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21st century retirement

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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, deciding *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 at least 70% of your current income per year (American Savings Education Council (ASEC), 2005). 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

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The Reality of Early Retirement

An early retirement is usually on everyone's "wish list." A relaxing lifestyle in a warmer climate or the pursuit of a hobby or personal interest typically characterizes the vision of what retirement is all about. Unfortunately, retiring later, not sooner, than anticipated is becoming a fact of life. However, a select few are still managing to defy the norm and retire early. You may be asking yourself, "How do they do it?"

The key is to take a *proactive* role in your retirement planning. Naturally, the sooner you begin planning, the more you increase your chances for early retirement. Some retirees may require as much as 80% of their pre-retirement income to meet expenses and maintain their desired standards of living. With the decline in the popularity of traditional pensions, people today are more and more responsible for funding their retirement.

Redefining Retirement

There are many factors that are redefining how Americans approach retirement. Due to financial necessity, or sometimes just an overabundance of leisure time, some retirees are beginning to reenter the workplace. Many retired executives start their own part-time consulting businesses; others trade in their hectic seventy-hour workweeks for a type of pseudo-retirement, in which they work a lot less and spend more time with their families. Part-time work during retirement can be an important income supplement, especially if you plan on retiring early.

Another interesting factor changing the shape of retirement is that life expectancies are increasing. For some, spending one-third of their lives in retirement is a possibility. Relying on retirement plans and Social Security will be increasingly difficult because these retirement mechanisms were not designed to perpetually provide income. Furthermore, as longevity has increased, retirement plans have gradually shifted the savings responsibility from employ*ers* to employ*ees*. The pressure of building adequate retirement savings has been placed directly in the hands of a larger portion of the work force, who often must take initiative and contribute to their company sponsored retirement plans. Your retirement assets, as well as your personal savings, will have to work longer and harder to help fulfill your personal objectives, regardless of whether you retire early or not.

An often overlooked aspect of planning is money management once retirement has begun. To help ensure an adequate pool of retirement assets, your money will have to continue working for you throughout your retirement years. Inflation—along with the amount of income withdrawn from your retirement plan—will have a direct effect on how long you can live comfortably. Thus, personal savings will continue to be an overall part of your retirement plan.

Budgetary constraints will also determine your retirement lifestyle. In order to better ascertain your financial picture, it is best to project what your retirement income and expenses will be. Unfortunately, this process may be more difficult than it sounds. You will need to consider everything from greens fees at the local golf course to health insurance costs. In addition, you will have to factor in inflation and how your income needs may change throughout the years.

For those who desire an early retirement, certain penalties may apply for early withdrawals from retirement plans. All options need to be studied, and the consequences of any action taken should be reviewed with a qualified financial professional.

It's Your Retirement: Be Involved!

Today, early retirement is still a viable possibility. Remaining on firm ground financially and working part-time have become integral parts of a successful retirement. By maximizing your personal savings to the best of your ability, you will increase your chances of reaching your retirement goals. Remaining active and focused on attaining your retirement goals is particularly necessary if you are contemplating, or are forced into, early retirement.

retirement savings: do yours measure up?

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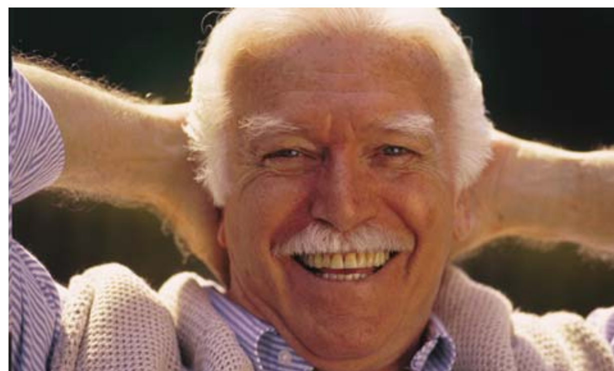
the *2005 Retirement Confidence Survey (RCS),* only 60% of workers age 25–34, and 71% of those who are age 35–44, have begun saving for retirement. When asked to estimate the total amount of savings accumulated thus far, the highest percentage of all age groups polled (52%) said their savings were less than $25,000. Only 26% of workers age 25–34 felt very confident about the likelihood of having enough financial resources to be comfortable during retirement, and that figure went down one point to 25% for those age 35–44 (ASEC, 2005). 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 (ASEC, 2005).

Individual Retirement Accounts

Since retirement could require 70–90% 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 $4,000 for 2006. In addition, for those age 50 and older, annual "catch up" contributions of $1,000 are allowed in 2006. 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 Del Webb Corporation, one of the largest builders of retirement communities, conducted a survey on those age 36 to 54 (in 1995, 1997, and 1999) to learn what they envision their lives to be like after retirement. The survey found that 64% intend to continue working, 50% plan to do volunteer work, 40% expect the majority of their income to be from investments, 49% plan to move to a warmer climate, 3% will be skydiving, and 70% will be grooving to the sounds of rock 'n' roll (*Surprise, Surprise,* by Landon Thomas with Eleanor Laise, 2003).

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 implementing the steps necessary to reach them, will greatly enhance your chances of "rockin' on" when that happy day finally arrives. ■

Putting Qualified Retirement Plans to Work

Most business owners welcome the tax benefits of qualified retirement plans. In addition to providing key tax breaks for business owners, they also help attract and retain key personnel.

Legislative changes to traditional qualified retirement plans within the past few years have aroused new interest among employers who want to provide retirement benefits for themselves and their employees. Now, even employers with difficult goals and objectives can find a plan to meet their needs.

Savings Incentive Match Plans for Employees (SIMPLEs)

A SIMPLE plan allows participants to contribute up to $10,000 to a SIMPLE IRA or SIMPLE 401(k) in 2006. Employer contributions, which are mandatory, can be either in the form of a 2% contribution to all eligible participants or in the form of a matching contribution that is generally 100% of the first 3% of compensation. No nondiscrimination testing is required.

The SIMPLE IRA requires very little formal administration and benefits the smaller, stable employer who is satisfied with the minimum and maximum contributions that the plan allows. The IRA plan also benefits employers with lower paid family members who may not be able to achieve the same benefits from other types of plans.

Safe Harbor 401(k) Plans

These plans combine the flexibility of a traditional 401(k) plan with the option to escape the burdensome nondiscrimination tests. Those who will benefit most from this plan include employers whose owners or other highly paid employees are subject to refunds of their 401(k) contributions due to failed nondiscrimination tests, or stable employers who may already be making similar contributions to a plan.

The employer must make a 3% non-elective contribution to all eligible participants or a matching contribution that may obligate the employer to contribute up to 4% of compensation. These contributions must be 100% vested, but the employer avoids nondiscrimination tests that often preclude the owners and highly paid employees from making the maximum 401(k) contribution, which is $15,000 in 2006.

The 3% contribution to all eligible employees satisfies the top-heavy minimum profit sharing contribution often required by small plans. Along with the required contributions that satisfy the non-discrimination testing, additional matching contributions or profit sharing contributions subject to vesting may also be made.

Age-Weighted Plans

An age-based or age-weighted profit sharing plan combines the flexibility of traditional profit sharing plans with the advantages of other types of pension plans, such as defined benefit plans that skew benefits in favor of older employees. In other words, both age and compensation are used as a basis for allocating employer contributions among plan participants.

This is just a sampling of the many options available to you with qualified retirement plans. If you're not getting everything you want out of your current retirement plan, consider whether a different type of plan is right for you. ■

The information provided is not written or intended as tax or legal advice and may not be relied on for purposes of avoiding any Federal tax penalties. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel.

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