Plan Today for Retirement's Healthcare Costs

Eligible employees who were hired on or before September 3, 2008, who meet minimum age and service requirements are eligible for partial or full funding of health care benefits in retirement. Employees hired after September 3, 2008, are not eligible for health care coverage in retirement. For those employees hired after September 3, 2008, the College will make a monthly contribution of an amount equal to 1% of the employee's annual base salary to employees' Skidmore College Retirement Plan to help defray future health care costs. This article provides information to help you determine how much you may need to save now to pay for health care in retirement.

As healthcare costs continue to rise, you should consider how you're going to meet these costs in retirement. Whether or not you expect to receive employer-sponsored health benefits in retirement, it is always a good idea to start saving as early as you can.

Rising costs
First, the bad news: Even with Medicare benefits, your future healthcare will probably be quite expensive. According to research conducted by the Employee Benefit Research Institute, a 65 year-old woman retiring in 2008 needed up to $184,000 to cover her medical expenses with a 50% chance of having enough to last throughout retirement. She needed up to $390,000 for a 90% chance of having enough. A 65 year-old man retiring in 2008 needed $159,000 for a 50% chance of having enough and $331,000 for a 90% chance. These expenses are widely expected to increase over time.

Time is on your side, but don't waste it
Now, the good news: By planning ahead and saving more today, you can drastically increase your chances of saving enough to meet your needs. If your retirement is 20, 30, even 40 or more years off, your savings will have a great deal of time to compound and grow. The money you invest today can produce earnings. These earnings may earn a return, and so on, year after year. Your savings could really add up over time.

Starting early is key. If you invest $5,000 at an 8% average annual rate of return you could end up with $20,700 after 30 years. By comparison, if you invest $12,000 at the same return for 10 years, you end up with just $18,000. So time is your best ally in saving for retirement. This result is hypothetical and does not represent the returns of any actual investment.

Your retirement plan
Your employer provides the Skidmore College Retirement Plan to help you save. The plan offers the advantages of tax-deferred investment growth, employer contributions, and automatic employee contributions through payroll deductions. Skidmore College contributes an amount equal to 10% of your salary (11% if you are over age 50) to your account each year (in addition to the 1% contribution being made for employees hired after September 3, 2008). Even if you expect to receive partial health coverage in retirement, you may need to contribute more to the plan yourself to meet your healthcare needs.

A case study
Meet Sam. Sam was hired by Skidmore College at age 36 in October 2008 and makes $44,839 per year. Sam begins saving in the Skidmore College Basic Retirement Plan in October of 2008. Skidmore College automatically enrolls an eligible employee into a College contribution fund if they have not made a selection on their own. Assuming an 8% average annual rate of return, let's take a look at Sam's possible nest egg at retirement.

The following examples take into account these conditions, which have been explained above:

- Skidmore College first contributes an amount equal to 10% of Sam's base salary until he reaches age 50. This increases to an amount equal to 11% of his base salary after Sam turns 50.
- Skidmore College then contributes an amount equal to 1% of Sam's annual base pay, regardless of his age, to cover the future costs of health care. This contribution is made in monthly contributions beginning on the date of his hire.
- Therefore, from ages 36 to 49, Sam receives a total contribution of 11% of his base pay from Skidmore College. And from age 50 onward, Sam receives a total contribution of 12% of his base pay from Skidmore College

- These percentages are unaffected by Sam's choice of how much he chooses to contribute to the plan.
- Sam makes his own contributions via a Supplemental Retirement Account (SRA) through Skidmore College

When Sam ***and*** Skidmore Contribute			
Sam's Annual Contribution Rate	**Sam's Retirement Age**		
	62	65	66
5%	$636,314	$826,318	$900,046
10%	$832,150	$1,080,293	$1,176,581
15%	$1,027,986	$1,334,269	$1,453,117

These results are hypothetical and do not represent the returns of any actual investment.

As you can see, Sam can achieve better results by saving more and delaying retirement. The contributions from Skidmore College really help boost Sam's savings—if Skidmore did not contribute and Sam were on his own, his retirement nest egg would be more modest:

If ***Only*** Sam Contributed			
Sam's Annual Contribution Rate	**Sam's Retirement Age**		
	62	65	66
5%	$195,836	$253,975	$276,535
10%	$391,672	$507,950	$553,070
15%	$587,508	$761,926	$829,606

These results are hypothetical and do not represent the returns of any actual investment.

However, although all Skidmore employees are eligible to receive employer contributions after one year of service, Sam can't rely on employer contributions alone. When only Skidmore College contributes, the amount of Sam's nest egg is reduced:

When ***Only*** Skidmore Contributes			
Skidmore College's Annual Contribution Rate	**Sam's Retirement Age**		
	62	65	66
11% (12% over age 50)	$440,478	$572,343	$623,511

These results are hypothetical and do not represent the returns of any actual investment.

These amounts may seem large; however, it is important to remember that your retirement nest egg may need to last as long as 20 years, 30 years, or even longer, depending on your age at retirement and life expectancy. A good rule of thumb to ensure your savings will last is to plan on spending no more than 4% of your nest egg each year in retirement, including those healthcare costs.

As you can see, the combination of Sam and Skidmore College contributing to the plan throughout Sam's career yields the best results and gives Sam the greatest chance of having enough to cover healthcare costs while maintaining a comfortable retirement.

Take action

Even if retirement is 40 years or more in your future, it's a good idea to start planning now. Healthcare costs alone will require substantial savings, and the best way to build a sufficient nest egg is to start early and save as much money as you can.

Increasing the amount you contribute to the plan is a good (and easy) way to achieve this. Another 1% may not make a huge difference in your take home pay, but it could make a huge difference in your savings by the time you reach retirement. You can preview the possible impact by using Vanguard's online Contribution Increase Calculator at **www.vanguard.com/contributionincreasecalculator**.

If you decide to increase your contributions, complete an Enrollment/Change form and return it to Skidmore's benefits office in Human Resources. It's never too early to plan your retirement. Don't wait until it's too late.

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