WePhix
Business Management Technologies Inc

RETIREMENT PLANNING BASICS

Planning for the Future

To live comfortably after you retire, you have to be realistic about how much you'll need to pay the bills.

Here are few Financial Planning basics

Good health is wonderful. So is a nice place to live. But what you really need when you retire is money — money to pay your bills, and enough left over to do the things you want. The general rule of thumb is this: You'll need 70% to 85% of what you're spending before you retire, more if you have expensive hobbies or plan to travel extensively. For example, if your gross income while you're working is $6,000 a month — that's $72,000 a year — you'll probably need $4,800 a month, or about $57,600 a year, after you retire

UP OR DOWN?
You can be pretty sure some of your living expenses will shrink after you retire, but others are equally certain to go up. Planning your financial future includes anticipating those changes.

WHAT COSTS LESS

- By the time you retire, you'll probably have paid off your mortgage.
- Unless you were older than average when your children were born, you will have finished paying for their educations.
- If you commuted to work, you'll probably spend less on day-to-day travel and restaurant meals. You may need only one car, and will probably spend less on clothes and make fewer visits to the dry cleaner

A MATTER OF TIMING
If you start investing when you begin working — perhaps 35 or more years before you plan to retire, and you put away 10% of what you earn each year, you should have a head start on your long-term financial security.

For each year you delay, you'll have to put aside a larger percentage of your annual earnings to build the same level of reserves as someone who began at an earlier age.

Chances are you'll have a hard time finding that much money to invest, no matter how important you know it is to save. And the fewer years your assets have to compound, the harder they can be hit by a market downturn.

WHAT COSTS MORE

- Home maintenance costs and property taxes tend to go up, not down, over time, unless you move to a smaller place or to a state with lower taxes.
- If you're home all the time, your utility bills may increase.
- Home and car insurance are apt to increase.
- Medical expenses, including the cost of insurance, often increase significantly over preretirement costs. These costs will continue to rise as employers cut back on healthcare coverage in general, and for retirees in particular. For example, the average retired person spends $500 a year on prescription drugs, which aren't covered under most post-retirement insurance plans.

INFLATION'S BITE

Inflation is another factor you have to consider when planning your retirement budget. If you were retiring this June, for example, you'd need 80% of what you were spending in May. But next June you'd need more money to pay for the same goods and services.

That's because of **inflation**, the gradual increase in the cost of living. Inflation has averaged 3% in the US since 1926. It has sometimes been substantially higher though, hitting 13.5% in 1980 and averaging 6% through the '80s.

That means if you're planning on a 20-year retirement, you may need more than double the income in the 20th year than you do in the first, just to stay even. How can you manage that, especially if you're not working anymore? The surest way is by earning money on your investments, at a rate that tops the rate of inflation.

DOING THE MATH

While it might take a long time to estimate your retirement needs if you were doing the math yourself, you can use one of the software programs often called retirement planning calculators available on financial services and educational Web sites or on CD-ROMS.

Some of these programs, and a number of the Web sites, have been developed primarily to provide an independent planning resource. Others are sponsored by mutual fund companies or brokerage firms that offer planning that incorporates an introduction to their own products and services.

These calculators are generally easy to use. All you have to do is plug in the financial information they ask for, along with details about your plans for the future. They will figure out how much more you'll need to invest to have enough money to retire.

If a financial planner or bank officer does the analysis for you, you may be charged a fee. They may be using programs similar to the ones you could use yourself for free, but they may also provide advise about how you might invest or rebalance the investments you have.

Please contact a Financial Advisor at MAM Wealth Management for more information

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