Retirement Readiness

Paying for your retirement vision

Special Report

How do you picture your retirement? Maybe you'll be traveling the world. Or golfing. Or just relaxing and enjoying the grandkids. What is your plan to turn that picture into reality? Will your current path allow you to pay for your vision of retirement?

"The future ain't what it used to be"

Baseball legend Yogi Berra may have summed up retirement best with this colorful, yet insightful, quote. For better or worse, retirement is indeed not what it used to be. Leaving the company at age 65, gold watch in hand, and retiring to a rocking chair on the porch is no longer a typical retirement scenario.

The new vision of retirement, for many, is to be active, involved and engaged in life. Paying for that vision, though, is another story. A number of factors could put your retirement income goals at risk. Without the right planning, outliving your savings may be a real possibility. So, are you ready for your retirement?

Longer life, longer retirement

People are living longer than ever nowadays. That's the good news. The bad news is that means you may need more money for retirement. The Society of Actuaries reports that a 65-year-old male has a 50% chance of living to age 85, while a 65-year-old female has a 50% chance of living to age 88. And the odds of at least one member of a 65-year-old couple living to 92 are 50%.[1]

You may wish to consider the possibility that you'll need retirement income into your 90s.

Expenses can be so expensive

According to general retirement guidelines, your savings may account for 70% to 80% of your pre-retirement income in retirement – depending on how active (or expensive) a lifestyle you plan. While some expenses may disappear when you stop working, others may quickly replace them or increase.

You can likely say goodbye to work-related expenses, such as clothes, lunches out, payroll taxes and retirement plan contributions. But you may have new expenses, like travel, health insurance and medications. And 69% of people use some form of long-term care services for an average of three years[2].

During retirement, you may be in a spending mode, as opposed to a saving or earning mode. You may want to take that into account when planning your retirement savings.

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“A nickel ain’t worth a dime any more”

Another amusing Yogi Berra quote helps sum up the impact inflation may have on your retirement savings goals. Even low inflation can damage your purchasing power in retirement. The Bureau of Labor Statistics reports that the average cost of a gallon of milk in 2013 was $3.46. If you project a 3% inflation rate over 25 years, that same gallon would cost you $7.24 in 2038.

If the rate of return on your investments isn’t outpacing inflation, your retirement income may be affected.

Social Security and pensions

What about Social Security and pension plans? In recent years, these traditional sources of retirement income have become a smaller part of the equation for many workers. For the average worker, Social Security replaces only about 33 percent of pre-retirement income.[3] Fewer workers are participating in defined benefit plans, such as pensions, with only about 38,000 plans today, compared to a high of 114,000 in 1985.[4]

For the next generation of retirees, these numbers may be even lower.

Investing wisely

Between living longer, expenses and inflation, even with Social Security, you may want to save more. Investing wisely may help. Even a small difference in the rate of investment return may make a huge difference in your total earnings when you retire.

Investing in a retirement plan

Whether you choose to invest aggressively or conservatively, one aspect of a long-term investment plan that may be helpful to understand is tax-deferred savings opportunities. Your employer-sponsored retirement plan is one such option that may be available to you. Opening an IRA is another.

A traditional IRA is similar to an employer-sponsored plan in that it lets you contribute before-tax money and accumulate interest on a tax-deferred basis. That means you won’t pay income tax until after you begin taking withdrawals at retirement – when you may be in a lower tax bracket. With a Roth IRA, you contribute after-tax dollars. Investment gains, if any, are also accumulated on a tax-deferred basis, but when you retire, distributions are tax-free. Distributions are tax-free, as long as you’ve satisfied the five-year holding period; and are age 59½ or older, disabled or deceased.

If you would like more information on retirement plans and the impact of tax-deferred growth opportunities, see Voya’s Special Reports on Tax Deferral, Investments 101, Cost of Waiting and Missed Opportunity.

A plan to get there

No matter what your vision for retirement, having a plan to get there may help. As you make your retirement plan, you may wish to understand the impact of a long-term approach to saving; investing aggressively enough to outpace inflation; and the uses of tax deferral opportunities, such as an IRA or your employer- sponsored retirement plan.

Yogi Berra also once said, “You got to be careful if you don’t know where you’re going, because you might not get there.” If you don’t have a clear picture of your retirement, then you may indeed never get there. If you want to learn more about retirement readiness, you can contact your Voya representative.

1 Source: Annuity 2000 Mortality Table; Society of Actuaries. Figures assume a person is in good health.

2 How Much Care Will You Need? LongTermCare.gov, U.S. Department of Health and Human Resources. Jan. 2014.

3 Social Security Administration; SSA Publication No. 05-10035. July 2012

4 Internal Revenue Service, United States Department of Treasury, “Choosing a Retirement Plan: Defined Benefit Plan.” http://www.irs.gov/retirement/article/ 0,,id=108950,00.html, January 2012.

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