A Brave New World: 21st Century Retirement

For better or worse, gone may be the "golden" days of retirement where anyone over age 65 could look forward to a time of life spent enjoying leisure pursuits. As people live longer and healthier lives, retirement is taking on a new look--one filled with new activities, longer working lives and perhaps even new careers.

To prepare for this new and expanded version of retirement, you should consider developing a financial plan suited to your specific needs and goals. Following are some key factors you will want to consider.

Plan for the New Retirement

Retirement Income -- A good starting point might be to examine your sources of retirement income. If you pay attention to the financial press, you've probably come across at least a few commentators who speak in gloom-and-doom terms about the future for American retirees.

True, there is widespread concern about at least one traditional source of income for retirees--Social Security. Under current conditions, Social Security funds could fall short of needs by 2034, according to the Social Security Administration.[1] But the reality is that Social Security was always intended to be a supplement to other sources of retirement income. In fact, today Social Security benefits account for only 34% of the aggregate income of retirees.[1]

Even pension plans, once considered a staple of retirement income, account for only 18% (government employee and private pensions combined) of the retirement-income pie.[1] In recent years, employers have been moving from traditional defined benefit plans based on salary and years of service to defined contribution plans, such as 401(k) plans, funded primarily by employees.

This shift makes it even more important for individuals to understand their goals and have a well-thought-out plan that focuses on the key source of retirement income: personal savings and investments. Given the potential duration and changing nature of retirement, you may want to seek the assistance of a professional financial planner who can help you assess your needs and develop appropriate investment strategies.

Time --The number of years until you retire will influence the types of investments you include in your portfolio. If retirement is a short-term goal, investments that provide liquidity and help preserve your principal may be most suitable. On the other hand, if retirement is many years away, you may be able to include more aggressive investments in your portfolio. You will also need to keep in mind the number of years you may spend in retirement.

Inflation -- Consider this: An automobile with a price tag of $25,000 today will cost almost $34,000 in 10 years, given an inflation rate of just 3%. While lower-risk fixed-income and money market accounts may play an important role in your investment portfolio, if used alone they may leave you susceptible to the erosive effects of inflation. To help your portfolio keep pace with inflation, you may need to maintain some growth-oriented investments. Historically, stocks have provided returns superior to bonds and cash equivalent investments.2 But also keep in mind that stocks generally involve greater short-term volatility.

Taxes -- Even after you retire, taxes will remain an important factor in your overall financial plan. If you return to work or open a business, for example, your tax bracket could change and the income you earn might affect the amount of tax you pay on your Social Security benefits. In addition, should you move from one state to another, state or local taxes could affect your bottom line. Tax deferral offered by 401(k) plans and IRAs may be effective tools for addressing your retirement goals.

Prepare Today for the Retirement of Tomorrow

To ensure that retirement lives up to your expectations, begin establishing your plan as early as possible and consider consulting a professional. With proper planning, you can make retirement whatever you want it to be.

[1]Social Security Administration, "Fast Facts and Figures About Social Security, 2015" September 2015.

[2]Investing in stocks involves risks, including loss of principal. Past performance is no guarantee of future results. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.