Learn from the Financial Advice of Retirees

If you're trying to be successful at any task—particularly one that takes a bit of prowess—it makes sense to rely on the advice of people who have already done it.

When it comes to planning and saving for retirement, valuable lessons can be learned from retirees who have navigated the challenges you will need to anticipate and completed the steps you will need to take. What would today's retirees have done differently? What should be prioritized? Which pitfalls should be avoided? Gleaning from this invaluable insight could help those who are saving for retirement now make smarter, more informed decisions that could benefit them in the future. The Retirement Security Survey from Principal sheds light on the financial advice retirees would give to their younger selves and pre-retirees. They came up with five pieces of advice that you can put into practice during your journey toward retirement.

1 Start Early

It's never too late to begin to save for retirement, but starting as early as possible is better. How much better? Consider this scenario comparing two retirement savers—Anna, who starts early, and James, who waited longer to begin saving:

Anna earns $50,000 annually and began contributing $3,000 each year to her 401(k) plan when she was 25 years old. When she retires at age 65, having saved for 40 years (and assuming a 7 percent average rate of return), the pretax balance of her 401(k) account will be $621,379.

Compare Anna's situation with that of James. He also earns $50,000 annually and contributes $3,000 each year to his 401(k) plan, but he didn't begin saving until he was 45. By the time he turns 65, also assuming a 7 percent average rate of return, the pretax balance of his 401(k) account will be $196,867.

Anna and James both did a great job saving for retirement. But, because Anna began saving earlier, she saved $424,512 more for her retirement years than James![1]

[1] These are hypothetical examples and are for illustrative purposes only. No specific investments were used in this example. Actual results will vary. Past performance does not guarantee future results.

2 Be a Lifelong Learner on Finances, Health and Wellness

People who constantly learn, adapt, and evolve right through to their golden years have a leg up in all aspects of life, including being financially fit. Some suggestions to become a lifelong learner, as it relates to retirement, are to keep daily tabs on financial markets, increase your understanding of investments, read up on lifestyle choices that will benefit your body and mind, and commit to attending regular retirement education sessions offered by your employer as part of your workplace retirement plan. Fortunately, there are a plethora of free online resources that you can use to help improve your knowledge of financial topics. Or, keep an eye out for free in-person or virtual seminars being offered at your local library or community center.

3 Practice a Healthy Lifestyle

How does health tie into your financial picture in retirement? According to the Fidelity Retiree Health Care Cost Estimate, an average retired couple at age 65 in 2020 needed approximately $295,000 saved (after tax) to cover health care expenses in retirement. Clearly, factoring in health care is an extremely important piece of the retirement puzzle that you can't afford to overlook. Poor health in retirement will likely translate into higher medical and prescription expenses or assisted living services. While you're in your working years, resolving to adopt healthy lifestyle habits can go a long way toward keeping health care expenses manageable in retirement.

4 Find a Balance Between Living for the Future and Saving for Today

Yes, saving is fundamentally important to living the way you want to in retirement—but it's equally important to enjoy life's pleasures along the way. To avoid depriving yourself of the things that bring you joy at the expense of saving a few extra bucks, come up with a long-term plan you can fall back on that balances your short- and long-term goals. Calculating how much you'll need in retirement is a good foundation to start from (most experts advise that you'll need to save around 80 percent of your pre-retirement income). From there, you'll know what you need to put away—and what you can spend on life's adventures.

5 Select a Deferral Percentage That Takes Full Advantage of the Company Match

Are you taking full advantage of all your company's retirement plan has to offer? Most employers reward you for your saving efforts by "matching" a portion of what you contribute from your paycheck. That's free money in your pocket when you reach retirement—a benefit too good to pass up. If your company will match up to 50 percent of the first 6 percent you defer from your paycheck, for example, you should strive to make 6 percent your minimum contribution rate. If you defer less, you could be making an expensive mistake. Matching formulas and eligibility requirements vary by company, so contact your Human Resources department to find out what your employer offers.

Understanding Your 401(k) Plan: Compound Interest

A great—and simple—advantage of saving for retirement through a workplace retirement plan, such as a 401(k), 403(b), or IRA, is the ability to take advantage of compound interest. Through the power of compounding, as your invested assets generate earnings, that money is continuously reinvested to potentially generate even more earnings. Simply put, compounding is when your interest earns interest.

A key factor that makes compounding even more effective is when saving begins early. Those who start saving earlier have a distinct advantage over those who delay saving because their money has longer to earn interest. And, over time, this can snowball into a significant account balance. Let's look at a hypothetical example that demonstrates the magic of compounding and the impact that beginning early makes.

Alex, age 25, invests $3,000. With a 7 percent annual return, her investment would compound to $3,210 after the first year, $5,901 after the 10th year, $11,609 after the 20th year, and so on. When Alex is ready to retire at age 65, her original $3,000 investment would be worth $44,923. Compare Alex's situation with that of Ann, who also invests $3,000 but doesn't do so until she is 40. When Ann is ready to retire at age 65, her $3,000 investment, after compounding for 25 years (and with the same 7 percent annual return), would be worth $16,282. By allowing her initial $3,000 to invest for an extra 15 years, Alex earned $28,641 more than Ann.

Of course, the more you invest, and the more you can increase the amount you save each year, the better opportunity you will have to let compound interest take further effect and supercharge your retirement account balance. If you haven't begun saving for retirement yet, think about beginning today. As demonstrated by the example above, the sooner you get started, the better.

Cybersecurity Tips

Technology has undoubtedly provided a lifeline for many during the pandemic, giving people the ability to telework, virtually connect with loved ones, and take part in online learning. Conversely, increased usage of the internet has increased your probability to be exploited by cybersecurity attacks. Here are some cybersecurity tips from the U.S. Federal Trade Commission that will help you guard your devices and personal information, staying one step ahead of cyberthieves.

- **Start with cybersecurity basics.** Keep your security software up to date. Use passwords on all your devices and apps. Make sure the passwords are long, strong, and unique: at least 12 characters that are a mix of numbers, symbols, and capital and lowercase letters.

- **Secure your home network.** Start with your router. Turn on encryption (WPA2 or WPA3). Encryption scrambles information sent over your network so outsiders can't read it. WPA2 and WPA3 are the most up-to-date encryption standards to protect information sent over a wireless network. No WPA3 or WPA2 options on your router? Try updating your router software, then check again to see if WPA2 or WPA3 are available. If not, consider replacing your router. For more guidance, read Securing Your Wireless Network and Secure Remote Access.

- **Keep an eye on your laptop.** If you're using a laptop, make sure it is password-protected, locked, and secure. Never leave it unattended—like in a vehicle or at a public charging station.

- **Securely store sensitive files.** When there's a legitimate business need to transfer confidential information from office to home, keep it out of sight and under lock and key. If you don't have a file cabinet at home, use a locked room. For more tips, read about physical security.

- **Dispose of sensitive data securely.** Don't just throw it in the trash or recycling bin. Shred it. Paperwork you no longer need can be treasure to identity thieves if it includes personal information about customers or employees.

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Retirement Plan Services

1-855-378-1415

retirementplans@legacy-online.com

Brendan P. Speers is a financial advisor with Legacy Planning at 600 W Germantown Pike, Suite 261 Plymouth Meeting, PA 19462. He offers securities and advisory services as a Registered Representative and Investment Adviser Representative of Commonwealth Financial Network® Member FINRA/SIPC, a Registered Investment Adviser. He can be reached at 484-351-2132 or via email at bspeers@legacy-online.com. Commonwealth Financial Network® does not provide legal or tax advice. Please contact your legal or tax advisor for advice on your specific situation. Authored by the Retirement Consulting Services team at Commonwealth Financial Network.

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