RETIREMENT PLANNING – STABLE BUT NOT STATIC

If you have done retirement planning then you know that many assumptions go into the process. Estimates must be made for annual inflation rates, return on investments, income tax rates, Social Security benefits, pension benefits, life expectancies, and cash flow requirements during retirement. Once these assumptions have been set and projections have been analyzed you have a clear picture as to whether or not your retirement goals are achievable. You also have a plan of action on how much additional savings you need to accumulate to achieve your goal at a desired age. Your retirement plan is an established, general guideline to direct you towards your goal. The plan can be thought of as a ***reality check*** for the circumstances in place at the time to see if your retirement goals are realistic.

Although your retirement plan sets a stable course of action to follow it is ***not*** static. As circumstances change, so too must your plan change. The basic premises will most likely remain the same, but the assumptions need to be reviewed periodically to keep up with this ever-changing world we live in. Sometimes, even the basic premises must change, as births, deaths, marriage, divorce and other factors can affect our goals and objectives dramatically.

By the very nature that ***assumptions*** are used in the planning process, it should be obvious that as real world factors affect the plan the outcome will gradually look different. If inflation, for instance, is higher than what we originally assumed, or if the rate of return on investments is lower, then chances are that you will ***not meet your original goal***. But if the planning process is reviewed every few years and updated for ***new assumptions*** that reflect current factors, then you can keep your plan on a stable course that will help you to achieve your goals by making the necessary adjustments along the way.

A word of caution – when making the assumptions be ***very conservative***. Err on the high side when deciding on the inflation and income tax rates to use, and on the low side when estimating investment rate of return and benefits. Also, when looking at your desired retirement income need be sure to build in room for travel and leisure activities, as well as extraordinary expenses.

Outstanding investment returns in the stock market in recent years have caused many people to be overly optimistic in estimating future performance in their retirement plans. This past year's negative returns remind us just how ***important*** it is to update our plan periodically.