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5 Retirement Myths

Reexamine this conventional retirement planning wisdom

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Some of the conventional wisdom about planning for [retirement](#) needs to be reexamined. As life expectancy continues to increase, we'll have to rethink what the ideal retirement age is and how big of a nest egg we need to accumulate to pay for a comfortable retirement. Here are five common retirement myths:

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You can pick your retirement date. It's certainly prudent to estimate when you would like to retire and save and plan for that goal. But retirement often occurs while you are making other plans. While just 9 percent of current workers say they [plan to retire](#) before age 60, 31 percent of retirees left the workforce in their 50s, according to an Employee Benefit Research Institute survey conducted in March. And while about a quarter (24 percent) of workers aim to work until age 70, just 8 percent of current [retirees](#) managed to stay employed that long. In fact, 41 percent of retirees say they left the workforce earlier than planned, typically because of a health problem or disability (54 percent), layoff or business closure (26 percent), or to care for a spouse or other family member (19 percent). Aiming to delay retirement will give you more time to save, but realize that the date you retire is not always your choice.

A \$1 million nest egg will provide you with a lavish retirement. The word millionaire conjures images of wealth and luxury, or at least financial security. But \$1 million spread over a 30-year retirement will probably mean that you are comfortable, not wealthy. A \$1 million nest egg will provide you with about \$50,000 a year for 30 years, according to calculations by Michael Farr, president of Farr, Miller, & Washington in Washington, D.C., and author of *A Million Is Not Enough: How to Retire With the Money You'll Need*. "If you can't live on \$50,000 a year, then \$1 million is not enough," says Farr. "You are probably going to be able to live in retirement, but not particularly well. No one will consider you rich."

[See [10 Things You Didn't Know About Social Security](#).]

Social Security won't be around when you retire. The Social Security trust fund currently holds enough assets to pay out promised Social Security benefits until 2037, according to the most recent Social Security Board of Trustees report. After that, income tax revenue will be sufficient to pay out about 78 percent of scheduled benefits. However, relatively minor tweaks to the program could put Social Security on firmer financial ground for at least 75 more years, according to a U.S. Senate Special Committee on Aging report released in May. Potential fixes currently being considered by Congress include tax increases, benefit cuts, and pushing back the retirement age. However, even through the program is likely to still be around in some form when you retire, it should not be counted on as your only source of retirement income.

You're too old to start saving. A large portion of 50-somethings have practically nothing saved for retirement. But it's not too late to tuck away some serious cash. Baby boomers who make a commitment to save a significant portion of their earnings for a decade can still accumulate enough for a reasonably comfortable retirement. For example, a 55-year-old earning \$80,000 a year could accumulate \$444,610 by age 65 if he or she tucked away 27.5 percent of pay each year, according to recent T. Rowe Price calculations. The estimate assumes a 3 percent annual raise, a 3 percent employer 401(k) match, and 8 percent compounded annual returns. "When people hear how big their nest egg should be, they think it's impossible and stop saving altogether or never get started," says Christine Fahlund, a T. Rowe Price senior financial planner. "Focus on the process instead. Contribute up to the maximum amount to your 401(k) and, if you are 50 or older, you are now eligible for catch up contributions."

[See [How to Retire Gradually](#).]

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