5 Myths About Retirement Planning

Myth #1: "It's too early to plan for my retirement."

Whether you are close to retirement or many years away, it is never too early or too late to plan for retirement. You control your financial future by identifying your retirement needs, setting money aside and making wise investment decisions now. Tell some young family to start now to prepare for retirement and they stare in disbelief. They feel that they are still young and have lots of time before they need to save for retirement.

But the earlier a family starts, the more they will be able to salt away some great savings. That is because time is money and the power of compound interest is enormous. Assume you want to build a $100,000 nest egg by age 65 and that you can earn 10 percent on your money. You need to contribute only $16 per month if you start saving at age 25. If you wait till you're 35, you need to contribute $44 per month. The necessary contribution rises to $131 per month if you wait till 45 and skyrockets to $484 per month if you wait till 55.

Here is another example for you. Suppose you are a young person twenty years old. You start saving or investing just $21.40 each week and attain an average of 10 percent on your investment over a 45 year period. By the time you reach the retirement age of 65, your account would be worth $1,001,711.36. Over one million dollars! This shows you the power of investing just a little bit over the long haul.

On the other hand, some older couples excuse their lack of saving by thinking that they are too old to start saving for retirement. While it is very true that you can't make up for lost time and opportunity, it's never too late to start saving. Someone who takes early retirement at age 55 may still be going strong 30 years later. You'll have to contribute more to your retirement savings account than if you started it decades ago, but the time to start saving seriously is now.

Myth #2: "I Don't Need a Specific Plan"

No one actively plans to fail in providing for a comfortable old age. They simply fail to plan. Our grandparents faced different problems with money than we do. They were frightened by bank failures and the depression and tended to put their money into just three places—a home, a bank and insurance. Today, we have to be prepared for the havoc that inflation can play on our investments over the long term, as well as corporate fraud or an up-and-down economy.

Working men and women of all ages need to have a greater understanding of how to prepare for retirement. Increasing numbers of people are finding that retirement is staring them in the face before they're ready to leave the work force and that it's harder than ever to amass the nest egg they thought they'd have in their golden years. There are a number of common misunderstandings that could be dangerous to the future financial health of any working individual.

One common misunderstanding is that the conservation of principal should be a person's main priority. This is not always the case. Inflation is the deadliest money-killer over time and can result in a guaranteed loss of principal. It's not simply what you make on your money that counts; it's what you make over and above inflation that really matters. So your goal should be to conserve purchasing power, not just principal.

Myth #3: "I'll be able to live on a lot less when I retire."

One real misunderstanding is that many people think that, upon retirement, they will be able to live on a lot less than they do now. While it is a nice little myth to tell oneself, it is hardly the truth. The only bills that will stop are your mortgage payments (only if you plan ahead for this to happen) and any educational costs you may now be paying. Your medical bills will almost certainly rise. Expect higher costs of food, fuel, clothing, transportation and insurance, too. This does not even include new taxes and upkeep on your home, even if it has been paid in full.

With the federal deficit continuing to balloon beyond our country's ability to finance its expenditures out of current receipts, higher taxes will be necessary to pay for the future health and retirement costs of our aging population. The only way you'll be in a lower tax bracket will be if you wind up living on a lot less money than you are today and that will mean you'll wind up in worse financial shape and be subjected to a more humble lifestyle.

Myth #4: "Social Security is all I'll need."

Although Social Security benefits may indeed be there, don't put a lot of faith into the system if you are 40 years of age and younger. Even company pensions are rapidly disappearing. As the downsizing of American business continues, many companies are folding their retirement plans or replacing them with less generous ones. And when the current generation of middle-aged workers retires, there probably won't be enough people left in the work force to fund Social Security benefits at the level to which today's retirees are accustomed.

Some people argue that living costs will be less because there will only be the two of them. Don't be too sure. These days, more and more adult children are moving back home because of economic setbacks or divorce. Many times the grandkids come with them.

It is even common for children to go to college and then move back home. The result? More food to buy, more utilities to pay, etc. The greatest service you can do for your kids is to raise them to be independent, to live within their means and to develop an appreciation for the value of hard work.

Myth #5: "I just need to live for the moment."

Some people seem to live only for the moment. They figure that, when they get old, someone will have to take care of them. Besides, they want to have fun now and enjoy life. They think that saving and investing will cramp their lifestyle. Well certainly it will cut back on the amount of cash flow available for fun things, but if a person will save just 10 percent of their current disposable income for retirement after taxes and tithing, they will still have 90 percent left for today.

An inability to live comfortably on 90 percent of your disposable income now means there is a problem with overspending. Saving and spending are not conflicting goals. Saving is merely not spending today so you can spend more tomorrow. And if you don't die young, you'll have plenty of time to savor the fruits of your frugality later on in retirement years.

Everyone needs a clearer vision of their retirement needs and the peace of mind that comes with knowing they are initiating an investment plan. Certainly, you should do a lot of reading from a variety of sources before making any kind of life-changing decisions. A person needs to read and become familiar with their personal retirement needs as well as pinpoint their goals and identify investment strategies. This information is not designed to take the place of a tax advisor or financial planner, but is simply a means to help you begin thinking about how to approach the basic planning process.