Don’t Wait To Plan Your Retirement

Brought to you by Andrew Seaborg in conjunction with Lincoln Financial Advisors

Most of us find it easier to earn and spend money than to save it. Planning and saving for retirement too often takes a back seat to other priorities. Why is procrastination the rule, rather than the exception when it comes to retirement planning? I've heard many reasons from my clients: thinking about retirement makes them uncomfortable; they're too busy to find time to plan for retirement; they're too young to worry about retirement; and retirement planning is too complicated. If you find yourself making similar excuses for avoiding some serious thinking about retirement planning, it's time to change your tune.

Saving for retirement has become a more pressing concern than ever before. Companies are putting the burden of funding retirement plans largely on their employees, the Social Security system is straining under the burden of an aging population, inflation erodes the purchasing power of a dollar over time, and life expectancies are longer. Aging baby-boomers are feeling particularly squeezed – many are trying to save for their children's college educations and their own retirements, while supporting their elderly parents at the same time.

Personal savings will have to fill the gap between your retirement plan and government benefits on the one hand, and your retirement needs on the other. Surprisingly, people earning higher incomes aren't immune to the realities of retirement savings. In fact, the 2014 Retirement Confidence Survey, conducted by the Employee Benefit Research Institute (published March 2014), found that fewer than 44% of today’s workers have actually calculated the amount of money they will need to have saved prior to retirement and 36% of workers say they have saved less than $1,000 for retirement.

Setting Goals. Setting specific goals should be at the heart of your overall retirement planning strategy. That means figuring out when you want to retire and what kind of lifestyle you expect to maintain in your golden years. Those answers will, in turn, help you determine how much money you'll need at retirement.

One rule of thumb says that in each year of retirement you'll need 70 percent of your annual pre-retirement income. Of course, your financial needs may be more or less, depending upon your individual circumstances. While you can't predict the rate of inflation or the return on your retirement investments over the next several years, a financial planning professional can help you make some projections of how these factors will affect your retirement plan.

Investments. If your projections show you'll have a financial shortfall in retirement, you have several choices: retire later, retire on less, save more, or attempt to improve your rate of return. If the first three options aren't practical or desirable, you should consider investments that have the potential to improve your rate of return if you can tolerate the risk.

Your investment strategy should be shaped by your age, time frame, tolerance for risk, and personal investment philosophy. Remember that time is your ally. By starting to save sooner rather than later, you have the potential to generate a larger nest egg down the road due to the power of compounding investment returns. With compounding, the growth in an investment's value is computed on the sum of the original investment plus the continual reinvestment of dividends or interest it generates. The benefits of compounding increase with time.

Retirement investing generally means long-term investing. If you can afford to tie up your money for a relatively long period, you can take on more risk with your investments. Too many people are conservative – stashing their savings in certificates of deposit (CDs) and money market funds, for instance – which may leave them cash-poor at retirement time. CDs are FDIC insured and generally provide a fixed rate of return for a given period of time, usually between six months and five years. Money market funds are not insured and invest mostly in low-risk securities such as U.S. Treasury bills, and their yields are pegged to short-term interest rates.

A well-balanced, diversified portfolio of stocks, bonds and other investment vehicles is more likely to help you toward your retirement planning goals. Despite the fluctuations of the stock market, many investment advisers adhere to the maxim that stocks are a good choice for long-term investments.

If you don't have the stomach for buying individual stocks and bonds outright, consider mutual funds. Mutual funds offer a combination of professional management expertise plus ready-made diversification. With several thousand funds from which to choose, there are funds for practically every conceivable investment objective. Some funds seek capital appreciation, others emphasize paying income, and still others combine these goals.

Variable annuities offer the potential for a stream of income in the future are another popular way to invest retirement savings. Under these contracts, the money you invest builds up free of current income taxes. The taxes are deferred until you take the money out later, usually at retirement. Variable annuities combine aspects of insurance and investment sub-accounts, and offer a variety of investment choices. Withdrawing annuity money before age 59 ½ may result in a 10% early withdrawal penalty and income taxes.

Setting up a retirement planning strategy should be a top priority. More than ever, it's up to you to achieve your retirement goals. Speak to a qualified financial planner about the appropriate way to build your nest egg and to learn which investment options make the most sense for you.

Each investment type has different investment characteristics. Stocks can have fluctuating principal and returns based on changing market conditions. The prices of small company stocks generally are more volatile than those of large company stocks. Bonds have inflation, credit and interest rate risk. Bonds have fixed principal value and yield if held to maturity. Variable annuity sub-accounts fluctuate with changes in market conditions, and when withdrawn, the principal may be worth more or less than the original investment.

Mutual funds and variable annuities are offered by prospectus. An investor should carefully consider the investment objectives, risks, charges and expenses of a mutual fund and a variable annuity and the underlying fund options of the variable annuity before investing.

Read a prospectus carefully before you invest. The investment return and principal value of an investment will fluctuate with changes in market conditions so that an investor's shares when redeemed may be worth more or less than the original amount invested.

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