
Dispelling Your Retirement Myths

Many individuals have rosy misconceptions about how much income and/or assets they would need to become financially independent and live a comfortable retirement.

Today, pension and Social Security benefits are not quite what they once were, financial institutions and insurance companies have become a concern and require close scrutiny, and health care costs seem to be rising out of control. With all of these scenarios continuing to be played out, wise planning is essential.

The following are some of the popular myths about achieving financial freedom and why they are myths. Make sure that you do not get caught up in these myths and instead base your own retirement and financial independence planning upon solid facts.

Myth #1: I will not need as much money during retirement as I do now.

The general rule of thumb says that you will need approximately 70% of your pre-retirement income in order to maintain a lifestyle similar to that which you currently have. This may be true if you live your current lifestyle. However, when you retire, you will have more free time for travel, leisure activities, hobbies, and other things you might like to do during your retirement years. All of these may mean an increased expense in these areas. In addition, medical expenses will increase at a faster rate than they likely did during your pre-retirement years. Also, your overall tax rate may not drop very much and you may live longer than you think. Today, individuals in their 50s and 60s are generally healthier than previous generations as our society has become more aware of the importance of a better diet and exercise. Currently, if you are age 65 your life expectancy is approximately 21 years, which is a long time to plan for. Finally, why plan for a meager retirement when you can begin planning well ahead and have the income you need to live the lifestyle you wish during retirement?

Myth #2: I can afford to start planning for my retirement a few years before my retirement date.

In fact, it is never too soon to begin planning for your retirement. Time is one of the most powerful tools in the accumulation of wealth. The sooner you start to accumulate assets and plan for your retirement years, the better, and the less you will need to set aside each year in order to achieve the same objective.

In order to achieve your various financial objectives, you need to have an active savings and investment program. This should be geared not only for your retirement years but also for the large obligations you believe will be coming up in the future such as college funding, weddings, etc. Planning for your financial independence will require some thought and soul-searching

analysis to determine what is really important to you since, for most of us, this will mean giving up some objectives in order to achieve others.

You should start to discuss and set specific goals for your financial independence at least 25 years ahead of time. You can always adjust each year for your objectives if necessary, but it is better to begin planning early than to wait. Some of the questions you may wish to ask yourself are:

- When do you want to achieve financial independence?
- What steps must you take to prepare for your financial independence?
- Where do you want to live and what type of lifestyle do you want to have?
- What financial obligations will you still have to your family?
- How much will you need annually to live on?
- How much must you begin to save now and what risk are you willing to take in order to accumulate additional dollars with various investments?
- In total, how do you really want to live your retirement years?

Myth #3: Social Security will provide enough income for my retirement years.

The fact is that Social Security accounted for approximately 38% of the average retirees' income in 1990s. Although increases in benefits have occurred and may continue to occur, it is likely they may become less generous than they have in the past. The age that you must reach in order to receive full retirement benefits will rise for those born in or after 1938. Thus, it is becoming ever more important for you to accumulate your own funds in addition to whatever the government programs can provide. Social Security should be considered a supplemental benefit to your retirement financial planning and not the foundation on which it should be built.

Myth #4: I have my 401(k) plan to provide for my retirement income and will not need any additional savings.

The truth is that without planning well in advance, it will be difficult to tell whether your pension, combined with Social Security, will or will not achieve your financial objectives.

It will be increasingly important for you to make the proper investment decisions if you are to achieve the accumulation level you need in order to live the lifestyle you would like during your retirement years. Even though employers make retirement plans available and probably contribute a portion of the funds to a retirement account, it will be your job to see that the contributions accumulated are at rates sufficient for you to achieve your financial objectives and, if they are not, to create your own supplemental savings plan in order to see that your objectives are achieved.