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21st century retirement

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When envisioning retirement, you may picture living in tropical climates, traveling and sightseeing at leisure, or doing whatever suits you on any given day. Regardless of your age or circumstance, it might surprise you to learn that a "lifestyle plan" is an important part of retirement planning.

Knowing how you want to spend your retirement years, where you might like to live, and which activities you plan to pursue is necessary in determining the total amount of cash you'll need. A general rule of thumb suggests that you may need 60% to 80% of your current income per year in order to maintain your current standard of living in retirement. If you find this figure surprising, you are not alone.

Social Security

Although many people think that their Social Security benefit will provide a large portion of their retirement income, for the most part, it is a ***supplement*** to their retirement savings, rather than a main source of income. You can get an estimate of your future Social Security benefits by going to the Social Security website at www.ssa.gov and using the online estimate calculator. By obtaining your estimate of benefits online, you can plan for the amount of income you will need to supplement your desired lifestyle.

Since Social Security provides only a portion of needed income, many people rely on savings to make up the difference. And yet, according to The 2017 Retirement Confidence Survey (RCS), 47% of respondents who are currently working report having total savings and investments of less than $25,000.*

With the decline in traditional **pensions** and the uncertain future of Social Security, individuals are increasingly responsible for their own retirement funds, but according to these statistics, many have yet to take that important first step.

Taking the First Step

Starting a retirement savings plan can be a lot easier than you may think. In fact, the first step is to accept "free" money. This means taking full advantage of all of your employer's benefits. This may include a traditional pension, also known as a **defined benefit plan** that your employer contributes to on your behalf, which is then payable to you upon retirement.

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Workers Who Feel Stressed About Retirement Are Failing to Take Action

Many American workers who report feeling stressed about retirement admit they are not taking the steps necessary to prepare for their financial future, the results of an annual survey conducted by the Employee Benefit Research Institute (EBRI) and Greenwald & Associates indicated.

The 2017 Retirement Confidence Survey (RCS) was conducted January 6-13 with 1,671 U.S. residents (1,082 workers and 589 retirees) aged 25 and older. The results showed that 31% of workers feel mentally or emotionally stressed about preparing for retirement, and that 30% worry about their personal finances while at work. Of these respondents, half said they think they would be more productive at work if they did not spend time worrying.

When asked whether they believe that having access to programs at work that help them plan for their financial future would be helpful in increasing their productivity, around half of all of the workers surveyed said they believe they would benefit from participating in retirement planning (52%), financial planning (49%), or health care planning (47%) programs.

The results also showed, however, that many workers are not yet taking critical retirement planning steps. While 61% of the workers surveyed said they have saved for retirement, just 41% indicated that they have tried to figure out how much money they will need in retirement, 38% said they have estimated how much income they would need each month in retirement, another 38% reported that they have estimated the amount of their Social Security benefit, and 34% indicated that they have estimated their expenses in retirement. In addition, just 23% of the workers surveyed said they have spoken with a professional advisor about retirement planning, and only 11% reported that they have prepared a formal plan for retirement.

In line with earlier waves of the survey, the 2017 wave indicated that far more retirees than workers feel confident that they will be able to afford a comfortable retirement. Almost 80% of the retirees surveyed said they feel confident about having enough money to live comfortably throughout their retirement years, including 32% who said they feel very confident.

The results also showed that workers who believe their debt is a major problem have notably lower levels of retirement confidence: 32% of these workers said they are confident about retirement, compared with 78% of workers who indicated that debt is not a problem for them. Moreover, the workers who said they have a retirement plan appear to have markedly higher confidence than those who did not: 33% of those who lack a retirement plan said they are confident about retirement, compared with 71% of those who have a plan.

Of the workers who reported that they are not currently saving for retirement, 73% said they would be at least somewhat likely to save for retirement if their contributions were matched by their employer, and approximately two-thirds said they would be likely to save for retirement if automatic paycheck deductions of either 3% or 6% of salary were used by their employer.

The findings further indicated that workers are far less confident than retirees about being able to afford health care in retirement: 54% of workers said they are confident about being able to afford medical expenses in retirement, compared to 77% of retirees. Moreover, 38% of workers but 52% of retirees said they are confident that Medicare will continue to provide the same level of benefits that retirees receive today.

What Determines Your IRA's Required Minimum Distribution Amount?

If you have savings in a **traditional Individual Retirement Account (IRA)**, you must begin making withdrawals at age 70½. To calculate the amount of a **required minimum distribution (RMD)**, you divide the IRA balance (as of December 31 of the previous year) by the applicable distribution period, or the estimated length of time during which you will take withdrawals from the IRA.

The Internal Revenue Service (IRS) uses life expectancy tables to approximate the distribution period. Generally, RMDs are calculated according to one table based on the joint life expectancy of the taxpayer and a hypothetical beneficiary who is 10 years younger, even if no beneficiary is named. If the designated beneficiary is a spouse who is more than 10 years younger than the owner, a separate, usually more favorable table (joint life and last survivor expectancy) is used.

If you have more than one IRA, the RMD must be calculated separately for each IRA because different multiples (i.e., life expectancies) may apply to each IRA. The sum of the separate RMDs is the total IRA amount that you must withdraw for the year. However, this amount can be taken out of any one or more IRA accounts.

Under IRS rules, you may postpone your first RMD until April 1 of the year after reaching age 70½. If the RMD is postponed, the second distribution would still be due by December 31 of that year. For each subsequent year, the RMD must be recalculated. It is important to note that you may withdraw more than the minimum, but failure to take the required amount results in a 50% tax penalty on the shortfall.

Be sure to consult qualified financial and tax professionals for specific guidance on your unique circumstances. ■

retirement savings: do yours measure up?

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Today, a more common benefit option is a **defined contribution plan**, such as a **401(k)**. Your employer may offer a company match in contributions up to a certain percentage. That's free money increasing your principal that did not come out of your paycheck, but you must make the contributions. Employer-sponsored 401(k) plan contributions may be deducted from your paycheck before taxes, and have the potential to grow tax deferred.

Because money is deducted from your gross pay, you may find that your contributions have a relatively small impact on net income, and can be of great benefit to your overall nest egg. For example, saving $5,000 today, over a period of 15 years, at a hypothetical 5% rate of return, could amount to over $10,569 in additional savings income.

Individual Retirement Accounts

Since retirement may require 75–90% of your current income, many people are contributing to **Individual Retirement Accounts (IRAs)** in addition to employer-sponsored retirement saving plans. **Traditional** and **Roth IRAs** allow for annual contributions of $5,500 in 2017 for those under age 50. For those age 50 and older, annual "catch up" contributions of an additional $1,000 are allowed in 2017. Funds in both accounts will be subject to a 10% Federal income tax penalty if distributions are taken before age 59½, however, certain exceptions apply.

Depending on your income and participation in an employer-sponsored plan, contributions to a traditional IRA may be tax deductible and earnings grow tax deferred until you retire. Contributions to a Roth IRA are made after taxes, but are tax exempt when you withdraw in retirement, provided you are age 59½ or older and have owned the account for at least five years. Taking the opportunity to save as much as you can afford each year could have a favorable and significant impact on your ability to reach your retirement goals.

You can achieve your retirement goals and live the lifestyle you desire, if you develop a game plan. Take time now to evaluate your resources, set retirement goals, and take the necessary steps to reach them. ■

* Source: Employee Benefit Research Institute (EBRI), *The 2017 Retirement Confidence Survey (RCS)*.

Retirement: A New Chapter

For an increasing number of people, retirement signals not the end of a career, but rather the beginning of a new phase—entrepreneurship. Many baby boomers see retirement as an opportunity to start a new chapter in life, and they plan to use their hard-earned skills and knowledge to create their own independent businesses.

There are many advantages that those aged 50 and older possess when starting their own business ventures. By retirement, mortgages have often been paid and children have graduated from college. With fewer financial obligations—and perhaps a cushion from a lifetime of saving—retirees may have the opportunity and the time to develop a strong business plan and concept. Retirees also have the benefit of utilizing the many business contacts and skills acquired over their working years to enhance product development, marketing, and sales.

Many retirees find the opportunity of their dreams during their golden years. For example, prior to retirement, Rob had a thriving career in editing and publishing. After retiring, Rob quickly learned that he was not content to stay at home. He missed using his skills and being out in the world with people who appreciated great writing in the same way that he did. He decided that he could use his expertise and creativity in his own business endeavor. Drawing upon his years of experience, Rob opened his own bookshop, with plans to invite many of the authors he'd worked with over the years to host poetry readings and book signing events in the evenings.

If you want to use your years of wisdom to create your own company, here are some questions to consider:

1. **Are you personally motivated?** Building a business requires intense dedication. You will need to develop your own ideas, set your own schedule, and manage a variety of responsibilities.
2. **Are you a "people" person?** Running your own business will likely involve interaction with various professionals and personalities. If you can harness the interpersonal skills you gained from four decades in the working world, you will be better prepared to handle difficult clients or professionals.
3. **Do you have the ability to think quickly?** Owning your own company may mean that you will have to provide answers and make decisions quickly, and sometimes under pressure.
4. **Do you have passion and stamina?** It is often said that you must love what you do. Realize at the start of the enterprise that a good deal of time and effort will be required.
5. **Are you organized?** Organizational and planning skills can lead to continued business success. Finances, invoices, and schedules are just a few of the tasks at which you must be or become proficient.
6. **Is your energy level high?** A business requires a lot of work, and it can be physically and emotionally stressful. Those who are energetic often do well because they are propelled by their desire to succeed and have the energy to follow through.
7. **Will your family be supportive?** A new business can consume a lot of your time, mental energy, and sometimes, capital. Make sure to tell your family what they can realistically expect from your business venture, and gain their support and trust.

There are many advantages to entrepreneurship. The chance to be your own boss and experience the payoff of your own hard work makes entrepreneurship an exciting and educational adventure. Interestingly, lack of experience often accounts for many small business failures. Therefore, decades of experience may put you ahead of the game before it even begins, and many of today's retirees are embracing the challenge.

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