7 Steps to Create a 10 Years From Now Retirement Plan

Last month I looked at the level of State Pension contributions around the world, to give an idea of what you might receive from that area of your retirement planning. Now, as part of the New Year planning process, let's look at how to create a retirement plan.

Given that my average client age is 40-60 and they are far closer to their retirement age than their teenage years (harsh I know - but true!), I thought that focusing on a 10 year plan was an appropriate timescale to look at in this article.

Creating a comfortable retirement is probably the single biggest financial challenge that anyone can face. Unfortunately, it's a challenge for which many working people are ill-prepared.

A 2018 GoBankingRates.com study found that 42% of workers in the USA surveyed had less than $10,000 saved toward retirement. Worse yet, nearly one-third of workers age 55 and older reported no retirement savings. Some of the folks in that group may have a pension to rely on, but most are likely financially unprepared to exit the workforce.

As was mentioned last month, Social Security is only designed to replace a portion of income in retirement, so those who find themselves roughly 10 years away from retiring, regardless of how much money they have saved, need to develop a plan for hitting the finish line successfully.

Get Started on a 10-Year Plan

Ten years is still enough time to reach a solid financial position… It's never too late!

During the next 10 years, you may be able to accumulate enough money in your pension fund to meet your retirement needs with proper planning,

People who have not saved a lot of money need to make an honest assessment of where they are and what sacrifices they are willing to make. Taking a few necessary steps now can make a world of difference down the road.

1. Assess Your Current Situation

Nobody likes to admit that they might be ill prepared to retire, but an honest assessment of where you are now financially is vital, in order to create a plan that can accurately address any shortfalls.

Begin by assessing how much you have accumulated in personal accounts earmarked for retirement. This includes balances in any personal pension accounts and workplace retirement plans, as well as any investment or savings plans which may be used as retirement income

2. Identify Sources of Income

The next step is to understand what sources of income you have that could provide you with additional retirement income.

This additional income can come from a number of places outside of your current retirement savings, and you should also consider that money - For example you may own some stocks and shares, bonds or property. You may have a business that has a future value at the time you wish to retire.

Also (as morbid as it seems), you may be likely to inherit some money in the future - Although this cannot be relied upon to any great degree of course!

Finally, as was mentioned last month, depending on your country of nationality, most workers qualify for Social Security benefits depending on factors such as career earnings, length of work history, and the age at which benefits are taken. This can also be taken into account here.

3. Consider Your Retirement Goals

This could be the most significant part of your retirement planning.

Someone intent on downsizing to a smaller property and living a quiet, modest lifestyle in retirement will have very different financial needs than a retiree who wants to travel extensively.

You should develop a monthly budget to estimate regular expenditures in retirement, such as housing, food, dining out, and leisure activities. The costs for health and medical expenses - such as life insurance, long-term care insurance, prescription drugs, and doctor's visits - can be substantial in later life, so be sure to factor them into a budget estimate.

4. Set a Target Retirement Age

Someone who is 10 years away from retirement could be as young as 45, if he or she is well prepared financially and eager to exit the workforce, or as old as 65 or 70 if not.

With life expectancies continuing to improve, people in good health should do their retirement planning estimates assuming they'll need to fund a retirement that could potentially last for three decades or even more.

Planning for retirement means evaluating not only your expected spending habits in retirement but also how many years retirement may last.

A retirement that lasts 30 to 40 years looks very different from one that may only last half that time. While early retirement may be a goal of many workers, a reasonable target retirement date achieves a balance between the size of the retirement portfolio and the length of retirement the nest egg can adequately support.

Personally, I think the best way to determine a target date to retire is to consider when you will have enough to live through retirement without running out of money - And it is always best to make conservative assumptions in case your estimates are a bit off …

That's the Strategic Expat opinion!

5. Confront Any Shortfall

All of the numbers compiled to this point should help answer the most important question of all…

Do the accumulated retirement assets exceed the anticipated amount needed to fully fund your retirement?

If the answer is yes, then it's important to keep funding your retirement accounts in order to maintain the pace and stay on track. If the answer is no, then it's time

to consider how to close the gap.

With 10 years to go until retirement, those who are behind schedule need to figure look at ways to add to their savings accounts. To make meaningful changes, a combination of increasing your saving rate and cutting back on unnecessary spending is likely to be necessary.

It's important to calculate how much more you need to save in order to minimize the shortfall and make appropriate changes to how much you contribute to your retirement fund.

In reality, there are no financial magic tricks you can do to make your situation better – but a clear plan and some focus will certainly improve the outlook.

6. Assess Your Risk Tolerance

Typically, risk tolerance varies with age.

As people approach retirement age, they are likely to become more conservative, and risk-averse in order to preserve accumulated savings.

If you're behind on your savings, it may be tempting to increase your acceptance of risk, in order to try to produce above-average returns.

While this strategy may be successful occasionally, the biggest risk quickly becomes the lack of time to retirement, rather than market volatility. Murphy's Law specifically states that 'if anything can go wrong, it will go wrong!' This is a rule you will be reminded of as equity markets dive, shortly before your planned retirement date.

Adopting a high-risk strategy also has the potential to make the situation worse by committing to volatile assets at probably the wrong time.

Some additional risk may be appropriate, depending on your preferences and tolerance, but beware and be aware of the risks you are taking.

7. Consult a Financial Advisor

Now of course I'm going to say this aren't I?!!

But in saying it, I don't necessarily mean me.

The reason I say it is this… Money management is an area of expertise for relatively few individuals. A financial advisor may well help you to identify and avoid risks and volatility you had not been fully aware of, as well as possibly make best use of any tax-breaks.

A good financial planner ensures that a retirement portfolio maintains a risk-appropriate asset allocation and, in some cases, can provide advice on broader estate planning issues as well – Which can also have an impact on your retirement fund.

The Bottom Line

If you have little saved for retirement, a little 'New Year Resolution' style planning can be a wake-up call to get serious about turning things around.

If you are 55 and short on savings, it's definitely time to take some serious action to catch up while you are still employed and generating earnings.

It is said that people's 50s (and early 60s) are their 'earning years,' when they have fewer expenses - The kids are gone (normally!), the house is either paid for or was bought at a low price years ago, so many people at this age can put away more of their take-home pay.

Better to tighten your belt now than be forced to do it when you are in your 80s!