Are You Fully Funded for Retirement?

Now more than ever, American workers are responsible for funding their own retirement plans. Pension plans have been replaced by 401k plans, shifting the burden of funding retirement from employers to employees. Unfortunately, many workers don't realize the magnitude of how much they need to save to fund a comfortable retirement.

The Seattle Times ran a front page article on Feb. 18, 2013 under the headline: "Financial outlook grim for future retirees in U.S." The article stated, "Overall, people ages 55 to 64 have a median retirement account balance of $120,000, Boston College researchers have found, enough to fund an annuity paying about $575 a month, far short of what they will need."

According to the Social Security web site, "The maximum benefit depends on the age a worker chooses to retire. For example, for a worker retiring at age 66 in 2012, the amount is $2,513. This figure is based on earnings at the maximum taxable amount for every year after age 21." The maximum taxable amount for Social Security benefit purposes was $110,100 in 2012.

It's hard to imagine a person accustomed to living on $110,100 making ends meet on $30,156 in Social Security benefits in retirement. In this example, if the goal were to replace 80% of pre-retirement income, there would need to be retirement savings sufficient to replace income of $57,924 ($88,080 minus $30,156). If a worker started saving at age 30, he or she would need to save $21,500 a year, increase the contribution annually for inflation and get an annual return of 7% to save enough to fund the inflated equivalent of $57,924 at age 65. Inflation (based on the historical average of 3.5%) plays a huge role: the equivalent buying power of $57,924 at age 30 is equal to $222,059 at age 65!

Many people don't realize the detrimental effect of taking a 401k or IRA distribution prior to retirement. For example, if a 35 year old takes a $20,000 distribution, after 25% for taxes and the 10% penalty, the net amount will be $13,500. On the other hand, if the $20,000 were left in the 401k or IRA, with 7% annual return it would grow to $113,255 at age 65. By the same token, a 35 year old who failed to make retirement contributions of $20,000 for one year would have $113,255 less at retirement. Keep in mind these numbers are purely hypothetical and are only intended to illustrate a point. Your actual results will vary and taxes, sales charges and fees are not included in the assumption.

The moral of the story is this: save early, save a lot and don't touch your retirement savings until you retire!

Things you can do to enhance your retirement security:

- **Max out your 401k (the maximum employee contribution in 2013 is $17,500 for workers under age 50 and $23,000 for those over 50)**
- **Contribute $5000 ($6000 over 50) to your IRA or Roth for 2012 by April 15, 2013**
- **Contribute $5500 ($6500 over 50) to your IRA or Roth for 2013**
- **Look at your budget to find ways to cut back and direct that money toward retirement savings**
- **Schedule a consultation with me to review your investment mix for potential ways to minimize risk and maximize return or for help with getting your retirement plan on track**

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