Planning For Retirement
Envision your retirement

While every person is different, there are several things that almost everyone needs to consider up front:

- What do you want your retirement to look like?
- Do you have a target date for when you are planning to retire?
- What sources of income will you have – and be able to rely on – during your retirement years?

In addition, there are a few specific areas that you want to start thinking about as soon as possible. These will be critical components of your retirement plan:

- Where will you live?
  One consideration in retirement is cost containment, so where you live will have a major impact on your retirement finances.

- How will you spend your time?
  Whatever you decide to do in retirement – work, volunteer, travel or something else – it’s important to get specific now about the future you envision.

- How long will your retirement last?
  Today’s average life expectancy is about a decade longer than it was in 1960.¹ It’s not unreasonable to expect that your retirement will last 20 or even 30 years.

¹ Centers for Disease Control and Prevention, National Center for Health Statistics 2017

Retirement planning can seem overwhelming, but it doesn’t have to be.

When you stick to your savings goals, create a budget that takes your anticipated lifestyle into account and manage your finances throughout your lifetime, you’re well on your way to preparing for the retirement you envision.
Build your retirement strategy

When building your retirement strategy, it is important to consider different asset types and the role each type will play in your retirement plan.

- **Growth**: Assets that will continue to grow in value throughout retirement.
- **Access**: Liquid assets readily accessible for emergencies or the unknown.
- **Predictable Income**: Income to cover necessary expenses, such as housing.

Incorporating these assets into your plan can also help address some key retirement risks that you may encounter in the future.

Sources of income

During retirement, you’ll need to rely on various sources of income to fund your lifestyle. The sources of income available to you should also be categorized by whether the income is predictable (reliable no matter what happens in the economy) or variable (will fluctuate each year).

Your retirement income needs should take into account the expected costs you may incur during retirement. Here is how retirees generally have their budget allocated.\(^2\)

- **Housing & Utilities**: 34%
- **Transportation**: 15%
- **Health Care**: 15%
- **Food**: 13%
- **Entertainment**: 5%
- **Other**: 18%

Aligning income with expenses

The 4-Box Strategy\(^2\) for aligning your income and needs is a simple way to allocate projected income and expenses in retirement.

Necessary expenses and predictable income:
Necessary expenses, such as housing, food and healthcare, should be covered by predictable income, like Social Security, annuities or pensions.

Discretionary expenses and variable income:
Discretionary expenses will vary widely, but generally speaking, these are expenses that help you enjoy life. Sources of income to cover these expenses could include stocks, bonds and cash.

Retirement risks to consider

As you plan for your retirement future, there are some key financial challenges or risks to think about and prepare for.

- **Longevity:**
  Underestimating how long your retirement may last exposes you to the risk of outliving your savings.

- **Inflation:**
  Even assuming a low rate of inflation, your purchasing power will erode over time. As prices rise, your retirement dollar will buy less.

- **Health Care:**
  Unexpected health care costs are one of your biggest risks. This risk goes hand-in-hand with longevity and inflation risks.

- **Market Volatility:**
  A market downturn can mean your investments won't grow enough to keep pace with inflation. You'd also have less time to recover from any losses.

- **Withdrawals:**
  Your withdrawal rate can impact the amount of money you'll have available later in life.

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