12 Things To Know Before Approaching Retirement

Increasing numbers of people are finding that retirement is staring them in the face before they are ready to leave the work force. The job that they had counted on to sustain them in their later years may have been a victim of company layoffs. Many are facing employment which pays less and, more importantly, the loss of pension or retirement plans that they thought would be theirs. It is so important to invest personal money and adequately prepare for the golden years.

Retirement planning is taking on greater importance these days as more and more people face involuntary termination because of corporate downsizing and changes in the American economy. The following 12 strategies can help you in the retirement planning process:

1. Know your retirement needs.

Retirement living is very expensive. How much are you saving for the future? Most financial planners recommend that you save 10 to 15 percent of your income. But many of us fall short of that goal. How much will you need to retire? How much will you need to save by the time you are 62, 65 or 66? Experts estimate that you will need at least 70 percent of your pre-retirement income to maintain your standard of living. If you are not making a moderately good living now, you may need as much as 90 percent of your current income in order to live comfortably in your retirement years.

2. Know your future financial needs.

According to the government figures on aging, only one-third of people now employed have attempted to learn how much they must save to achieve a comfortable retirement. Of those who have investigated it, still 42 percent remain unsure about how much money they will need to save in order to retire. How much do you need to retire on? The answer to this depends on the lifestyle you foresee during retirement. It depends upon how long you live and how long your family members historically have lived. The answer to this also depends upon your retirement goals. Do you plan to travel around the world? Do you plan to live just as you do now? How much money will you be passing on to your heirs? Some expenses will go down just because of your age. You won't be paying social security taxes, work expenses or contributing to retirement plans. However some expenses, like health care and travel may increase dramatically.

3. Anticipate your future housing needs.

When it comes to living arrangements, most older people prefer to remain in their own home during their later years, even if it means some remodeling in order to accommodate their health concerns. Even when frail and vulnerable or when afflicted with a chronic illness, people want to stay in familiar surroundings. This can mean hiring expensive health care professionals to come into their home to provide proper care. But often this is not possible when people have failed to save enough to meet such needs. Adequate income and assets are critically important to enable-well being in virtually all dimensions of life in our later years.

4. Know your physical condition and potential needs.

A wealth of information is available on maintaining physical and mental health, as well as achieving an adequate level of economic security to remain as independent as possible. You can live an active life in retirement. You can lead a productive life and enjoy retirement. The longevity of life in our day provides us with new opportunities for our retirement years. The aging of the American population presents us with both new challenges and new opportunities. Of course, this also heaps more responsibility upon us right now to prepare for that lengthened span of life. With long life becoming increasingly common, we realize that our retirement plans must address special needs that arise over a longer life span.

5. Learn about your employer's pension or profit-sharing plan.

Employment retirement plans are the most common sources of income that people have for retirement. Most employers do offer retirement plans for their employees. These plans are an excellent way to invest money for retirement. If your employer offers a plan, check to see what your benefits are. Find out about their plan and the details as to when and how you are vested. If you have changed jobs, go back to previous employers and ask whether or not you had any plan with them. Find out about any plans your spouse may have access to. Know what is available to you.

Also, you should know what vesting is. Vesting is a designated point at which you receive both employer's and employee's contributions if you need to leave the retirement plan due to a change in jobs. Once you are vested you receive both portions. Prior to that point in your time of job service, you will only receive back from the retirement plan the amount of money that you personally contributed and you will lose the amount that your employer contributed. This is a very important factor to consider before you make any job change.

6. Contribute to a tax-sheltered savings plan.

If your company offers a tax sheltered savings plan, such as a 401(k), sign up and contribute all that you can. Maximize your contributions starting now. Your taxes will be lower, your company might kick in a greater amount to match your contributions, and you can probably begin with automatic deductions from your paycheck. Over time, deferral of taxes and compounding on interest make a huge difference in the amount of money you will accumulate. For income during retirement, employees need to participate fully in these plans. If your employer matches your contribution to the plan, be sure to contribute as much as you possibly can.

If you change jobs and leave your current employer, consequently leaving your retirement plan, you may be able to roll over your retirement benefits into an IRA. However, you'll need some good professional advice to avoid making errors in this transfer of your money. The check to transfer your retirement money should be made out directly to the IRA account, which is often referred to as a direct transfer. If the check is mistakenly made out to you, you run the risk of taxes and a penalty for early withdrawal, which may be deducted from the check.

7. Find out about your Social Security benefits.

Generally, employers are required to withhold Social Security taxes for their employees. This amounts to 7.65 percent from paychecks and contributes a matching 7.65 percent from the employee's income for Social Security. If you have been married for ten years, you may be entitled to a spousal benefit when reaching age 62. Check with the Social Security Administration for your eligibility to this benefit.

Social Security benefits are a foundation on which people can build a secure retirement. For most retired Americans, Social Security is the largest source of income and may serve to keep them out of poverty. Call or go online (http://www.ssa.gov/) to contact the Social Security Administration about your specific account. You can get all the numbers and estimated projections about your retirement benefits. However, Social Security benefits were never meant to be the only source of retirement income. It needs to be supplemented with income from a company sponsored retirement plan, savings or income from other investments.

8. Put money into an IRA–Individual Retirement Account.

If you have earned income, you can set up an IRA. Earned income is the money you make from an employer or through self-employment. Unemployed spouses who do not work can also establish IRA's as long as their spouse has earned income. There are several IRA's, including traditional deductible IRA's, traditional non-deductible IRA's, education IRAs and Roth IRA's.

You can sock away thousands of dollars and delay paying taxes on the money until retirement with a traditional IRA. Or you can choose a Roth IRA, pay the taxes up front and not have to pay taxes at all on the accrued interest, dividends and appreciation when you retire. The earlier you begin, the more you will have for retirement. If you begin at age 30 to put aside only $2000 each year, by the time you are only age 60, you will have an accumulation of $112,170 using a very conservative return on your investment of just 4 percent. As of this writing, you are eligible to contribute $3,000 each year, $3,500 if you are over the age of 50.

9. Protect your savings.

Don't be tempted to dip into your retirement savings. Not only will you lose your principal and future interest, you may also face stiff penalties and lose tax benefits. If you change jobs, roll over your retirement benefits directly into an IRA or into your new employer's retirement plan.

10. Follow basic investment principles.

How you save and put money aside for retirement is as important as what and how much you save. Inflation and the types of investment vehicles play a very important role in how much you will have accumulated at retirement. Know how your funds are invested. Read books and understand what is going on with your money. Become knowledgeable. Trust yourself, instead of others for that final decision. Know what is going on in your financial world. Financial security and basic knowledge go hand in hand.

11. Remember the Rule of 72.

Let's take a minute to review the Rule of 72. This is an investing rule of thumb that calculates how long it takes to double your savings, given a certain rate of return. To use the rule, simply start with the number 72, then divide it by the rate of return that you expect to earn. The result becomes your investment horizon or the number of years it takes you to double your savings. For example, if the interest rate that you earn is 7.2 percent, it would take you 120 months or ten years to double your money. You must be aware, however, that the Rule of 72 does not include adjustments for income taxes or inflation. The Rule of 72 also assumes that you compound your interest yearly.

12. Be informed!

When you don't know about some investment vehicles or you don't understand the process, get help! Ask questions! When kids are growing up, they continually bombard you with questions, sometimes to the point of driving you nuts! When it comes to financial knowledge, drive someone else nuts! Not just one person. Ask the same question to several different people, so you can be sure of the correct answer. Get advice, read books, gather information, take care of yourself.

Bring order to your financial world by being informed. There are many investment options and opportunities available to people today. Investment opportunities that help an individual plan for retirement include buying a personal home, setting aside funds in an Individual Retirement Account, and contributing to deferred income plans such as a 401(k).

The variety of investment opportunities makes the decision for proper investment of finances very complex if an individual is not willing to do his own homework and learn about proper investing himself. A CPA, a Financial Planner, or any other professional won't be of much help. A person needs to trust only himself or herself when it comes to final investment decisions. Don't even trust your banker who wants to sell you CDs, mutual funds and annuities. Guess what? Your banker is a commissioned salesperson whose office happens to be at the bank! Just remember, no investments in equity issues are without risk.