

Retirement facts

When you hear about the challenges of building a financially secure retirement, or think about your own plans, here are some facts to keep in mind.

Replacement rates

The usual rule of thumb in projecting a retirement income stream is that 80% of pre-retirement income will be needed. According to the Social Security Administration, Social Security benefits replace just 40% of income for the average beneficiary. Unfortunately, 34% of retirees rely on Social Security for 90% of their retirement income, which necessarily means that they've experienced a big drop in their standard of living.

Early retirement

Again from the Social Security Administration, someone who earned an annual income of \$50,000 and who retired this year at age 62 could expect about a \$1,000 monthly benefit. If that person waited to age 70 to retire, the benefit would be boosted to about \$1,951 per month. Nevertheless, a startling 72% of Social Security recipients began drawing their benefits at age 62, the earliest year of eligibility.

Capital requirements

To achieve an annual income of \$50,000 per year for 25 years, assuming a 5% rate of return and no inflation, one would need to start with \$740,000. If inflation were 3%, and one wanted to adjust the \$50,000 to keep up with the price increases, \$1 million would be needed. *Caveat:* Achieving a consistent 5% rate of return for 25 years would be a remarkable feat for the ordinary investor, especially if beginning in today's environment of very low interest rates. If the rate of return is lower, more capital will be needed to generate the same income.

Medical and long-term care

The Benefits Consulting arm of Fidelity Investments has estimated that a couple retiring in 2011 will incur \$230,000 in medical costs not covered by Medicare over the course of their retirement. This figure does not include the cost of long-term care, which, according to the National Clearinghouse for Long-Term Care Information, an estimated 70% of seniors will need at some point before they die. Average annual costs for long-term care vary widely around the country, but they can easily reach six figures. The average length of a stay in a nursing home is 2.4 years, reports the Virginia Long Term Care Partnership.

Planning for a secure retirement is a daunting task. The facts speak for themselves.