

Money Matters



Setting the right retirement savings expectations

Having the right expectations will help you plan for a better retirement.

Retiring with enough assets to live comfortably doesn't just happen - you need to plan for it. To create a successful plan, the first thing you need to do is determine how much income you are going to need each year in retirement.

Picture Your Retirement Dreams

To find the right path, you need to know where you're going. What do you want your retirement years to look like? Do you want to travel? Pursue that hobby you've never had time for? Spend time with the family? Move to the beach? Or to the mountains? We're all different, and our personal retirement goals are just as different.

Determine Your Target Annual Retirement Income

Most retirement planning experts believe that the average retiree will need 75-80% of their pre-retirement annual income during their retirement years. But are you average? Your expenses will change over time. Consider these factors.

You'll need less than 100% of your annual pre-retirement income if:

- * your mortgage is paid off
- * you are not supporting dependents
- * you have no work-related expenses
- * you are no longer saving for retirement

You'll need more than 100% of your annual pre-retirement income if:

- * you plan to buy a second home
- * you plan to spend more time traveling
- * you require additional medical care



Social Security Won't Be Enough

As long as the Social Security system remains stable and funded, you can expect Social Security to provide about 38% of the income you'll need in retirement.* In order to make up the difference, you'll need to set aside money during your working years to grow your personal savings. (*Source: Social Security Administration, Social Security Bulletin: Annual Statistic Supplement, 2001)

Inflation Is Not Your Friend

No doubt you've heard about penny candy and nickel sodas. Don't you wish a soda cost a nickel now? That's inflation working against you. Since 1984, inflation has averaged between 3 - 3.5% per year. If this trend continues, something that costs \$100 today will cost \$180 in 20 years. These rising prices mean that you will need more money in retirement if you want to maintain your current lifestyle.

Living Longer Means a Longer Retirement

Healthy lifestyles and modern health advances allow people to live longer. As we live longer, we need our retirement savings to last longer. Make sure you don't outlive your savings. Be sure to set aside enough money during your working years to last throughout your retirement. If you don't save enough, you may not be able to live your retirement dreams.

Setting the Right Expectations about Returns

Perhaps the most important investing principle to remember is to set realistic and logical expectations for your investment returns. Although some investment options available in your retirement savings plan will produce unusually large rates of return in certain years, rarely-if ever-are these returns sustained for prolonged periods. If you expect higher returns than are realistic, you will end up under-saving for your retirement.

Part of setting the right expectations is to discover and recognize the type of investor you are-can you handle risk? Do you prefer to keep it simple? Do you have a long time to invest or only a few years? Knowing this will make saving for retirement rewarding and less stressful.