HOW YOUR RETIREMENT WILL BE DIFFERENT FROM YOUR PARENTS

By: Rob Whitney, JR., MBA, CFP® Vice President, Senior Financial Planner

"If I knew then what I know now." How many times have you heard your parents say this, often followed by a wistful sigh and slow shake of the head? Likely you're guilty of echoing these same words to your children. Perhaps everyone should pay more attention to the bits of wisdom and advice that inevitably follow—there could be lessons to be learned.

Take retirement, for example. There are things you should be considering and planning for now to ensure that you'll have fewer regrets about your choices when you approach the finish line of your working years.

You can think of a number of reasons how your retirement will be different from your parents'—and hopefully you can enjoy a longer time in retirement, thanks to medical advances adding years to American lives. But there's one glaring difference you may not have considered: *Unlike their parents, fewer American workers enjoy the benefit of a company-provided pension providing lifetime income throughout retirement.*

MAJORITY OF TODAY'S RETIREES HAVE A PENSION

Eighty-one percent of today's retirees receive some income from a pension plan, and for 42% of these people, their pension provides half or more of their retirement income, according to a study by the Insured Retirement Institute (IRI). However, for those not yet retired, only 24% have a defined benefit (DB) plan.

IRI estimates that as many as 56 million Baby Boomers will not receive retirement income from a pension, and that future retirees will need upwards of $400,000 to make up for this income shortfall.[1]

REPLACING PENSION PLANS

Instead of the pension benefits their parents may have enjoyed in retirement, workers today are largely responsible for accumulating their own nest egg. During their working years, individuals must build savings in their company retirement plans, traditional and Roth Individual Retirement Accounts (IRAs), or taxable investment accounts, with the hope they have sufficient assets to enable them to maintain their standard of living throughout retirement. When coupled with a longer retirement, it only means you have to save that much more.

"Replacing pensions and achieving the financial security these plans provide to retirees will be a key issue for future generations," says IRI President and CEO Cathy Weatherford. As Baby Boomers retire in greater numbers over the next decade, and as Gen Xers begin to leave the workforce, Americans will need to create their own pensions through Social Security optimization and the use of lifetime income strategies.[1]

PAY YOURSELF FIRST

Regardless of how close you are to retiring, be sure you're paying yourself first. Strive to put at least ten percent of your compensation into savings. In addition to saving in pre-tax accounts such as employer retirement plans or

IRAs, try to diversify your assets with regard to IRS tax guidelines by accumulating assets in your Roth 401(k), Roth IRA, or an after-tax investment account.

Ten to 20 years from now, you'll be glad you have the flexibility to fund retirement from pre-tax and after-tax savings. However, avoid relying solely on pre-tax savings to fund your entire retirement. Why? Because it will cost you $1.30 of pre-tax savings to get $1 after tax if you assumed a 25% tax rate—so your $1.3 million pre-tax retirement account is really $1 million after tax.

HOW MUCH DO YOU NEED TO SAVE FOR RETIREMENT?

Those fortunate enough to have pensions also enjoy the fact that pension income continues annually, and often with an inflation increase, regardless of whether the market is climbing to new highs or tanking because of volatility.

For individuals from our parents' generation who didn't have pensions and were required to live off their assets in retirement, a common plan was to shift to a more conservative allocation in retirement and "clip coupons" from a 5% plus bond portfolio. However, with 5% bond yields long gone, and 2% to 2.5% being realistic, investors are required to invest in a mix of stocks and bonds to provide growth to supplement their meager income.

So how much do you have to save to ensure you can maintain your standard of living through retirement? It depends on the cost of your standard of living.

For example, let's say you want an after-tax retirement income of $10,000 per month ($120,000 annually). If you figure $48,000 or 40% will come from Social Security, you'll have to fund the remaining $6,000 per month ($72,000 annually). This projected income would require $2 to $3 million in savings, depending on the tax characteristics and asset allocations.

If you double that amount and expect an after-tax retirement income of $20,000 per month ($240,000 annually), the $48,000 from Social Security would represent only 20% of your income. You would need to fund the remaining $16,000 monthly ($192,000 annually). This projection would require $5 to $6.5 million in assets, again depending on the tax characteristics and asset allocations.

OTHER RETIREMENT PLANNING CONSIDERATIONS

There are other ways your retirement may look different from the lifestyle your parents experienced.

For one thing, statistics show that you'll likely live a longer, more active retirement than your parents. About one out of every three 65-year-olds today will live until at least age 90—and one out of seven will live at least until age 95. Furthermore, married couples have at least a 50-50 chance that one spouse will live beyond age 90.[2] In fact, as life spans increase, you could spend more time in retirement than you spent working!

Individuals find without work and family obligations, retirement gives them the opportunity to travel extensively. Some people choose to move to a favorite place they've visited—perhaps a lower-cost state or country with an attractive income tax rate or cost of living. Between 2007 and 2017, the number of retirees who drew Social Security outside the U.S. jumped 40% to more than 413,000.[3]

Many people who retire don't necessarily stop working either—they see this time in their lives as an opportunity to start a second career, take a part-time job, become self-employed, or volunteer for their favorite charitable foundation.

ACT NOW RATHER THAN LATER

The excitement of planning for retirement can be overshadowed by these and a number of other complex issues you'll have to address at some point. Contact Commerce Trust Company today—we'll listen to your financial planning concerns and offer tailored solutions to help you identify the flow of money you'll need to support the lifestyle you want in retirement.

[1] Source: Lee Barney, "Majority of Today's Retirees Have a Pension," https://www.planadviser.com/majority-of-todays-retirees-have-a-pension/. September 26, 2016.

[2] Source: Social Security.gov, "When to Start Receiving Retirement Benefits," Publication No. 05-10147. January 2020.

[3] Source: Aimee Picci, "Why More Americans Are Retiring Abroad," https://www.cbsnews.com/news/retirement-crisis-economic-refugees-why-more-Americans-are-retiring-abroad/. September 23, 2017.

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Rob is a senior financial planner for Commerce Trust Company. He is a member of the financial advisory services team — a dedicated financial planning practice within Commerce Trust that provides objective financial advice to clients. Following a thorough assessment of a client's unique situation and thoughts regarding wealth, Rob develops holistic and coordinated plans to help clients meet their short-term and long-term goals as well as take full advantage of various planning, tax, and investment strategies along the way. With more than 20 years of experience, he specializes in building relationships with clients and providing comprehensive financial planning services to business owners and individual investors to help them achieve their goals. Rob holds the CERTIFIED FINANCIAL PLANNER™ designation. He received his bachelor of administration degree in business finance from Loyola University in Maryland and his master of business administration degree from the University of Delaware. Additionally, he is an Eagle Scout.