How Long Will Your Retirement Funds Last?

Since you began working, even if you were just a high school student at the time, you have likely been saving for retirement – at least in the form of Social Security. As you get older, your options to save may expand. Through military or federal government employment, you gain access to the Thrift Savings Plan; many companies in the civilian world offer their staff access to a 401(k) or 403(b) account. Provided you are earning income, you may also be able to contribute to a traditional and/or Roth IRA on your own.

These accounts are dedicated retirement accounts, but you may have money saved in other places as well. Excluding your emergency and rainy-day funds and your everyday use bank account, any money you have in stocks, bonds, or other accounts can also be used to fund your retirement.

The ultimate question in retirement planning is this: How long will my dedicated retirement funds last?

There are a lot of moving parts at play, which makes answering that question complicated. You should consider inflation, market performance, any fixed income streams you may have (e.g., Social Security, pension funds, annuities), and your expenses. Any one of these factors can affect how long your retirement funds will last, so it is important to have an estimate to inform important decisions such as whether you need to continue working, consume less, or save more.

Inflation

Inflation is a measurement of the value of goods and services. It measures how expensive products are today compared to in the past and signals the strength of the economy. As of June 2021, the rate of inflation was 5.4%, meaning that goods and services are increasing in cost as the country recovers from the COVID-19 pandemic. Five years ago, in June 2016, the rate of inflation was only 1.0%.

It is important that your retirement funds keep up with the rate of inflation (i.e., make money at or above the rate of inflation) so that you don’t consume your savings earlier than expected. This means that you cannot rely on taking out the same amount of money each year during your retirement, as distributions will have to increase to cover rising costs due to inflation.

A 2016 model published by the **[LIMRA Secure Retirement Institute]** shows that a 1% rate of inflation could result in a $34,000 deficit in an individual's retirement income (assuming fixed income and expenses that rise with inflation), and a 3% rate of inflation could cause a deficit of over $117,000. You may need to keep your retirement assets growing after you retire and consider planning for multiple sources of income during retirement as this can help reduce risk.

Market Performance

Market performance can have an effect on your retirement balances, so if you own individual stocks or mutual funds as part of your 401(k) or TSP, you may see periodic fluctuations. Retirement accounts often allow individuals to put their money into a "target date fund" in which the allocation of assets is rebalanced to get more conservative as the target date (or the date when the individual expects to begin withdrawals) approaches. This can help mitigate the effect of market downturns on your retirement funds – you will be invested in fewer stocks and more bonds as you get closer to retirement. While this may increase peace of mind by decreasing the variability of the portfolio, it does increase the probability of inflation offsetting a larger portion of expected returns.

Once you do retire, you can choose a market-based withdrawal system – if investment returns are low, you withdraw less money than you would in an average year, and if investment returns are high, you can take out more than average. Typically you want to avoid taking out extra money in years where investment returns were low – because the money that is left will have less time to grow and recover, depleting your funds more quickly than you otherwise would.

Fixed Income Streams

Fixed income streams guarantee that you have some amount of money coming in each month during retirement and they can reduce the amount of money you need to "self-fund" for your retirement. Social Security benefits are well known, but military retirees are also eligible for a pension – as are others who meet requirements and work in specific fields (e.g., teaching, firefighting, nursing, transportation) – and anyone with enough saved can also purchase **an annuity** to guarantee income for a specific period of time as well.

You can start collecting **Social Security retirement benefits** any time between age 62 and 70 – keep in mind though that the Social Security Administration considers 67 the full retirement age for anyone born after 1960. If you claim benefits before you reach full retirement age, your payments will be reduced for the remainder of your life. If you wait until after reaching full retirement age, there is an additional incentive added to your payments. Currently, the maximum monthly Social Security benefit is $3,895, however, the program could be changed in the future due to depleting Social Security funds.

Read more: **Retirement Focus on Social Security**

As a servicemember, your **retirement pension** depends on when you joined the military. If you joined before January 1, 2006, you were enrolled in the legacy High-3 system. If you joined after January 1, 2018, you were enrolled in the Blended Retirement System. If you joined the military between January 1, 2006, and December 31, 2017, you were given the option to choose between the two retirement plans – enrollment decisions had to be made by December 31, 2018.

- **Legacy High-3**: If you serve for at least 20 years, you qualify for a lifetime monthly annuity payment that is calculated at 2.5% times the number of years of service times the average

of your highest 36 months of basic pay. (TSP contributions are *not* matched by the government under this system.)
- **Blended Retirement System**: If you serve for at least 20 years, you qualify for a lifetime monthly annuity payment that is calculated at 2% times the number of years of service times the average of your highest 36 months of basic pay. (TSP contributions *are* matched by the government under this system.)

You may also be eligible for **disability compensation** from the Department of Veterans Affairs.

Note that retirement benefits from the Department of Defense end upon the retiree's death and are not available to surviving spouses. Furthermore, VA benefits also end upon the death of the veteran, and many surviving spouses are not eligible for the VA Survivors Pension as a result of their net worth. However, if a retiree elected to participate in the **Survivor Benefit Plan**, a portion of their income may be preserved for their designated beneficiary.

An **annuity** is a contract that allows you to invest a sum of money with a life insurance company in exchange for a guarantee of future fixed income over a set period of time. A **fixed annuity** can provide guaranteed income for the remainder of your life. Unlike your other savings and retirement accounts, which you could outlive, you cannot outlive an annuity so long as you choose a "life income" payment option. If you are at all worried about budgeting in retirement, an annuity can make your life easier by guaranteeing a certain amount of income each month.

If you can, preserve your dedicated retirement funds by covering your essential expenses with guaranteed income. If your basics are covered without having to dip into your savings, you can then use those savings for discretionary or unexpected expenses.

Expenses

Your expenses are the aspect of retirement planning that you have the most control over. Where you want to live, the amount of travel you do, and how you want to spend your time are for the most part in your control. If you want a decadent retirement, you will need more money saved than if you plan to live modestly and stretch your savings for longer.

There are some things you cannot control, though, namely longevity and medical concerns. When it comes to retirement, it is best to plan for both the longest (in terms of life expectancy) and worst (in terms of medical concerns). So, plan for longevity, for both yourself and your partner, and also plan to spend money on medical expenses – and possibly **long-term care**. Planning for a shorter retirement with no health concerns could set you up for failure.

Setting up a budget can help you get an idea of how much money you will need each month to cover your living expenses, utilities, transportation, food, and insurance. Once you have an idea of your expenses, calculate your monthly fixed income. Then, you can use our **Retirement Planning Calculator** to get an estimate of how long your current 401(k), TSP, IRA, and other retirement savings will last.

Note that our calculator only estimates how long your retirement funds will last as they stand today. If you estimate and input how much you *will have* in savings at the time of your retirement (factoring in future contributions), you can get an idea of how much you still need to save to reach your retirement goals. If you plan to retire at 65, you could need 30 years or more of funding to live out the rest of your life and maintain your standard of living.

Navy Mutual has been serving members of the military and their families for over 140 years. If you are interested in learning more about how you can create guaranteed future income with an annuity or want to supplement your retirement accounts with a low-risk investment, call us at **800-628-6011** or **schedule an appointment** today.