Answers to Common Retirement Questions

Approaching retirement should be an exciting time in your life - you have traveling, spending more time on hobbies, and generally enjoying your golden years to look forward to. However, for many, retirement is a source of stress and anxiety instead. Have you saved enough? Do you need to keep working part-time? How will you pay for unexpected medical bills? Creating a retirement plan early and reviewing it often is key to alleviating some of this stress. Here are a few questions to consider when checking up on your retirement plan:

How much do I need to save?

Assuming that you retire at age 67 (the average) and have an average lifespan (most investment advisors recommend assuming 92 years for men, 94 for women), you need approximately eight times your annual salary in order to retire without accepting major lifestyle changes. Experts recommend saving 10 percent of your annual income towards retirement for the first decade of your career. After that, increase your contributions to 15 percent of your annual income.

How much am I allowed to save?

Different retirement savings account have different rules about how much you are able to contribute each year and whether those funds are taxed now or when you withdraw them in retirement. The current maximum annual contribution to a 401(k) plan is $18,000. The maximum contribution to an IRA is $5,500 per year if you're under age 50. Check into how much you're currently saving as part of your workplace savings plan or putting into your IRA and if you could be setting aside more. There are also catch-up provisions that allow people age 50 and over to save more in both IRAs and workplace savings plans.

How much risk am I taking on?

One risk in never reviewing your retirement plan is that you could end up losing a big chunk of it. Typically, the younger you are, the riskier the investments in your retirement portfolio. This is because the potential for higher returns outweighs the risk of losing money because you have enough time to make up any losses prior to retiring. As you get closer to exiting the workforce, that balance shifts. Talk with your plan administrator and reassess your risk tolerance at least every 10 years to ensure that you're not taking on more than is advisable for your situation.

Where should I save?

There is a wide variety of retirement savings vehicles. A few of the most popular are IRAs and 401(k)s. A 401(k) is directed by employers and contributions are deducted from paychecks, before taxes. The account is then taxed when a withdrawal is made. An IRA account is an individual account that provides tax advantages that a regular savings account does not. There are two types of both IRAs and 401(k) plans, Roth and Traditional. The basic difference is when you have to pay the taxes on the account. With a traditional retirement account the taxes are paid when the money is withdrawn. With a Roth account the taxes are paid upfront (when the money is added to the account), making them especially valuable to younger savers.

If you have questions about how to get started saving for your retirement, ask your employer's Human Resources personnel or talk to your local banker.

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