

# 21<sup>st</sup> century retirement



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## A Retirement Savings Worksheet: Crunching the Numbers

If you are nearing retirement or just beginning to plan for it, you may be surprised to learn that you may need 60% to 80% of your annual income in order to maintain your current lifestyle in retirement. Many variables can affect your retirement savings goals, including where you want to live and the activities you plan to pursue. So, how do you determine the amount you may need for retirement and how much you need to save each year in order to reach that goal? The worksheet on the next page is based on calculations developed by the American Savings Education Council (ASEC) and can help you crunch the numbers.

Consider the hypothetical case of Mark. At age 50, Mark earns \$50,000 per year. He estimates that during retirement he will need 70% of his income (\$35,000 per year) to maintain his current standard of living. While he does not have a traditional employer-sponsored retirement plan, he does expect to earn \$5,000 annually as a part-time writer. He also estimates that he will receive \$14,500 annually from Social Security. Let's take a look at how this can work in your situation:

- 1. Required Income.** How much money will you need per year in order to maintain your current lifestyle? Enter 70% of your current annual income as a minimum.
- 2. Social Security.** Project an estimated amount you expect to receive from Social Security. You can calculate an estimate of your future benefits online at [www.ssa.gov](http://www.ssa.gov), the Social Security Administration's website. If you are married and earn less than your spouse, enter the greater of either your own benefit or 50% of your spouse's benefit.
- 3. Employer-Sponsored Retirement Plan.** Enter the amount you expect to receive from your employer-sponsored retirement plan, such as a 401(k) or pension plan, if applicable.
- 4. Earned Income.** Enter your estimated annual part-time income in retirement.
- 5. Retirement Shortfall.** Subtract lines 2, 3, and 4 from line 1. This is an estimate of the amount of money you will need each year to supplement the above sources of income.

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## a retirement savings worksheet: crunching the numbers

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Once you have determined an estimate of the how much you will need in retirement, as well as your shortfall, now you can figure out the amount needed to close the gap. Assuming a 3% constant real rate of return after inflation, a life expectancy of age 87, and Social Security benefits beginning at age 65, the following calculations can help you estimate the total amount you will need for retirement.

*Note: These calculations do not represent the performance of any particular savings vehicle, and they are for illustrative purposes only.*

Keep in mind that **full retirement age** (the age at which you are eligible to receive full Social Security benefits) is changing. For a long time, full retirement age was 65. Due to longer life expectancies, that age is increasing gradually until it reaches age 67. This change began in the year 2000 and affects people born in 1938 and later.

For comparison purposes, let's return to Mark. He plans to retire in 15 years, at age 65, and has managed to save \$45,000. Based on his income requirements and his financial resources, Mark will need to save an additional \$254,200 by retirement, or \$9,474.40 per year.

6. To estimate how much you need to save, *multiply* line 5 (the amount of your retirement shortfall) by the appropriate factor:\*

Anticipated retirement age:	Multiply by:
55	21.0
60	18.9
65	16.4
70	13.6

7. Enter the current total of your savings, including any funds in retirement plans such as a **401(k)** or **Individual Retirement Account (IRA)**.
8. *Multiply* line 7 by the appropriate factor:\*

Retiring in:	Multiply by:
10 years	1.3
15 years	1.6
20 years	1.8
25 years	2.1
30 years	2.4
35 years	2.8
40 years	3.3

9. *Subtract* line 8 from line 6 to find the estimated amount of savings needed at retirement.

10. To estimate the amount you need to save each year, *multiply* line 9 by the appropriate factor:\*

Retiring in:	Multiply by:
10 years	.085
15 years	.052
20 years	.036
25 years	.027
30 years	.020
35 years	.016
40 years	.013

This worksheet is intended to be used as a starting point to estimate what you will need to save for retirement. For specific guidance, be sure to consult a qualified financial professional.

Your retirement may be decades away or right around the corner, but either way, even taking some small steps can bring you closer to your financial future. Determining the amount you need to save each year in order to reach your goal is an important component of retirement planning. ■

\* Factors provided by the ASEC.

### Retirement Savings WORKSHEET

	Your Figures	Mark's Figures
1.	\$ _____	\$ 35,000
2.	\$ _____	\$ 14,500
3.	\$ _____	\$ 0
4.	\$ _____	\$ 5,000
5.	\$ _____	\$ 15,500
6.	\$ _____	\$ 254,200
7.	\$ _____	\$ 45,000
8.	\$ _____	\$ 72,000
9.	\$ _____	\$ 182,200
10.	\$ _____	\$9,474.40

## Retirement Plan Enhancements Yield Higher Savings Rates

Retirement plan sponsors are implementing significant plan design enhancements, and these improvements appear to be driving recent increases in contribution rates, the results of an analysis of survey data released on January 23 by the Plan Sponsor Council of America (PSCA) indicated.

The “61st Annual Survey of Profit Sharing and 401(k) Plans,” which reflects the 2017 plan-year experience of 605 defined contribution plan sponsors, found that in 2017 plan sponsors were contributing an average of 5.1% of pay to their employees’ 401(k) accounts; and that the average deferral rate of participants increased to 7.1%, up from 6.2% in 2010. The research also showed that plan sponsors have been implementing a series of plan design

enhancements that may be supporting higher saving rates, including higher default rates, more generous matches, and earlier plan eligibility.

The survey found that increasing shares of eligible employees are participating in their workplace plan. Researchers noted that the percentage of eligible employees with an account balance has risen by more than six percentage points in the last 10 years. They also pointed out that at 12.2%, the total savings rate reported for 2017 was well within the 10% to 15% range recommended by financial professionals.

The results of the analysis further showed that among the supportive plan design trends are a shift toward more generous matching formulas, with the use of dollar-per-dollar matching of more than 3% of pay

increasing by nearly 50% from 24.1% in 2016 to 35.8% in 2017. The survey also found that employers are continuing to adopt automatic enrollment, with 61.2% of plans reporting in 2017 that they were using it to increase enrollment. The findings additionally revealed that in 2017, 60% of automatic enrollment plans were using a default deferral rate of more than 3%, up from less than 30% of plans 10 years ago.

The survey findings also indicated that nearly one-third of plans provided a suggested savings rate for participants in 2017, and that more than four in 10 of these employers suggested a rate of 10% or more. Researchers further observed that the share of eligible participants making catch-up contributions has been growing steadily, and had reached 29.3% in 2017.

## Continuing Care Retirement Communities: Aging In Place

Do you sometimes think about what your life will be like when you retire? Most people imagine living independently in comfortable and safe surroundings, preferably residing in their own home. With longer life spans and advances in health care, many retirees—if they retire early enough—may have several decades or more to enjoy their “golden years.”

**Continuing care retirement communities (CCRCs)**, also known as life-care communities, accommodate active, healthy older adults in a range of living quarters, such as single-family homes, apartments, or condominiums. As residents age and require assistance, they remain at the CCRC, but can enter an assisted living or nursing care facility. Such a community allows residents to remain in one place for the duration of their

life, so they can age in place, without worrying about their future care.

### *The Cost of CCRCs*

CCRCs usually require a one-time entrance fee and monthly charges. According to the American Association of Retired Persons (AARP), the one-time entry fee can range from \$100,000 to \$1 million, and it pays for care in advance and funds the CCRC’s operating costs. Monthly fees can average \$3,000 to \$5,000 and more depending on your state of health, whether you are renting or buying, how many residents live in the facility, and the type of service contract you choose. Additional fees may be added for such options as for housekeeping, meal service, transportation, and social activities.

Three types of service contracts are usually offered. The **life care**, or **extended contract**, the most expensive, provides unlimited assisted living, medical care, and skilled nursing care. A **modified contract** provides care for a specified length of time, after which the monthly fee increases if you require other services. A **fee-for-service contract** allows you to pay a lower enrollment fee, but you would pay for assisted living and nursing home care, if needed, at the market rate.

### *Do Your Research*

When you are researching facilities, it is important to be sure that the one you pick is financially stable, because you will want to be certain it will provide the housing and

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## How Social Security Affects Your Retirement

When contemplating retirement, you, like many other people today, may be counting on Social Security benefits to provide you with a basic level of income. The age at which you choose to retire is an important part of the equation. In addition, there are many other issues to consider when making that choice.

Let's look at the following questions: 1) How would an early retirement, for example, at age 62 vs. age 65, affect your Social Security benefits? 2) How will those benefits be taxed? and 3) Is it in your best interest to continue working to earn extra income when your Social Security benefits could be reduced, based on your earnings?

### What's the Maximum?

As most people realize, Social Security provides only a *base level* of income. The maximum benefit for a person who retires in 2019 at full retirement age (65–67 depending on your year of birth) is \$2,861 per month. In comparison, the maximum benefit in 2018 was \$2,788 per month. It is important to note that the benefit for a non-working spouse is only 50% of that amount.

### Should You Delay Retirement?

If you delay retirement past your **full retirement age**, your monthly benefit will increase, based on the age at which you elect to take retirement benefits. But, upon reaching age 70, the benefit increase no longer applies, even if you continue to delay the payment of benefits.

Receiving benefits at age 62 (considered early retirement) is appealing to many people. However, if you decide to take early retirement benefits from Social Security, your monthly benefit amount will be permanently reduced by 20–30%, based on your full retirement age.

Some people continue working and earning additional money to supplement basic Social Security income. This is where you need to be careful. If you earn more than the maximum amount allowed, you may forfeit some of your benefits. If you are under full retirement age, receive Social Security benefits, and earn additional income, your benefits will be reduced by \$1 for each \$2 you earn over \$17,640 in 2019. During the year in which you attain full

retirement age, your benefits will be reduced by \$1 for every \$3 earned over \$46,920 in 2019. Upon attainment of full retirement age, there is no earnings limit, and Social Security benefits will not be reduced.

### Full Retirement Age: It's Changing

For a long time, the retirement age has been 65. Due to longer life expectancies, that age will increase in gradual steps until it reaches age 67. This change began in the year 2000 and affects people born in 1938 and later. Age 62 still remains the earliest you may begin to receive Social Security retirement benefits.

### For Your Information

Note that as of April 2011, the SSA stopped mailing out annual estimated benefit statements to workers under age 60 and retirees already receiving benefits as a fiscal restraint measure. To receive an estimate of your projected payments, you can go to the SSA's website at [www.ssa.gov](http://www.ssa.gov). ■

## continuing care retirement communities: aging in place

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support you need 10 or 15 years into the future. Most states offer some level of CCRC regulation, so you should ask to see any licensing and inspection reports, complaint investigations, and audit reports. You should also

plan to visit all of the different facilities in the community.

### Seek Legal Advice

If you are considering this retirement option, you should get legal

advice. Once you have worked out a contract, have your attorney look at it, to make sure it accurately reflects your agreement with the community. ■

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