

## Closing The Gap, Con't.

### Embrace 67 as the new 65

No one wants to prolong their hard-earned retirement, but Hewitt's study provides evidence that warrants a second look at delayed retirement. Turns out the retirement fund gap can all but disappear if you delay retirement by just two years, to age 67. From Hewitt: ...employees who delay retirement to age 67 can significantly reduce their savings shortfall. For these workers,

retirement needs drop from 15.7 times final pay to 14.4 times final pay. At the same time, their retirement resources increase from 13.3 times final pay to 14.2 times final pay, enabling them to meet 98 percent of their retirement needs.

The moral of this story is, don't delay in reviewing your retirement goals and creating a plan to reach them. Speak with your CFS\* Financial Advisor at BayPort Financial today to discuss how they can help.



## Meet Our CFS\* Financial Advisors at BayPort Financial!

At BayPort Financial we provide the tools and support to help members of our community and their families achieve their financial goals. We are dedicated to helping you meet your retirement planning, estate planning and investment management needs.



Mike Long



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## HOW MUCH WILL YOU NEED TO RETIRE?



That depends. In order to answer this question, you must sit down and picture retirement in your own mind. Retirement means different things to different people. For some, retirement means being sufficiently financially independent to travel and relax 24 hours a day. Others may view retirement as a "career change." However you view retirement will help you determine how much you will need to retire. So let us help you paint that picture.

Will your lifestyle change dramatically in your retirement vision? Or will you, like most persons, continue doing the things you currently do, trading "work" for leisure and volunteering? Will you incur more expenses in retirement for leisure and travel? Or will you prefer to spend more time with your children, grandchildren, and family?

Many "experts" claim that the average person needs 65 percent to 75 percent of his or her pre-retirement income. However, that is average, and we have never met an average person. You can get a good idea of how much you need by examining your current lifestyle and adjusting it for your retirement vision.



The first step in planning for your retirement is to determine how much money you'll need for retirement; to know that, you first have to determine the retirement lifestyle you want. You'll want to answer these questions:

- **How early do you want to retire?** The earlier you want to leave the workplace, the less time you will have to get your financial act together and the more time in retirement you will need to fund.
- **What other plans will you have?** Do you want to buy a sailboat, retirement home, or the camper of your dreams? Does your health suggest you may need more medical care?
- **What will inflation do to your income?** You need to consider how inflation will change your income needs. In 20 years, a 4 percent inflation rate will more than double the amount of money you'll need to keep your current standard of living.
- **What percentage of your current living expenses will you require?** You may not need the large home, several cars, or funds to pay for raising children and holding a job. But if you plan to travel or live the country club lifestyle, certain expenses may increase.

When you've determined how much money you'll need to retire on, you'll be able to compare that with your current savings and investments and plan for a way to make up the difference.

# NEXT Determine Your Retirement Resources

If you have taken the time to determine what your needs for income in retirement will be, the next step in retirement planning will be to add up the resources you expect to have from your current saving and investment.

- Consider all your income sources, such as investments and retirement accounts.
- Convert all your sources into an annual income stream and adjust for inflation.

**Start with income** Start by determining the income that will be provided by your current sources of retirement income: your pension plan and any employer-sponsored savings and investment plans you may participate in at work; any individual retirement accounts (IRAs) you have established; other investments and annuities; your savings accounts; and, of course, the value of your home and other property.

**Social Security** What about Social Security? You might plan based on current benefit levels, but remember that the longer you postpone taking Social Security benefits, the more benefits you can receive until your full retirement age. If you are in your 20s, 30s, or 40s, it may be best not to include Social Security benefits in your planning at all.

**Put them together** Next, you will need to convert all your sources of retirement income into an annual income stream and make an estimated adjustment for inflation. When you subtract your estimated annual income from your estimated needs, you will know where you stand.

**Is there a gap?** If you are like many people, there is probably a gap between where you would like to be at retirement and where your current rate of saving and investing will bring you. The next step in retirement planning, then, is to determine what you will do about the shortfall.



## ***SURPRISE!*** There Is Still Time To Close Your Retirement Fund Gap!

*The new retirement "number" to focus on is 15.7 according to an article by Carla Fried featured in MoneyWatch.*

Multiply your estimated final salary by 15.7. That's how much you'll need to live comfortably in retirement, according to benefits consulting firm Hewitt Associates in a study done last year. And unfortunately Social Security isn't exactly going to do the heavy lifting here. Hewitt calculated that Social Security will contribute to just 4.7x your final salary. So you are left with making up the other 11x your final salary through pension plans, retirement plans and good old fashioned savings. (An important side note: in addition

to factoring in inflation, Hewitt's study also accounts for retiree health/medical expenses.)

Hewitt says about 80 percent of workers in 2010 had a retirement fund gap. But there are indeed some pretty straightforward steps you can take today to close your retirement fund gap.

### **Recognize Saving 10 percent a Year Won't Cut It**

Even a conscientious 25-year-old who has the foresight to be saving for retirement needs to set aside more than 10 percent of salary. If you're saving-savvy in your twenties, it's going to take 15 percent or more.

### **Create Your Own 401(k) Auto-Escalation Program**

Okay, now breathe. Surely you just grabbed the calculator and punched in your salary times 15%. Once the nausea has subsided, try not getting paralyzed by that end target, but focus instead on how you might be able to slowly ease your way into a higher savings rate. Raise your 401(k) contribution rate by just one percentage point every six months to a year and you'll likely find it pretty easy to make do with that slightly smaller paycheck. If you're motivated to increase your contribution rate even faster, pledge 50% of a raise to your 401(k). So for example, if you get a 4%

raise, boost your contribution rate by two percentage points.

It comes down to the idea that adjusting your contributions with small incremental changes is much easier than doubling your 401(k) contribution rate overnight. And those small changes can have a huge impact on your bottom line. According to Hewitt, if employees increase their 401(k) contributions by one percentage point a year for five years, nearly 40% of workers will have ample retirement assets at age 65 (up from 18%) and another 32% will be within reach of their goal. Which brings us to the final retirement gap fix:

*Continued...*