

RETIREMENT PLANNING

How much money will you need to retire?

If you are currently 40 years old, have an annual income of \$75,000, and want to retire at the age of 67, you will need approximately \$2 million in the bank. No problem, right? For nearly 60 percent of Americans who have saved less than \$25,000, it's a big problem. Huge! As the illustration to the right depicts, with current savings of \$25,000 and ongoing savings of 10 percent of income, this individual would fall short by about \$1.2 million.

Generally speaking, expect that you will need about 70 percent of your pre-retirement salary to live comfortably. This percentage will vary, depending on what you plan to do in retirement. Do you want to travel? Do you want to finally build your dream home? If so, you will likely need your entire pre-retirement salary or more. Also consider what your expenses will be and compare them to your expenses today. Will your house be paid off in the year 2040? Will you be paying for your own health insurance?

HOW MUCH WILL SOCIAL SECURITY CONTRIBUTE?

According to the Social Security Administration, nine out of 10 individuals over the age of 65 receive Social Security benefits. These are monthly cash payments made to retirees who paid Social Security taxes (e.g., FICA) and earned at least 40 credits (10 years of work). Actual benefits depend on lifetime earnings—more earnings, more benefits—as well as retirement age. In 2011, the average monthly payment to retired workers was \$1,229¹.

For someone whose pre-retirement annual income was \$75,000, his or her monthly take-home salary was likely

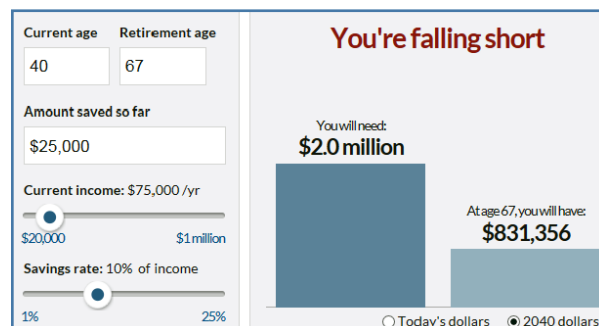
around \$5,000 – significantly more than the average Social Security payment, leaving an enormous gap to be filled with other sources of revenue. In 2010, most retirees reported Social Security made up only 37 percent of their expendable resources¹. The rest came from savings and investments, post-retirement earnings and pensions.

HOW MUCH WILL MY PENSION CONTRIBUTE?

If you are lucky enough to have a defined-benefit (DB) pension, this will certainly help your bottom line; but expect to have a monthly shortfall of about \$3,000. A DB pension—not to be confused with a 401k or other investment plan—is a contract for a fixed sum to be paid regularly to a retiree, or if the worker becomes disabled. Both the employer and the employee contribute to the pension fund. These pensions are common for public employees, such as police officers, teachers and firefighters.

According to the National Institute of Retirement Security (NIRS), state and local pensions in the United States collectively hold about \$2.5 trillion. In 2009, total benefit payments were \$187 billion, with the average benefit payment of \$1,950 per month, or \$23,407 per year. The average annual benefit for federal plans was slightly higher, at \$27,081².

Note: Many workers with this type of pension do not pay Social Security taxes while contributing to their pensions. If any part of the pension is from work where Social Security taxes were not paid, it could affect the amount of the Social Security benefit.



The CNN money calculator estimates how much you'll need to save for retirement. It assumes you'll live to age 92. Social Security is factored into these calculations, but other sources of income, such as pensions and annuities, are not. Find out how much you'll need at <http://money.cnn.com/calculator/retirement/retirement-need/>.

Whether Social Security benefits or DB pension payments (or both) are included in your retirement plan, it is important to recognize a large shortfall will likely exist between income and need.

This shortfall must be filled with either savings and investments or earnings. If you are not working now and saving for later, you may find yourself working after retirement to make ends meet.

It is never too late to start planning for your retirement, but you should start now. Beacon Financial Group is an industry-leading financial planning firm with more than 20 years of experience. Contact Beacon for a complimentary financial consultation to help you identify your post-retirement income gaps and plan for a more secure future.

References:

¹Social Security Administration. (2012). *Fast facts and figures about Social Security, 2012*. Retrieved November 20, 2013 from www.ssa.gov/policy/docs/chartbooks/fast_facts/2012/fast_facts12.pdf.

²Boivie, I. (2012). *Pensionomics 2012*. National Institute on Retirement Security. Retrieved November 20, 2013 from www.nirsonline.org/storage/nirs/documents/2012_pensionomics_report.pdf.