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Planning ahead is crucial for young professionals to enjoy comfortable retirement

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Young workers just entering the workforce will only save enough money in their 401(k)s to replace 22 percent of their pre-retirement income, according to a Government Accountability report released recently by the House Education and Labor Committee.

Many people will need an investment fund of \$1 million or more to enjoy the kind of retirement desired, even after taking into account Social Security and any employer pension. Planning ahead is the key. Start by estimating how much money you'll spend annually in retirement. One common way to do this is to assume you'll spend a percentage of your pre-retirement income, say 75 percent. A study by Georgia State University professors and the Alexander & Alexander Consulting Group produced the following estimates:

If your pre-retirement income is \$20,000 a year, you'll typically spend 76 percent of that annually in retirement; if it's \$50,000, then 74 percent and if it's \$80,000, then 84 percent.

If you don't expect to be the average retiree, prepare your own estimated retirement spending budget and then adjust it for inflation. Start with current expenses and then anticipate how those costs will change once retirement comes. In general, expect some costs such as travel, entertainment and health insurance to increase, while others such as clothing, taxes and perhaps housing, to fall. Keep in mind that active retirees are likely to spend more in

Years to retirement	The Effect of Inflation			
	3%	4%	5%	6%
Current	1.00	1.00	1.00	1.00
5 Years	1.16	1.22	1.28	1.34
10 Years	1.34	1.48	1.63	1.79
15 Years	1.55	1.80	2.08	2.40
20 Years	1.80	2.19	2.65	3.21
25 Years	2.09	2.67	3.39	4.29
30 Years	2.42	3.24	4.32	5.74

the first phase of retirement than they will later.

You can estimate the effect of inflation based on your current income, the number of years until retirement, expected rate of inflation and a multiplier. The information in the graph shows, for example, that someone currently needing \$50,000 a year and expecting to retire in 15 years with a 5 percent inflation rate will need \$104,000 a year to maintain the same standard of living as now.

Next, consider what Social Security will provide. The monthly benefit for a single person at full retirement age, with maximum earnings prior to retirement, is now about \$2,050. For a retired married couple with one working and one non-working spouse, the maximum is now about \$3,075. These amounts are adjusted annually for inflation. You can start receiving

benefits at age 62, but 20 percent or more, depending on your date of birth, would reduce those benefits. To find out how much money to expect, request a status report on your Social Security account and future benefits at www.ssa.gov. Once the report comes, determine how much additional savings you'll need to provide for retirement.

Finally, consider where you'll live. Many people plan to relocate when they retire. Use vacation time to travel around with an eye toward future prospects and take time to make a decision on moving. There are many things to consider when planning retirement, including determining the capital required, whether to work part time and what to leave to heirs. Start planning today toward financial freedom tomorrow.

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