Making Dreams Come True

By

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I first met Carla at a local fund raising event. With her broad smile and upbeat personality, I was not surprised to learn that she was a successful real estate agent. She asked me what I did for a living and I explained that I was a financial planner who specialized in helping individuals meet their retirement goals.

"I have a retirement dream. Can you make it come true?" she laughed.

I took a minute to reply, "No, I can't make it come true but I can certainly help YOU make your dream come true."

Carla was like many people I meet. Despite being an astute business woman she had put very little thought into how she was going to finance her retirement. Her priorities were caring for her family and aggressively pursing her professional goals. It left her very little time to conduct detailed retirement planning. Carla's one hobby was oil painting and she hoped to spend many happy years in retirement enjoying painting. Her dream was to retire to Santa Fe, New Mexico where she had already bought land on which to build a home. As an accomplished artist, she planned to spend her retirement painting the colors and moods of the desert landscape. Carla had no idea of how much money she would have to save every month and at what rate of return to accumulate enough funds to pay for her retirement.

If, like Carla, you do not have a comprehensive retirement plan, the following steps will help you to clarify your thinking.

How much income will you need in retirement?

The first step is to estimate how much income you will need annually during retirement. If we take into consideration that you will have reduced expenses; no Social Security and payroll taxes or children to educate and assume you enter retirement debt free, let's estimate that you would need 80% of what you currently earn. Carla had a fairly accurate assessment of her financial status but if you are unsure, take time to work out your average monthly income and expenses so you can realistically estimate how much money you will need annually.

Secondly, we must take inflation into account. If we assume that inflation will run at 3%, everything will cost more twenty or thirty years from now. Therefore, the income you enjoy today would not ensure the same standard of living when you retire. Often investors are fixated on protecting their principal and accordingly choose investments with a very low risk but also with a low rate of return. They fail to take into account, the erosion of their principal due to inflation. To be able to project how much income you will need during the whole of your retirement, there are many calculators and charts that can help you reach a realistic figure which takes into account your required standard of living, life expectancy and an inflation factor.

According to the latest mortality tables used by insurance companies, a non-smoker in good health could expect to live for 30 years in retirement. How will you pay for your retirement? Where will your income originate?

“But, what about Social Security,” I can almost hear you say. “I don’t need to save all my retirement funds myself.” The political reality is that even if Social Security is still available, benefits to future retirees will likely be considerably reduced. Your Social Security Statement sent annually by the Government provides you with a record of your total contributions. You can visit www.ssa.gov to review your benefits statement online.

How will you fund your retirement?

Don’t be discouraged, with the proper planning you should be able to save what you will need to supplement any retirement income you may have. It feels good to take control. Rather than just have a hazy picture of your current financial situation and what your income might be in retirement, it is liberating to work out a comprehensive plan that is implemented and monitored. I promise you that you will sleep better at night.

The third step is to estimate how much you need to save each month to reach your retirement goals and how you want to invest it. Make sure to educate yourself on the different investment vehicles available. Employer sponsored plans offer you the opportunity to not only lower your taxable income but to accumulate tax-deferred savings. Take advantage of employer matching contributions, which offer you a wonderful opportunity to boost your savings. Individual Retirement Accounts and annuities also allow investors to accumulate savings on a tax-deferred basis. Take advantage of them and save as much as you can.

When choosing how to invest your savings, it is important to have a diversified portfolio, which will reduce your exposure to the up and down fluctuations of the stock market. By combining a variety of investments, such as stocks, bonds and alternative investments such as real estate and natural resources, you can work towards your long-term investment goals, weathering the economic swings, while reducing your risk.

Even the best plans need to be carefully monitored, after all, circumstances change. Most people, when asked, will cite financial security as a high priority. It doesn’t happen by chance, it takes careful planning and the willingness to persevere. The planning process can be undertaken on your own or if you need direction, contact a qualified financial advisor. Start planning today, by evaluating your current financial circumstances, clearly define your retirement goals, calculate how much income you will need to meet your objectives, develop a plan, review it periodically and stick to it!

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