[V20N1]

Close your eyes for a moment — now try to picture yourself on the first day of your retirement. Your last day of work is behind you; there is no alarm clock jolting you out of sleep. You awaken on your own and you have the rest of your life ahead of you. Are you happy about your prospects? Relaxed? Energized? Excited? Now open your eyes.

Your retirement can be whatever you want it to be. In decades past, retirement was a time of rest and relaxation. That might be what you want — but it might not be. Today's retirees are:

<CLICK> traveling and going back to school
<CLICK> helping to care for their grandchildren and volunteering
<CLICK> starting new businesses, playing sports, and exploring hobbies.

Put simply, today's retirees are living long and active lives. So what do you see yourself doing?

Some people even continue to work, not necessarily because they have to, but because they want to. However, even these folks should plan for the possibility that they may not be able to work at some point.

Today, we're here to help you wake up on the first day of retirement with the confidence of knowing you have planned well. So let's not spend any more time daydreaming. Let's get started.

First, let's consider how long retirement might last.

With advancements in medical care and more attention being paid to healthy lifestyles, today's retirees are living longer than ever before. You could live to be 75, 85, 95, maybe even 105!

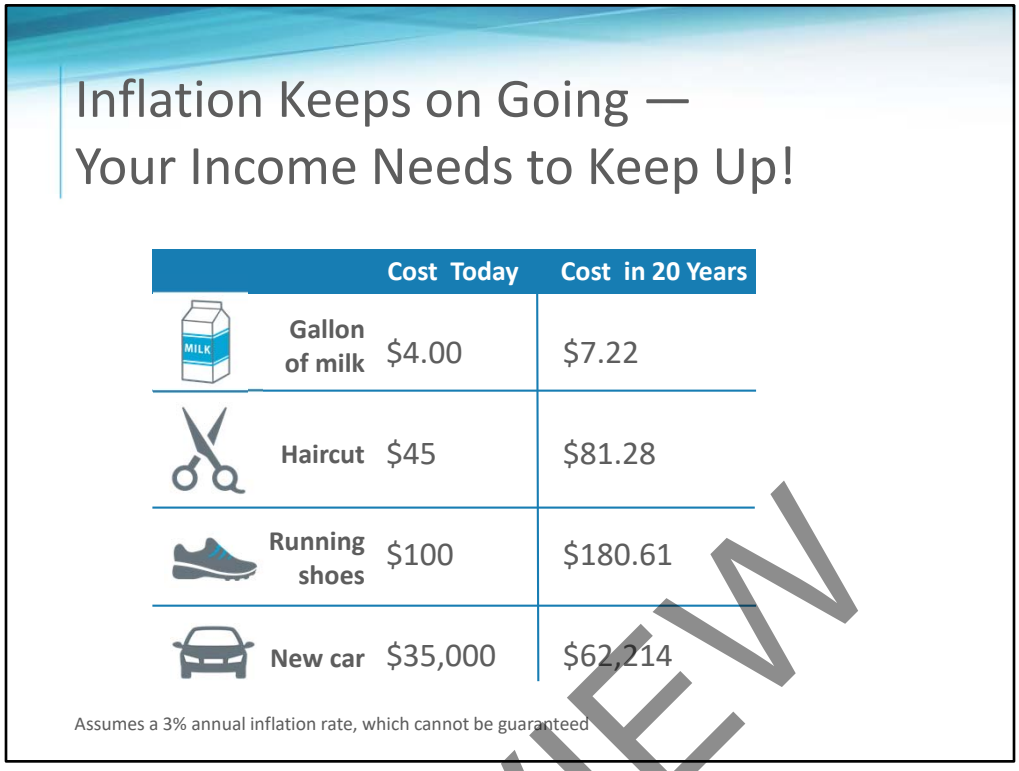
While that's great news, the other side of the coin is that you'll need enough money to provide income for a retirement that could last <CLICK>

<CLICK> 10
<CLICK> 15
<CLICK> 20
<CLICK> even 25 years or longer.

So how much will you need for retirement?

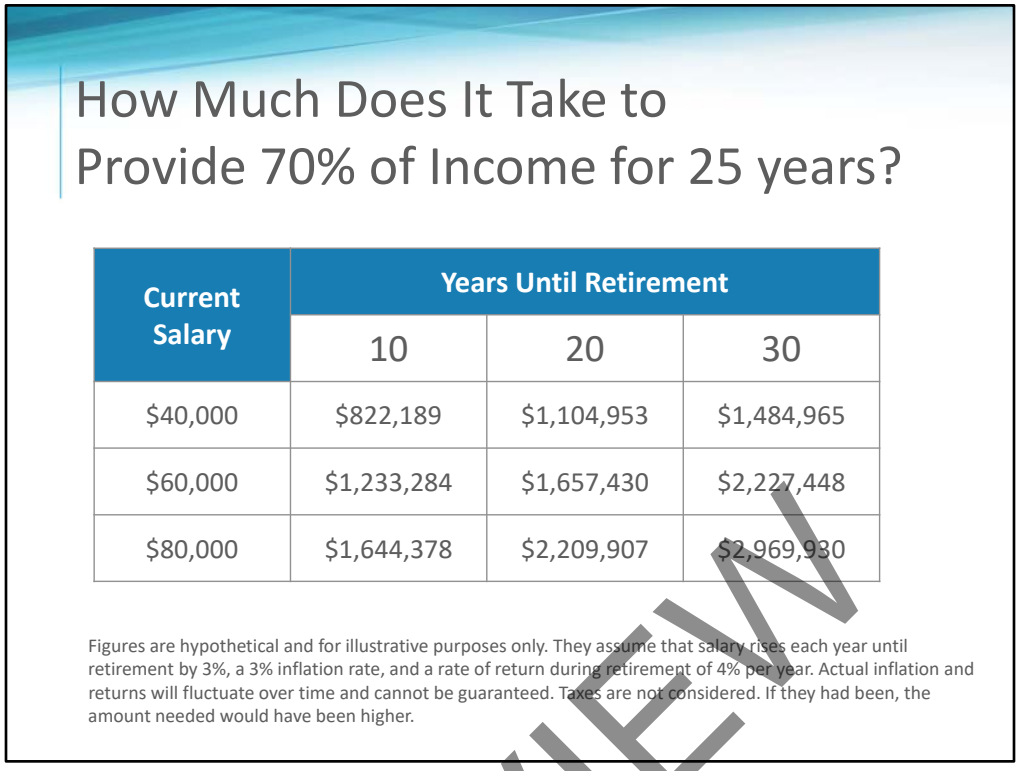
<CLICK> A general rule of thumb says that you should plan for between 70% and 100% of your final working income each year during retirement to live comfortably. Of course, the exact percentage will depend on a number of factors, including your desired lifestyle and your health. But those percentages provide a good estimate.

<CLICK> For example, if you retire making $75,000 a year and decide that you can live on 70% of that amount during retirement, that means you would need about $52,500 in your first year of retirement. Part of that $52,500 could come from Social Security, a traditional pension plan, rental income from properties you may own, or other assets. But part of it — perhaps a large part of it — will likely come from how much you save through your employer's retirement savings plan, if you take advantage of this opportunity.



But that $52,500 won't be enough every year of your retirement. Since the overall cost of everyday living typically rises each year, your annual retirement income will need to increase each year as well.

This table provides an idea of how much the costs of a few common items could rise over 20 years. At just a 3% inflation rate, which is the approximate average over the long term (Source: Bureau of Labor Statistics, Consumer Price Index, 2020), those goods would nearly double in price.



Now let's take a minute to look at this table, and understand what it's illustrating. Before we review the numbers more closely, consider that these figures assume that you start with no savings, and that you will have no other sources of income in retirement — not even Social Security. Basically, it's a worst-case scenario. The table is simply meant to give you a general idea of how much it actually takes to provide 70% of your final working salary for a retirement that will last 25 years.

For example, someone who currently makes $40,000 a year and is planning to retire in about 10 years may need to accumulate more than $800,000 to provide the equivalent of 70% of his or her final working income for 25 years.

On the other end of the spectrum, someone who makes $80,000 and is planning to retire in 30 years may need nearly $3 million! That's a big nest egg.

Keep in mind that this table is for illustrative purposes only and assumes many factors that cannot be guaranteed. These include a 3% annual rise in salary before retirement, a 3% annual inflation rate both before and during retirement, and a 4% annual rate of return earned on savings during retirement. Inflation, salary increases, and rates of return will change from year to year.

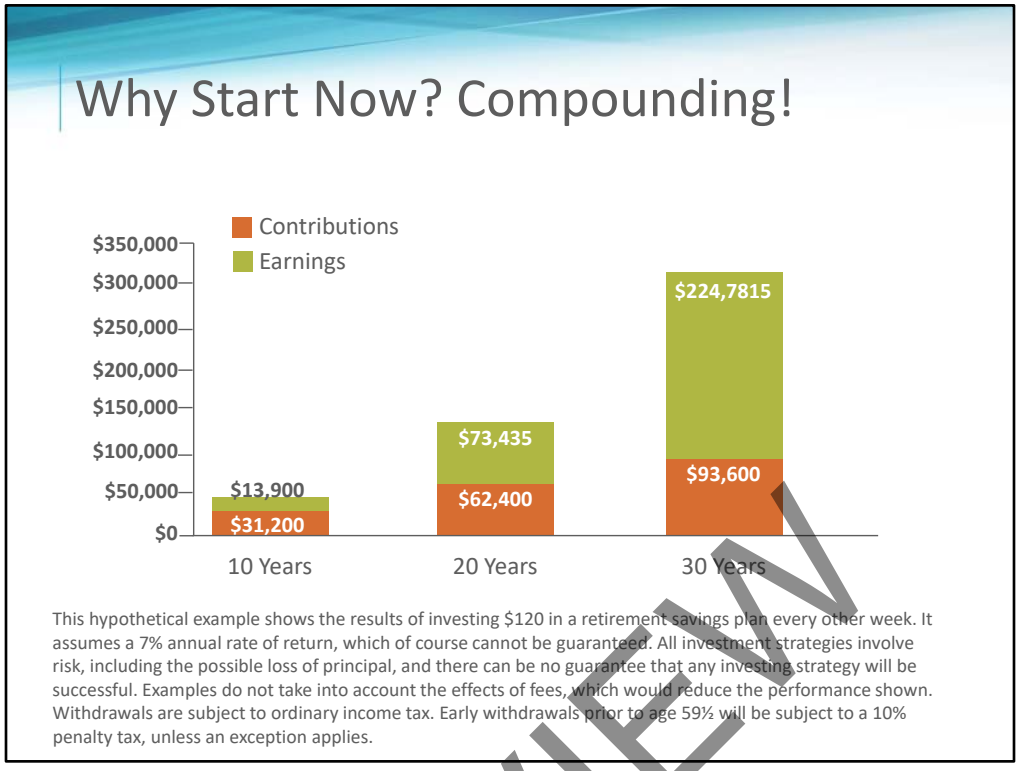
The main reason we're looking at this table is to get an idea of the true cost of retirement, and to shine a spotlight on the importance of planning and contributing now.

So what about Social Security?

<CLICK> Can’t you just assume your Social Security benefits will be enough?

Though Social Security is an important source of retirement income for many, it was never intended to be the main source of retirement income. And due to the increasing strain put on the system in future years due to rising numbers of retirees, some changes may be inevitable.

<CLICK> So it’s probably best to view Social Security with a bit of caution. Think of your Social Security payments as a safety net, and assume that they will provide *a* source of income, but not your *main* source of income.



Now that you understand why it's so important to plan ahead for retirement, let's examine why it's also important to start contributing now rather than putting it off until later.

This chart shows the benefits of compounding. Basically, when you contribute to your retirement savings account, the intention is that your contribution dollars will earn returns. Then those returns could potentially earn returns themselves … and so on. The more you contribute to your plan, the more you may earn, and the more those earnings can work for you by earning additional returns. Of course, keep in mind that your investments may earn very little or even nothing at all; it's also possible that you could lose your contribution dollars. But assuming you do earn money, and those earnings earn returns themselves, over time the process can snowball. That's compounding. And the longer your time horizon, the more powerful the effects of compounding can potentially be.

This hypothetical example shows the results of investing $120 in a retirement savings plan every other week. It assumes a 7% annual rate of return, which of course cannot be guaranteed.

Let's take a close look at the results. After 10 years, you would have invested a total of $31,200 and had earnings of $13,900, for a total of $45,100. That's pretty good. After 20 years, you would have invested $62,400 and had earnings of $73,435, for a total of $135,835 — even better. And after 30 years, you would have invested $93,600 and had earnings of $224,781, for a total of more than $300,000. That's compounding at work. The sooner you start saving, the less you may have to set aside to adequately pursue your goals.

There will always be competition for your hard-earned dollars — mortgage, rent, car payments, college payments, tablets, mobile phones, and other gadgets (and perhaps kids who want their own tablets, mobile phones, and other gadgets). But when you look at the examples in this chart, you can see how delays in saving for retirement can be very costly. Even if it's just a small amount every pay period, start contributing today. Small amounts can add up over time through the power of compounding.