WHAT YOU SHOULD KNOW ABOUT RETIREMENT AT EVERY AGE

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What's the first thing that pops into your mind when you hear the word "retirement?"

If it's decades away, it may be the last thing on your mind right now—you've just made partner in your firm and your head is filled with thoughts of getting married, buying your first new home, or starting a family. Retirement seems like a long way off.

Perhaps you're dreaming about what your life will be like in several years when you transition from your work routine to the lifestyle you've been planning for all these years—traveling the world, moving to a favorite vacation spot, volunteering, or starting your own business.

Or are you wondering if your savings will last through your retirement years? That's the million-dollar question these days—and for good reason. You're concerned about the future of your nest egg and the unknown challenges ahead.

There are things you should know about retirement at every life stage, whether you're embarking on a new career after college, planning the life you envision in retirement, or finally reaping the rewards of your hard work in your later years.

HOW CONFIDENT ARE YOU ABOUT YOUR RETIREMENT FUTURE?

While many Americans are confident about their current financial health, they lack confidence in their retirement future. According to the 2019 Fidelity Investments'® Retirement Mindset Study, 62% of respondents feel confident about their financial health. However, 75% of those surveyed range from feeling only somewhat confident to not confident at all about their retirement—and only 18% have a plan.[1]

MORE THAN 10 YEARS AWAY FROM RETIREMENT: BALANCE SHORT-TERM NEEDS VS. LONG-TERM GOALS

With a long-term horizon to retirement, now is the time to leverage the power of compounding growth. Keep in mind small steps you start now can have a significant impact over a period of thirty or forty years. For instance, saving $6,000 per year in your twenties can add hundreds of thousands of dollars to your nest egg decades later due to the power of compounding. That's why it's so important to start saving for retirement now and maintain that habit over your lifetime.

Regardless of how far away you are from retiring, strive to put at least 10% of your compensation into savings. In addition to saving in pre-tax accounts such as employer retirement plans or individual retirement accounts (IRAs), try to diversify your assets regarding IRS tax guidelines by putting money in your Roth 401(k), Roth IRA, or an after-tax investment account. You'll be glad you have the flexibility to fund your retirement from pre-tax and after-tax savings.

Avoid relying solely on pre-tax savings to fund your entire retirement. Why? Because it will cost you $1.30 of pre-tax savings to get $1 after tax if you assume a 25% tax rate—so your $1.3 million pre-tax retirement account is really $1 million after tax.

The ‘catch 22’ dilemma. “This all sounds good in theory,” you may be thinking. But your salary can only stretch so far. You have all you can handle juggling the financial demands on your plate right now: rent or mortgage payments, childcare, insurance, education funding—the list goes on. If your earnings are not yet aligned with your career goals, this puts you in a “catch 22” dilemma.

That’s where the balancing act between short-term needs (and wants) vs. long-term goals (retirement) comes in. You need a plan—and 81% of Generation X and 87% of millennials don’t have one.[1] Start by jotting down your goals and dreams for retirement. It doesn’t have to be an elaborate, detailed plan—but you’re likely to stay on track and be motivated when goals are written. At the top of your list? Paying your future self first by allocating a portion of your income to long-term savings. More than 30% of the Generation X and millennials survey agree that starting to save whatever they could each month was the most helpful step toward reaching their goals.[1]

10 OR FEWER YEARS UNTIL RETIREMENT: STICK TO YOUR PLAN

This is the time to evaluate your “road map” to retirement and make sure you’re still on track to achieve your goals. Most likely you’re at the peak of your earnings years and expenses may be lower. You may be able to boost your savings rate if children are grown and financially independent. Consider it as a last kick before heading into retirement.

So how much do you have to save to ensure you can maintain your standard of living through retirement? It depends on the cost of your standard of living and the lifestyle you seek in retirement.

For example, let’s say you want an after-tax retirement income of $10,000 per month ($120,000 annually) using the 4% withdrawal rule. If $48,000 or 40% will come from Social Security, you’ll have to fund the remaining $6,000 per month ($72,000 annually). This projected income would require $2 to $3 million in savings, depending on the tax characteristics and asset allocations. If you double that amount and expect an after-tax retirement income of $20,000 per month ($240,000 annually), the $48,000 from Social Security would represent only 20% of your income. You would need to fund the remaining $16,000 monthly ($192,000 annually). This projection would require $5 to $6.5 million in assets, again depending on the tax characteristics and asset allocations.

It’s especially important to get a second opinion or professional advice at this stage. A Certified Financial Planner™ can evaluate your financial plan and assist with your strategy regarding retirement income, Social Security, Medicare, and investments. He or she can also help you determine if your numbers fit the lifestyle you seek. You and your spouse or partner, if you have one, should be involved in these conversations revolving around your goals and values so that the transition to retirement and change in lifestyle won’t be a shock when the time comes.

Above all, this is a time to take good care of your health—sleep well, eat healthy, and exercise. Good habits that maintain or improve your physical and mental health could significantly improve your long-term financial health. Additionally, less healthcare expense means more resources for your retirement goals.

ENJOYING RETIREMENT: REAP THE REWARDS OF YOUR WORK AND PLANNING

The moment you’ve worked for and dreamed about for so long has arrived—and your retirement years may be longer than you think. In fact, as life spans increase, some individuals may spend almost as much time in retirement as they spent working! As you tap into your retirement savings to provide the income you need to support your lifestyle, keep the following in mind:

- Make sure you have a strategy that is tax-efficient and helps preserve your wealth through your lifetime. Review your portfolio with your advisor on a regular basis. Adjust your assets accordingly to ensure they align with your retirement goals and tolerance for risk. Revisiting and updating your financial plan is as important in this stage as it was before retirement.

- Define your purpose and structure your time accordingly.
  - Maintain and build social networks to avoid isolation during retirement.
  - Decide what your next challenge will be: part-time work, leisure and travel, volunteering, a second career, a new hobby, etc.
- Address major health concerns and long-term care needs that may require leveraging different types of insurance or setting aside savings in low-risk investment vehicles.
- Get your estate plan in order. Decide what your legacy will be and how you want your wealth to be passed on to beneficiaries (e.g., family members and favorite charities). Make sure all legal documents are up-to-date and beneficiary designations are current.

ADVICE FOR INDIVIDUALS OF EVERY AGE

At every stage in life, there are different challenges and demands pulling us in many directions that may take our focus off retirement. Saving up for your first home, paying off student loans, funding children's education, financing a major home improvement project, weathering an economic downturn, on top of all the entertainment and vacations you'd like to enjoy. The key is balance. Focus on your immediate goals and enjoy life now but also sprinkle in a little bit of short-term sacrifice to ensure you're growing a solid retirement tree many years down the road. Also, it is never too late to prepare for retirement. As the saying goes, "the best time to plant a tree was 20 years ago. The next best time is now."

We can't predict the future when it comes to our personal lives, the economy, or the markets. However, Commerce Trust Company can help you respond to the unexpected and achieve the retirement lifestyle you envision while you focus on life—whatever stage you might be in—with peace of mind. Contact us today. We will listen to your concerns and offer tailored solutions to help turn your retirement dreams into reality.

[1] Source: Fidelity Investments® Retirement Mindset Study, ©2019 FMR LLC. All rights reserved.

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Koji is a financial planner for Commerce Trust Company. He is a member of the financial advisory services team, a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, Koji develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax and investment strategies along the way. In addition to his current role, he has also served as a private banking relationship manager with Commerce Trust. Prior to joining Commerce Trust, Koji was a client manager with Bank of America's wealth management group. Koji received his bachelor of arts degree from Colby College in Waterville, Maine, and has earned his CERTIFIED FINANCIAL PLANNER™ designation. Additionally, Koji is a member of the Kansas City chapter of the Financial Planners Association. He also serves on the board of Brookside Charter School in Kansas City, Missouri.