[Golden1 podcast: retirement planning]

"How to retire comfortably"

HOST

Hi, welcome to this episode of the Golden1 podcast!

If you've ever questioned how you're going to afford retirement, you've come to the right place! This episode is all about overcoming the challenges to planning your long-term financial future.

To get everyone on the same page, let's go over the basics of retirement first. When you retire, your income will be significantly reduced. Now, it's true that you may be spending less. A general rule of thumb is that retirees' expenses are 70-80% of what they were before retirement. But really, it's a case by case basis. If you plan to travel the world every year or take up an expensive hobby while maintaining the lifestyle you're already used to, you can end up spending more than you do now.

If you've been paying into Social Security throughout your career, there's good news. Expect to receive a modest stream of income from the government once you retire, based on the earnings you made while working. The current minimum age to receive Social Security benefits is 62. But the earlier you elect to get benefits, the smaller the amount will be, since it will potentially have to last longer as you enjoy your post-career life. The other important thing to remember is that you shouldn't count on Social Security alone. In most cases, it will only cover a fraction of your monthly costs.

With Social Security comprising only one part of what you need to fund retirement, you have to figure out a plan for the rest... And that brings us to long-term investment accounts. This is the main way that most people save for their golden years. Let's go over what these are and how they work.

If you're employed, then you may know about employer-sponsored plans. The most common of these is the defined-contribution plan. But you might know it by its more popular name, the 401(k) (or 403(b), if you work for a nonprofit). Employees contribute a portion of their paycheck pre-tax, meaning you don’t have to pay taxes on it. In fact, you don’t have to pay taxes on your contributions or your earnings until you withdraw the money, which for many people, is years later in retirement.

If you choose a retirement plan outside of your employer, you can select an Individual Retirement Account, or IRA. You can open these at financial institutions such as credit unions, banks or mutual fund companies. Traditional IRA’s are similar to 401(k)’s in that you don’t have to pay taxes on contributions, only withdrawals. But Roth IRAs, another popular retirement plan, are different. You pay taxes on the contributions but not your earnings or qualified withdrawals. Which IRA is better for you will depend on your individual income and financial needs.

No matter what kind of retirement account you go with, they’re all based on investments. Your investment options include stocks, bonds, and cash equivalents. How much you earn on these investments depends on how their value changes, how much you contribute, and when you start contributing. If you’re beginning a plan for the first time, it’s recommended that you seek the guidance of a financial advisor to choose a mix of investments that suit your financial goals and comfort level.

Okay, now that we’ve covered your long-term saving strategy, we should talk about the types of financial challenges that you might face at retirement, so you can plan accordingly. The first may be a complicated blessing... these days people are generally living longer. If you retire at, say, age 65 and live to 85, you’ll have lots of free time to enjoy, but that also means you need to stretch your retirement funds for quite a while. Factor that in to your retirement plan.

Another thing to consider is the cost of healthcare. People generally need more care as they age, and Medicare will only cover part of your medical expenses. In fact, many seniors pay several hundred dollars out of their own pocket for prescriptions and co-payments on a monthly basis. While there is no way to completely prevent trips to the doctor, keeping yourself healthy now can have positive, long-term effects on your body and your wallet. A balanced diet, avoiding smoking and regular exercise are examples of activities that may save you money on medical treatment now and later.

The last challenge you’ll have to deal with is inflation. The costs of goods and services rises over time. For example, something that costs $10,000 today will jump to $18,000 in 20 years, assuming a rate of 3 percent inflation. The only way to keep up with inflation at retirement is to contribute the appropriate amount to your saving plan over time.

Remember, while retirement may be far off, you need to start saving now. Investing your money in a good plan and preparing for other potentially expensive challenges is key to being comfortable later in life.

Well, that wraps it up for this episode of the Golden1 podcast. Until next time, thanks for listening!

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