

A Retirement Preview

If you could preview your retirement on DVD, would it show you living comfortably or struggling to make ends meet? Which of these two scenes will actually play out some day will depend on your retirement income. And planning decisions you make *now* can greatly affect your results.

Make Your Own Projection

You may not intend to retire for many years, but this is still a good time to plan. The sooner you take a hard look at your financial situation, the more time you'll have to make adjustments if you decide they're needed. To see a rough-cut of what your future retirement might look like, just compare the retirement income you anticipate against your likely cost of living during retirement.

Projecting the Growth of Your Pay

Years to Retirement	Average Annual Pay Increase			
	3%	4%	5%	6%
10	1.34	1.48	1.63	1.79
15	1.56	1.80	2.08	2.40
20	1.81	2.19	2.65	3.21
25	2.09	2.67	3.39	4.29
30	2.43	3.24	4.32	5.74
35	2.81	3.95	5.52	7.69
40	3.26	4.80	7.04	10.29

Growth Factor

Calculation: Current pay \times growth factor = Projected Future Income

Example: \$24,000 annual pay, 25 years to retirement, 4% average pay increase

$$\mathbf{\$24,000 \times 2.67 = \$64,080}$$

Your Future Income — Where from and How Much?

You may have several sources of retirement income:

- *Social Security.* It's safe to assume Social Security won't disappear, although changes in the amount, timing, and taxation of benefits are possible. Go to ssa.gov and access your Social Security Statement for an estimate of your benefit amount.
- *Your retirement plan account.* You can use a calculator or other tool to project the balance of your retirement plan account at the age you expect to retire and to estimate the income you'll be able to draw from your assets annually.
- *Any other pension benefits* you may be entitled to. If you participate in another plan,

ask the plan administrator for information about future benefits.

- *Individual retirement account (IRA) or other investments* you may have.

Your Future Income Needs

To look at your retirement income needs, you need an idea of how much you'll be earning — and spending — at the end of your career. Yes, your living costs may be lower after you retire because of savings on work-related expenses like commuting and payroll taxes. But inflation after retirement may increase your income needs, and some costs, like medical care, will probably increase, too. Unless you plan to change your lifestyle, you may not want to anticipate a significant drop in your cost of living after you retire. To estimate your preretirement earnings, multiply your current pay by a growth factor from the table (left). Many planners say the average retiree needs 70%-90% of preretirement income to live comfortably.

Should You Do Some Editing?

Comparing your estimated future income with your estimated income needs will give you a rough-cut of your financial future. If the income looks like it will be too low, think about the editing possibilities you have now and read the suggestions below.

Redirecting Your Financial Future

Here are some actions you can take *now* that may make your retirement more comfortable.

- Learn more about your plan's investment options.
- Adjust how your retirement account is invested in order to increase the potential for growth.
- Make sure that your current investment mix still reflects your time frame and risk tolerance.
- Check your account's progress regularly and rebalance your investments when needed to restore your asset allocation.
- Find ways to invest more money toward retirement.