

## Retirement Financial Planning Steps

**Where are you financially? Where would you like to go? How are you going to get there?**

1. Know and write down your "Cash Flow" and Net Worth.
2. Know your measures of financial fitness: (attached worksheet): **Where are you financially?**
  - a. Monthly Debt Payments-to-Disposable Income Ratio (Should be less than **16%**)
  - b. Savings Ratio (Should be **10%** or more.)
  - c. Basic Liquidity Ratio (Should be at least **3.0**, which means 3 months of Savings).
  - d. Investment Assets-to-Total Assets Ratio (The higher the better; it means you are building wealth.)
3. If you identify problems in any of the areas above, develop specific financial goals and a plan to correct the situation(s).
  - a. If your monthly non-mortgage **Debt-Payments-to-Disposable Income Ratio** is 16% or greater, this means you are carrying too much non-mortgage debt.

You cannot build true wealth by saving and investing if you have debt problems. To correct the debt problems indicated by the above ratios, you could have a medium term goal (2-5 years) that could read like this:

Goal: I plan to pay off all of my credit card and non-mortgage (car loans, student loans) debt of \$\_\_\_\_\_ in (2-5) years time. I plan to do so by setting up automatic payments of \$\_\_\_\_\_ to each creditor every month. If you want to look at the quickest and least costly method to pay off your credit card debts, you can use the calculator located at: <http://cgi.money.cnn.com/tools/debtplanner/debtplanner.jsp>

- b. If you have a "Savings Ratio" of less than 0.10, this means you are saving enough of your income.
- c. If your Basic Liquidity Ratio is 0 or less than 3, this means that you have less than 3 months of savings for emergencies that might come up. You need to take create a short term goal of establishing an emergency fund. If you don't have an emergency fund of at least 3 -6 months of expenditures available in a money market or liquid savings account, your goal would read:

**Where would you like to go?**

**Goal: I plan to have an emergency fund of \$\_\_\_\_\_ saved in 1 or 2 years in my bank account (name), and I'm going to do it by setting up an allotment of \$\_\_\_\_\_ per pay period which will go to my account #, and I will not touch this money unless it is a true emergency.**

- d. The following measures of fitness will give you strong indicators that you have a debt and credit problems, and you must write down and goal and take action to accomplish it as quickly as possible:
  - i. If your **Asset-to-Debt Ratio is less than 1**, this means that you have more debts than you have assets, and you are not solvent.
  - ii. If your annual **Debt Service-to-Income Ratio is 36%** or greater, this means you have too much debt.

4. Know the value of your current military income by using the website: (This website will tell you your civilian equivalent pay. If you are planning to stay in the military until retirement, the calculator will also give you an estimate of how much you would have had to invest at the time of your projected retirement date if you had to actually pay for your own retirement pay: <https://staynavytools.bol.navy.mil/PCC/?B3=Launch+Calculator>)
5. If you want to project your military retirement pay, you can use one or both of the following websites:
  - a. <https://staynavytools.bol.navy.mil/RetCalc/Default.aspx>
  - b. <http://militarypay.defense.gov/retirement/index.html>
6. Once you know your estimated monthly and annual defined benefit military retirement pay by your age, you can use these figures to estimate when and if you can totally retire from working, and determine the amount you would have to supplement it to reach the income and lifestyle that you want for your retirement. Most financial planners and advisors recommend that you should plan for spending 80% -100% of your current pay or the year at which you plan to stop working.
7. You can use this information and the following calculators to estimate how much you need to save monthly and annually to reach the long-range retirement goal of living off your investments, military retirement and Social Security.
  - a. <http://www.choosetosave.org/ballpark/index.cfm?fa=interactive> (“Ball Park Estimator”)
  - b. [http://www.usaaedfoundation.org/financial/fin\\_proj\\_retirebudget.asp](http://www.usaaedfoundation.org/financial/fin_proj_retirebudget.asp) (Retirement Budget)
  - c. Recommend also that you read the article By Robert Brokamp: 5 Retirement Must-Knows: “Everything you need to know about retirement planning on a single Web page”: <http://www.fool.com/Retirement/Retirement01.htm>

### **How are you going to get there?**

8. Once you have a specific dollar target for generating the income that you want to receive, you can plan on how to get there by using tax-sheltered accounts such as the Thrift Savings Plan (TSP) & Individual Retirement Accounts (either Roth or Traditional IRA's). The TSP and the Traditional IRA both allow you to defer taxes today (actually lower your current Federal Income Taxes) and invest in tax-sheltered mutual funds, stocks or other investments. You may have to use **TSP & Roth both** to reach your goals.
  - a. To find out more about the Thrifts Savings Plan, attend the A&FRC briefing on the TSP, or visit the official TSP website: <http://www.tsp.gov/>
  - b. To find out more about Individual Retirement Accounts, you can go to: <http://www.saveandinvest.org/>
  - c. A good calculator to use to see how much you would have to invest in a traditional or Roth IRA to generate your desired income is located at: <http://www.planningtips.com/cgi-bin/roth.pl> The calculator is entitled, Roth Calculator, but it will actually provide you with a comparison between both a Roth and Traditional IRA (or use it to compare Roth vs. TSP).
  - d. Another great resource for financial calculators and free financial advice by phone, or email is: Military One Source at: <https://www.militaryonesource.com/> or phone: 800 342-9647. It has 17 different calculators for planning for retirement, and many others for other financial purposes. If you want to see what it takes to become a millionaire,

use the “millionaire calculator”. You can use the savings calculator or IRA calculator to determine how much you would have to save (invest) to reach your goals; then, use the withdrawal calculator to see how much you can withdraw and how long it will last.

- e. A great tool to help you analyze potential investments for your Roth IRA would be the free **Morningstar Investment Research Center** that can be accessed through your Lajes library card at: <http://www.usafelibraries.org/dbcards.php?libcard=true> This resource has reports on nearly 7,000 stocks and 21,000 mutual funds. It can help you find undervalued stocks and narrow your mutual fund choices to a manageable few. The Investing Classroom offers 200 self-paced educational courses on stock and fund investing and portfolio building.