RAYMOND JAMES

The basics of retirement planning

You may have a very idealistic vision of retirement – doing all of the things that you never seem to have time to do now. But how do you pursue that vision? Social Security may be around when you retire, but it may not provide enough income for your retirement years. In addition, few employers today offer a traditional company pension plan that guarantees you a specific income at retirement. And with people living longer than ever, it's crucial to determine how you'll fund those additional retirement years.

Fortunately, retirement planning is easier than it sounds. Here are some basic steps to help get you started.

DETERMINE YOUR RETIREMENT INCOME NEEDS

It's common to discuss desired annual retirement income as a percentage of your current income, which could be anywhere from 60% to 90% or even more. While this approach seems straightforward enough, it fails to account for your unique situation.

To determine your specific needs, you may want to estimate your annual retirement expenses. Begin by using your current expenses, but note that your expenses may change by the time you retire. If you're nearing retirement, the gap between your current expenses and your retirement expenses may be small. If retirement is many years away, the gap may be significant, and projecting your future expenses may be more difficult.

Remember to also take inflation into account. The average annual rate of inflation over the past 20 years has been approximately 2.2%.*

Keep in mind that your annual expenses may fluctuate throughout retirement. For instance, if you own a home and are paying a mortgage, your expenses may drop if the mortgage is paid off by the time you retire. Other expenses, such as health-related costs, may increase in your later retirement years. A realistic estimate of your expenses could help tell you about how much yearly income you may need to live comfortably.

*In addition to any income taxes owed, a 10% premature distribution penalty tax may apply to taxable distributions made from employer-sponsored retirement plans, IRAs and annuities prior to age 59 1/2, unless an exception applies.

CALCULATE THE GAP

Once you have estimated your retirement income needs, take stock of your estimated future assets and income. These may come from Social Security, a retirement plan at work, a part-time job and other sources. If estimates show that your future assets and income could fall short of what you need, the rest would have to come from additional personal retirement savings.

FIGURE OUT HOW MUCH YOU'LL NEED TO SAVE

By the time you retire, you'll need a nest egg that could provide you with enough income to fill the gap left by your other income sources. But exactly how much is enough? The following questions may help you find the answer:

- At what age do you plan to retire? The younger you retire, the longer your retirement will be, and the more money you'll need to carry you through it.
- What is your life expectancy? The longer you live, the more years of retirement you'll need to fund.
- What rate of growth can you expect from your savings now and during retirement? Be conservative when projecting rates of return.
- Do you expect to dip into your principal? If so, you may deplete your savings faster than if you just live off investment earnings. Build in a cushion to guard against these risks.

BUILD YOUR RETIREMENT FUND: SAVE, SAVE, SAVE

When you know roughly how much money you'll need, your next goal is to save that amount. First, you'll have to map out a savings plan that works for you. Assume a rate of return that you are comfortable with, and then determine approximately how much you'll need to save every year between now and your retirement to reach your goal.

The next step is to put your savings plan into action. It's never too early to get started (ideally, begin saving in your 20s). To the extent possible, you may want to have certain amounts taken directly from your paycheck and automatically invested in accounts of your choice, such as 401(k) plans or payroll deduction savings. This could help reduce the risk of impulsive or unwise spending that could threaten your savings plan. If possible, save more than you think you'll need to provide a cushion.

UNDERSTAND YOUR INVESTMENT OPTIONS

You need to understand the types of investments that are available and decide which ones are right for you.

If you don't have the time, energy or inclination to do this yourself, hire a financial professional. They can explain the options available to you and assist you in selecting investments that are appropriate for your goals, risk tolerance and time horizon.

USE THE RIGHT SAVINGS TOOLS

The following are among the most common retirement savings tools. But remember that there are others available.

Employer-sponsored retirement plans that allow employee deferrals (such as 401(k), 403(b), SIMPLE and 457(b) plans) are powerful savings tools. Your contributions come out of your salary as pre-tax contributions, thus reducing your current taxable income, and any investment earnings are tax-deferred until withdrawn.

Since these plans often include employer-matching contributions, they should be your first choice when it comes to saving for retirement. Both 401(k) and 403(b) plans can also allow after-tax Roth contributions. Additionally, while Roth contributions don't offer an immediate tax benefit, qualified distributions from your Roth account are free of federal – and possibly state – income taxes.

IRAs, like employer-sponsored retirement plans, feature tax-deferral of earnings. If you are eligible, traditional IRAs may lower your current taxable income through deductible contributions. Withdrawals, however, are taxable as ordinary income. The only exception is if you've made nondeductible contributions, in which case a portion of the withdrawals will be tax-exempt.

Roth IRAs don't permit tax-deductible contributions, but they allow you to make tax-free withdrawals under certain conditions. No matter which type of IRA you select, you can typically choose from a wide range of investments to fund your account.

Annuities are generally funded with after-tax dollars, but their earnings are tax-deferred. This means you pay tax on the portion of distributions that represents earnings. There is generally no annual limit on contributions to an annuity. A typical annuity provides income payments beginning at some future time, usually retirement. The payments may last for your life, for the joint life of you and a beneficiary, or for a specified number of years. And remember, guarantees are subject to the claims-paying and financial strength of the issuing insurance company.

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