Investing

Retirement Shouldn't Be Hard Work

By Al Grier

RETIREMENT should be a time to relax, free from financial worry. Most people dream of it as a time to travel, a time to pursue hobbies or special interests that a 9 to 5 job hampers. But without careful retirement planning, many people may actually face the prospect of working harder and longer during their so-called retirement years than they ever imagined.

The time to work at retirement comes well before the age 65. Careful planning can help to ensure security and comfort in retirement, along with the resources to pursue new interest.

A survey by the Social Security administration has shown that on average, retirees in 1990 received only approximately 45% of their income from Social Security and pension benefits. The greater portion of this retirement income was provided by personal savings/investments (28%).

With proper retirement planning, time is on our side. It is never too early to begin saving and never too late to start In fact, the advantage of early retirement planning is that the longer we have before retirement, the greater our opportunity to increase our savings through compound growth.

Age You Begin Saving	Yearly Investment	Total Contributions	Interest Accumulation	Savings at Age 65
35	$1,834	$55,020	$194,980	$250,000
45	$4,887	$97,740	$152,260	$250,000
55	$16,455	$164,550	$85,450	$250,000

Without realizing it, we write ourselves and our families an IOU, payable in the year we retire. An IOU for the same standard of living we've enjoyed during all our working years. Most individuals will need 65-80% of their pre-retirement income to maintain their lifestyle in retirement.

Traditionally, Social Security, pensions, and personal savings have been the three main sources of retirement income. Social Security will provide a certain percentage of this IOU. For many of us, a retirement plan at work will also contribute substantially. It may provide from 10% -60% of our total retirement income. But for most people, both of these sources do not come close to providing enough income to maintain the lifestyle to which we've become accustomed. Certainly not enough income to provide the extras we look forward to.

The following chart illustrates the benefits to save at age 35 versus ten or twenty years later. This chart represents the yearly investment required at a 9% return to accumulate $250,000 by age 65. As shown in the example, if we begin saving at age 35, nearly 80% of the total savings comes from interest accumulation. However, savings started at age 55 results in only a 33% interest accumulation.

There's a good reason to be concerned about building a strong retirement nest egg. Personal savings and investments have always been important for financial security, but now they become more important than ever. Economists and sociologists point to demographic and financial trends that will impact our lives in dramatic ways in the decades to come. These trends require us to take greater individual responsibility for retirement planning by re-examining the extent of our personal savings.

Equally important considerations for retirement planning are the ever-present reality of inflation and taxes which can quickly shrink even a substantial savings total. For example, a relatively modest 4% inflation rate, maintained over 15 years will reduce the purchasing power of $250,000 to $138,816. These are far-reaching implications for our personal comfort and security.

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