TRI-STAR TRUST BANK

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TIPS FROM YOUR Financial Coach

The State of Retirement

re·tire·ment
/rəˈtī(ə)rmənt/
noun
1. the action or fact of leaving one's job and ceasing to work.

Retirement means different things to different people. Many Americans fondly envision retirement as the time in life when you have the opportunity to relax and participate in enjoyable activities such as traveling, fishing, gardening, volunteering and spending more time with family.

However, when your earned income goes away during retirement years, your living expenses do not. These expenses will likely change character (i.e., less commuting expenses, no mortgage payment, lower taxes, higher healthcare costs, more travel expenses, etc), but they do not disappear altogether.

It is vital that well before retirement begins, you have reconciled your non-discretionary spending needs with your available income sources and savings, and have determined that together these are sufficient to successfully fund your definition of retirement.


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Sources of Retirement Income

In the past, retirees have anticipated that the money needed during retirement would come from three primary sources. The combination of Social Security, employer pensions, and personal savings are often referred to as the 3-legged retirement income barstool.

Social Security remains a primary source of retirement income funding, however the stability of the program has drawn concern from many financial advisors and retirees. It is estimated that Social Security will be able to pay full benefits until 2033, but only 75% of the anticipated income amount in subsequent years. To fill this deficiency, changes are expected. These changes could mean paying more into the program while working, having to wait longer to be eligible for benefits, or the elimination or cap on cost of living adjustments. This leg of the barstool still exists, but it is wobbly.

Thirty years ago, over 60% of workers were offered an employer pension to help supplement their income needs during retirement. Today however, approximately 15% of all workers have access to a pension, and this number is rapidly declining each year mostly due to the high cost of maintaining a plan.[1] For the majority of retirees, this leg of the barstool is non-existent.

The instability of Social Security coupled with the unavailability of a pension makes accumulating personal savings within a 401(k), IRA or other type of investment account a critical component. This leg of the barstool is the only one that you have complete control of, and can be the difference between a retirement of worry or a retirement of security.

Source: "Falling Short: The Coming Retirement Crisis and What to do about it." Center for Retirement Research at Boston College. April 2015.

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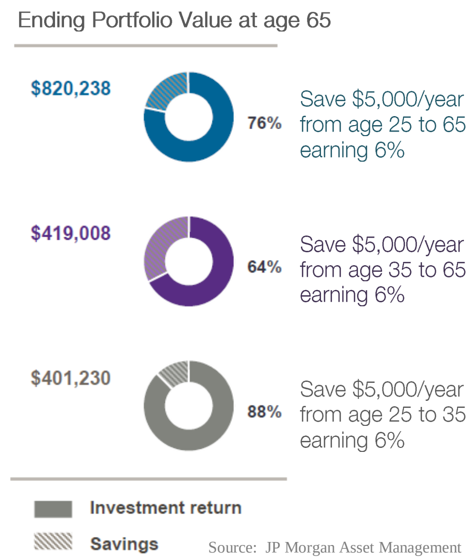
Are you on track?

The sad truth is that most Americans are not on track. For many, retirement expectations do not coincide with retirement realities. When inquiring about an individual's income plan during retirement years, it is common to hear the following statements:

"I cannot afford to save now, but I will in the future."

One third of working adults have nothing saved for retirement. Additionally, individuals today are only saving 5% of their income[2], and not the 10-20% required to successfully fund retirement. The most debilitating obstacle to retirement planning is procrastination. Telling yourself that you will start contributing to your 401(k) *next year* or you will call your advisor *next month* will only compound other factors working against a successful retirement.



"I will live off of Social Security."

The maximum benefit that Social Security will pay at age 66 or 67 is $2,700 per month. However, the average monthly retirement benefit received is approximately $1,400 per month. Not many people can live comfortably at either of these income levels.

"I have a rock solid company pension."

Substantial funding deficits exist within public and private pension plans. Only three states have a pension fund balance large enough to pay current and future retirees.[3] Michigan is not among the three. In addition, the Pension Benefit Guaranty Corporation that insures some amount of payment to retirees if a pension fund runs out of money is also underfunded and not expected to have the ability to honor all future defaults.[4]

"I never plan on retiring."

Nearly 70% of current workers plan to work until age 65 or beyond. However, approximately 20% of current retirees actually worked until age 65 or beyond. Heath issues are cited as the primary reason for leaving the workforce earlier than expected.[5]

What should you do?

Determining if your retirement income sources and the value of your personal savings will afford you the retirement lifestyle you have imagined, it is an important and complex question. A question that does not have a simple answer.

There are various 'rules of thumb' and 'check-point charts' available to assist you in gauging the progress and potential success of your retirement plan. However, we are all unique in terms of goals, resources and capabilities and these general assessments ignore important details; details such as taxes, asset allocation, health condition, inflation, spending needs, income, savings and life expectancy.

Timing is everything, especially in regards to planning for retirement. The earlier you educate yourself, ask questions, begin an automatic savings strategy and seek counsel from your trusted Tri-Star advisor, the better chance you will have of accomplishing your long-term goals.

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2 Source: JP Morgan Asset Management, Bureau of Economic Analysis. Savings rate data as of December 31, 2016. 3 Source: "States Face Pension Fund Gap Approaching $1 Trillion" John W. Schoen. CNBC. August 16, 2016. 4 Source: "Funding Shortfalls Put Pensions in Peril" John W. Schoen. CNBC. March 28, 2015. 5 Source: Employee Benefit Research Institute. 2016 Retirement Confidence Survey.