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RETIREMENT

FINANCIAL ISSUES AS RETIREMENT DRAWS NEAR

After years of saving and planning for retirement, you may be relieved and excited to realize you can finally afford to stop working. Careful planning in the months leading up to retirement can help you ensure a smooth transition from employee to retiree.

By the numbers

- **59½** is the age at which you can usually take distributions from an IRA without penalty.[1]
- **70½** is the age at which you must begin to take distributions from a traditional IRA.[1]

[1] Source: irs.gov.

If you have decided to retire, you have probably already addressed a host of financial questions with your financial advisor. You have inventoried all your investments and your retirement plan and Social Security benefits to determine that you can actually afford to leave the work force. You have probably already decided on an initial annual withdrawal amount that you feel you can take from your investments every year without a substantial risk of depleting your accounts before you die. If you are under age 65 and ineligible for Medicare, you have undoubtedly determined how you will cover your health insurance needs.

Now your attention naturally has shifted to making lifestyle decisions. How will you occupy your time? Will you start volunteer work or embark on some new avocation? How frequently will you travel? Will you spend winters in a warmer climate?

While it is easy to become preoccupied with all these exciting possibilities, you cannot overlook the fact that not all your financial preparations have been made. The period of transitioning from the work force to retirement will itself present a whole series of financial issues to address. Following are some suggestions to think about as you work with your financial advisor to make the transition run as smoothly as possible.

Reduce or eliminate your credit card debt

A high balance on a credit card can translate to a monthly bill of several hundred dollars. Paying that bill may require you to withdraw more from your investments each year — and potentially deplete your nest egg faster. You will probably never regret eliminating the burden of a high credit card balance — even if doing so requires that you stay in the work force a few extra months.

Key points

- Consider reducing or eliminate credit card debt before you retire.
- Make sure to determine which accounts you will withdraw from first.
- Remember to work with your financial advisor to develop an appropriate asset allocation strategy.

Get advice on how to take payouts from your pension plan

Today, defined contribution plans, such as 401(k) plans, have become more common than traditional pensions, known as defined benefit plans, which pay you a fixed amount every month. But if you work for a company that still offers an old-style pension plan, you may have a choice about how your monthly benefit will be calculated. For example, if you are married, the normal benefit will be based on the joint life expectancy of you and your spouse, but other options such as a monthly benefit based only on your life expectancy may be available if your spouse gives consent.

Generally, the option based on a single life expectancy will offer a higher monthly benefit, and the option based on joint life expectancy will provide lifetime income and more security for you and your spouse. You may want to consult your financial advisor before making a decision. He or she can take a close look at your plan options and help you select the distribution method that best fits your overall financial program.

Carefully weigh your options for handling your mortgage

If you are about to receive a large, lump-sum distribution from your retirement plan, you may be tempted to use a portion of that money to pay off your house. Doing so could reduce your monthly bills substantially. But again, it may be worth your while to consult with your financial advisor before making such a big decision. If you still have a number of years remaining on your mortgage, a good portion of your monthly payment probably still goes to interest. The interest deductions you can claim each year may provide you with considerable tax benefits.

Ease your way into your new lifestyle

When you are ready to embark on a new phase of life, you may feel it is time to leave all the vestiges of your old lifestyle behind. But when making a dramatic change, such as selling your house and putting down stakes in a new part of the country, you may want to take a gradual step. Renting for your first winter, for instance, may help you determine if you are ready to leave your old neighborhood completely behind. Trying on the new lifestyle before you commit could help reduce the odds you will later regret your decision.

Develop an appropriate asset allocation strategy for your investments

A generation ago, retirees would shift most or all of their assets into conservative instruments such as bonds because these investments could provide the income and principal they needed. But with earlier retirement ages and longer life spans, today's retirees often need the potential of principal growth that stocks have historically provided.

As you prepare to transition into retirement, you will want to meet with your financial advisor to discuss how you will allocate your investment holdings. MFS® believes investors of any age are best served by following a disciplined diversification® strategy that involves three basic principles:

- Allocate across the major asset classes — stocks, bonds and cash — taking into consideration the amount of time you have to invest before you retire.
- Diversify among the various classes to gain exposure to various investment styles, such as value and growth, and market sectors, such as government and corporate bonds.
- Rebalance your investments on a regular schedule to ensure that you maintain your desired allocation.

Keep in mind that no investment strategy, including asset allocation, can guarantee a profit or protect against loss. Also, all investments carry a certain amount of risk including the possible loss of the principal amount invested.

Select which accounts you will withdraw from first

As a general rule, if you are under age 70½, it may make the most sense to withdraw money from your taxable accounts first. Taking money out of a stock fund that you have invested in on your own, for example, will allow you to keep deferring taxes on the annual earnings of any IRAs you own.

But again, you will want to consult with your financial advisor to determine if this general rule applies to you. With your financial or tax advisor's help, you can work out an initial schedule of withdrawals from your various accounts that are appropriate for your situation.

Balance your income needs with your estate planning goals

Any dreams you have of leaving a financial legacy for your children also will affect the retirement planning decisions you make. Money left in an IRA, for example, could bring greater tax consequences for your children than money in taxable accounts would. Here again, the common wisdom of tapping taxable accounts first might not apply because, in the interest of reducing the tax burden on your children, you may prefer to take money out of your tax-advantaged IRA before touching your taxable accounts.

In yet another scenario, some retirees may find they can create a legacy potentially spanning several generations by using a technique called the Stretch IRA. If you have substantial assets in an IRA and do not need to tap the entire amount to meet your living expenses, you may be a candidate for this technique. Your financial advisor can provide the details on how to put it into action.

Enjoy the ride

The job of planning for retirement never ends. Each year, you will want to check in with your financial advisor to make sure your financial strategy is performing as expected and make any adjustments that may be needed to help you stay on track. Still, those decisions you make in the final months leading up to retirement will have a considerable impact. Get them right and you may be one of those retirees who can honestly proclaim that retirement is all they ever dreamed of and more.

Contact your financial advisor for more information or visit mfs.com.

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