Retirement Income

It Doesn't Grow on Trees

Most of us can't wait until the day we finally say goodbye to the working world and our time becomes our own. We often dream about how we would like to fill those hours, but unfortunately, we often don't think ahead to the concrete fact of how we will attain the funds to enjoy those times.

Start thinking about that now; it's never too early. A general consensus is that you will need about 60-80% of your pre-retirement income to support a comfortable retirement lifestyle.

Proceeds from pension plans and Social Security currently account for only about 35% of the typical retiree's income. Another 23% is derived from earned income, either full or part-time employment. In order to retire comfortably, the remaining amount needed would have to come from your personal retirement savings or investments. At present, this amount may be as much as 39% of your retirement income.

Investing to Fill the "Rift"

The amount needed to fill this income "rift" will depend on the amount of Social Security you will receive and what income you will have from other sources such as a company pension plan or your own Individual Retirement Account (IRA). That is why the steps you take today (investing, diversifying, increasing already existing investments, etc.) will be vital to help fill this gap and secure a comfortable retirement.

Steps to Take Now

Contribute the maximum amount to your IRA. If your spouse is not working, you might consider getting a spousal IRA. Depending on whether you already benefit from an employer sponsored retirement plan, your contribution to an IRA may not be tax- deductible but its earnings are tax-deferrable until you retire.

If you have an employer-sponsored 401(k) or 403(b) plan, you may wish to increase your contributions there also. The same applies if you are self-employed and enrolled in a Keogh or SEP- IRA.

Devise and utilize your own individual investment strategy.

Adjusting Your Strategy

Stage 1: You may opt for growth-oriented investments (stocks, stock mutual funds to name two). Be aware however, investment return and principal value of stocks and mutual funds may fluctuate due to market conditions. When shares are redeemed, they may be worth more or less than their original cost. If you are young and time is available to you, you may be more secure at this early stage, about weathering market fluctuations.

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Stage 2: As you get older, you may wish to moderate risk with fixed income investments, particularly if you plan to take distributions soon after retiring. A balanced asset mix may be the way to go at this point.

Stage 3: At the retirement stage, many people think they should stay strictly with fixed-income investments. However, growth investments should still be considered because you could spend another 20 years in retirement.

There are many factors to consider when planning ahead for a secure retirement and your financial advisor can help you set up the right strategy for you.

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