The Myths and Realities of Retirement Planning

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.

This article will deal with some of the popular myths about achieving financial freedom and explain why they are myths. The purpose is to 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: You will not need as much money during retirement as you 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: You can afford to start planning for your retirement a few years before your 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 accounts for approximately 40% of the average worker's pre-retirement income. 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. In addition, the current plans are to extend the age that you must reach in order to receive full retirement benefits. 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 pension 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.

If you are at a company that offers a defined benefit plan, your retirement benefit will be a monthly income stream based on some percentage of your salary during the last few years of your employment at the firm and the number of years you worked there. However, most employees do not stay with one employer for a long period of time, and are unable to accumulate much in earned benefits.

In addition, many employers are replacing defined benefit plans with defined contribution plans and allowing employees more say in the management of these funds. 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. Thus, you will see fewer employers committing to a monthly income stream for their retirees in the future; instead, you will have employers making plans available and probably contributing a portion of the funds to a retirement account for individuals. However, 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.

Myth #5: Medicare will take care of my health insurance.

Typically, Medicare pays less than half of a retiree’s medical bills, and you usually cannot start collecting this until age 65. In addition, many employers are cutting back on medical coverage for retirees due to the cost. You will need to look at and plan for the costs involved for your health insurance during the retirement years and consider Medicare supplements and possibly long-term care insurance coverage. For many of us, these are costs that we never had, or incurred minimally, during our working years but which will now be a major part of our annual budget.

Myth #6: All of my assets are in safe vehicles for long-term accumulation and do not need to be watched closely.

The fact is that all investments need to be watched. With the banking and savings and loan crisis along with the recent concerns over insurance companies, the “old standbys,” which were once considered our safe havens, have come into question. In addition, the practice of putting all of our assets into extremely safe vehicles brings to bear an additional risk—that of purchasing power loss.

The loss of purchasing power can be a devastating risk to deal with because it happens gradually over a long period of time, and many times goes unnoticed year to year. The only thing you know is that things seem to get a little bit tighter each year, but you still try to make it. By the time you realize you need to make major adjustments, it is almost too late.

Myth #7: You can always use the equity in your home to add to your retirement income.

While it is possible that the above scenario could occur, it is unlikely that this will add much to your retirement income, especially without making you extremely uncomfortable.

In many areas of the country, the housing market is weakening. It is unclear whether home prices will bounce back and increase with inflation. In addition, other costs to maintain your home such as property taxes, repair costs, etc., will tend to increase.

If you do use your home to supplement your retirement income, remember to take advantage of all the tax breaks available to you, especially when downsizing.

Home equity annuities may become more popular in the future, and it would be worthwhile to become familiar with this option just in case you need it.

Myth #8: If need be, my family could always help me out.

The fact is that many of us may use this as an excuse for delaying our retirement planning, but, in reality, no one wants to rely on other family members to help them financially fund their retirement years. If anything, these are the years when you want true financial independence and do not want to feel as if you are a burden on your family. This independence becomes more and more important as you reach your retirement years, and anyone using the above statement to rationalize away their need for savings and retirement planning will live to regret it.

Myth #9: Money is everything when it comes to retirement planning.

Nothing could be further from the truth! While money is important, it is the lifestyle decisions that are really the most important concerns for your retirement years. Money is important in that it is needed in order to finance the lifestyle decisions you make, and for this reason it is important to plan as early as possible for funding the lifestyle you would like to lead. Where you live, how and where you will vacation, what you will do with your spare time, and a realization of your participation in other interests all become extremely important issues during your retirement years. You may even decide to start a second business or enter a different career and possibly make one of your hobbies or interests your remaining life’s work. The whole point here is that a comfortable and successful retirement is about fulfillment of objectives and not accumulation of money. It is about enjoying your life to the fullest, which is based on your definition of happiness. Money is a tool to help you achieve these ends, but it is not the end itself.

In Summary

The items highlighted here cover many of the issues that need to be addressed in financial independence planning. The purpose of this article was to get you to think about some of these issues and to ask yourself whether or not you are basing your own financial independence upon any of these “myths.” If so, it is time to take a serious look at your financial independence planning and get on track so that your retirement years can be lived to their fullest in the manner you wish and not be constrained by the mistakes you made in previous years.