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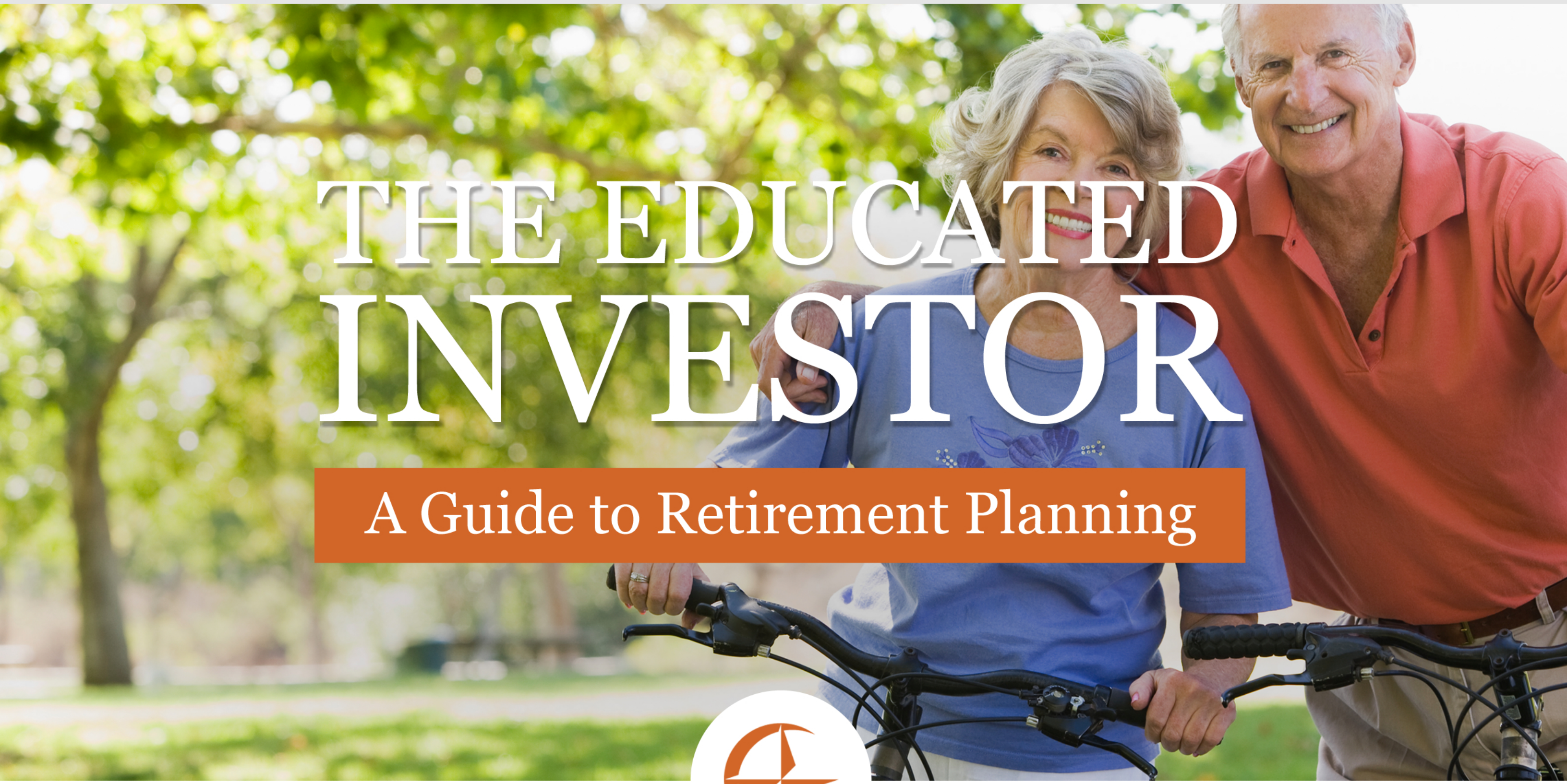
Estate & Retirement Specialists



FEATURED ARTICLE

Understanding Your Retirement Income Replacement Ratio

Although the term retirement income replacement ratio sounds formidable, it's actually an easily understood concept that doesn't require any fancy math. The ratio helps you zero in on your retirement savings goal and periodically measure your progress as you move toward your target.

Will you need 60%, 75%, 90%, or even 100% of the income you have in your last year of work to maintain a desirable standard of living after you retire? The answer to this question is your income replacement ratio -- the percentage of your preretirement earnings that will provide you with the same standard of living in retirement. For example, if your preretirement income is $50,000 but your income after retirement is $35,000, you have a replacement ratio of 70% ($35,000 divided by $50,000).

Setting the Foundation of Your Plan

Widely used by financial planners, replacement ratios are common elements of worksheets, online calculators, and computer software programs created to help individuals plan how they will finance their retirement years.

With the ratio, you can estimate how much income you will likely need for a comfortable retirement and how much money you need to save to supplement your expected sources of income -- which may be some combination of Social Security, pension benefits, personal investments, and postretirement employment. If these income sources fall short of your goal, you can increase your rate of saving or take other actions to close the projected deficit, such as planning to reduce your standard of living or moving to a lower-cost locale in retirement.

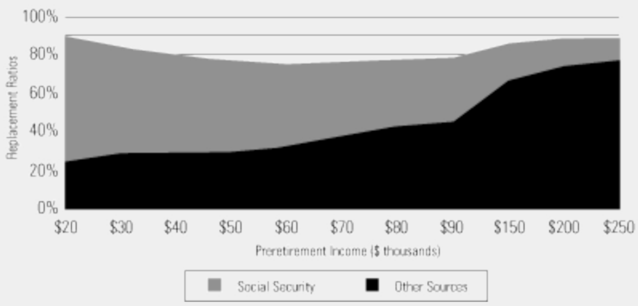
What Research Tells Us

Opinions vary on the question of how much replacement income retirees need. One major study found that the majority of newly retired households were in good shape when income from traditional pensions, 401(k)s, IRAs, and other financial assets were added to Social Security benefits. Their replacement rates approximated the 65% to 75% of preretirement income that the authors considered adequate for middle-income retirees. However, the one-third of households without a pension or other assets earmarked for retirement did not fare as well, with replacement rates of 45% to 55%.

Research also indicates that lower-income and higher-income households are likely to require higher-income replacement rates than middle-income households. According to one landmark analysis, replacement ratios average 89% for those with a preretirement income of $20,000 and 88% for those earning $250,000 but 75% for those earning $60,000 (see chart).

Replacement Ratios at Different Income Levels

Replacement ratios peaked at 89% for a couple with annual preretirement income of $20,000. They declined to 75% for those earning $60,000 and increased to 88% for high-income households. Also note that Social Security replaces a much larger portion of preretirement income for lower-paid individuals than those with higher incomes.



Source: Employee Benefit Research Institute, EBRI Notes, September 2004 (most current data available). Assumes a family situation with one wage earner who retires at age 65 and has a spouse age 62.

Bottom line: Many people may need between 60% and 80% of their final working years' income to maintain their lifestyle after retiring.

Why don't they need 100% of their working income? Lower taxes may be one reason. When a person is no longer employed, there are no Social Security payroll taxes to pay. Federal income taxes are usually lower because Social Security benefits are either partially or fully tax free for many retirees, and extra deductions are available for people over age 65. In addition, many people no longer need to save for retirement, and those who have paid off debts before retiring or eliminated work-related expenses, such as commuting costs, also have a greater share of their income available for spending.

However, one increasingly important curveball is the rising cost of medical care. Already, medical care has been taking a bigger bite out of retiree budgets as health care expenses have risen at a faster pace than overall inflation; many employers have reduced or eliminated medical coverage for retired employees; and life expectancy has lengthened. In addition, retirees have faced higher contributions for Medicare benefits and increased premiums for Medicare supplemental insurance policies.

The Outlook for Future Retirees

While research indicates that recent retirees and those nearing retirement tend to have adequate replacement income, the situation may not be so favorable in the future due to the declining availability of traditional pensions. For example, the increasing financial strains on Social Security caused by the nation's aging population may lead Congress to alter the system at some point in the future, perhaps reducing Social Security benefits or increasing the age of eligibility. As a result of these trends, future retirees may have to rely more on income from personal savings and investments than today's retirees.

What You Can Do

Putting yourself on track to a secure retirement requires a few calculations, which can be accomplished relatively easily by using a retirement planning worksheet or calculator available on the Internet, from financial advisors, and retirement plan providers. For example, the Ballpark Estimate at www.choosetosave.org takes you through the steps so you see approximately how much you may need to save to finance your later years.

Calculators and worksheets typically factor in a replacement income ratio, along with assumptions about future inflation rates, longevity, and the growth rate of retirement savings. (As you complete these calculations, bear in mind that such assumptions can't be guaranteed.) Calculators and worksheets also usually take into account information about your current retirement account balances, rate of savings, and anticipated benefits from outside sources including Social Security and pensions.

In addition to setting your initial savings target, it's a good idea to go back and run the calculations every year or so to keep tabs on how you are doing and to adjust your plan if your goal changes.

While ballpark estimates may be adequate when retirement is a long way off, more accurate planning is advisable as the actual date approaches. If you don't feel up to the task of refining the numbers, consult a financial advisor. He or she can help you develop detailed income and expense projections, review your assumptions about inflation and future returns from savings and investments, and determine a prudent level of withdrawals from your assets.

Points to Remember

1. Retirement income replacement ratios compare preretirement and postretirement income with the aim of determining how much income will be needed to maintain a comfortable retirement. They are calculated by dividing expected retirement income by preretirement income.

2. Because of reduced taxes and other factors, many retirees may need a replacement income ratio of 60% to 80% to maintain the same standard of living they had before they stopped working.

3. Determining a replacement income ratio is the first step in setting a retirement savings goal to make up for any shortfall in income needed for retirement.

4. Ballpark estimates of retirement expenses and income can be used in long-range retirement planning, more accurate and detailed calculations should be undertaken when retirement is close at hand.

Source/Disclaimer:
Source: Center for Retirement Research at Boston College.
Source: Employee Benefit Research Institute, September 2004 (most current data available).

Redefining Retirement in the 21st Century

*When a man retires and time is no longer a matter of urgent importance, his colleagues generally present him with a clock. - **R.C. Sheriff***

The days may be over when a gold watch is a somewhat ironic and less-than-useful gift for a retiree. If the experts are on target, retirement in the next century will scarcely resemble the conventional image of lazy days spent on cruise ships and golf courses. You might plan to open a business of your own. Or perhaps you'll return to school for that graduate degree you never had the chance to complete. Of course, you'll probably still find time to sit back and put your feet up.

Creating a New Life Cycle

At the turn of the 20th century, the average life expectancy was 47 years. Today, the average American newborn can look forward to about 78 years of life. What's more, the average life expectancy for today's 65-year-old has increased to 84, according to the National Center for Health Statistics.

What's behind this trend? Some causes are obvious, such as improved health care, both early on in the form of preventive medicine and during the later years of life. Medical advances, including hypertension drugs and hip replacements, allow older Americans to remain active. Healthier lifestyles are also a contributing factor.

"People are treating their bodies with greater respect," said Dr. Sanford Finkel of the Buehler Center on Aging at Northwestern University. "They're giving up smoking, learning to eat right, and exercising regularly. Inevitably, these trends lead to healthier, longer, more productive lives."

The result is a new way of thinking about age. In her best-selling book, New Passages, Gail Sheehy argues that the "mid-life passage" generally thought to take place at age 40 now occurs a decade later. The period between ages 45 and 65 is no longer middle and old age, according to Sheehy, but a "second adulthood." Psychologist Ken Dychtwald, chief executive officer of Age Wave Inc., a California-based consulting firm, also sees new lines being drawn. Using his model, ages 25 to 40 represent young adulthood, while ages 40 to 60 comprise a new stage known as "middlescence." Next comes late adulthood (60 to 80), followed by old age (80 to 100), and very old age (100+).

But perhaps more important than the categories is the effect that longer, healthier lives may have on the traditional life cycle of education, work, and retirement. It will be replaced by a less linear cycle, according to Dychtwald, who predicts short-term retirements, followed by any combination of career shifts, part- or flex-time work, entrepreneurial endeavors, and continuing education peppered with occasional "mini-retirements."

Plan for the New Retirement

So what does this redefined retirement mean to you? There is no one answer. In the coming decades, "retirement" will mean something different to each of us. Regardless of your decision, you'll need to design a financial plan suited to your specific vision of the future.

Retirement Income -- A good starting point might be to examine your sources of retirement income. If you pay attention to the financial press, you've probably come across at least a few commentators who speak in gloom-and-doom terms about the future for American retirees, decrying a lack of savings and warning of the imminent growth of the elderly population.

True, there is widespread concern about at least one traditional source of income for retirees -- Social Security. Under current conditions, Social Security funds could fall short of needs by 2033, according to the Social Security Administration. But the reality is that Social Security was intended only to supplement other sources of retirement income. In fact, Social Security benefits account for only 36% of the aggregate income of today's retirees, according to the Social Security Administration.

Even pension plans, once considered a staple of retirement income, only account for 18% of the retirement-income pie. In recent years, employers have been moving from traditional defined benefit plans based on salary and years of service to defined contribution plans, such as 401(k) plans, funded primarily by the employees.

This shift makes it even more important for individuals to understand their goals and have a well-thought-out financial plan that focuses on the key source of retirement income: personal savings and investments. Given the potential duration and changing nature of retirement, you may want to seek the assistance of a professional financial planner who can help you assess your needs and develop appropriate investment strategies.

As you move through the various stages of the new retirement, perhaps working at times and resting at others, your plan may require adjustments along the way. A professional advisor can help you monitor your plan and make changes when necessary. Among the factors you'll need to consider:

Time -- You can project periods of retirement, reeducation, and full employment. Then concentrate on a plan to fund each of the separate periods. The number of years until you retire will influence the types of investments you include in your portfolio. If retirement is a short-term goal, investments that provide liquidity and help preserve your principal may be most suitable. On the other hand, if retirement is many years away, you may be able to include more aggressive investments in your portfolio. You will also need to keep in mind the number of years you may spend in retirement. Thirty years of retirement could soon be commonplace, requiring a larger nest egg than in the past.

Inflation -- Consider this: An automobile with a price tag of $20,000 today will cost $29,600 in just 10 years, given an inflation rate of just 4%. While lower-risk fixed-income and cash equivalents may play an important role in your investment portfolio, if used alone they may leave you susceptible to the erosive effects of inflation. To help your portfolio keep pace with inflation, you may need to maintain some growth-oriented investments. Over the long-term, stocks have provided returns superior to other asset classes.2 But also keep in mind that stocks generally involve greater short-term volatility.

Taxes -- Even after you retire, taxes will remain an important factor in your overall financial plan. If you return to work or open a business, for example, your tax bracket could change. In addition, should you move from one state to another, state or local taxes could affect your bottom line. Tax-advantaged investments, such as annuities and tax-free mutual funds, may be effective tools for meeting your retirement goals. Tax deferral offered by 401(k) plans and IRAs may also help your retirement savings grow.

Prepare Today for the Retirement of Tomorrow

To ensure that retirement lives up to your expectations, begin establishing your plan as early as possible and consider consulting a professional. With proper planning, you can make retirement whatever you want it to be.

Points to Remember

1. As people live longer and healthier lives, retirement begins to take on a whole new look.

2. You'll need to develop a financial plan suited to your specific vision of the future.

3. Under current conditions, Social Security funds could fall short of needs by 2033.

4. You will need to rely on your own personal savings and investments for the majority of your income in retirement.

5. Keys to determining your financial plan are time, inflation, and taxes.

Source/Disclaimer:
Source: *Bureau of Labor Statistics, November 2009. (Most recent available data.) Past performance is no guarantee of future results. Stock investing involves risk including loss of principal. No strategy assures success or protects against loss. The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual.*

Chocolate-Mint Shamrock Cupcakes Recipe

Ingredients

* 1 package chocolate cake mix (regular size)
* Pencil, paper, scissors and waxed paper
* 1 cup light green candy coating disks
* 24 chocolate wafers
* 2 tablespoons corn syrup, warmed
* Gold pearl dust
* 2 packages (4.67 ounces each) mint Andes candies, chopped
* 1/2 cup heavy whipping cream

Directions

1. Prepare and bake cake batter according to package directions for cupcakes; cool completely.

2. Meanwhile, with a pencil and paper, draw shamrock design. Cut out pattern. Melt candy coating in a microwave-safe bowl; stir until smooth. Transfer to a resealable plastic bag; cut a small hole in corner of bag. Place waxed paper over the pattern; pipe a shamrock design. Repeat 23 times. Refrigerate until set.

3. Lightly brush wafers with corn syrup; brush with pearl dust. Gently lift candy shamrocks from waxed paper. Lightly brush bottoms with corn syrup; attach to wafers. Set aside.

4. Place Andes candies in a small bowl. In a small saucepan, bring cream just to a boil. Pour over candies; whisk until smooth. Cool slightly, stirring occasionally. Dip cupcakes into melted mints; let stand until set. Press a shamrock-topped wafer onto each cupcake.

Yield: 2 dozen.