Eliminate the 'Fear Factor' in Retirement

By Patricia Lampert

Many clients who discuss their retirement goals have a fear of not knowing what to do. It's a common problem, but it's relatively easy to mitigate those fears with the right planning tools. Know the facts about your own finances, and don't wait until you are just about to retire to plan for it.

Considering that people are living longer than ever, and that the cost of medical expenses like health premiums and prescriptions is not small, people retiring today will probably need anywhere from 80-100 percent of their current income during retirement. They come to me to sort out their assets (both retirement and non-retirement accounts) and to determine if they really can have a comfortable retirement.

Some of their fears are discussed below:

Will I outlive my money, or will I run out?
Whether you will have enough money depends on several factors, including how much you have saved; and how quickly you'll spend it. Tackle these issues BEFORE retirement, and you'll have a softer landing. You might want to adjust your spending habits now, so that you can begin to live on a lowered income during retirement. Also, get rid of your bad debt – especially credit cards. Remember, even a little savings adds up.

How do I establish the right withdrawal rate and select appropriate investments during retirement?
First, let's assume that you have an IRA. If you don't already, you should. Once you're ready to retire, figure out how much you will be getting as a lump sum from that account. Then, figure out your Social Security benefits, and determine what your pension income will be, if any. An IRA Rollover account should be established to invest the lump sum that you've accumulated. You can work with your advisor to figure out the types of investments (asset allocation) that will generate the appropriate return vs. risk strategy. Your goal should be to take out enough to cover your monthly living expenses (after any Social Security benefits and pension income you might receive).

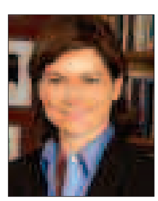
Investing in mutual funds or a balance of stocks and bonds, adjusted for your risk tolerance, is a good strategy. Mutual funds should be a mix of domestic and international equities with different styles of growth and value. Diversify these funds into large, mid-cap and small caps. Bond funds should include short, intermediate and long-term maturities offered by the U.S. government and domestic and international corporations. Many insurance companies have investment options, such as variable annuities, that offer guaranteed lifetime income benefits without annuitization of your lump sum. If you are considering this option, remember to factor in fees and contractual surrender charges.

The first rule of managing your post-retirement finances is to use caution. Try not to take out more than 5 percent of your lump sum for the first five years, and re-invest the excess return to further increase the lump sum that you started with originally. There is a great temptation to travel right away, buy a new car, and gift generously… but remember, one must protect the mountain (lump sum) in order to reap the fruits (profits/income).

How do I collectively manage my assets so that they all work for me?
Retirees (and soon-to-be retirees) should prepare a cash-flow statement of income versus expenses. Figure out what your problems and strengths are in terms of handling money. Also, identify all of your assets and liabilities and determine your net worth.

Categorize your assets into financial assets to be used for retirement and those that are not, such as your home, cars and personal property. Sometimes, determining your assets and liabilities provides you with the correct data to adjust your expectations and to set goals that will benefit you in the future. Above all, be realistic.

When the time comes to retire, you should be anything but afraid. It is the payoff for a lifetime of hard work and perseverance. So, if you want to be ready and make your money last, you need to save, budget, invest wisely and monitor your investments. Also, as always, seek professional advice about which options are right for you. □



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