Planning for Retirement

According to the 2025 State of Retirement Planning survey by Fidelity Investments, one of the largest investment firms in the country, Americans who are not yet in retirement are very concerned whether their savings will last them throughout retirement, and whether rising health care costs and inflation will adversely affect their retirement. Many are also concerned with the availability of Social Security benefits.[i]

As you already know, Social Security is under constant political pressure and severely underfunded by the government. Currently, it is estimated that the Social Security Trust Fund will be depleted by 2035. Thereafter, benefits will need to be reduced to approximately 83%.[ii] The current maximum benefit for someone who retires at full retirement age is $4,108 per month. Waiting until age 70 to receive benefits will yield a maximum of $5,108 per month. Taking benefits early at age 62 will only yield a maximum of $2,831 per month.[iii] Even the maximum amount is probably not enough to ensure a secure retirement for many of us. Yet, a recent study using 2023 data showed that nearly one-third of people took their benefits at age 62 and that most took their benefits before full retirement age. The average benefit for retired workers in 2023 was only $1,840 per month.[iv] Can Social Security fully fund your retirement?

Financial services professionals are in a unique position to help clients secure their retirement. To start, however, a projection should be made to determine what will be necessary for retirement. So many variables come into play. It's a moving target, but that also reinforces the fact that clients need regular advice and education about savings options. A financial services professional can provide that advice, while encouraging clients and monitoring their progress, much like a trainer might do for someone's physical fitness journey. Projections will likely change over time based upon income levels, standards of living, family dynamics, and more, so plans must be flexible, dynamic and regularly reviewed. By starting the retirement savings journey early, clients can have more tools at their disposal to ensure a comfortable retirement regardless of how long that may be.

The first tool is a client's self-discipline. Nobody can force you to save, and no tool in the world will provide for retirement savings, unless you willingly allocate some of your compensation to a savings plan. That starts by living within your means which, unfortunately, many Americans do not. Various studies show the majority of Americans are living paycheck to paycheck which, clearly, does not enable adequate savings.[v]

Second are employer-sponsored retirement plans. The most common are 401(k), 403(b) and 457(b) plans, depending upon whether you work in the private, public or government sectors. These plans allow you to save on a pre-tax basis and in some cases, on an after-tax basis. Many employers may also provide an incentive to encourage savings by matching some of an employee's contributions into the plan. That's essentially "free" money which everyone should take advantage of. Some companies may offer other types of plans including pensions, which are funded solely by the employer. But even pensions, which provide a stream of retirement income if the employee satisfies vesting requirements, may not be enough to fully fund retirement.

For those who do not participate in employer-sponsored plans, Individual Retirement Accounts ("IRAs") may be used to save for retirement. Unfortunately, IRAs have lower contribution limits than employer-sponsored plans and may not be enough to fully fund retirement.

Regular savings, mutual funds and investment accounts can help. Unlike employer-sponsored retirement accounts and IRAs however, they are not tax-advantaged savings vehicles.

Other tax-advantaged savings vehicles that can help retirement savings are deferred annuities and permanent life insurance policies. An annuity is simply a contract between you and an insurance company that specifies that, in exchange for your premium payment(s), the company agrees to pay you an income in the future. The growth within the annuity is income tax deferred as long as it remains a part of the accumulation value. When you annuitize the contract, the insurance company guarantees a stream of income for a period of years up to lifetime.

Life insurance is primarily purchased for the death benefit. This helps provide a family financial security in the event a loved one passes away. However, there is a lot of misinformation in the mass media outlets about life insurance. The fact is there are several different types of life insurance available. All have a death benefit, but many also have a savings and accumulation feature known as cash values. Cash values are found in whole life insurance policies as well as universal life insurance policies, including its variations. Distributions of the cash values are typically done through income tax-free policy loans or withdrawals of basis (i.e., essentially premiums paid).[vi] In addition, depending upon the riders chosen or purchased, the policy may have benefits available to help financially protect the insured from the financial impact of chronic, terminal illness, or disability.

In February 2021, Ernst & Young, an internationally renowned, and one of the "Big Four" accounting and consulting firms, released a study proclaiming that permanent life insurance, such as whole life insurance, along with deferred income annuities with increasing income potential through features such as non-guaranteed dividends, outperformed investment-only approaches to retirement savings.[vii] A key factor found in the study was that during periods of market volatility, the ability to access cash values from whole life insurance policies through policy loans or surrenders, to fund retirement income, allowed investors to avoid selling investments at a loss. Whole life insurance acts as a volatility buffer. The study concluded that retirement savings strategies that include permanent life insurance and deferred income annuities with increasing income potential outperform all of the other strategies studied. Strategies that integrate permanent life insurance and annuities "can give comfort and peace of mind to retirement investors by providing legacy protection, tax-deferred savings growth, and guaranteed income for life without sacrificing their present lifestyle."

Have you adequately planned for your retirement? Your financial services professional can help you with most, if not all of the strategies mentioned above. So, don't wait! Consult your financial services professional immediately to map out your retirement savings strategy.

For More Information Contact:

[i]*Fidelity Investments® Research. "2025 State of Retirement Planning." newsroom.fidelity.com.*
https://newsroom.fidelity.com/pressreleases/fidelity-investments--research--while-over-70--of-retirees-say-retirement-is-going-as-planned--confi/s/d9799b30-b28e-4b8b-842e-ca2d8fcd143d (accessed 3/21/2025)

[ii]*Markowitz, Andy and Thompson, Tracy. "How much longer will Social Security be around?" aarp.org.*
https://www.aarp.org/social-security/faq/how-much-longer-will-it-be-around/?msockid=087e446cc9326c5d1f13512ec89e6dde (accessed 3/21/2025)

[iii]*Social Security Administration. "What is the maximum Social Security retirement benefit payable?" ssa.gov.*
https://www.ssa.gov/faqs/en/questions/KA-01897.html (accessed 3/21/2025)

[iv]*Hamer, Lauren. "Social Security Statistics 2024." Retirementliving.com.*
https://www.retirementliving.com/social-security-statistics (accessed 3/21/2025)

[v]*Batdorf, Emily. "Living Paycheck To Paycheck Statistics 2024." forbes.com.*
https://www.forbes.com/advisor/banking/living-paycheck-to-paycheck-statistics-2024/ (accessed 3/21/2025)

[vi]*Loans from the policy will reduce the death benefit and cash surrender value and may cause the policy to lapse. Lapse of a policy with a loan may have tax consequences. Tax-free distributions assume, among other things, that withdrawals do not exceed tax basis, the policy remains in force until death, and the policy is not at policy issue, and does not become post issue, a modified endowment contract (MEC). Distributions from a MEC may be subject to income tax and possible penalties. Please consult with your attorney or tax advisor before acting.*

[vii]*Bellomo, Christopher. "How life insurance can provide differentiated retirement benefits." ey.com.*
https://www.ey.com/en_us/insurance/how-life-insurers-can-provide-differentiated-retirement-benefits (accessed 3/21/2025)

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