Retirement Savings: Do Yours Measure Up?

When envisioning retirement, you may picture living in tropical climes, 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 years after you retire from your job, *where* you might like to live, and *which* activities you plan to pursue, is necessary to determine the total amount of cash you'll need. In order to live comfortably in retirement, you may need about 75% of your current income per year (American Savings Education Council (ASEC), 2008). If this figure comes as an uncomfortable surprise, you are not alone.

Social Security

Many people still have the notion that Social Security will provide a large portion of their retirement income. However, Social Security was designed to be a *supplement* to retirement savings, rather than a main source of income. To estimate what your Social Security benefits may be, obtain a *Social Security Statement* (SSS) from the Social Security Administration (SSA) online at: www.ssa.gov. Or call 1-800-772-1213, and ask for Form SSA-7004, *Request for Social Security Statement*. By obtaining a copy of your statement you can check for errors that might affect your payout later, learn the amount of your expected payout, and be able to 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 2009 Retirement Confidence Survey (RCS), only 66% of workers ages 25–34, and 78% of those who are ages 35–44, have begun saving for retirement. When asked to estimate the total amount of savings accumulated thus far, the highest percentage of all age groups polled (40%), said their savings were less than $10,000. Only 18% of workers ages 25–34 felt confident about the likelihood of having enough financial resources to be comfortable during retirement, and that figure went down six points to 12% for those ages 35–44 (EBRI, 2009).*

With the decline in popularity of 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.

These days, a more common benefit option is a **defined contribution plan**, such as a **401(k)**. Like some employers, yours may match your contributions up to a certain percentage of your salary. That's free money increasing your principal that did not come out of your paycheck, but first you have to take some initiative. In order to fully benefit from the matching contribution, you must make contributions. 401(k) 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 plans. **Traditional** and **Roth IRAs** allow for annual contributions of $5,000 for 2009. In addition, for those age 50 and older, annual "catch up" contributions of $1,000 are allowed in 2009. Funds in both accounts will be subject to a 10% federal income tax penalty if distributions are taken before age 59½, however, certain exceptions may 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.

The outlook for retirement is rapidly changing as more and more people anticipate and prepare for active and adventurous lifestyles. Taking time now to set life goals, and implement the steps necessary to reach them, will greatly enhance your chances of "rockin' on" when that happy day finally arrives.

* Source: Employee Benefit Research Institute (EBRI), *The 2009 Retirement Confidence Survey (RCS).*

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