CASTLE ROCK WEALTH MANAGEMENT

Registered Investment Advisor Firm

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Retirement Planning

Retirement planning is complex, so it's no surprise that people believe many misconceptions about it. These popular untruths can be harmful, especially if they lull you into a false sense of security. If you save too little, you could end up without enough money to pay bills in your golden years.

Here is a closer look at three retirement planning myths that could land you in serious trouble if you believe them.

Retirement is so far away that I don't need to start saving now. Many people wrongfully assume there's no need to begin saving in their 20s or 30s, because they have 30 or 40 more years to sock away funds. But the truth is, the later you begin the more difficult it is to save enough.

As an example, 2 people (one is 25 years old and the other is 45) start saving in their 401(k)s to reach $1million when they retire at 65 and will earn 7% return before and during retirement. The 25 year old only needs to save $381 per month to reach their goal. The 45 year old needs to save $1,920 per month, or $23,040 per year. The 45 year old will not meet his goal because the $23,000 is higher than the tax code maximum for 401(k)s of $19,000 and saving the balance in a non-retirement is not tax efficient. Once the 45 year old reaches 50, then the full amount can be saved in a 401(k). I think I would rather save $381 per month instead of $1,920.

The underlying reason for the difference between the two examples is the power of compounding, the snowball effect that happens when your earnings generate even more earnings. You receive interest not only on your original investments, but also any interest, dividends and capital gains that accumulate – so your money can grow faster and faster as the years roll on.

When you wait to begin contributing to your retirement account, you're reducing the amount of time your money has to grow and consequently costing yourself a lot more money – and potentially your retirement security. The best part of compounding is that it takes almost no effort at all on your part. Simply save as much money as you can, invest it in a tax-advantaged retirement account and the market will do the rest.

Medicare will cover all my healthcare expenses. You become eligible for Medicare as soon as you turn 65. The federal health program covers many health expenses, including inpatient hospital care, lab tests, preventative services and more. But it covers very little in its entirety. Most people won't have to pay a premium for Part A (hospital insurance), but Part B (medical insurance) and Part D (prescription drug coverage) have deductibles, premiums and co-insurances, just like most health insurance policies.

Medicare doesn't cover some items like long-term care, dental care, hearing aids and eye exams. Unless you have a supplemental policy you will have to pay out of pocket for them.

The average 65-year old couple retiring today will need about $285,000 to cover their medical expenses in retirement, according to Fidelity. If you haven't factored this into your retirement plan because you were relying on Medicare, a serious illness or injury could derail your retirement. You may have no choice but to draw down your retirement accounts faster than you anticipated, leaving you short in the final years of your life. You can avoid this by first understanding what Medicare does not cover, and then building the costs of healthcare into your retirement plan.

I'll need only 70 percent of my pre-retirement income. You've probably heard that most retirees only need about 70% to 80% of their pre-retirement income to live on in retirement. That may be true for some, but it's not a good claim to take at face value. Everyone's needs and goals are different, and if you live in an expensive city or state or you plan to do a lot of traveling, it's highly likely that you'll need more than 70%. This 70% to 80% is a good ballpark but more in depth calculations are needed.

The best way to be sure of how much money you need in retirement is to crunch the numbers. First, estimate your life expectancy. The average life expectancy in the US is 78.6 years, but since it's an average, this may be far younger than you'll actually live. One in four 65-year-olds today can expect to live past 90, according to the Social Security Administration (SSA), and one in 10 will live past 95. Begin here and adjust this number up or down based on your current health, family history and your lifestyle. You also need to take into account women tend to live longer than men.

Next, estimate your annual retirement living expenses, keeping in mind some of your expenses may disappear and some may increase. Factor in inflation, which is impossible to accurately pinpoint, but 3% is a good average to use.

Finally, calculate your income from Social Security, pensions, and other sources besides your retirement savings. Subtract this number from your expenses and this will identify how much you need to save prior to retirement.

There are three phases to retirement with spending different in each phase. The first phase, till age 75, is a go-go period because people are inclined to spend primarily on leisure and travel activities. Additionally, adult children with financial needs and grandchildren's educational costs are also high priority. The second phase, from 75-85, is known as the go-slow period. During these years, many spend time with families, while also downsizing their homes. Though travel and leisure costs decline, health-care costs start to go up. The third phase, the no-go years, starts from your mid 80s and lasts the rest of your life. This is largely a sedentary period. Medicare costs are often significant. Additionally, long-term care, which is not covered by Medicare, can take a huge bite from your savings, and most retirees will need some form of long-term care at some point in their lives.

No one ever said retirement planning was easy, but it's crucial that you do your best to plan appropriately and start as early as you can. Your future financial security is at stake, and if you wait it can become too late to catch up.

If you need help in understanding and calculating your retirement planning or any other financial questions, contact me at (707) 648-2024.

FED Watch

At press time there is a 98% expectation of no rate hike (or cuts) at the April-May FOMC meeting. The Fed has indicated it will slow down rate increases and be patient as they see GDP slowing in 2020 and 2021. The Fed will continue the process of reversing quantitative easing by allowing assets to mature off their balance sheets, rather than re-investing them and plan to taper this process and plan to complete by October of this year

Next meeting:
June 18th and 19th.

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

Castle Rock Wealth Management custodies some client assets at Charles Schwab & Co. Bob's office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, please contact me by phone or through my email address at:
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