Out Living Your Savings

For Baby Boomers, outliving your savings is becoming an increasing concern - and if it isn't, it should be.

One of the main reason for concern is the rising life expectancy. In 1906, the average life expectancy was 54 for men and 61 for women.

Today the life expectancy has risen to 78 for men and 84 for women - a 31% increase in life-span for men and a 27% increase for women.

In today's world if you haven't started planning for your retirement by age 25 you may already be too late.

Among the 78 million Boomer's approaching retirement only about 25% are in a position to be able to retire comfortably.

There are a lot of reasons that Boomer's, as a whole, are so ill prepared for retiring but one of the main reasons is the way they have approached the retirement process.

Most have failed to ask and answer the important questions that can go a long way in helping your retirement planning.

The questions require almost brutal thinking and planning for your future - which most people don't like to do since they are forced to face a certain reality.

But lets face it, failing to do any sort of planning is an even more brutal reality since you are left floating in a rudderless boat - no direction and very little chance of reaching the port you started out for.

So if you are ready to get started thinking about your retirement here are the questions you need to ask and answer as a first step (don't worry, there are only 3) in basic financial planning:

How much money do I need to retire comfortably?

2. Where is that money going to come from?

3. How can I make my money last for as long as I need it?

We'll cover these in some detail to give you an idea of how to get started in your retirement planning process.

1. How Much Money Do I Need To Retire Comfortably?

This question is completely subjective because no two situations are exactly the same. The best you can do is take the examples given here and apply them to your own lifestyle.

First, this discussion assumes that you have less than 20 years of working before you reach 67 (the soon to be minimum Social Security retirement age) and have pretty much ignored your retirement savings and planning.

Most financial planning models will say that you need a minimum of $250,000 in total savings - a combination of savings and your pension fund - in order to retire and maintain your current standard of living.

However, the reality is that most people don't have anywhere near that much money saved. In fact, the average amount that most Boomers have saved for retirement is less than $10,000!

In today's economic climate this amount will be no where near sufficient for you to retire on. The question now is if and when you will be able to retire depending only on Social Security.

If you live month to month and aren't saving anything you may have to adjust not only your retirement date, but what your retirement will be like.

The first place you should start is determining what your current cost-of-living is and what you expect it to be once you retire.

A good rule of thumb in determining your post-retirement cost-of-living is that you will need a total monthly income from all your sources that equals @ 60% of your pre-retirement income.

This figure makes a huge assumption that you are entering retirement debt free - no short term or credit card debt and a home that is paid off or will be in the first five years of retirement.

If you enter retirement carrying a lot of debt your, post-retirement income may need to be as much as 75-90% of pre-retirement income just to pay your living expenses plus your debt service.

If you are deeply in debt when you retire the chances of you ever getting yourself debt free are not that great.

The important lesson here is that even before you start saving significantly for retirement you need to get out and then stay out of debt before you retire - pay off your credit cards and short term loans and then make every effort to pay off your mortgage.

There is one more important reason to be debt free before you retire - the older you get the more you will spend for your health care.

Right now health care costs are increasing by about 15% per year (that figure shows no sign of slowing down) and the amount you have saved is going to need to cover those rising costs.

Where Is My Money Going To Come From?

There are many different ways that you can save for retirement. There's always the old-fashioned way of hiding money in your mattress, but there are probably some better ways to save for retirement that will also save you on your income taxes as well. The following discussion lists the most common types of retirement savings plans available. It is strongly suggested that you seek competent financial advise if you decide to set up one of these plans.

1. Defined Benefit Plan - These are sometimes referred to as traditional pension plans since they are provided by your employer and require no employee contributions. An employee's pension benefit is usually based on the number of years you worked for your company - i.e. $XX/month for every year worked for the company. An example would be $65/month x 35 years of employment = $2275/month pension. These pension plans will generally pay for as long as the employee survives after retirement but you can set them up to pay a lower amount to the employee for life but will then continue to

pay an amount to your spouse for as long as he/she lives. This is known as a Life and Certain plan.

2. Defined Contribution Plan or 401(k) - This is the retirement plan started in 1973 and known as an ERISA plan. With this plan your employer sets up a pension plan in your name and then contributes an amount equal to a percentage of your wages every year. For example, your employer may contribute up to 5% of your annual salary. This is money you receive tax deferred from your employer. If you are smart, you will then contribute an amount equal to your employer's contribution every year as well. That equals a 10% annual contribution to your pension plan (5% from your employer + 5% from you) and in addition, you can deduct your 5% contribution from your taxes - up to a total of $3,000. You will be taxed on your pension funds when you start to withdraw them.

3. Traditional Individual Retirement Account (IRA) - This is the most typical way to save for retirement, outside of work and probably the easiest. With an IRA you set up your plan through your bank, a financial planner, broker or your accountant. Yearly contributions are limited to $3,000 and the contributions are deductible from your current taxes. You can begin receiving benefits from your IRA at age 59 1/2 if you have retired. The taxes you pay on the amount withdrawn are at a lower rate (in most cases). You are required to begin withdrawing from you IRA no later than age 70 1/2.

4. Roth IRA - The Roth IRA is the same as a regular IRA but with a twist many people like. With a Roth IRA you make contributions again are limited to $3,000/year but instead of deducting your contributions from your current taxes, you pay taxes on your yearly contributions. There is difference in withdrawal requirements as well. Since you have already paid the taxes on your pension plan there are no withdrawal requirements or early withdrawal penalties. Plus the huge benefit of no taxes on any amount of gain your IRA may have accumulated through the years.

5. Keough Plan - If you have a small business that you run part time out of your home it is recommended that you investigate setting up this type of pension plan that is designed specifically for small businesses. Even if you participate in your employers pension plan and have an IRA, a Keough can give you huge benefits not only for saving for your retirement but it may also give you some very nice tax advantages. Before you begin setting up a Keough make sure to get competent legal and financial help.

6. Increased Savings - The one thing most Boomer's have failed to do is develop the discipline needed for regular savings. The year 2005 saw savings in the U.S. drop to a -1.7% - the lowest savings rate ever recorded. In other words, we are spending way more than we make and seem content be squandering any hope for a secure retirement. Most people will say that they "can't afford to save" because they have no money left after all their bills are paid. If this description fits you need to readjust your thinking and make sure you pay yourself first every month. You can start by having your paycheck directly deposited to your SAVINGS account instead of your checking account. Transfer at least 10% of your earnings into a money market account you set up and then earmark that money as untouchable and not part of your family budget. The remaining money in your savings account can be transferred to your checking account as you need it to pay your regular bills. It will amaze you how fast your savings starts to build and how little you will have to adjust your standard of living. For all the work you do to earn your money it seems only fitting that you treat yourself as any other bill you pay - only with this bill you get to keep your money.

How To Make Your Money Last Your Lifetime

The biggest decision you will make after you do retire is how you will live the rest of your life. With us Baby Boomer's the way most of us will live in retirement is still being formulated. For some Boomer's retirement means sailing off into the sunset. Others see retirement as being endless travel or games of golf and tennis. Still others will start a business doing something they have always dreamt of doing or volunteering their time with local agencies and charities. Whatever you decide to do after retirement there is one certainty that will affect everyone - that is the very best way to make the money you have saved last as long as possible. After you retire you will realize a reduction in your cost-of-living simply from the elimination of certain things that were connected to your job. You will no longer have the cost of a daily commute or a wardrobe nearly as extensive and costly. Gone will be the cost of expensive lunches and your daily fix of a Starbucks double latte Grande. The only way you can make sure your money lasts as long as you need it is to invest it in a money making instrument of some sort. Stocks, bonds, annuities, or mutual funds are all things you can invest in which will earn money on top of your money. CD's through your bank are another thing you can invest in but you must make sure that the interest you will earn will exceed the rate of inflation for the time your money is unavailable to you. If you participate in a 401(k) you will need to roll the amount in your fund into an IRA after you retire. This is likely to be the largest single amount of money you will be responsible for. You absolutely must become pro-active in making sure the money you have earned continues to grow throughout your lifetime. You need competent and unbiased advise when it comes to handling the money you'll need to live on for the rest of your life. You can get the best advice from someone who is NOT trying to sell you their product or something that will earn them the highest commission. If you need help in finding

financial advice and you don't know of any, call your local Better Business Bureau and ask for a list of FEE BASED Financial Advisors or Financial Planners in your area. Like attorneys or accountants, you pay these professionals a fee for their services. By wisely managing your money you will stay ahead of two things that can destroy your estate - inflation and income taxes.

About the Author

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