Introduction

All frequent travelers have one thing in common...they all know that it takes time to prepare for a ***good*** vacation. You need to setup travel and transportation arrangements, secure lodging, and plan out **awesome** activities and dining for when vacation *finally* starts!

All in all, a good vacation happens from educating yourself on the location you want to go, and then preparing ahead of time to make sure you have a great time.

Well, I view retirement like a permanent vacation. I am determined to not allow my "golden years" be thwarted by a lack of education and preparation!! I will have everything in place, and all my bags packed (so to speak) before I get there.

Retirement is a big monster. Having had a few jobs in the retirement industry, I can tell you it's easy to get confused. The industry is forever changing, there is a laundry list of terminology, and even seems there are more questions than answers.

I believe that everyone deserves to have the retirement that they want. My purpose with this article is to provide some basic tips, advice, and knowledge about retirement plans and how to get your retirement planning back on track.

Keep in mind that I am not an adviser and can't give you personal financial advice, nor can I help you setup a retirement account; however, I hope to provide some knowledge that can be a "launching point" to get you started and moving in the right direction.

You can look at this article like any other class that you had in school...welcome to Retirement Basics 101. Here is our class syllabus:

1. Create a retirement dream (for motivation).
2. Get financially ready to make strides at your retirement goals.
3. Educate yourself on retirement plans, terminology, and FAQ's (the meat of the subject).
4. Execute your plan of action - a list of steps to take from here.

Let's start planning for your **permanent vacation**!

Syllabus Item #1 - Create Your Dream

I want you to create a retirement dream. Why? Because I want you to have a reason to learn about a possibly boring topic (OK, for a lot of you this is an incredibly boring topic...but it's important!). I also want you to have a reason to wake up every morning and go to work...so that you can ultimately get what you desire most.

My Dream

When I retire, I want to buy a house on the beach somewhere in Florida (the white beaches are incredible). In my mind, my retirement living looks like this: my wife and I lounging on the beach, sipping lemonade, and diving into a good book in the morning (and possibly snorkeling with the dolphins in the afternoon).

That's my dream. Because I have a retirement dream, I feel incredibly motivated and want to work hard and make sacrifices now so that I can claim that dream as reality.

What's Your Dream?

Before you start planning for retirement, you also need to have a dream. So what is it?

- Is it having some property in the mountains?
- Are you going to be snowbirds going back and forth where your children and grandchildren will be?
- Or do you want a permanent houseboat on Lake Powell or go live on an island in the Caribbean?

Whatever your dream is, take a mental snapshot and keep that memory close to your heart until you get there.

Let Your Dream Motivate You

Whatever your dream is, let it motivate you to get educated and ready for your permanent vacation. If you work hard and make sacrifices, I know you can have your dream if you really want it (and maybe I'll see you in Florida 🙂).

ACTION STEP: Figure out your dream and **write it on your heart**...then write it down somewhere else. If you don't write it down, it isn't a goal...it's a wish.

***Bonus**

If you are struggling with ideas, then download our Retirement Ideas List at the bottom of this article.

Syllabus Item #2 - Get Financially Ready

Next up on our syllabus is to position yourself to really make strides at your retirement goals. What do I mean by that? Ideally you have learned how to budget and are saving money regularly. I also hope you are out of debt (or have minimized your debts to where they fit comfortably in your budget).

Saving for Retirement is the fourth step of becoming a personal money manager for a reason. If you are already saving money and have minimal debt (like a house), then you can really start putting a lot of what you are making away for retirement.

That doesn't mean that you can't participate in a retirement program before you are out of debt. However, if you don't have to focus on paying back others and instead can focus on paying your future self, your retirement plan will have increased power purely by the sheer amount you are funding that plan each year.

ACTION STEP: Get your finances in a position to start leveraging your retirement efforts. If you haven't already, please go through the first three steps of becoming a personal Money Manager before you move on.

Syllabus Item #3 - The "Meat" of the Subject

The next item on the syllabus is the "meat" of the subject. Educating yourself about retirement planning will help you for a few reasons:

1. Your confusion about retirement plans and terminology will decrease.
2. You'll be more confident when you talk to others, especially an adviser or employer.
3. Your adviser will be more easily about to talk and explain things to you, since you know the basics.

So, with that, we will move on to the "meat" of the subject. Remember, these are just basic principles. There is more to a lot of this. I hope that this section will help you feel more knowledgeable about retirement planning and will help you launch from here.

Types of Retirement Plans

I want to focus on sharing the basics of the four most common retirement plan options out there: 401(k) Plans, IRA Plans, and two different Pension Plans (Defined Contribution and Defined Benefit).

1. 401(k) Plans

Summary: 401(k) plans are employer-sponsored retirement saving plans. These plans allow you, as an employee, to contribute a portion of your paycheck into an investment account. You typically have the freedom to pick from an array of investment options that your plan sponsor has chosen to include in the plan. For self-employed individuals, contact an adviser for information on creating a Solo 401(k) plan.

Most plans have two contribution options: Traditional and Roth.

- Traditional
  - Contributions are **pre-tax**, which lowers your taxable income in the year that you make a contribution.
  - You will pay taxes when you withdraw money from the plan during retirement.
  - If you anticipate being in a lower tax bracket in retirement, then this option allows you to save on the amount of taxes in the long run.
- Roth
  - Your contributions are **after-tax**,

- You can withdraw money from the plan during retirement without paying taxes.
- If you anticipate being in a higher tax bracket at retirement, then this option allows you to have a tax-free retirement.

Key Points to Remember:

- These plans are the most widespread private-sector employer-sponsored plans in the U.S.
- Many employers make a match contribution based on the amount you make, or the amount you contributed.
- The government allows higher contribution limits than with an IRA.
- There will be higher fees, due to higher administrative responsibilities.
- There are penalties for early withdrawals.

2. Individual Retirement Accounts (IRAs)

Summary: IRAs, or Individual Retirement Accounts, are designed to do two things:

1. Become a retirement vehicle for those who don't have access to an employer-sponsored retirement plan.
2. Play a complementary role to employer-sponsored plans and to help preserve rollover assets at job changes or when you retire.

Just like 401(k) plans, IRA's offer a pre-tax (Traditional) or after-tax (Roth) plan options. You can contribute to both a 401(k) plan and IRA, but talk to an adviser about making the most of that situation. You have increased control over the types of investments that you can invest your money in; however, the majority invests in mutual funds.

Key Points to Remember:

- These plans are easy and relatively inexpensive to start.
- Some employers will match your contribution, but it's not likely.
- The government allows lower contribution limits than with a 401(k) plan.
- Depending on your tax bracket, your contributions may be claimed as tax deductions.
- There are penalties for early withdrawals.

3. Defined Contribution Pension Plan (DC Plan)

Summary: Pension plans are employer-sponsored retirement saving plans. Pension plans, by definition, are plans that require an employer to make contributions on behalf of their employees into a pool of funds that is set aside for the future benefit of its' employees.

A DC Plan is based on a **defined contribution** that is paid into the plan on your behalf each year. **This is a specific dollar amount**. That amount, plus investment growth, equals the amount you get out of the plan.

Key Points to Remember:

- Pension plans are becoming less common, as 401(k) plans are taking over the retirement world.
- Safer financially for the **employer** (not based on present/future obligations).
- Employer contributions are easily calculated and don't rise and fall with performance.
- Employees bear the risk of investment performance.
- Some plans have a voluntary employee contribution component, or even an employer match.
- Each plan is designed differently.

4. Defined Benefit Pension Plan (DB Plan)

Summary: This is often referred to as a "traditional" pension plan. This plan provides a **specific level of benefits**, depending on the years of service you provide for your company. For example, if you work for 30 years with your company, they will provide you with $2,000 a month until you die. That is a specific level of benefit.

Key Points to Remember:

- Provide a steady benefit after you retire.
- Not as safe financially for employers (contributions are based on present/future obligations, making the amount change year to year).
- Long-term employees are rewarded heavily.
- Employers direct the investments, not employees.

Now that we have addressed different retirement plan types, let's talk about common retirement terminology.

Want to study later? Download this part of the "syllabus" HERE.

Retirement Terminology

This is not a full terminology list. In fact, this is a really "skimpy" list; however, based on my experience, the majority of questions that I was asked were based on a lack of knowledge revolving around these terms.

Accrued Benefit

- This is a benefit that has been earned, but not "paid" as of yet.

Actuarial Analysis

- This is the examination of risk.
- The analysis uses statistical models to help manage financial uncertainties.
- Actuaries make educated predictions, in regards to future events.
- Actuaries are used to help predict benefits for a Defined Benefit Pension Plan, for example.

Age of Retirement

- This is the time that you can retire, which is technically whenever you want.

- However, in the United States, the Social Security age for full benefits is 65. You qualify for early retirement at age 62 (but at the cost of a permanent 20% reduction of benefits.

Annuity

- A fixed sum of money paid to someone each year, often for the rest of your life.
- Can be a form of investment or insurance which will pay a series of annual sums.

Beneficiary

- This is a person or entity (like a trust) who receives assets when someone dies.
- Those who have life insurance or retirement accounts, for example, can specify who gets their assets after they pass away.
- A **contingent** beneficiary is a secondary beneficiary. They receive the assets **only** if the first beneficiary dies, can't be located, or refuses the inheritance.

Compound Interest

- Interest that is calculated on the principal (initial amount put in) **plus** the accumulated interest gained.
- Will make an investment grow at a quicker rate than simple interest (based only on the principle amount).

Blackout Period

- This occurs when major changes are made to an existing plan, or a new plan.
- Employees are not allowed to make alterations to their accounts, or even change investment options until the blackout period is over.

Rollover

- This occurs when retirement funds are sent from one plan to another.
- This often occurs when moving retirement funds from a previous employer to a new one, or from an employer plan to an IRA.
- If a **direct** rollover is made (*direct* meaning that it doesn't "touch your hands"), from one plan to another then taxes are not due.

Trust

- This is a legal entity that allows you to put conditions on how your assets are distributed upon your death.
- With respect to retirement accounts, a trust can be named as a beneficiary of your retirement account if you pass away. This gives you a degree of control over how your retirement assets are distributed.

Vesting Schedule

- This is a schedule of when the employee "earns" the rights to the employer contributions. Often this schedule is based on years of service.
- This is what a vesting schedule might look like:
    - After 1 year of service = 20% of employer contribution earned.
    - 2 year of service = 40% of employer contribution earned.
    - 3 year of service = 60% of employer contribution earned.
    - And so forth.

Retirement FAQ's

During my time in the industry, these are some of the most frequently asked questions:

Q: How much do I need to retire?

A: This question is heavily debated. It really depends on how you want to live your retirement lifestyle. If you want to live like you do today, then aim to have 70%-90% of your pre-retirement annual income. However, if you want to live a simpler lifestyle, then you'll need less. Your retirement funds can come from many sources like savings, investments, retirement accounts, and Social Security.

Q: What is the average retirement savings?

A: The May 2015 Government Accountability Office analysis discovered that the average American between the ages of 55 and 64 have accrued about $104,000 for retirement. For those in the 65-74 age bracket they have accrued an average of $148,000. That is not a lot; and those are averages... That report also mentions that $104,000 and $148,000 equates to $310 and $649 per month annuities, respectively. I don't know about you, but I want more than that each month.

Q: What constitutes early retirement?

A: In the United States, early retirement age is any age prior to 65, as that is the age you can receive full benefits for Social Security, as well as Medicare Benefits.

Q: How to retire early? What can I do?

A: Retiring early comes down to you being in a financially independent situation that you can "self-sustain" your current and future obligations, needs, wants, and spending habits. I believe becoming a personal money manager will allow you to retire early. Learn how to sacrifice now with a budget, saving money, getting out of debt, using retirement account vehicles and then investing. All of those steps, together, will set you up in a position to retire early.

Q: What are the best retirement plans?

A: There is no "best" retirement plan. The best retirement plan is the one that works with your current situation and allows you to further your retirement agenda. Each retirement plan has positives and negatives. What I can tell you is that the worst retirement plan is the one that you aren't actually using... when you could be. Take advantage when you have an opportunity!

Q: When can I retire?

A: Technically you can retire whenever you want. No one is forcing you to work if you have the required funds to no longer be working. However, for Social Security, the normal age to retire is 65. Early retirement starts at 62, which results in a lower total benefit.

ACTION STEP: These are good questions, terminology, and types of plans to know about before you dive into the retirement planning scene. Check out the further readings below for deeper topics on other important questions, and other topics and ideas.

Your Plan of Action

So far, you have...

- created your dream to help motivate your actions going forward with retirement planning.
- become financially ready, and
- know more now more about retirement plans, terminology and answers to common questions than you did.

The final part of the class syllabus is your plan of action from here. These final steps will help you get **fully prepared** to start saving for your permanent vacation. Like I mentioned in the introduction, use the information from this article as a launching point...a starting point to move forward, learn more, and get ready to start contributing to a retirement plan.

Here is a list of actions steps that you can take from here to get yourself closer to obtaining your dream:

1. **Talk to your Employer** - Find out if they offer a retirement plan. If they do, get specifics on what type of plan it is, what they contribute, and so forth.
2. **Talk to an Adviser** - Find an adviser that you trust to work through the details of your employers' retirement plan and decide together if you should participate. They will also give you other options to consider.
3. **Stay Financially Ready** - Continue to budget, save money, and stay out of debt so that you can consistently contributed towards your permanent vacation every year.
4. **Sacrifice for the Greater Good** - Be willing to give up buying that new car you want this year so that you can maximize your retirement contribution. Let compound interest do its thing. Sacrifice today for an even better vacation later.
5. **Start Contribution to your Retirement** – Now that you have learned it; go do it. Start contributing a portion of your income into an account *this year*. Don't wait. Let compound interest do it's thing.

ACTION STEP: Make a commitment to yourself (and a spouse if you have one) to follow these steps and work towards your dreams.

Conclusion

I hope this article has been helpful...I hope you understand more about the basics of retirement planning than you did fifteen minutes ago. Don't let retirement scare you; the true principle is this:

A penny saved is a penny earned. A penny matched is TWO penny's earned. And pennies become more valuable the longer they sit in an account and earn interest.

You typically plan out your vacations, so make sure you properly plan out and prepare for retirement: your permanent vacation. After working all my life, I will deserve my beach dream. **You deserve your dream as well, no matter what it is**.

Write that dream on your heart and then go to work! It is worth skimping, saving, and sacrificing to attain your goals. Meet with your employer and then talk to an adviser to get financial advice. Set up a retirement fund if you haven't already done so. Even a small contribution every year will multiply and grow.