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THE FINANCIAL PLANNING ASSOCIATION

Combating Common Retirement Planning Myths

Have you ever stopped to consider how many years you will spend in retirement? According to recent articles, Americans retiring today will spend 20-25 years in retirement. This means that your retirement funds also have to last that long. When you stop to factor in increases in living expenses and medical costs, it's easy to see the importance of establishing an effective retirement plan *now* to help ensure that you'll have enough money to last through your retirement years. As you review the following retirement planning myths, reflect upon how they might be affecting your chances for a secure retirement.

Myth #1: **My Pension and Social Security benefits will provide the bulk of my retirement income.**

The Reality: Past tax legislation helped to shrink the value of Social Security. If you're married and your joint income exceeds $44,000 (or single with an income greater than $34,000) up to 85% of your Social Security benefit could have been subject to federal income tax for tax year 2001. If you are retiring this year, Social Security may only meet 10 to 30 percent of your income needs. In addition, traditional defined benefit pensions offered by employers are on the decline. More common today are defined contribution plans [such as 401(k)s], which shift the burden of retirement preparations to you.

Myth #2: My living expenses will be lower during retirement.

The Reality: Don't underestimate the expenses you'll incur during retirement. Many experts estimate you'll need at least 75 percent of your gross pre-retirement income to retire comfortably, perhaps more. That means if you need $60,000 a year to meet expenses now, you'll require $45,000 while you are in your retirement years. Unfortunately, inflation decreases your buying power. Assuming an annual inflation of just 4 percent, in ten years, you'll need $66,600 to equal the buying power of $45,000 today.

How Much Will You Need to Match the Buying Power of $45,000 Today?

Years After Retirement	Inflation Factors at 4%	Income Required (per year in future dollars)
5	1.22	$54,900
10	1.48	$66,600
15	1.80	$81,000
20	2.19	$98,550
25	2.67	$120,150

Myth #3: **Once I retire, I should invest solely in income investments to preserve capital and live off the income.**

The Reality: As the chart indicates, inflation can take a large bite out of your retirement funds. For example, given a 4 percent annual inflation rate, the value of your money will virtually be cut in half in 15 years. Without a portion of growth investments in your portfolio before and during your retirement, your investment income won't be able to keep pace with inflation.

There is no time like the present. It's never too early or too late to start investing, but the sooner you get started, the better your chances of achieving a financially secure retirement. If you have not yet earmarked funds for retirement, contact a CERTIFIED FINANCIAL PLANNER™ professional today to develop a plan to help you achieve a more secure retirement!