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SMART INSIGHTS FROM PROFESSIONAL ADVISERS

Do Your Homework and Get a Written Retirement Plan

Gathering up all the information you need to hammer out a solid plan for your future is tedious, but it will ease your mind. Here are eight questions to consider.

By Linda Gardner, Independent Investment Adviser Representative | Blue Heron Capital LLC

If you're like most people, you may find it pretty difficult to wrap your head around what your retirement will look like. It's just this idea that's hanging out there — a little exciting, a little scary, but not nearly as tangible as all the things that need your attention right now: your family, your job, your home. You know it's going to happen someday, but you aren't sure when or how. Meanwhile, you've been saving what you can and hoping it's enough. But, hope is not a retirement plan, so, each year as you get older you get a little more nervous. Now, I'm not saying that a formal retirement plan will take away all that anxiety. But it helps. A study announced Feb. 2, 2016, by the LIMRA Secure Retirement Institute found 50 percent of pre-retirees and retirees who had a written plan felt very prepared for retirement; only 17 percent of those without a plan felt that way.

A lot of people tell me, "My current financial professional is wonderful, but he (or she) doesn't do retirement plans." At best, many financial professionals seem to just recommend that you withdraw some certain percentage of your portfolio each year and you hope it will last as long as you do. That's not unusual. Many financial professionals are good at helping you accumulate money during your working years, but when you're closing in on retirement, you need a professional who can flip your mindset — and your portfolio — to the income phase. And the best ways to start is to gather all the facts — not just the numbers (although those are important!), but also lots of information about your current habits and your future goals. Here are some things your financial professional may need to know:

1. What do you want to do when you retire?

Some people don't plan to do a whole lot; they want to stay close to home, maybe do some volunteering or work part-time. Others dream of traveling. I know people taking a round-the-world cruise, and they'll be gone for several months. Another couple wants to take international bicycle tours during their retirement. Dreams like these take planning … and money! So, you must factor into your retirement plan the costs related to those activities. Think about how many years you'll do these activities and how inflation will affect the cost. In 20 years, it could cost you double whatever that activity costs today simply due to the effects of inflation. Think about that for a moment — what did you pay for groceries 20 years ago?

2. What kinds of accounts are you invested in?

If most of your accounts are tax-deferred (401(k), IRA, 403(b), etc.), you'll have to pay taxes when you start drawing money from them. That means, although you may have a large retirement account, the government will be taxing each dollar that you take out. So, the money in your pocket after taxes may only be 70% or 80% of what you took out, depending on what your individual income tax rate is. I always tell my clients that putting money away is the easy part; taking it back in the most tax-efficient manner can be a little trickier. If you take the money out too early, there's a penalty. If you take it out too late, there's an even bigger penalty. So, you want to be tax-smart about preserving your money.

3. How exposed are you to market volatility?

You may have invested aggressively while you saved for retirement, but as you approach that magic date when you will "clock out" for the last time, you should rethink things. Once you retire, you're not putting money into those accounts anymore; you're taking it out. If you're invested in a way that fully exposes you to market downturns, you could end up running out of money a lot earlier than you thought.

4. How's your health?

Most people don't think they'll need long-term health care, but if you or your spouse develops Alzheimer's or some other serious extended illness, it could be costly to your portfolio. So we need to look at the risk and figure out if there is a way to help mitigate it. Even if you aren't affected by a catastrophic illness, health care costs may hit you hard as you age. Medicare is there, but it isn't free; there are co-pays, premiums and supplement plans to pay for. Some say a couple should set aside $200,000 or more just for health care and that doesn't include long-term care! That's more money than some people have put away for their entire retirement.

5. What are your plans if your partner dies?

If you're married, you're probably basing your retirement plan on income from two people — your joint Social Security, pensions, investments and savings. Difficult as it might be, you have to look at what will happen when one of you passes away because you want to be sure the survivor is taken care of.

6. What is your Social Security strategy?

Timing your Social Security benefits can have a big impact on your retirement — and for your surviving spouse. It's a very important piece of the plan for most people. Taking it at 62 might not be the right thing to do, but waiting until 70 might not be right, either. The decision needs to be part of your retirement income plan, and your financial professional should help you develop a strategy for your situation.

7. How much will you spend when you retire?

I've heard a lot of financial professionals say: Once you retire, you'll only need about 70 percent of the income you had before you retired. What I see is the opposite: retirees, especially new retirees, are often spending more. Suddenly, they're free to do the things they've always wanted: relocate, travel, golf, spend time spoiling their grandkids. Those things cost money. It's a good idea to talk about spending early in the planning process. Showing your financial professional your budget will help her get a handle on what you'll need for the future — and maybe what you can save today to support that future. The budget needs to be based on your actual spending … not what you think it might be. Take some time to track exactly how much you spend each month and where. It's usually an eye-opening experience!

8. How's your car doing?

When do you plan to replace your current car? How much do you typically spend? Again, it isn't your financial professional's job to judge you, but it helps to know what parts of your lifestyle you'll want to keep and what you think you'll change. The same goes for a boat, motorhome or any other big purchases. It's a lot to think about, I know. I can't tell you how many people have said to me at the end our appointment: No one has ever asked me about this stuff. And, you may not have all the answers right away. But the work — and, let's face it, the discomfort — that goes into accumulating and sharing this information with your financial professional can help put your mind at ease once you have a solid plan for your retirement years.

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