Are Your Retirement Plans & Your Finances Adding Up?

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It can be very challenging to figure out exactly how much one will need to have saved in order to live a comfortable life during retirement years. In certain areas your expenses will likely decrease in retirement (no longer needing work clothes, dry cleaning or paying for commuting costs). In other areas such as inflation, healthcare, travel & hobbies, you’ll likely be spending more.

While no one can plan with complete 100% accuracy how much one will need during retirement, many planning on retiring soon underestimate how much their retirement lifestyle will cost. It’s easy to understand how costs can spiral out of control once one stops working. Retirement is basically a decades long weekend. When you’re in the early years of retirement, it’s easy to forget that you have a limited amount of funds that must last you the rest of your life.

Here are a few things to consider:

1. A retirement budget. This is very much the same as a typical household budget, which you hopefully already have in place. The difference is the retirement budget is intended to determine how much you’ll be spending once you retire. Many of your current expenses will be the same or similar as they are now (utilities, insurance, mortgage-if you still have one, etc.) but you will more than likely have new expenses once you stop working such as rising inflation, traveling more, new hobbies, going out to dinner more. Be honest on the front end about how much you plan to spend. Without the restraints of a workweek holding you back, you may be much more likely to visit family more often throughout the year and go exploring places you’ve always wanted to go.
2. Savings. Figure out roughly how much you’ll have saved by the time you’re ready to retire based on your current savings level. Look into the average rate of return you’re earning on your investments and how much you contribute each year. I would recommend a average rate of return of 5.5%.
3. Social Security. According to the Social Security Administration, the average Social Security beneficiary receives only around $1,300 per month. If you are like most average Social Security beneficiaries, will that be enough to meet your needs during retirement? There’s a handful of Social Security “secrets” that can help boost your retirement income. For example, one strategy could pay you as much as $16, 728 more each year. You just need to know the strategies.
4. Investments. Stocks, Bonds, Mutual Funds, Annuities, Life Insurance, etc. Investments aren’t a one size fits all type thing. Investments should be suited to each individuals tolerance for risk combined with how much you’ve saved. Many have enough saved to be able to take more risk. Others would prefer to have little to no risk at all and lastly most would like to have some risk money and some safe money. As people age they generally prefer to have less at risk.
5. Distribution. According to USA Today a suggested amount to withdraw each year should range between 3% to 5%. This would depend upon your life expectancy, inflation, and how much your savings will earn.
6. Taxes. The single most important threat to your retirement every year for the rest of your life will be taxation. Losing 25% in the stock market every 10 years is one thing, but losing 25% every year will devastate your financial life. This is where Roth IRA’s and cash value life insurance will become vital to a successful retirement.
7. Catastrophic Illness Planning. The cost of care in the late term of our lives. According to payingforseniorcare.com it is common TODAY for this to cost approximately $110,000 a year for one person. As you can probably imagine, this cost will only increase in time and with more and more people living longer today. This is where proper planning is vital.

It’s not about how much money you have but how long it will last. This is where an independent financial fiduciary that specializes in retirement planning is vital to planning for retirement.

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