Are You Saving Enough for Retirement?

Financial planning experts estimate you may need 70–80% of your current income to maintain your present standard of living when you retire. Yet many Americans are saving only a fraction of what they'll need for their "golden years."

Whether you are in your 50s or your early 20s, it is critical to begin planning and saving for retirement. Your financial advisor can help you review your current retirement savings and develop strategies to meet your retirement goals.

In developing your plan, you and your financial advisor will need to determine:

- How much you will need to save to retire comfortably
- How much you will need to invest each year to reach this goal
- How to properly allocate your investments among stocks, fixed income and cash

The first rule of retirement planning is to save as much as you can in your company retirement plan, such as a 401(k) or 403(b) plan. (The second is to try and save more than you think you can – stretch a little now to invest in your future.) Contributing to retirement savings with pre-tax dollars can make a substantial difference. Consider the following example:

If you make a pre-tax contribution of $5,000 for 25 years, earning an 8% annual return, you will amass $394,772, which would be taxed fully upon withdrawal. Assuming you're in the 28 percent tax bracket, if you paid taxes before you made your $5,000 investment, you would have only $3,600 to invest annually and only $284,236 after 25 years – an amount that could further be reduced by taxes on earnings during the accumulation process.

Remember, your best chance of accumulating a comfortable retirement nest egg comes from developing an investment plan that starts at an early age and involves regular investments. The value of investing early – and thus benefiting from compounding earnings and stock price appreciation – is illustrated in the following comparison:

Two investors earn an annual 8% rate of return. Investor A begins saving $2,000 a year at age 20 and saves for nine years before ceasing annual contributions. By age 64, the total investment of $18,000 has grown to $398,807. Investor B waits for nine years before he begins investing, and then invests $2,000 a year for 34 years. His total investment is $68,000 – nearly four times as much as Investor A – but, because he started later, his investment totals only $343,633 at age 64.

The moral of this story: Start saving and investing early, and don't stop. For those who haven't started, contact your financial advisor to schedule a review of your retirement plan options. The time to begin is now.

Examples are provided for illustrative purposes only and are not indicative of actual performance.

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