Not Your Father's Retirement Plan

By Doug Ray
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Currently there are 10,000 boomers turning 65 every day with 60 million boomers retiring over the next 12 years! How is this monster population going to create a livable retirement income?

After all, the 'boomer' retirement plan is not "your father's retirement plan." Most parents of boomers had Social Security and pensions, also known as defined benefit plans, from a 30-year career with a company. They could count on a specific amount of 'income' for their retirement years and plan accordingly. Today's boomers worked for companies that offered defined contribution plans or 401ks in an attempt to save money. Unlike pensions, 401ks are subject to the risk of loss, unpredictable returns, and don't provide a retiree with a specific income to count on. This unpredictability along with a multitude of Social Security filing options and complicated tax codes facing retirees emphasize the need for a financial professional that specializes in retirement income planning to ensure that. Even if it doesn't look like your father's retirement plan, yours can perform like it.

A replacement for those pensions is needed. When I meet with those approaching the retirement years, they generally value a steady stream of income far more than having an account of stocks and bonds. One of the biggest obstacles keeping a current retiree from having "their father's retirement" is the volatility of the market place in which those 401ks are invested. That volatility can wreak havoc on a retiree's portfolio, which in turn doesn't bode well for a stable retirement income. For example, withdrawing just 5% for income out of a portfolio over a two-year period in a market that has declined by 50% creates a 65% drawdown on the portfolio. A 65% drawdown would require about 175% gain to get back even. This isn't likely to happen in the retiree's lifetime and would be subject to, potentially, run out of funds before running out of life, unlike your father's retirement plan.

Three years ago, the strategy of Social Security optimization was unheard of. Nonetheless, the existing Social Security code allows for over a thousand combinations of filing that could impact the amount of lifetime benefit of a married couple by a sizable amount. This makes the traditional concept of automatically taking Social Security at age 62 an idea that should be more carefully examined, as it may have a retiree leaving money on the table. One example of a simple and commonly overlooked strategy is that of taking advantage of the spousal benefit resulting in as much as an additional $50,000 of income. A competent retirement income-planning specialist can incorporate the optimal Social Security filing strategy for your particulars into a retirement plan, ensuring more income on a monthly basis.

Another area to consider when creating a retirement plan is the tax-efficient withdrawal of income from the various retirement accounts. Most readers realize that withdrawals from IRAs and 401ks create a tax liability. It is considered taxable income by the IRS and also used in the calculation of provisional income that determines how much of a retirees Social Security is taxed. A withdrawal from a Roth IRA is not taxed, and does not go into the calculation of provisional income for Social Security. Also, some specially designed and constructed life insurance programs with cash value that can be accessed by the retiree to generate tax-free income are important to consider. If one believes that tax rates in the future will be going up, then tax-free income in a retirement plan can be as good as gold. In other words, it's more predictable and performs like your father's plan.

What are today's retirees to do when burying cash in the backyard isn't the answer and creating a retirement that performs "like your father's retirement plan" is the goal?

1. Pre-retirees should start with a critical examination of spending patterns. Know where your money is going and eliminate unnecessary spending. This doesn't mean you need to live the life of a hermit, but do get a handle on your budget.

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2. Build a pension for yourself. Use some of your retirement dollars to build a guaranteed income floor that will increase for inflation. It should be large enough to cover your fixed costs. (See number 1 above.) Using a combination of both immediate and deferred annuities can do this.

3. Build an emergency fund. This should be in liquid accounts such as a money market account or CD. One should have 3 to 6 months' worth of living expenses in here.

4. Include a growth bucket in your planning. This bucket can provide income for the fun things you want to do in retirement like trips, golf and vacations, or provide for a new car. This can be accomplished with a portfolio of stocks, ETF's or mutual funds. The growth bucket is used to fund wants, not needs, and due to the risk, should be a smaller component of the retirement plan as time goes on.

5. Make sure there is an exit strategy for number 4. Retirees are no longer in a buy and hold market.

6. Learn the rules of Social Security. Workers at the Social Security office cannot advise you on the techniques of optimization. They can only tell you what you qualify for today. Find a qualified retirement income planner who has the knowhow and software to do this for you.

7. Examine those insurance policies including auto, home, life and long-term care. Make sure you are not paying premiums for things you may not need any longer on your auto and home owner's insurance. Most Americans don't have long-term care insurance. Make sure you get some before you need some. Two thirds of married couples will have a long-term care episode occur to at least one partner at some time in their lives. This insurance is much cheaper prior to age 70.

8. Remember the 60 million boomers who will retire in the next 12 years mentioned at the beginning of this article? About one in three will move. Consider retiring to an area that is good for retirees. This would include states that are income tax friendly, have a nice climate, a good economy, plenty of healthcare facilities, and shopping. Don't forget to include an affordable standard of living.

I encourage anyone in the retirement red zone (plus or minus five years, if not sooner) to seek out the counsel of a financial advisor who is an expert in retirement income planning. They'll help you navigate the steps identified above and put together an overall income plan that minimizes the risk of loss, is tax efficient, and will optimize your Social Security benefits while growing over time. Follow these steps so that you **can** have your father's retirement and peace of mind.

Read more: http://www.foxbusiness.com/personal-finance/2013/08/28/not-your-fathers-retirement-plan/#ixzz2fLf4CTZQ