

How Employees Can Have A Suitable Retirement Plan

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Introduction

Every employee works with the notion that one day, the withdrawal from the occupation will make employees think of having a retirement benefit plan. People may retire out of will when they feel not ready for work. It is not easy for an individual to be financially stable and sufficiently equipped with assets that have been obtained throughout his or her life. Any amount of money that an individual saves today will always come with an enhanced future; thus, one should work hard and keep in the present to have a good retirement plan. If a person fails to save at present, it will be hectic after retiring as one will have to look for other sources to meet his financial obligation. Employees should save money now and make investments that would give them good returns. Employees should work hard to avoid falling under government-assisted plans due to failure to plan. As employees, we should start saving for retirement now and avoid having needless accounts together. This would help determine the amount of money at hand and what is in the expenditure account. Additionally, people can save themselves first, which would help keep money in the same account before any spending, thus avoiding wastage. Therefore, this paper seeks to discuss how employees can have a suitable retirement plan.

Financial risks to consider while preparing a retirement plan

For an employee to establish a good retirement plan, he/she needs to consider his retirement budget and know his expenses. This would help the employee to determine the amount she needs in the current period for him to survive every month. When the inflation rate is high, there is a high probability that the employee will require more money when he retires than the current money he needs. To have a good retirement plan, he should gather all his expenses and determine his prevailing expenditures, such as telephone bills, luxurious bills, restaurant bills, and credit card bills. Choosing the monthly expenses helps the employees to prepare a reasonable retirement budget.

Additionally, the current financial markets are progressively volatile and multifaceted, creating uncertainties for older employees who keep on wondering when they will retire. The time their retirement assets will last. The unexpected market downturn substantially impacts investors who are not varied or do not have enough time to wait for market recovery. When employees are creating their retirement plans, they should consider the impact of market volatility on their retirement assets,

as, during retirement years, the market fluctuates drastically. Furthermore, inflation plays a significant role in retirement planning (Parrish, 2019). The longer the retirement period, the higher the chances that inflation will erode the employee's savings, purchasing power, and lifestyle. Thus, we must develop a revenue strategy that would help outpace inflation and cope with the price increase of goods and services. For instance, currently, a loaf of bread costs \$0.68 in 2022; in 2030, the same loaf of bread may cost \$2.47, which means it will have increased by 263%. Alternatively, the prices may not increase steadily; for example, a gallon of gasoline previously cost \$1.42 in 2005; in 2015, it cost \$3.5, while currently, it is costing \$ 1.57.

Consequently, the employees need to consider the increase in interest rates. The interest rates have declined for a long time since the 1980s. The bond investors have not only profited from the interest but also the cumulative value of their bonds. The bonds increase as the interest rates decline, and when the interest rate increases, the bond value decreases. The interest rate has reversed course and risen in the past few months. If the interest rate continues to cumulate, the bond value will decline, thus making it hard for bond investors to invest. Individual financial exposures are also a significant financial risk that one should consider while determining a retirement plan. The federal government ensures the pension funds; thus, the pension funds will be insured by the pension benefit guaranty corporation if the employers go bankrupt (Parrish, 2019). However, the public pension is not covered. Other personal risks include the local real estate market, which may affect your household's value, and the insurance firm's monetary financial strength, which affects the employee's future coverage.

Importance factors to consider when developing a retirement plan include

The employees' age plays a significant role in determining the retirement plan that the employee should have. An employee can stop working early, even before their retirement age, which means they will get reduced retirement benefits. If an employee retires at full age, he will get the full retirement benefits. The age helps determine the retirement age the employee falls in, that is, the early retirement age or the normal retirement age, thus helping in calculating the retirement benefits. The calculated retirement benefits help the employees decide whether to work or to exit from work. Knowing the retirement age that an individual belongs to him means knowing and understanding the amount he should save monthly for the future (Wilson et al., 2020). Additionally, it helps the employees to develop plans that would help them save money. For instance, a person aged 60 years will save more than an employee aged 30 years as he has less luxurious activities.

Additionally, the employee has to consider the number of dependents he has. If an employee has many dependents, he has to work hard to earn more income that would help him meet their needs and still save for the purpose of the future. That means the higher the number of dependents, the higher the retirement savings. Moreover, employees need to consider their health as they prepare their retirement plans. The more income there is, the more likely the employees are to be in good

health. If the employees have prevailing health conditions, they may be unable to save more as they always have to pay their medication bills. Therefore, it means that a person who has good health will be able to save more than a person who has a poor health condition.

Furthermore, the employees consider their life expectancy while determining their retirement plans. Life expectancy can be termed the number of years that a person is expected to live. An employee calculates her life expectancy using the SSA's calculator, which considers personal health, lifestyle, and heritage, thus determining how long one can live. A person with a high life expectancy has to have a retirement plan with more savings than an employee with a low life expectancy. Therefore, life expectancy helps employees plan the amount of money they should save.

As the employees decide on [the retirement plan](#), they have to consider the risk and return as they are related. The higher the risk, the higher the possibility of gaining more profits. A higher-risk-related investment would outperform a low-risk investment. For instance, if the investor wants to invest \$ 10,000 and has two options, high-risk stock and low-risk bonds, The investment has the capability of generating a return of 10%. On the other hand, the bond can generate a return of 5%. However, the stock has a higher possibility of losing money than money. Based on the risk-return trade-off, the investor must decide the amount of money he has to allocate to each investment. If the investor wants to take more risks, he may allocate more money to stock investment, and if he is risk-averse, he will invest in bonds. The decision to invest depends on the investor's risk tolerance. Age and personal risk are two significant risk factors that impact the allocation of the assets that have to be included in a retirement plan. Old employees are risk-averse; thus, they allocate their savings to assets with low risks (Wilson et al., 2020). A young person with a high life expectancy will tend to invest in a more volatile stock but can generate more returns heavily.

Fiscal policy and monetary policy

Government expenditure and tax decisions that impact the country's economy refer to fiscal policy. The central bank's actions and monetary authority to control the money supply and interest rates can be termed monetary policy. This may affect rates where they may increase or decrease, thus making it expensive for the employees to save for the future. Suppose the government reduces its expenditure on social welfare programs such as social security (Harbar et al., 2019). In that case, it will lead to a reduction of money that the employees would save for retirement. The implementation of government policies that encourage employees to save more money, such as cumulating the contribution limit for 401k, would impact retirement plans. The monetary policy may affect the overall economy. For instance, if the state's supreme bank raises its interest rates, it becomes hard for the employees to borrow loans from the bank, thus making it hard for the employees to have retirement savings (Albert et al., 2021). If the Federal Reserve apparatuses policies that encourage more money supply, it will lead to inflation, thus reducing the consumer's purchasing power for retirement savings.

The time value for money focuses on having money in current days, which is better than having

money in coming days, as money today would be an investment and generate returns. The principal impact of retirement plans is it proposes that it's good to begin having a retirement plan as early as possible as one saves early and has more time to grow more money. Additionally, it suggests that an employee should maximize his investment to obtain more returns that would help him save for future expenditures.

References

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