Preparing for retirement

The key to achieving your retirement dreams

Right now you may be imagining the ways your life will change after you retire. To succeed financially during retirement, however, it is important to understand that your mindset will also need to change. Because the strategies and solutions that help build wealth are fundamentally different from the strategies and solutions that help create income from it. So you will need to adjust from a way of thinking developed over the course of several decades to a new way of thinking that will need to last for the rest of your life.

How to approach your new priorities

Quite simply, when you retire your focus shifts from growing your assets in the most effective way possible, to distributing your assets in the most efficient way possible. Because you do not want to run out of money, lose your independence or become a burden on others. With that shift in focus, your financial priorities may include an even greater emphasis on finding prudent strategies for carefully preserving, spending and sharing the wealth you accumulated over a lifetime of hard work and diligent investing.

What you can do now

As retirement nears — to help ensure you are ready when that big day comes — it may be practical to spend some time now learning about the risks, choices and other retirement income planning considerations that will all factor into the important financial decisions you will need to make throughout a long and happy retirement.

Planning for important retirement risks

Understanding the following risks and including them in your planning may help you enjoy greater confidence in your ability to create a dependable income during retirement.

Longevity

When retirees talk about risk, many say outliving their money is their number one fear. For a couple age 65, in good health, there is a 47% chance one will live to age 90 and a 20% chance one will live to 95.[1] Your planning should be based on your specific situation — and possibly living longer than the averages.

Inflation

If you want to maintain your current standard of living, be prepared for ever increasing income needs. For example, at 3% annual inflation, $50,000 of today's money will have the equivalent spending power of $23,880 in 25 years. Building the effects of inflation into your planning is important.

Market

Market performance during the decade prior to retirement can affect your ability to both retire on time and with the expectations you envision. Concerns that may prematurely deplete your portfolio and reduce your long-term ability to create the level of income you desire may include:

- Low or negative returns.
- Volatility or market declines.
- Low interest rates.

Your planning may mean making adjustments to your portfolio in the years leading up to retirement to help reduce your exposure to market risks.

Health care

As you age, you may need more doctor visits and medications to maintain a healthy lifestyle. And as you may know, health care costs are steadily increasing. A recent study estimates that a couple age 65 will spend $404,253 in retirement to cover health care.[2] And this amount does not include nursing home expenses, that have a median cost nationwide of about $91,250 a year for a private room, according to a 2015 Genworth Insurance study. Preparing for health care and long-term care costs will be essential factors of your planning.

Planning for important retirement choices

Understanding the following choices and including them in your planning may also help you enjoy greater confidence in your ability to create a dependable income during retirement.

Savings

Have you determined how much you need to save to reach your goals? Will you continue to save and invest up to and after retirement? Your may want to include savings in your planning.

Social Security

As part of the planning process it is important to understand the role Social Security will play in your retirement income. We can discuss when the best age is to begin receiving benefits and what claiming strategies are available to maximize your benefits, based upon your circumstances.

Medicare decisions

Understanding the basics of Medicare, what the right options are for your circumstances and what it costs will assist in your planning process. Medicare begins at age 65, so you will need to understand your options for health insurance and those costs, if you retire before then.

Spending

As you get closer to retirement you can start planning for how much income you will need every year to cover both living (essential) and lifestyle (discretionary) expenses. You may even want to practice living on that income prior to retiring.

Portfolio

Your planning in retirement will be different, since your goals will shift from growth to generating income and growth — as well as protection from potential market risks.

Asset placement

This is a strategic process that seeks to optimize after-tax returns by placing stocks, bonds and other assets — according to the specific nature and timing of taxes they generate — in either taxable, tax-deferred or tax-free accounts.

Managing distributions

Your planning may need to take into consideration decisions regarding which accounts to draw assets from first (taxable, tax-deferred or tax-free). Your planning may also need to address how to spend or reinvest the proceeds — because every situation is different.

Employer plans and pensions

If you have an employer-sponsored retirement plan your rollover options may include an "in-service, non-hardship" 401(k) distribution, which allows you to rollover your retirement assets penalty free to an IRA prior to retirement. Moving some of your nest egg from your 401(k) to an IRA generally provides a wider range of investment options. If you have a pension you will need to consider your income options and when those assets may become available.

Emotions

Selling when markets are down and buying when markets are high is rarely good advice. During retirement selling (or buying) at the wrong time can be disastrous. Your planning may help you stay focused on your long-term financial well being and avoid making transactions based on fear or greed caused by short-term market swings.

Sustainable withdrawal rate

Although there has been recent debate, academic studies have found a 4% initial withdrawal rate has been sustainable over 30-year rolling periods through the worst markets we've experienced since 1926. e.g. $100,000 x 4% = $4,000/year

The studies are not saying you must use a 4% withdrawal rate. They merely offer a guideline, based on what has worked — over the long term — during some of the worst-case scenarios, such as the Great Depression, the 1970s era of stagflation and the Great Recession, among other periods of economic uncertainty and temporary market slumps.

Your financial advisor will look at your personal withdrawal rate, not only at your initial retirement date, but throughout your retirement. Utilizing our dynamic approach to retirement income planning, they will monitor how your withdrawal rate changes over time to use as a guideline to help make decisions and adjustments along the way.

How to approach your retirement with confidence

Understanding and beginning to address all the risk and choices and withdrawal rates decisions, now will better prepare you for the day you finally retire.

Put your trust in our retirement income planning process

The good news is, your financial advisor can help guide you through all the decisions you must make. He or she is focused on your financial well-being and has access to a broad range of tools, professionals and wealth management resources to help make retirement income planning manageable.

This includes a systematic process that breaks all the pieces of the puzzle into bite sized chunks.

Step 1: retirement analysis

The purpose is to gain a thorough understanding of the retirement you envision. The payoff is to understand your cash flow needs and identify the living and lifestyle expenses you anticipate, so we can plan effectively. This is a natural extension of the wealth management discussions you have already been having with your financial advisor.

Step 2: build a foundation

The purpose is to create an assured income base. The payoff is to cover some of your living expenses, no matter what the market does, and no matter how long you live. Because now (before retiring) is a terrific time to look at the ways to create a "personal pension."

Step 3: establish your withdrawal strategy

The purpose is to choose a strategy that creates your retirement income to supplement the assured income in your foundation. The payoff is the ability to fund lifestyle and unexpected expenses, as well as help prepare a financial legacy for the people and causes you care about. As you get nearer retirement, we will help determine which strategy is best for your situation and the current market environment.

Step 4: implement products and solutions

The purpose is to put your retirement income plan into action by choosing wealth management solutions and appropriate financial products to accomplish your goals — much like you already do with your financial advisor. The payoff is your ability to determine when to transition your portfolio from the accumulation phase to distribution — with special professional attention to your unique investment, income, wealth preservation and wealth transfer needs during retirement. The focus for your portfolio in retirement is to create income along with growth and help protect from market risks.

Step 5: review and monitor your progress

The purpose is to regularly review the first four steps and make timely adjustments (as necessary) to help preserve your retirement income portfolio throughout retirement.

The payoff is the ability to be flexible about your income needs (because your life and interests may change over time). You also benefit from the ability to respond proactively as economic conditions and markets fluctuate. There are different items we will monitor before retirement and afterwards, but this will be done on an on-going basis.

Prepare to enjoy a long and happy retirement

By employing our methodical retirement income planning process, we can help you feel more confident about your ability to enjoy financial security during your retirement.

Contact your financial advisor today to learn more about what you can be doing now to plan for the future you want.

[1] Social Security Administration, Period Life Table, 2011 (published in 2015), J.P. Morgan Asset Management.

[2] 2017 Retirement Health Care Costs Data Report, Healthview Services, 2017.

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