Retirement Basics for National Retirement Security Week

This week is National Retirement Security Week, which has been observed since 2006 when Senators Kent Conrad and Gordon Smith introduced legislation for its creation. National Retirement Security Week is used to spread knowledge about retirement planning and to encourage people to open individual accounts or learn about employer-sponsored accounts so that more people will be financially secure enough to retire without worry.

Experts suggest that every person needs between 70% and 85% of their pre-retirement income to maintain their standard of living after they stop working. Retirement is highly personal, so tailor your goals to your needs and lifestyle. Your needs could be higher if you plan on doing a lot of traveling in retirement or if you foresee having significant medical expenses. They could be less if you plan on downsizing or living more modestly than you are now.

There are three things you need to do to get started:

1. Get a ballpark idea of your lifespan so you know how many years of spending you will need once you retire. According to **the CDC**, the average American male can expect to live for 76.1 years, while the average American female can expect to live for 81.1 years. Therefore, if you plan to retire at 65, you need to plan for *at least* 12 to 17 years of spending in retirement – and your planning should ensure your spouse has an income for their retirement should you pass first. Calculating life expectancy is not an exact science. It not only varies by gender, but location, ethnicity, health conditions, and more. It is better to plan for a longer life than a shorter one.

2. Calculate your financial needs. Use Navy Mutual's **Retirement Savings Calculator** by inputting your current age, income, and retirement savings; your desired retirement age and how many years of income you will need; and whether you want to include **Social Security benefits**. Note that the calculation is just an estimate.

3. Start saving. Time is your best friend when it comes to growing your retirement savings because the longer your money has to grow, the longer that compounding interest will have to work in your favor. Any money that you can put aside today will help you in the future.
When it comes to saving for retirement, you need to do more than put money into a savings account. There are specific types of accounts that are earmarked for retirement funds, and they behave differently than your everyday checking or savings account.

The two most common types of retirement accounts are 401(k)s and IRAs. (There are other types of retirement plans that you can learn about **here**, but for the sake of this blog post, we will keep it simple.) A 401(k) is an employer-sponsored retirement account that allows employees to contribute a portion of their income to their retirement fund before payroll taxes are taken out. This effectively lowers the employee's taxable income at the time of contribution. Many employers "match" a percentage of what the employee contributes to their 401(k), and some may pay the fees associated with the account – though many leave that to the employees. If your company has a 4% match, for instance, everything you contribute up to 4% will also be contributed – or matched – by your employer dollar for dollar. This money is free money and should never be left on the table; if nothing else, contribute up to the match. You can contribute up to $19,500 to a 401(k) each year.

Note: If you are a member of the military or work for the federal government, you are eligible for the Thrift Savings Plan (TSP). The Thrift Savings Plan is very similar to a 401(k) account; contribution limits are the same, but fees are much lower. If you are a participant in the Blended Retirement System, your agency will contribute 1% of your pay to your TSP account per pay period after you have been in the service for 60 days – without you having to make your own contribution. There is an additional 4% match on any money that you contribute to your account beginning at the start of your third year of service.

Not all companies offer sponsored retirement plans. If this is the case for you, you may want to consider opening an Individual Retirement Account, or IRA. These accounts are funded by your personal contributions and you are liable for all associated fees. If you open a traditional IRA, you contribute pre-tax dollars which decreases your taxable income at the time of contribution, but you will have to pay taxes when you receive distributions in retirement. A Roth IRA (if you are under the income limit of $139,000 if you are filing as single or $206,000 if you are married filing jointly) allows you to contribute after-tax dollars and therefore does not affect your taxable income when you contribute but, because you already paid taxes on the contribution, allows you to take future retirement distributions tax free. All IRAs have a contribution limit of $6,000 annually.

Here are a few other helpful tips:

- Set up automatic contributions from your paycheck to your retirement account(s). If you have a 401(k), you can do this by talking to your company's Human Resources or payroll department. They will be able to help you access your account and have money automatically deducted from your paychecks. If you do not have an employer-sponsored account, set up automatic transfers from your checking account to a retirement account; for an IRA, you would need to transfer $500 a month to max out your contributions each year.

- If you joined the military after January 1, 2018, you were automatically enrolled in the Thrift Savings Plan. If you are active duty military and not yet enrolled in TSP, or want to change your contribution amount, talk to a representative at the finance office on base, visit MyPay or DirectAccess, or visit the **TSP website**.
- If you are young, you can afford to be more aggressive with your risk-taking when it comes to your retirement accounts and investments. Employer-sponsored retirement plans often allow you to pick "target-date funds," which get more conservative as you get older and closer to retirement. If you have an IRA, you may have to adjust your investments manually.
- If you are over 50 years old and have designated retirement accounts, you can take advantage of "catch-up contributions." This means that you can contribute an extra $500 to a 401(k) or TSP or an extra $1,000 to an IRA each year.
- If you get a bonus or a raise, pay yourself before you spend your money on fun items or experiences. If you have not maxed out contributions to your retirement accounts for the year, use additional funds to do so. If you have already maxed out your contributions for the year, consider diversifying your investments by purchasing an **annuity**, a conservative, tax-deferred retirement investment that will give you a guaranteed income stream for a set period of time or the remainder of your life.

If you still have questions, continue to do your research. Life events happen and you will need to modify your plan as you grow older. Talk to your employer or the company that manages your retirement account(s) about your current investment options. Consider annuities if you want more diversity in your retirement planning. Most importantly, start saving now so that you can reap the rewards in the future. Your retirement is in your hands.

Navy Mutual is here to help – during National Retirement Security Week, and always. To schedule an appointment with a representative, **click here**, or email us at **counselor@navymutual.org**.