Advice IQ Trusted. Financial. Guidance.

Guidance
Find opportunities. Avoid traps.

Do You Have Enough To Retire?

Submitted by Walid L Petiri on Fri, 03/23/2012 - 3:00pm

Making your money last during years of retirement takes good planning. You need to be ready for unexpected expenses. Estimating lifestyle costs, medical expenses and inflation is hard to do. Most underestimate them.

According to the National Center for Health Statistics, someone retiring at 65 will live an average of 18 more years. This means that half will live longer.

Hereõs a guide on plotting out your money for the many years after you quit working.

Figure out your retirement income and spending. The typical rule of thumb is to expect to spend 70% to 80% of your current annual income in order to live comfortably in retirement. But everyoneõs situation is different, and so are each personõs retirement needs.

At 10 to 15 years before retirement, get a good handle on targeting your future income, including, pensions, Social Security and investments.

Three to five years before you retire, roughly calculate your expected monthly income by source (Social Security, investments, etc.) and your expenses. You can use online calculators (like here at fmsadvisors.com). And consult your financial advisor to get an expert outside opinion.

Create a spending plan. You may plan on moving to a distant, warmer land, where the cost of living is cheaper. But there are less dramatic ways to eliminate expenses and increase retirement assets. Not everyone wants to re-locate, and sometimes that tropical dream spot is not as cheap as you assume.

Whether you stay or move, do a more exacting cash flow analysis. Examine expenses like housing costs that might decrease or increase, health-care costs, different types of taxes (some rise, others fall), travel expenses and so on. Next, review your probable income sources like Social Security (the longer you wait, the more income you will receive), your pension (if youôre lucky to have one), rental properties or other cash-flow holdings. And look at your portfolio ï individual retirement accounts, 401(k)s and non-retirement accounts.

Once thatôs complete, turn to other variables people often overlook that will impact your retirement.

Things to Avoid. While you canôt predict the future and prevent costly surprises like sudden health crises, you can strengthen your position by minimizing or avoiding:
· Lavish support for your kids, grandkids or relatives, by continuous gifts or loans.
· Withdrawal of more money every year than your portfolio can easily return.
· Big debts dragged into retirement that continually drain your assets.

Lastly, think deeply about the following areas:

Heredity. Do you come from a family where people frequently live into their 80s and 90s? If so, you will probably live as long or longer. Life spans are increasing due to medical improvements. The fastest growing demographic in America consists of those above age 85. Just imagine retiring at 60 and living to 95 or 100. You would need about 40 years of consistent retirement income and a good handle on your expenses.

Your Spending. You probably do not limit yourself to spending only 70% of your salary? If you do or will do so for the 10 years or so preceding your retirement, you are both rare and likely to be in very good shape at retirement. However, most Americans, spend as much as 90% or 95% of it, and are unlikely to spend less unless forced too.

Most people only change spending habits because economic necessity forces them to. People donôt want to live on less once they have had more. Yet in the world that exists post-2008, a smarter strategy may be to cut back, adjusting to less is better.

Personal Health. Almost all of us will have a major health challenge sometime. It could be a chronic malady lasting for the balance of our lives. So before retiring, think about the costs of prescriptions and recurring treatment for chronic ailments. Include them in your contingency plans.

Even with a great health plan and generic drugs (cheaper than those still under patent protection), these costs take a bite out of retirement income. Fidelity Investments estimates that a 65-year-old couple who retired in 2011 will pay $230,000 for health care costs throughout retirement, excluding nursing home care.

Investments. Most people will retire with no pension or with only a modest one. So the importance of personal savings is large. Unfortunately far too many retire without effectively reviewing their investments in the years prior to retirement. The asset allocations they set three years ago ï or 10 years ago ï likely shifted away from what they want. Their portfolios are more risky, including todayðs bond-heavy ones.

Portfolios require ongoing attention to maintain the right risk/return balance and diversification. The goal is asset growth sufficient to finance a 40-year retirement that keeps pace with inflation ï and without wildly fluctuating income, which leads to anxiety and sometimes panic-driven decisions.

Social Security (or lack thereof?). Will Social Security even exist by the time youðve retired? According to the Social Security Administration, the beloved program may start to run out of money by 2036 and may be broke by the end of that decade. Some suggest cutting benefits as much as 20%. Even if Social Security is still a going concern in 2040, it probably will not be the same as your mom and dadðs.

Do you know if you have enough? Take the time to find and a financial advisor you trust. The advisor will help you estimate your lifestyle needs, expenses (short-term and long-term) and contingency plans. You will need the discipline to follow through with it. Once you get a few years into retirement, your ability to generate additional income is significantly reduced. Besides, who wants to go back to work then?

Walid L. Petiri, AAMS, RFC, is chief strategist at Financial Management Strategies LLC in Baltimore, Md.

AdviceIQ delivers quality personal finance articles by both financial advisors and AdviceIQ editors. It ranks advisors in your area by specialty. For instance, the rankings this week measure the number of clients whose income is between $250,000 and $500,000 with that advisor. AdviceIQ also vets ranked advisors so only those with pristine regulatory histories can participate. AdviceIQ was launched Jan. 9, 2012, by veteran Wall Street executives, editors and technologists. Right now, investors may see many advisor rankings, although in some areas only a few are ranked. Check back often as thousands of advisors are undergoing AdviceIQ screening. New advisors appear in rankings daily.

Topic:

Social Security

Health

Retirement Planning