

All About Money

Retirement Planning

How Much Do You Need to Retire?

How much are you saving for the future? Most financial planners recommend that you save 10% of your income. However, many Americans fall short of this goal.



When saving for retirement, a common question is how much do you need to save by the time you are age 62, 65 or 66? The answer to this question depends on the life style you plan in retirement, your family history of how long people live, your goals in retirement (e.g., travel around the world), and how much you wish to pass on to others in your will. To maintain your current life style during retirement, it is estimated that you will need at least 70% of your pre-retirement income. Some expenses will go down in retirement because you won't be paying social security taxes, work expenses, or contributing to retirement plans. However,

some expenses (e.g., health care) may increase in retirement.

To determine how much you need for retirement, the American Savings Education Council (ASEC) has a form, "Ballpark Estimate," that you can complete to determine your retirement needs. Call 202-775-9130 or access this form on the Internet at <http://www.asec.org>.

How Are You Saving for Retirement?

Employer retirement plans and Social Security are the most common sources of income that people have for retirement. In addition to employer retirement plans, there are several ways that you can increase your retirement savings or methods you can start if you do not have an employer retirement plan. Contact OSU Extension for additional information on financial issues.

Employer Retirement Plans

Many employers offer retirement plans for their employees. These plans are an excellent way to invest money for retirement. For income during retirement, employees need to participate fully in these plans. If your employer matches your con-

tribution to the plan, contribute as much as you can to meet this match.



Social Security

Employers are required to withhold Social Security taxes for their employees, except Ohio employees enrolled in selected retirement plans, such as the State Teacher's Retirement System (STRS) or Public Employees Retirement System (PERS). Currently, the employer withholds 7.65% from paychecks and contributes a matching 7.65% from the employee's income for Social Security. If you have been married for 10 years, you may be entitled to a spousal benefit when reaching age 62. Check with the Social Security Administration for your eligibility to this benefit.

Social Security benefits are a foundation on which people can build a secure retirement. Social Security is the largest source of income for most retired Americans and may keep them out of poverty. However, Social Security benefits were not meant to be the only source of retirement income. Social Security needs to be supplemented with



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income from a pension plan, savings, and other investments.

Each year, everyone should receive from the Social Security Administration (SSA) a copy of “Your Social Security Statement” prior to your birthday. This individualized statement reports your Social Security earnings for every year that the SSA has a record. Your estimated benefits for retirement, disability, family, survivors, and Medicare are listed with the amounts for each area you have earned benefits. Your retirement benefit will be helpful to complete the ASEC “Ballpark Estimate” mentioned earlier.

If you have not received this statement, you can request a copy of the benefits and earnings statement by calling 1-800-772-1213. Beware of two provisions that may reduce your benefit. If you qualify for pensions from both a plan where Social Security taxes were not withheld (PERS and STRS) and a plan where Social Security taxes were withheld, there is a windfall provision because of the combination of two types of pension plans. If the person covered by PERS/STRS is entitled to a spouse or widow’s benefit, there is an offset or reduction for the Social Security benefit.



If you have not received a copy of “Your Social Security Statement” you can request a copy of the benefits and earnings statement by calling:

1-800-772-1213.

Individual Retirement Accounts (IRAs)

If you have earned income, you can set up an IRA (Individual Retirement Account). Earned income is the money you make from an employer or through self-employment. As of January 2001, you and your spouse can each save up to a maximum of \$2000 a year. If your combined income is less than \$2000 each, you can save the amount that you earned. Unemployed spouses who do not work can also establish IRAs as long as their spouse has earned income.

There are several IRAs—traditional deductible IRAs, traditional non-deductible IRAs, education IRAs, and Roth IRAs. An Ohio State Extension fact sheet called “IRA—Individual Retirement Account” explains the different types of IRAs. More detailed information can be found in the Internal Revenue Service publication 590, “Individual Retirement Arrangements,” and information about Roth IRAs can be found at <http://www.rothira.com>.

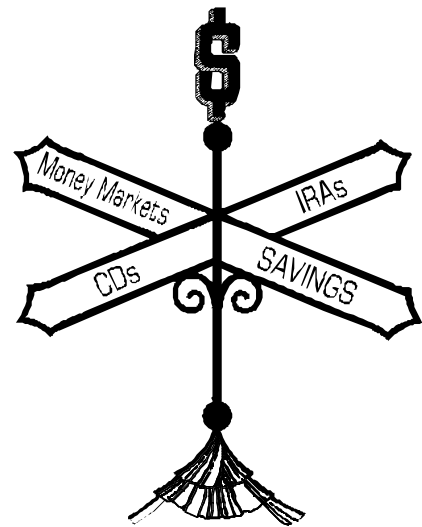
Self-Employment Retirement Plans

If you are self-employed and have your own business, there are a variety of retirement plans for you and your employees. The Internal Revenue Service has a publication for self-employed individuals that describes these different options. Call 1-800-829-3676 and ask for Publication 560, “Retirement Plans for Small Business.” Check with your tax advisor or financial planner for more information.

If you work for an employer, but have a second job working on your own, you can set up a retirement plan for self-employment income.

Annuities

Annuities are contracts with insurance companies where the saver agrees to save money within a con-



tract. When ready to retire, these contracts can be annuitized and regular payments made to the consumer. There are some tax advantages with annuities but there are often costs associated with this type of saving for retirement. Again, a tax advisor, financial planner, or insurance agent can provide more information.

Investments Outside Retirement Plans

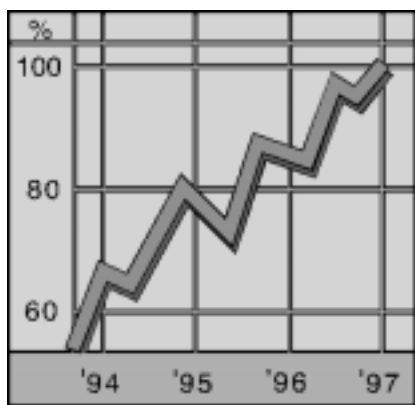
Mutual funds, stocks, cash, and bonds are other ways that you can build personal wealth and thus reach retirement goals. Review the OSU Extension publications “Getting Started with Mutual Funds” or “Investing for Your Future.” These can be accessed through your local Extension office.

Employer Retirement Plans

There are two general categories of retirement plans: defined benefit and defined contribution plans.

Defined Benefit Plans

Defined benefit plans specify the benefit to be paid to the employee in retirement. This plan will guarantee a certain amount of income when the employee retires. The employer and the retirement



system assume the risk to be sure that the employee receives these retirement benefits. The employee has “no say” on where the retirement money is invested. Usually, the employee must work a set number of years and the retirement check is based on a percent of average salary and the number of years worked on the job. Examples of defined benefit plans are the State Teachers Retirement System (STRS) and Public Employees Retirement System (PERS) in Ohio.

Defined Contribution Plan

The defined contribution plan is based on the percent of money contributed by the employer and employee, but there are no guarantees on how much retirement income will be received. The retirement income will depend on how the employee has managed the money in the plan. The employee makes choices among several options directing where the money for retirement is invested. The value of the retirement fund at the time of retirement is based on how well the investments have done. Examples of defined contribution plans are 401k plans (for profit companies) and 403b plans (churches, schools, and non-profit organizations).

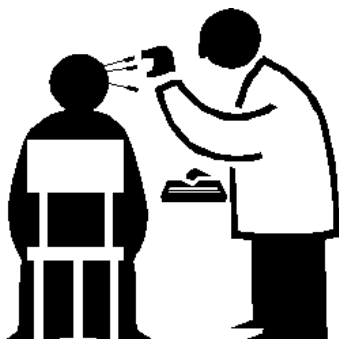
In the defined contribution plan, employees assume the risk (individually) for their own retirement

income. Their knowledge of investing and the return of their mutual funds or company stock will determine how much they have in retirement. The retirement income will be based on how well their investments have performed and the decisions they make through the years. They can retire when their investments reach a level they think can sustain them for the rest of their lives.

Things You Need to Know About Your Retirement Plans

Benefits Tied to Retirement Plans

Sometimes health insurance benefits in retirement are tied to retirement plans. Currently, that is the case in Ohio with STRS and PERS. Check your plans for this option and the number of years of work that is required.



Vesting

This designates the point at which you receive both employer's and employee's contributions if you need to leave the retirement plan due to a change in jobs. Once you are vested you receive both portions; prior to that point you will only receive back from the retirement plan the amount of money you contributed and you will lose the amount your employer contributed. This is an important factor if you leave employment for any reason.

Leaving Employment

If you change jobs and consequently retirement plans, you may be able to roll over your retirement benefits into an IRA. However, you need good advice to avoid errors in making this transfer of your money. The check to transfer your retirement money should be made out directly to the IRA account (called a direct transfer). If the check is made out to you, taxes and a penalty for early withdrawal may be deducted.

Moving Around

If you have changed employers frequently, some defined benefit plans will allow you to buy back time from other employers or buy back earlier time when you pulled out money. Remember, your retirement benefits in these plans are based on a formula of the length of time you worked and your earnings. However, retirement plans have several rules regarding this buy-back and the service from other employers must be comparable. This is not an option with defined contribution plans.

Beneficiary Designation

Most retirement plans will have you identify person(s) to receive your money in case you die before you retire or, in some cases, if you die in retirement and money is owed to you. Most people will identify a spouse, guardian of young children, or children as their beneficiaries. With changes in your family (death, divorce, births),





review beneficiaries every few years and make updates as your situation changes.

Distribution Options

When you are ready to retire, you will have several options on how to receive your money from your pensions, IRA, and Social Security. Your decisions at this point may influence how much you, your spouse, and beneficiary receive. There may be tax considerations based on which decision you made.

Record Keeping

Keep retirement fund records permanently. When you sign up for a retirement plan, there will be papers explaining the plan as well as beneficiary designations, and other paper work. Periodically ask your human resources department for updated reports on your plan.

In addition, each year you will receive an end of the year statement showing contributions to the plan. Keep these statements. Once you are vested, defined benefit plans may send an estimate of your retirement benefits and these yearly statements should be kept as well. You also need to keep records of all

Keep retirement fund records permanently.

of your IRA contributions and what type of IRA they are—deductible, non-deductible, Roth, education, etc. Keep a separate folder of Social Security information and copies of your earnings and benefit statements.

It is not too soon to examine your retirement plans. Understanding your plan can help you avoid costly mistakes.

Resources and References for Retirement Planning

American Saving Education Council

Suite 600, 2121 K Street NW
Washington, DC 20037-1896
Phone: 202-775-9130
<http://www.asec.org>

Individual Retirement Accounts (IRAs)

<http://www.rothira.com>
This site has Roth IRA information and calculators for comparing traditional and Roth IRAs.

Internal Revenue Service

Department of the Treasury
Central Area Distribution Center
P.O. Box 8903
Bloomington, IL 61702-8901
1-800-829-3676
<http://www.irs.gov>

Publication 590—Individual Retirement Account
Publication 560—Retirement Plans for Small Business (SEP, SIMPLE, and Keogh Plans)

Investing for Your Future, A Cooperative Extension System Basic Investing Home Study Course, February 2000, Rutgers Cooperative Extension. Can be obtained from OSU Extension. Ask for Bulletin 884. This bulletin is also available online at:

<http://www.investing.rutgers.edu>

Financial Planning for Retirement
CFS685, \$5.00, from Purdue University Cooperative Extension
<http://www.agcom.purdue.edu/AgCom/Pubs.menu.htm>

Social Security Administration

Call 1-800-772-1213 for copies of publications regarding Social Security or online at
<http://www.ssa.gov>

This web site has most of the publications from Social Security and there is an on-line estimator of your Social Security Benefits.

Pension Benefit Guaranty Corporation

1200 K Street, NW
Washington, DC 20005-4026
Phone: 202-326-4000
<http://www.pbgc.gov>

Other OSU Extension fact sheets in this series:

- MM-01 Start with Mutual Funds
- MM-02 Financial News You Can Use
- MM-03 IRA—Individual Retirement Account

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