Retirement Planning: Foresee to Provide for the Future

In a well-known Aesop's Fable, ants stockpile food during the summer bounty, while the grasshopper sings and plays. When winter sets in, the grasshopper starves. The moral of the story is to work hard and plan ahead. In modern times, this lesson can be applied to retirement planning.

Are You an Ant or a Grasshopper?

Unfortunately, many Americans behave more like grasshoppers than ants when it comes to stockpiling money to pay their living expenses during retirement. Thirty-one percent of non-retired Americans have no retirement savings or pensions, according to the latest *Report on the Economic Well-Being of U.S. Households*, which was published by the Federal Reserve. Only 13% of the survey's respondents have given "a lot" of thought to financial planning for retirement. Many adults are uncertain exactly how they'll make ends meet during retirement.

Note: The responses varied with age, education and income-levels, however. Not surprisingly, higher-income individuals are the most likely to plan for retirement.

Traditional Sources of Retirement Income Fall Short

Many people expect Social Security to be a major source of retirement income. But Social Security checks are often lower than recipients expect — and may be hit with taxes, especially if you have other employment or investment income. Check out the online benefits calculator on the Social Security Administration website for details on your projected payments post-retirement.

In addition, fewer Americans are receiving (or will receive) defined-benefit pension plans these days. From 1980 through 2008, the proportion of private wage and salary workers participating in defined-benefit pension plans fell from 38% to 20%, according to the Social Security Administration's Office of Retirement and Disability Policy.

What Else Does the Fed Survey Reveal About Household Finances?

The Federal Reserve's latest *Report on the Economic Well-Being of U.S. Households* provides a "snapshot" of how U.S. households are faring financially, including:

Financial well-being. Twenty-two percent of respondents with a household income of less than $40,000 expected their income to be higher in the 12 months after the survey. Meanwhile, 36% with incomes of more than $100,000 expected their incomes to increase over the same period.

Home values. Among people who had owned their homes for at least a year, 43% believed their home values were higher than they were a year earlier. However, 14% of homeowners with a mortgage believed they owe more on their mortgages than their houses are worth.

Savings. Sixty-three percent of respondents indicated they saved at least some money in the past year. However, 23% of respondents reported that their spending exceeded their income in the 12 months prior to the survey.

Student loans. Twenty-three percent of households reported they were carrying education debt incurred by themselves, their spouses, partners, children or grandchildren.

So it's more important than ever to be proactive about stockpiling money for retirement. You also need to be realistic about cost of living increases and build in a cushion for emergencies and unexpected costs when projecting the income you'll need in retirement.

For example, many retired Americans have been unprepared for increases in the costs of utilities and gasoline. Other expenses — such as Internet and cell phone accounts — didn't exist when some of today's retirees made their initial plans. Americans are also healthier than past generations, living longer and incurring higher-than-expected medical expenses.

Advance Planning Can Avert Shortfalls

A financial advisor can help you plan far in advance to build up a nest egg that will provide sufficient income to maintain financial security for potentially many years. In addition to Social Security and pension benefits, here are other common sources of retirement income:

- Self-directed accounts, such as company-sponsored 401(k) plans and individual retirement arrangements ("IRAs");
- Home equity; and
- Part time or self-employment.

A part-time job in the early years of retirement can make a big difference to your financial picture. Earning even a small amount a year may replace the income you could reasonably expect to generate from a modest portfolio. It also provides a buffer against unexpected inflation. The flip side of this coin is that it might be difficult to find a job as you grow older and, of course, work doesn't appeal to all retirees. Poor health can also render some people physically unable to work into retirement, so it's always smart to have a Plan B.

Retirement saving strategies need to be designed with your age, relationship status, lifestyle, minor children, and other heirs in mind. Whether you're starting your first job or hitting middle age, savings patterns are likely to change. By the time you near or hit retirement age, investments and savings should be set and established, with your funds in low-risk, high-liquidity accounts.

It's Never Too Late to Save

Individuals who are age 50 or over at the end of the calendar year can make annual catch-up contributions to certain accounts, if their retirement savings seem too lean. Here are some of the contribution limits in 2016:

- Traditional and Roth IRAs, $5,500 ($6,500 for those over age 50),
- 401(k) accounts, $18,000 ($24,000 for age 50 and up),
- SIMPLE accounts, $12,500 ($15,500 for age 50 and up), and
- Simplified Employee Pension Plan (SEP) accounts, $53,000 (there is no SEP catch-up amount).

Whenever possible, it's a good idea to contribute the maximum allowable to your retirement account to secure your future and get the full tax advantage.

What's Your Retirement Plan?

If you haven't saved much for retirement or stopped contributing for some reason, it's time to get your plan in motion. If you already have a plan in place, consider revisiting it occasionally. A retirement plan isn't something you can put on a shelf and ignore until you reach age 65 or older. You may need to revise your initial plan as market conditions, tax laws, financial needs or health factors change. Please contact your financial advisor for more information.

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