RETIREMENT PLANNING: SCARED OR PREPARED? Part 1

By Dale Guest

If you are planning on winning the lottery, don't bother reading this. For the rest of you, however, it is never too early to begin planning for a comfortable retirement. Given the new economic realities of retirement planning, building up a nest egg is a top priority. No longer can you rely on the government or employer-provided pensions to carry you through your retirement years. The long-term viability of the Social Security system is uncertain, given the crush of aging baby boomers who will begin retiring after 2010.

The private sector is shifting away from defined benefit plans – which promise a certain payout for long-time workers after they retire – to other types of arrangements like 401(k) defined contribution plans, which place greater responsibility for retirement investing on employees. Additionally, Americans are living longer than ever before, so to avoid outliving your savings, you'll need to set aside more now to finance a retirement that could last over twenty years.

Unfortunately, when it comes to retirement planning, many people are more scared than prepared. Three out of four working Americans are worried about not having enough savings for retirement, yet over half have not begun to save for retirement, according to a recent New York Times/CBS poll. Retirement planning may seem like a struggle, but you can reach your goals if you develop a disciplined retirement savings strategy.

The first step is to set your goals: When would you like to retire? What kind of lifestyle will you want to maintain during retirement? Next, you may want to contact a financial professional to help you estimate what your expenses in retirement will be, how much you will receive from Social Security and your employer's pension, and how much you'll need to make up any shortfall between retirement expenses and income. Full Social Security benefits now accrue at age 67 for someone born in 1960.

Don't rely too heavily on the rough rule of thumb that you'll need about 70 percent of your pre-retirement income after you stop working. Your expenses for health care and leisure activities, for instance, may increase as you get older.

Whether you have 25 years or five years until retirement, take full advantage of the time you have until you retire. Obviously, the earlier you begin, the more you will end up contributing over time. Additionally, starting early lets you generate a greater payoff down the road due to the process of compounding – the process by which the investment earnings you accumulate begin to generate earnings of their own. The benefit of compounding increases with time.

Next week we will discuss additional steps you can follow in developing your retirement savings strategy.

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