Retirement Rules: Myth vs. Reality

If your goal is to save enough to fund a long retirement, and you're not sure how to start or how to catch up, remember that there's more than one path to success. Retirement rules that work for some may be a myth for others.

Here's why knowing that some retirement rules are myths could potentially benefit you in your quest for long-term retirement success.

MYTH 1 Set aside 10% of your current pay

This is a nice, simple number; too bad it only applies to the younger saver. If you're nearing retirement age and have just started to build a nest egg, putting 10 percent in savings may not be enough to create a comfortable cushion. Saving takes time; if you don't have much time, put aside whatever you can manage. (This may also be a good time to contact a financial advisor to help you get on track to address your savings goals.)

MYTH 2 100 minus your age equals the percentage of stocks to keep in your portfolio

If you're 40 years old, for example, this rule recommends keeping 60 percent of your portfolio in stocks. As you age, this number becomes progressively more conservative. The problem is, this equation is too reductive to apply to the many possible nuances in personal investment strategies and retirement goals. Instead, consider creating an asset allocation that matches your risk tolerance, time horizon, and financial goals. And be willing to adjust it more than once a year. Keep in mind, asset allocation does not ensure a profit or protect against a loss. Investing involves risk, including loss of principal.

MYTH 3 You'll need 70% of pre-retirement income in retirement

While a 30 percent reduction in spending may work for some, this number is going to fluctuate over time—sometimes significantly. To make a better estimate of post-retirement spending needs, take a look at your expenses today—what will change when you retire? Some expenses will probably go up (healthcare costs, for example), some will go down (wardrobe bills, car payments), and many will remain the same (grocery bills).

MYTH 4 A sustainable withdrawal rate is 4%

Determining how much money you can safely withdraw from your savings and investments in retirement is an important calculation, and the thinking on this "rule" is changing all the time. Some experts suggest withdrawing a lesser percentage each year; others recommend rate changes based on how your investments perform. But no one can predict how much money you'll need to sustain a comfortable retirement. Only time will tell.

MYTH 5 You can always count on Social Security

Social Security is not designed to replace pre-retirement income, so it's best to view it as a helping hand—and not as a central source of funding. Also, we're living longer than before, and incurring higher health care costs. You'll be better served to plan on covering these types of expenses using 401(k) funds and other forms of savings.

The only rule that matters: Stay flexible

If it's not clear by now, there's only one rule you can successfully follow in retirement, and that's to stay flexible. Have a plan, stick to it and be prepared to reassess and modify as time goes by.

Get started today and contact your financial advisor.

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