

Financial LANDSCAPES

How much money will you need for retirement?

Unless you have a crystal ball that can tell you how long you will live, how healthy you will be in the coming years and how the economy and inflation will unfold in the decades that ensue, unfortunately there is no way to answer that question with rock-solid certainty.

One thing is certain, however: too many people are attempting to retire on too little money. As a result, according to one survey, there are currently about seven million retirees who have returned to the work force and a third of them because they need the money.¹

Many of us plan to continue being active after retirement and this may include working part-time or starting a business. While this is a positive choice, there is a BIG difference between choosing to work after retirement and having no choice but to go back to work!

Imagine retiring at age 65 and enjoying the good life. But then, ten years later, you begin comparing resources to projected expenses and realizing that you and your spouse could be in deep financial trouble in another ten years. Imagine running out of money at age 85. You could spend your senior years either living in poverty or, worse, dependent on your children and grandchildren for support. That's probably not what you had in mind.

What can you do? The best choice is to prepare well and in advance so that you avoid any unpleasant surprises. With that in mind, I would like to offer some guidelines that you should consider when you are preparing your retirement:

“One thing is certain. Too many people are attempting to retire on too little money.”

- **You may need more than you think.** Part of the “problem” is that you probably will want to travel, enjoy time with grandchildren and have enough money to do more than just sit on the front porch in rocking chairs. That takes money.
So how much money will you need? One helpful rule of thumb that comes up consistently in several studies says you will need 75% of your pre-retirement income to maintain your standard of living in retirement.² For example, if your household currently earns \$80,000, you will need \$60,000 a year in retirement.
- **You may need retirement income longer than you think.** In terms of gross dollars, let's say you will need an income for approximately 20 years. This is based on actuarial tables that say a man retiring at age 65 will live 16 years and a woman will have a life expectancy to age 85.³ Assuming a 20-year estimate, if you currently need \$50,000 a year to retire, you will require \$1,000,000 total over the next 20 years.
- **You may need to consider the cost of living.** Don't overlook inflation. Even if inflation is fairly modest, it can devastate purchasing power over time. For example, let's say you retire on \$50,000 a year in 2008. You live 20 years. If the inflation rate averages only 3 percent, by the time of your death in 2028, all other factors being equal, you will need \$90,500 per year to maintain the same standard of living. If inflation averages 5 percent, you will need \$132,500!⁴

The good news: It is possible to build in many safeguards to help protect your long-term financial security in retirement, including annuities, mutual funds or other financial vehicles. With an annuity, for example, you can eliminate much of the guesswork mentioned in this article. Best of all, you can pick from many features, including a locked in, guaranteed income for life, as well as cost of living options.* Please keep in mind that there are fees and expenses associated with an annuity product.

Your financial advisor can help you identify your needs, as well as review options and best-choice strategies based on your individual needs and situation. Contact your advisor today. There is no cost or obligation.



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DOFU: 03-2008
A06985-1107

¹“When a Retirement is Not a Retirement,” Associated Press, March 12, 2006. Survey conducted by Putnam Investments.

²“Getting Ready to Retire: What You Need to Know About Annuities,” based on a study conducted by George State University, 2001.

³Source: Commissioners 2001 Standard Ordinary Mortality Table. Ages rounded to next highest year.

⁴Source: University of Illinois Extension inflation chart. www.urbanext.uiuc.edu/ww1/14-14.html.

*Guarantees are backed by the claims paying abilities of the issuing life insurance company.