

## Four Retirement Saving Myths

No matter how many years you are from retirement, it's essential to have some kind of game plan in place for financing it. With today's longer life expectancies, retirement can last 25 years or more, and counting on Social Security or a company pension to cover all your retirement income needs isn't a strategy you really want to rely on. As you put a plan together, watch out for these common myths.

### Myth No. 1: I can postpone saving now and make it up later

**Reality:** This is very hard to do. If you wait until—fill in the blank—you buy a new car, the kids are in college, you've paid off your own student loans, your business is off the ground, or you've remodeled your kitchen, you might never have the money to save for retirement. Bottom line—at every stage of your life, there will be competing financial needs. Don't make the mistake of thinking it will be easier to save for retirement in just a few years. It won't.

**Consider this:** A 25 year old who saves \$400 per month for retirement until age 65 in a tax-deferred account earning 4% a year would have \$472,785 by age 65. By comparison, a 35 year old would have \$277,620 by age 65, a 45 year old would have \$146,710, and a 55 year old would have \$58,900.

**Note:** This is a hypothetical example and is not intended to reflect the actual performance of any specific investment.

Why such a difference? Compounding. Compounding is the process by which earnings are reinvested back into a portfolio, and those earnings may themselves earn returns, then those returns may earn returns, and so on. The key is to allow enough time for compounding to go to work—thus the importance of starting to save early.

Now, is it likely that a 25 year old will be able to save for retirement month after month for 40 straight years? Probably not. There are times when saving for retirement will likely need to take a back seat—for example, if you're between jobs, at home caring for

children, or amassing funds for a down payment on a home. However, by starting to save for retirement early, not only do you put yourself in the best possible position to take advantage of compounding, but you get into the retirement mindset, which hopefully makes you more likely to resume contributions as soon as you can.

### Myth No. 2: A retirement target date fund puts me on investment autopilot

**Reality:** Not necessarily. Retirement target date mutual funds—funds that automatically adjust to a more conservative asset mix as you approach retirement and the fund's target date—are appealing to retirement investors because the fund assumes the job of reallocating the asset mix over time. But these funds can vary quite a bit. Even funds with the same target date can vary in their exposure to stocks.

If you decide to invest in a retirement target date fund, make sure you understand the fund's "glide path," which refers to how the asset allocation will change over time, including when it turns the most conservative. You should also compare fees among similar target date funds.

### Myth No. 3: I should invest primarily in bonds rather than stocks as I get older

**Reality:** Not necessarily. A common guideline is to subtract your age from 100 to determine the percentage of stocks you should have in your portfolio, with the remainder in bonds and cash alternatives. But this strategy may need some updating for two reasons. One, with more retirements lasting 25 years or longer, your savings could be threatened by years of inflation. Though inflation is relatively low right now, it's possible that it may get worse in coming years, and historically, stocks have had a better chance than bonds of beating inflation over the long term (though keep in mind that past performance is no guarantee of future results). And two, because interest rates are

bound to rise eventually, bond prices could be threatened since they tend to move in the opposite direction from interest rates.

### Myth No. 4: I will need much less income in retirement

**Reality:** Maybe, but it might be a mistake to count on it. In fact, in the early years of retirement, you may find that you spend just as much money, or maybe more, than when you were working, especially if you are still paying a mortgage and possibly other loans like auto or college-related loans.

Even if you pay off your mortgage and other loans, you'll still be on the hook for utilities, property maintenance and insurance, property taxes, federal (and maybe state) income taxes, and other insurance costs, along with food, transportation, and miscellaneous personal items. Wild card expenses during retirement—meaning they can vary dramatically from person to person—include travel/leisure costs, health-care costs, financial help for adult children, and expenses related to grandchildren. Because spending habits in retirement can vary widely, it's a good idea as you approach retirement to analyze what expenses you expect to have when you retire.



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