after working for many years. However, this couple made the decision to retire when the husband reached age 62 and took the first year of their retirement to travel, visiting their children who live in other parts of the country. They still live in their same house and often visit historical and recreational sites in their region.

The difference in standard of living between these two couples? Careful planning by the second couple over many years versus an unfortunate belief on the part of the first couple that their pensions and Social Security would take care of retirement. Retirement in the future will be a greater challenge than ever before. There are many reasons, including:

- More income is required for retirement years as people are retiring earlier and living longer;
- Health care costs, especially for the elderly, continue to rise faster than the cost of living;
- Inflation erodes the purchasing power of retirees;
- High personal income taxes reduce individual savings

While it's hard to find time to look to the future, the good news is that with careful planning a financially secure retirement is possible, especially if you are ten or more years away from retirement. Let's examine the three basic components of retirement income and see how a successful retirement plan can be developed.

Social Security provides a financial foundation for nearly everyone's retirement. Early in your retirement planning you should obtain a copy of your "Personal Earnings and Benefit Statement," Form SSA 7004, from your local Social Security office or the Social Security Administration (1-800-772-1213). Complete and mail in this form in order to review the history of your benefits. While Social Security should be viewed as a building block in your retirement plan, you must remember that the higher your pre-retirement income, the smaller the amount of income it replaces.

Next, you'll want to investigate any potential benefits from a company pension plan. The amount of your pension benefit generally depends on your salary and your length of service with your company. A visit with your company pension or benefits administrator will help you determine what to expect from this source.

Once you have an understanding of what Social Security and pension plans can contribute, you can compare this total to your current annual income. A rule of thumb suggests a retirement income equal to approximately 65%–80% of your current income is needed in order to maintain your current standard of living. And remember, this amount will probably need to increase every year in order to keep pace with inflation.

If there is a shortfall in your retirement income, where will the missing income be found? Personal savings is the third element in successful retirement planning. And it is the most crucial of the three, because it is the variable that often determines how comfortable your retirement will be. Without additional income from your assets, you may eventually have to sell off non-income-producing assets or become financially dependent on your children or others. Personal savings, accumulated through a savings program begun early in your working career, perhaps nurtured by tax-advantaged strategies until your chosen retirement age, can be the key to an independent and financially secure retirement.

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