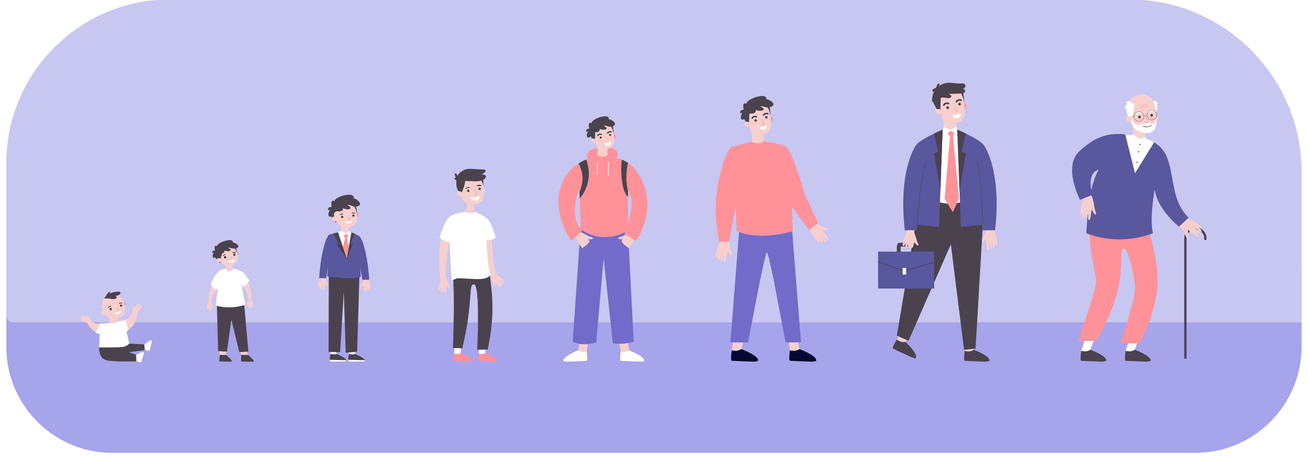
Farm Bureau Financial Services

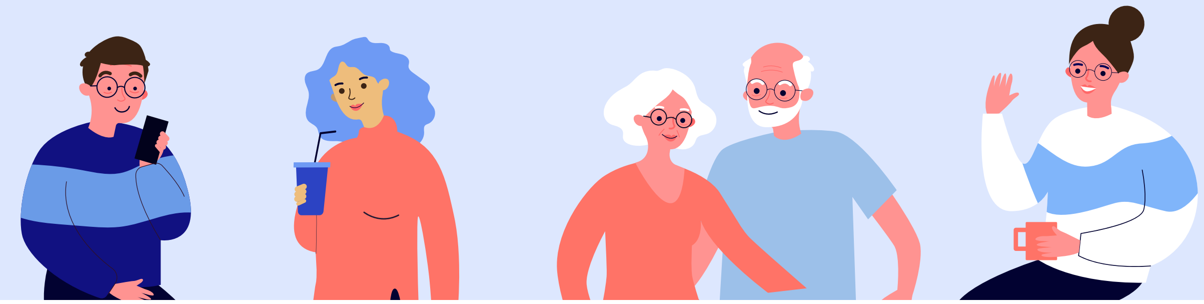
The Definitive Guide to Saving for Retirement

Find out how to successfully save for retirement with this comprehensive guide.

Even if you love the work you do, chances are you're looking forward to retirement. But preparing financially for retirement requires careful planning, strategic investing and, ideally, a lifelong dedication to saving. In this comprehensive guide, we review everything you need to know about retirement planning, including retirement savings and retirement investing, to help you get started — or continue — on the path to a financially secure retirement.



WHAT YOU'LL LEARN



When to Start Retirement Planning

You've decided to start building your retirement savings — congratulations! Getting started is the most important step you can take toward a financially sound retirement. In fact, the best way to save for retirement is simply to start. And the sooner you start, the better.

That's because compounding interest – which is when interest accumulates based on your principal investment plus all the interest you have already accumulated – your money grows more quickly with time. That means if you **start investing in your 20s**, your returns will compound for longer compared to someone who starts investing in their 30s or 40s.

In addition to the benefits of compound interest, **starting a retirement plan early** means you'll get into the habit of saving early. Even if you start by putting small amounts of money into a retirement or savings account, you'll see the benefits pay off over time.

But, what if you're nearing retirement and you haven't started saving? You're not alone. According to the **U.S. Federal Reserve**, 17% of people ages 45 to 59 don't have any retirement savings. Less than half of people ages 60 and over think that their retirement savings are on track. The best thing you can do to **prepare for retirement later in life** is to start saving now.

MAXIMIZING YOUR RETIREMENT SAVINGS FROM THE START

It's estimated retirees will **need to save roughly $1.18 million** in order to generate $40,000 a year for 30 years. That may seem like an impossible number to reach, but by maximizing your retirement savings from the start you can grow your savings faster — and with less overall investment — to help you reach your retirement savings goals.

Not sure how to start a retirement plan? These retirement planning tips will help you **get started** on the right foot.

- **Start now!** We said it before, and we'll say it again: The best way to save for retirement is to start saving today.
- **Don't let debt stand in the way.** Credit cards, student loans, medical bills. It's easy to let the debts you have today take precedence over saving for your future. But delaying your retirement savings will only make it harder to catch up later.
- **Know how much you need.** You can't draw a map if you don't know where you're going.
- **Understand the retirement plans of today.** Thirty years ago, the most popular employer sponsored retirement plan was a pension. Now, companies are putting more emphasis on 401(k)s.
- **Familiarize and prioritize.** Familiarize yourself with the savings and investment options that are available to you. Then, prioritize the options that will help you reach your goals most effectively.
- **Keep saving for retirement.** You'll have a variety of financial goals throughout your life, such as purchasing a home and **saving for your children's education**, but retirement should always be your priority.
- **Get help.** Professional **financial advisors** can help create and execute the right retirement savings plan for you.

HOW MUCH DO YOU NEED TO SAVE FOR RETIREMENT?

A good rule of thumb is to plan on generating **55 to 80% of your annual income** in retirement. However, there's no hard and fast rule that tells you how much you need to save for retirement. How much you need will depend on several factors that are specific to you. Asking yourself these questions can give you a starting point for your **retirement savings goals**.

1. **When Do You Want to Retire?**
   If you **plan to retire early**, you have less time to save, which means you may need to contribute more to your savings when you have an income.

2. **How Do You Plan to Live in Retirement?**
   If you want to continue your current lifestyle in retirement, you'll need to generate roughly the same amount as your annual income when you retire. However, you may need less if you have fewer expenses in retirement, which is common for people who are no longer commuting for work and no longer have children living at home.

3. **Will You Continue Working After Retirement?**
   Some people view retirement as having the freedom to start something new — including a new career or business. If you plan on **working after retirement**, you may need less savings.

4. **How Much Debt Will You Have in Retirement?**
   If you plan to have a mortgage, car payments or other outstanding debts when you enter retirement, you'll need funds to cover those expenses. Conversely, paying off your debt before you enter retirement means fewer expenses to cover and, therefore, less money you need to save.

5. **Do You Have a Plan for Long-term Care?**
   Even though most people will have fewer expenses in retirement, it's possible your expenses could grow if you need long-term care in your later years. According to the **U.S. Department of Health and Human Services**, someone turning 65 has a nearly 70% chance of needing some kind of long-term care. **Long-term care insurance** is one option to make sure you're prepared for the costs of long-term care. Another option is to account for the costs of **long-term care** as part of your retirement savings plan.
   Outside of long-term care insurance, there are alternatives to covering expenses that may pop up in your retirement years. **Annuities** can help create a supplemental income stream in retirement. Some life insurance policies also offer **addon riders for purchase** that can help pay for expenses if you become chronically or terminally ill. These types of options can help with needs resulting from chronic or terminal illness, but it's not recommended that you cancel, reduce, surrender or replace a **long-term care** or health insurance policy for this type of rider. Once you have an idea of what you'll need to pay for in retirement, you'll have a better idea of how much you need to save and can get started creating a **retirement savings strategy** that works for you. If you're still unsure about how much you should save, our **retirement savings calculator** can help.

STARTING A 401K

A **401(k) is an employer-sponsored retirement fund**. To participate in a 401(k), employees contribute a percentage of their income through payroll deductions. This money is then invested in stocks, bonds and/or mutual funds, depending on your investment strategy, and compounds interest over time.

401(k)s are among the most popular retirement investing strategies because they are easy to use and often offer incentives to encourage employees to participate. For example, many employers will match their employees' 401(k) contributions, usually up to a certain amount. That's free money going toward funding your retirement.

While many companies offer a 401(k), there are some that don't. If you don't have access to a 401(k) — don't worry! There are **other ways you can save for retirement**.

401(K) Alternatives To Save For Retirement

If your employer doesn't offer a 401(k), there plenty of alternatives you can use to save money for retirement. Here are other types of retirement plans that can help you save money without a 401(k).

Solo 401(k)

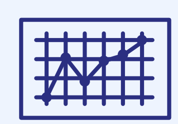
Did you know you can **start a 401(k) plan for yourself** if you're self-employed? With a solo 401(k), you would be both the employee and the employer, meaning you can actually put more into the 401(k) because you are the employer match.

Pension

A pension is a retirement plan that is completely funded and managed by an employer. Your eligibility to participate in a company's pension plan, as well as how much income you generate in retirement, is often based on how long you were employed by the company, your age and your compensation during employment.

IRAs

The primary **difference between an IRA and a 401(k)** is that 401(k)s are offered only through employers who choose to offer them, while any individual can open an IRA account through a bank, a brokerage firm or an insurance company. There are two types of IRAs — Roth IRA and traditional IRA. When comparing a traditional IRA and a Roth IRA, the contribution limits are the same (up to $5,500 annually, or $6,500 if you're age 50-plus), but they are taxed differently.



Annuities

When you purchase an **annuity**, you make payments to an insurance company in exchange for a payout that helps you manage your income in retirement. Depending on the type of annuity you purchase — fixed or indexed — your payments will either grow at a steady, pre-determined interest rate, or they can grow with potential gains in the market. Either way, an annuity offers more protection by providing a guaranteed minimum interest rate.

> “Retirement planning is all about making the right decisions that will help you retire with financial stability.”

RETIREMENT MISTAKES TO AVOID

Retirement planning is all about making the right decisions that will help you retire with financial stability. Even after you’ve spent years planning and saving for retirement, it’s possible to make mistakes that can have a big impact on the success of your retirement savings plan. Equally important to planning for retirement is **avoiding significant mistakes**.

One of the biggest retirement mistakes you can make is to not take advantage of tax-advantaged retirement accounts, like a 401(k) or IRA.

Another common retirement mistake is planning to rely on your Social Security benefit alone. According to the Social Security Administration, the **average monthly Social Security benefit** for retired workers is $1,514 in 2020. Yet, the **average monthly expenditures** for people ages 65 and older is $4,185 per month. Your Social Security benefit alone likely isn’t enough for a comfortable retirement.

Another major mistake is incurring penalties and reductions that come with **withdrawing retirement funds early**.

RETIREMENT WITHDRAWAL STRATEGIES

Many retirement plans will incur penalties or reduce the benefit you receive from the plan if you make early withdrawals, so you should think through retirement withdrawal strategies carefully to avoid hurting yourself in the long run.

Here’s what you should consider as you map out your retirement withdrawal strategy.

Penalties

While it’s tempting to cash out your 401(k) and retire early, early withdrawals (prior to age 59½) come with a 10% penalty and income taxes on top of the penalty. Plus, you’re preventing your money from growing in the future, which means less funds for your retirement years.

Reductions

While there is no early withdrawal penalty for receiving Social Security, retiring before age 70 (when you’re eligible for full benefits) means your Social Security benefits will be reduced. You can start receiving Social Security benefits as early as age 62, but your benefits will be reduced by as much as 35% compared to **waiting until you reach 70**.

Likewise, if you have a pension plan through an employer and have the option to retire early, there’s a good chance your monthly payout will be smaller than if you wait to collect it until you reach your pension plan’s retirement age.

Health Care

You can qualify for Medicare at age 65. That means if you retire before, you’ll need to think about how to obtain **health care coverage**.

PLANNING FOR RETIREMENT AS A STAY AT HOME PARENT

If you are not working outside of the home, such as if you are caring for children, you should still be planning for your retirement. As long as you and your spouse file a joint return, you can contribute to an IRA or a Roth IRA in your name.

WORKING WITH A FINANCIAL ADVISOR

Now you have the tools you need to start your retirement savings plan. But how do you get started?

If you’re still not sure where to start, you can **work with a financial advisor** who can help you prepare for retirement. Not only will a financial advisor help you get started, but they’ll also monitor your plan and regularly evaluate its progress so you can make adjustments that will keep your retirement savings on track.

WE CAN HELP

Farm Bureau’s team of wealth management advisors are ready to help you meet your retirement goals. **Contact a Farm Bureau wealth management advisor** today.

Farm Bureau Financial Services