Search Go

About Money

Retirement Planning

Essentials

Retirement Planning Quiz

Retirement Planning 101--Email Course

Retirement Planning Calculators

Retirement Planning Glossary

The Retirement Planning Process

Articles & Resources

Retirement Planning Blogs

401K

Can I Retire?

Life Issues and Events

Estate Planning

Life Styles

Living on Retirement Income

Planning for Retirement

Social Security / Medicare

Retirement Income

Taxes

Tools and Tutorials

Traditional and Roth IRAs

Women's Issues

Articles

Forums

Help

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Retirement Planning

Retirement Planning Primer

From Jenny McKinney,
Your Guide to Retirement Planning.
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Part 1--Introduction

Planning for your retirement is much more complicated than opening an IRA contributing to a 401k, or belonging to a pension plan where you work. While these are excellent beginnings, you must plan for any and all events that can and will happen after you choose to retire from work. You not only need to plan for retirement income, you must also plan for the disposition of your assets upon you death. You need to decide where you will live after retirement, how you will handle tax matters, what insurance you will need and how you will pay for it, and so on.

Planning for retirement should begin as early as possible in your life. With some careful thought, however, the planning process can be started at any time in your work career. The secret is to actually put together a plan no matter what your age. The sooner you start, the more time to you will have to build your investment portfolio for your retirement income.

The first step in retirement planning is to start putting money aside for income. Once you have your investments set up, monitor them with your broker or financial advisor. Set up tax strategies that will protect your assets and limit your tax liabilities when you retire. Keep in mind, you might be retired for 20, 30 or more years. When you get close to retirement age, you should start to thinking about where you would like to retire and whether or not you plan to travel.

If you're married, plan your retirement with your spouse. Both should agree on the plan and work together for mutual benefit. If both have a career or job, both incomes need to be taken into consideration and planning should be done accordingly.

As you can see, retirement planning is crucial. Once you reach retirement age, you will probably not require as much income for living expenses but you could be paying out huge amounts for insurance premiums or health care. The value of your estate could be quite large and you certainly don't want to have this taxed unnecessarily.

Think about your retirement and start planning now. Follow the tips and suggestions in the next three parts of this primer and you will have the basics for a comprehensive retirement plan.

1234Next

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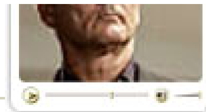

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You are here: About>Money>Retirement Planning

Search Go

About Money

Retirement Planning

Essentials
Retirement Planning Quiz
Retirement Planning 101--Email Course
Retirement Planning Calculators
Retirement Planning Glossary
The Retirement Planning Process

Articles & Resources
Retirement Planning Blogs
401K
Can I Retire?
Life Issues and Events
Estate Planning
Life Styles
Living on Retirement Income
Planning for Retirement
Social Security / Medicare
Retirement Income
Taxes
Tools and Tutorials
Traditional and Roth IRAs
Women's Issues

Articles
Forums
Help

Retirement Planning

Retirement Planning Primer

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Part 2--Getting Started

Getting started is probably the hardest part of a retirement plan. It's so easy to think your retirement is decades away so why not wait just a little longer to start planning for it. Procrastination could cause you to lose thousands of dollars. Procrastination could mean the difference between a comfortable retirement and one where you are barely getting by. If you're between the ages of 20 and 40, you're probably buying a house, a car, furniture, and thinking about your kid's college fund. You probably think you can't afford to save for your retirement at this time. You're wrong. Even a small amount invested wisely could be very beneficial in years to come.

Goal Setting

OK, you've decided to start planning for your retirement so where do you go from here? The first thing you must do is to list your retirement goals. Do you want to travel? What about moving to a better climate? Maybe you want to stay where you are and enjoy gardening. Whatever your goals, you will need an income. You could quite possibly be retired for 30 or more years so you need a plan that will provide an income for several years. How much money will you actually need when you retire? Use this handy [link url=http://retireplan.about.com/gi/dynamic/offsite.htm?site=http%3A%2F%2Fjcgi.pathfinder.com%2Fmoney%2Fretire] calculator[link] to find the answer to this question.

Budgeting

Next, if you already haven't done so, create a budget. If you don't have a clue about how much you spend from month to month, keep a journal of every dime you spend for three months. You'll see where your money is going and be able to better manage expenses. Your budget must include a payment to your retirement plan even if it's only a few dollars.

Family Members

Discuss your retirement plans with your family, especially your spouse. Chances are you'll both retire at about the same time so you need to be in agreement on this critical part of your life. If you both have a career, you will both be contributing to the retirement fund. Make your decisions together and try to develop a plan that will be acceptable to both of you.

Watch for Plan Busters

Even the best retirement plan could be in serious trouble if you allow yourself to dip into it for frivolous luxuries. If your budget doesn't seem to cover all your expenses, chances are you are confusing necessities with luxuries. Do you really need a pager and cellular phone for everyone in the family? Do you need call forwarding, caller ID, or the second phone line? Little things eat away at your budget. You don't have to do without, just spend wisely.

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Making Choices

Now that you have some money put aside, you need to think about investing so that your nest egg will grow. The next part of this primer will help you choose an investment strategy and explain the different choices you have.

previous1234Next

Retirement Planning

About

Money

Retirement Planning

Essentials

Retirement Planning Quiz

Retirement Planning 101--Email Course

Retirement Planning Calculators

Retirement Planning Glossary

The Retirement Planning Process

Articles & Resources

Retirement Planning Blogs

401K

Can I Retire?

Life Issues and Events

Estate Planning

Life Styles

Living on Retirement Income

Planning for Retirement

Social Security / Medicare

Retirement Income

Taxes

Tools and Tutorials

Traditional and Roth IRAs

Women's Issues

Articles

Forums

Help

Retirement Planning Primer

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Part 3--Making Choices

When putting together your retirement plan, you will need to make several investment choices. The age at which you start your retirement plan will dictate how critical these choices will be. If you are between the ages of 20 and 35, you have time to shop around and try different strategies. If between the ages of 35 and 50, you still have time to build a good retirement fund but will need to look closely at your portfolio to be sure you are investing wisely. If between the ages of 50 and up, you really need to look at all your options and choose your investment strategy very carefully.

Short term choices

If investing for the short term, you have several choices available to you. Checking accounts, savings accounts, money market funds, and certificates of deposit are all examples of short term investing. A jar of money buried in your back yard or a wad of money stuffed under your mattress aren't good choices.

A checking account makes withdrawals and deposits less of a hassle and is a good way to save small amounts for an emergency. With a checking account, you usually have access to ATMs and can arrange for automatic bill paying. Some checking accounts, known as money market accounts, will pay a small percentage of interest is a set balance is maintained. Money in a bank checking account is insured by the FDIC.

A savings account will pay low amount of interest and your money usually is available when you want it. Some companies allow bills to be paid from savings accounts as well as checking accounts and some banking facilities will allow you to use your checking and savings accounts in tandem. Money in a bank savings account is insured by the FDIC.

Money market funds usually yield a higher return than a money market account or a savings account. These funds are usually managed by brokerage firms as a place to store funds until they are invested. Funds in these accounts are not insured by the FDIC.

Certificates of deposit are a way to invest your money for a specified period of time known as maturity. The longer that time, the higher your percentage of interest. There is a penalty if withdrawing your money before the maturity date. These funds are usually insured by the FDIC.

Long Term Choices

If you have funds that aren't needed immediately, you should consider investing them in long term investments. This is especially true for your investments for your retirement plan. Long term investments include stocks, bonds, and mutual funds.

Investing in stocks gives you partial ownership in the company in which you invest. If the company is successful,

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you should make money when you sell the stock. Some companies pay stockholders dividends on a regular basis. You usually need a broker to purchase your shares of stock and it is important to thoroughly research the company before investing in it. It is best to hold onto stocks for a long period of time because of the fees associated with buying and selling and the tax implications.

Bonds can be high risk or low risk. The high risk bonds pay more interest. Bonds are actually loans to businesses, government, and so on that is held for certain periods of time called term or duration. The money earns interest for the duration of the bond and principal and interest are paid at the end of the term. Bonds are usually safe investments and some are backed by the federal government.

Mutual funds allow small investors more diversification than individual investing. These funds pool the money of several investors and invest in several different companies in such a way as to minimize the risk. By investing in several different companies, the theory is that if one company loses money, another should gain. As with stocks, you should thoroughly research the fund before investing.

What's Next?

Now that you have some idea of your investing choices, you need to do your homework and decide just where you are in your retirement planning stage. You need to make some choices as to where you are going to invest, how much you can afford to invest and put together a plan to invest regularly. It is a good idea to now check your pension plan with your employer and contact social security to see how much you can expect to earn after retirement.

previous 1 2 3 4 Next

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Part 4--What's Next?

You've set your retirement goals, decided how much you can invest on a regular basis, got your investments in order, so what's next? Now comes the maintenance part of your retirement plan. In order to have enough money set aside when you retire, you must maintain your plan. Here are some tips on how to do this.

Your Pension Plan

Check with your employer to see if you have a pension plan. If you do, find out how much your payments will be when you retire. These will probably be given to you in several different choices depending on when you retire and when you start drawing from the fund. If your employer doesn't have a pension plan ask if one can be set up.

Your Social Security

The next thing you should do is contact the Social Security Administration for a printout of your account. This will tell you how much you can expect to receive from social security when you retire. This information can be requested at 800-772-1213 or at the Social Security Administration web site.

Conclusion

With all this information in hand, you can easily maintain your retirement plan. Just be sure to pay your plan the same as you would any bill your might receive. Get into the habit of putting aside your investment money at the same time you pay your bills.

Once you get a fund built up, don't let the fact that now you have money confuse you and tempt you into spending unnecessarily. Especially if you're not close to retirement age, you might get the idea that you won't need the money for several years and be tempted to spend it for some luxuries. Unless it's a matter of life and death, you shouldn't touch your retirement savings until you retire. Put the money aside and forget you have it.

Good luck.

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