SPECIAL REPORT

# What Do I Need To Do To Plan For My Secure Retirement?

ROSENBERG FINANCIAL GROUP, INC.

If you're planning to retire, you probably have lots of questions. And although we'd love to answer those questions, we don't know the specific information you want. So instead of making this a long report, we are instead providing links to reports that will give you more detail on the topics you are interested in.

But first, let's take a brief look of the economics of retirement. Ultimately, your secure retirement will be a function of the decisions you have made in the past and will make in the future. If you've made good decisions in the past, and continue to do so, you should have a comfortable retirement. If not, then you are going to have to make some adjustments.

The first place to look is where retirement income comes from.

According to a 2013 Social Security Administration report released in 2015, retirement income in 2013 broke down into the following percentages:

| | |
|---|---|
| 1) Social Security | 34% |
| 2) Income earned during retirement | 33% |
| 3) Pensions, IRAs, 401(k)s, etc. | 11% |
| 4) Government Employee Pensions | 9% |
| 5) Private Pensions | 9% |
| 6) Othe | 4% |

This is interesting in that the income from work and Social Security are equal. This is undoubtedly skewed by people continuing to work while receiving Social Security. As people get older, however, the reliance upon Social Security tends to increase. But that means that once a person retires, that the 34% earned while working disappears. And therein lies **Problem #1**. For more on Social Security, just click on the link on the next page.

**Problem #2** is that prices continue to go up. Or as we like to put it, "inflation doesn't stop just because you retired." So that brings up a question: How much will my income need to increase to keep up with the cost of living?

The Consumer Price Index measures changes in prices year over year. It is the average price change on a basket of goods and services, such as food, gas, rent, drugs, etc. Over the past 30 years, the annual CPI has ranged anywhere from less than 0 in 2009 to 13.5% in 1980. That means you need additional income to cover those higher expenses. Many financial planners recommend that retirees prepare for 4% to 6% inflation, assuming a 20 to 30-year retirement.

Let's look at what inflation can do to you. If inflation averages 5%, how much will you need in the future?

Let's assume you retire at age *60* and need **$3,000** per month to cover your expenses. Here's the effect 5% average annual inflation could have on your living expenses:

By age *65*, you will need **$3,828** per month to buy those same goods and services.

When you are *70*, this amount will rise to **$4,887** per month.

And, by age *75*, you will need **$6,237** per month to maintain the same purchasing power that $3,000 had 15 years earlier.

**Problem #3** is life expectancy. One of the myths about retirement is you only have to worry about planning for a short period of time. However, with the advances in medicine, that's not necessarily true. You need to plan for a long life, especially if you want to have any money by the time you're in your '80s and '90s.

The following table is from the National Vital Statistics Report (2012):

| ***Current Age*** | ***Life Expectancy*** | ***Current Age*** | ***Life Expectancy*** |
|---|---|---|---|
| 55 | 82.2 | 70 | 85.5 |
| 60 | 83.1 | 75 | 87.2 |
| 65 | 84.2 | 80 | 89.2 |

There are several things to take into consideration when looking at this table: (1) life expectancy has been increasing over the years; (2) women live longer than men; and (3), if you're married, it changes the story.

So if you're married, it doesn't matter how long you live on average – it only matters how long one of you outlives the other. This is very important. Your money has to last until the second of you dies. Anybody who knows anything about life expectancy knows that unless you die together, one of you will outlive the other. And, of course, we don't know how long that person will live. In other words, the life expectancy of a 60-year old couple (as a couple) is longer than the life expectancy of two 60-year old individuals. So you need to plan to live longer than the above table indicates.

One final point – and this is HUGE! Because women tend to live longer than men, THEY are the ones who generally suffer most from running out of money. That's why it is vital that women get actively involved in the retirement planning process!!!!!!

So this obviously means that you really need to spend time thinking about when you want to retire. And a good reason is not "I'm tired of working," or "I hate my job," or "I've worked all my life and I deserve to retire," or "I might not live very long and I want to travel." The best reason is "I've looked over my finances and I have sufficient income to support me during a long retirement."

The American Society of Pension Actuaries recommends that you have income of 73% to 85% of your last year's work earnings as a rule of thumb. That means that most people have to adjust to a 15% to 27% drop in their income.

We recommend that as you near retirement, you make a monthly "needs" budget and combine that with a "wants" budget – items like travel, golf, entertainment, gifts, etc. – so that you have a carefully considered income goal, rather than just an estimate based on your final year's salary.

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