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Retiring During Uncertain Times

By: Ashlee Walton, CFP® | Senior Financial Planner, Buckingham Advisors

Even during times of economic stability, retirement is a stressful and life changing decision. There are many factors to consider when deciding to retire. The current market environment adds an extra layer of importance to reviewing your personal financial situation and planning carefully. For anyone who recently retired or is planning to do so soon, here are several things you should consider:

Review your investments. We suggest having 3-5 years of your anticipated retirement account distributions out of the market and in safer investments such as cash, CDs, or fixed income (such as bonds). This allocation will let you feel confident that you are eliminating or reducing the need to sell stocks during a down market to provide for your retirement income needs. We suggest reviewing this allocation of your retirement portfolio prior to retirement to determine how much of your assets you have out of the market. Having too little in stock investments could decrease the growth of your assets over the years, potentially making it harder to reach your goals. But adversely, having too much in stock investments could result with more volatility than you are comfortable with or needing to sell at an inopportune time. Do not wait until there is less uncertainty to review your investments and goals. It may be a good time now to reposition your assets to capture opportunities going forward.

Review your access to emergency funds. Prior to retiring, we suggest you make sure you are prepared for unexpected cash needs. You should maintain an emergency savings in retirement. This should be a minimum of 3-6 months of cash needs. Instead of earmarking this fund for lost income as you have probably done while employed, this will now be for things such as home or auto repairs, unexpected medical costs, etc. Putting these funds in an online high yield savings account may allow you to earn a higher interest rate than you would get through your bank. You should check the FDIC insurance on the account and keep your balance under the limit. Additionally, having access (open, but no balance) to a home equity line of credit can be used as a planning tool for accessing funds temporarily. It may be harder to qualify for a home equity line after retirement, so this should be considered while you are still employed.

Review your retirement plan assumptions, including anticipated distribution needs and the portfolio's ability to provide the desired level of income. Because your current portfolio value may be lower than initially forecasted, we suggest updating your projections to review the impact of these changes and to confirm your current assumptions, prior to retiring. If you can be flexible, retiring now might still be possible. You may need to postpone a trip or large purchase to reduce the distributions in the coming months or even years. Another way to positively impact your cashflow is to consider working part-time after retirement. Not only can this decrease the distributions needed, but it may keep you more active and allow a smoother transition. Any existing retirement projections should be updated and reevaluated prior to making a decision.

Plan for your tax liability and look for opportunities. It is common for retirees to have lower taxable income the year after they retire. If this is the case, you might benefit from completing a Roth conversion. A Roth conversion is when distributions are taken from a pre-tax Traditional IRA and transferred into a ROTH IRA. This distribution is subject to ordinary income taxes the year of conversion. The benefit is that assuming only qualified distributions are taken, future distributions and investment income inside the account are tax free. The down market, paired with the current historically low tax rates, make the current environment favorable for this strategy. You would have access to tax-free dollars in the future, which could be especially beneficial if tax rates increase. You may also benefit from delaying realizing capital gains or other income until the year after retirement. This might allow you to pay a lower tax rate on your income. Make sure you are aware of any tax liability created when selling investments so that you can plan for any tax you will owe.

Work with a Financial Planner to solidify your plans. We suggest speaking with a CERTIFIED FINANCIAL PLANNER™ professional to review these suggestions to look at your individual situation and discuss your options. If you are unsure about an upcoming retirement, having a comprehensive projection and evaluation completed can help you make an informed decision. We welcome the opportunity to discuss these items in more detail.