

Q&A: Retirement Planning

What are the biggest retirement planning mistakes people make?

- The biggest is not doing anything. Assuming that things “will just work out” or expecting to win the lottery will probably lead to a retirement in poverty.
- Not starting early enough. Time is your greatest ally in building up retirement savings.
- Being afraid of risk. To receive higher returns, you must be willing to assume some risk. The key is developing a plan that includes a mix of investments.
- Not taking full advantage of employer retirement benefits such as 401(k) plans that allow you to stretch your dollars even further.
- Ignoring tax issues when planning for retirement. You may earn less with a tax-advantaged investment, but the savings on taxes may actually put you farther ahead.

Retirement is decades away, so why should I think about it now?

- When it comes to investing, time is every bit as powerful as a great rate of return.
- If you start now, you’ll be able to save smaller amounts and still end up with much more when you’re ready to retire.
- If you’re age 25 and invest \$5,000 a year for 10 years at an average annual rate of 11 percent, your \$50,000 total investment will grow to \$787,000 by retirement. But if you wait until age 55 and do the same thing, the \$50,000 will grow to just \$83,000.
- Having a longer time to invest also means that you can use more aggressive investments, because you’ll have time to weather any downturns in the market.

How much retirement income will I need?

- That depends on you and the kind of lifestyle you want to enjoy when you retire.
- You probably won’t have work-related costs such as commuting or keeping up your wardrobe.
- If you plan to travel or participate in hobbies, plan for those costs.
- Most experts recommend that you try to receive 70 percent of your pre-retirement income during retirement.
- Keep life expectancy in mind, because the longer you live, the longer you’ll need to stretch your retirement savings.

Can I count on Social Security to cover my retirement needs?

- No. Social Security was created as a supplement for workers’ own retirement savings, not as a sole source.
- While Social Security benefits may be increased over time, they may not keep pace with actual costs.
- If you retire early, the amount of benefits you’ll receive will be considerably less.
- You can request a free statement of your expected Social Security benefits at www.socialsecurity.gov.

Isn’t investing my retirement savings in things like stocks and mutual funds too risky?

- Generally speaking, no. Most people should diversify their retirement savings into a variety of investments.
- Stocks and stock mutual funds historically provide the greatest return, so they allow your money to grow faster and larger.
- While it’s true that they are riskier, that risk is offset by time.
- Your mix of retirement investments should change as you get older. As retirement age nears, you’ll probably begin to shift part of your savings into safer investments.

How much should I contribute to my employer's 401(k) plan?

- Simple answer: as much as you can. Contribute the maximum if possible.
- Most employers match at least a portion of your contributions, which provides essentially “free” income for you. Usually, the more you contribute, the more your employer will match.
- While it takes several years to “vest” your employer’s contributions, 100 percent of what you contribute belongs to you, so you’re paying yourself.
- Investments in a 401(k) plan are tax-advantaged, so your money grows tax-free until you retire.
- If you change jobs, roll the balance of your 401(k) into an IRA or another 401(k) to preserve your tax advantages and keep your savings growing.

I'm planning to keep working past 70, so why should I save for retirement?

- While you’re planning to stay healthy, many people face unexpected illnesses or a disability that prevents them from working (or working as much as they’d like).
- If your employer downsizes or goes out of business, it may be difficult to find a job that provides a comparable income.
- Even if you do continue to work, having that nest egg will mean you can worry less about day-to-day expenses.