Brown Bagger

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Taking an End-of-Year Financial Checkup

An increasing number of Baby Boomers are either retiring or cutting back to part-time work. With the assistance of a financial planner, an EA professional is still a good person to co-lead a topic like this, because workers highly stressed about their finances are seldom productive employees. ***Day-to-day finances, a much bigger concern for younger workers, will be addressed in this space in 2016.***

How many of your corporate clients' employees will be retiring at the end of this year? What about 2016? In either case, the answer is probably – *not as many as you might think.* Only one in three workers (34%) polled said they plan to quit work entirely once they're ready to retire from full-time employment, according to a survey developed by Robert Half Management Resources (RHMR).

That's not a bad thing. According to RHMR, longer life spans, increased financial responsibilities, and a desire to remain mentally and physically active are prompting today's workers to view retirement differently than their predecessors.

Will Prest, chief marketing officer with Transamerica Retirement Management (TRM), agreed. "Many people in this age group still want to be engaged," he said. "They still want to work, but what they *do* want is to cut down on their hours and have less stress."

Prest added that the traditional view of retirement as an "end point" must change. Rather than looking at retirement as a period of simply "puttering around the house," golfing, or volunteering, older workers need to look at so-called retirement as merely a transition into the next stage of their life that could last 30 years or more.

Will You Have Enough Money?

Not surprisingly, financial preparedness is seen as extremely important for a fulfilling retirement. Financial planning is becoming increasingly important as the average length of retirement increases. In 1980, the average length of retirement worldwide was 13 years, and today can be expected to span two decades or more. Unfortunately, Prest points out that what Americans often see on TV as a "typical" retiree doesn't line up with reality. In truth, many Baby Boomers are concerned whether they'll even have enough money to get by in retirement – let alone a surplus.

"Advertisements typically show older people living in affluence, but this usually is not a realistic portrayal of the average retirement," Prest said. "What we found in the focus groups we've conducted is that unless someone is a millionaire, they often do not have enough money saved to maintain the lifestyle to do the things they want to do in life."

Regardless of whether you plan on retiring next year, or 10 years from now, everyone needs a plan. According to TRM, these ideas should include:

- **Save, save, save!** A session with a financial planner might give you more ideas on how much you should be putting away toward your retirement.
- **Begin formulating a plan** for how you want to live your life in retirement.
- **Set goals for your retirement date** – even though it may be years away. Think about how you might transition to a new career or pursue volunteer work before you truly retire.
- **Check into risk-management strategies** like long-term care insurance or annuities – and do so while you're younger so the money has more time to grow.

- **Take inflation into account**. Remember that $100,000 won't have the same purchasing power 10 years from now, as it does today. Fortunately, in today's technological society there are numerous online calculators and resources that can help individuals get a better feel for what today's dollars will be worth tomorrow.
- **Get specific advice that reflects individual circumstances**. Having a rough idea of where you're at financially is a good start, but Prest points out that general investment advice like, *"You need to put more money into your annuity"* isn't sufficient. More specific, highly individualized investment advice is the way to go.

What do You Want to do Next?

What can *you* do to ensure you'll be happy after you retire? The answer might seem obvious: Just sock away as much as you can in your 401(k). The bigger your nest egg, the happier your retirement will be, right? Not quite. Having a bundle of money certainly helps, but not nearly as much as you might think, according to a growing body of research on retirement satisfaction.

In one study, University of Wisconsin-Milwaukee economist Keith Bender found that an extra $10,000 of wealth only increases a retiree's happiness 1%. Bender's satisfaction rate broke down like this:

- With an extra $10,000 in wealth, the odds of increased happiness in retirement only increased 1%.
- If you have a pension – the odds increased 6%.
- If you have a pension *and* 401(k) – the odds increased 9%.
- If you work *and* volunteer – the odds of increased happiness jumped 13%.
- If you retire voluntarily – you scored the highest, with a 30% satisfaction rate.

The following strategies can help in achieving a fulfilling retirement:

❖ **Create a steady, long-term income** – Retirees with a traditional pension who get a monthly check for life have been found to be more content than those with the same level of wealth but only a 401(k). "People feel more secure when they don't worry about outliving their money," said Stan Panis, a manager with Deloitte Financial Advisory Services. As stated previously, retirees who have both a pension *and* a 401(k) are even happier, since they are assisted by the security of a guaranteed income, plus a pool of cash to pay for unexpected expenses.

While traditional pensions are going the way of the Nehru jacket, you *can* create the equivalent of one on your own. How? By investing a portion of your 401(k) or other savings in an "income annuity," which will pay you a guaranteed income for as long as you live. This is a crucial point that many people overlook, according to Prest. "We found that the vast majority of people will run out of money before they run out of years." TRM recommends a mix of investments and insurance that can help weather the ups and downs of the stock market during retirement. As you age, you'll likely want more of your money invested in conservative investments, such as bonds and cash, to help preserve your nest egg.

❖ **Keep active, but to a point** – Staying involved in a variety of activities also increases the chances of an enjoyable retirement. Urban Institute economist Barbara Butrica found that retirees who both worked and volunteered were 13% more likely to consider themselves very satisfied than those who didn't. But you can't hustle and bustle your way to retirement nirvana either. The boost in satisfaction trailed off for retirees who worked or volunteered more than 200 hours a year, and the positive effect seemed to disappear at 500 hours.

Motivation also mattered. People who worked because they needed the income, rather than for enjoyment, actually felt less satisfied about their retirement. The moral: Be careful that the activities you pursue don't become too much like, well, work.

❖ **Try to control your exit** – According to Bender, people who left their jobs voluntarily were 30% more likely to be happiest in retirement than those who were pushed out. One reason: People who retire on their own terms have had a better opportunity to get their finances in order. They're also better prepared psychologically. "If you're humming along and suddenly things don't work out as planned, it can be quite a shocker," Bender said.

Workers can't control whether they'll have to stop working because of ill health or a downsizing, which account for 75% of involuntary retirements. But while it's tough to think about, it pays to recognize the possibility and do some advance planning. This might include looking at Social Security options, and getting health insurance until you qualify for Medicare. Then, if you do get the boot, you won't be caught totally off guard.

A happier note: Studies show that older retirees tend to feel better about their lives than recently retired people. So if you've tried to improve your situation, and it still isn't going well, hang in there. Chances are that life, like fine wine, will improve with age.

The following is a summary of some financial retirement-planning advice from TRM:

❖ **The stock market** – No one can predict the stock market's ups and downs, so it's smart to have a mix of investments tailored to your risk tolerance, timetable, long-term goals, and other factors. A diverse portfolio might include stocks and other investments for growth potential: bonds and bond-oriented investments for income; and insurance and annuities that can help guarantee a steady income stream and cash, so you have quick access to your money.

By having different types of investments, you will increase the chances that some are performing well. It's all about diversification. In fact, about 90% of the variation in a portfolio's return over time can be attributed to how investments are allocated, according to Ibbotson Associates, a Chicago-based market research firm. Keep in mind, however, that just diversifying your assets can't protect against loss in a down market. It's important to be aware that investments are subject to market fluctuation and may lose value.

❖ **Inflation** – As stated previously, any retirement plan needs to take inflation into account. Growth investments should stay ahead of inflation, which has averaged about 3% a year historically. According to Morningstar, assets that are subjected to a 3% inflation rate for 10 years lose one third of their purchasing power. Over the course of 30 years, they will lose roughly 60% of their purchasing power.

❖ **Risk of outliving assets** – Creating a lasting retirement income plan is very different than building a nest egg while preparing for retirement. Review the impact of Social Security, pension, and income annuity options as a way to create reliable income to manage monthly expenses throughout retirement. You'll need to develop a sound withdrawal strategy for how much you'll want to take from your assets annually. The amount should be based on the amount of time you expect to be retired, the income you estimate you'll need to live the lifestyle you'll want, and how much money you think you'll have over time.

It's a good idea to seek advice from advisors who can develop a retirement income strategy that works for you. Also, an advisor can help you understand whether any advantages exist in taking distributions of IRA and qualified plan assets while in low tax brackets.

❖ **Health care** – Keep in mind that Medicare probably will not cover all of your health care costs. Many individuals will need some type of long-term care during their retirement years. That's why it's important to consider getting a supplemental policy. Plan ahead to get the medical assistance you'll need, so you're not funding these costs from retirement income.

Summary

There are numerous factors that affect a retirement plan, but don't get too bogged down in the details. Specifics can always be "tweaked," but get going on something. Remember, people don't plan to fail, but they do fail to plan.

Brown Bagger HANDOUT

Remember, Retirement is a Journey

❖ **Fifteen years out, give your retirement serious thought**. This is the time to start comparing the thoughts about retiring with the reality of what your financial situation may be when you do leave work full time. Start putting retirement goals down on paper. Do you want to travel? Move to a different climate? Continue working part time? Begin a totally different career?

❖ **Five to six years out, do a reality check**. This is the perfect time to make sure you'll have the money you need to enjoy life after your current career. A financial planner can be of great help. At this juncture, you'll have a good picture of available resources for retirement income: savings, Social Security, pensions, and so on. Will major debts – like a home mortgage – be paid off to ease your financial burden? This is also a good time to decide whether you'll want to – or need to – continue working, at least part-time.

❖ **Transitioning to retirement – initiate checks and balances.** It's not unusual as a new retiree to spend more right out of the gate for travel, finding a hobby, or even starting a new business or career. The problem is, if you're not careful, you could take a huge bite out of your retirement income early, jeopardizing what you have for later. That's why anticipating and tracking expenses from the very beginning of your retirement is a great idea. If you haven't already done so, this is also a good time to make sure your estate is in order – including drafting a will, creating an estate plan, and obtaining a power of attorney. Remember, as a retired person, you'll have a fixed income for the most part; one you'll need to protect and stretch over a long period of time. Consequently, doing some checks and balances during the first few years of retirement can help a great deal.

❖ **Firmly transitioned, it's time to settle in.** Decide how to deal with a major debt, if you have any. For most retirees, that debt is in the form of a home mortgage. If you have a sizable nest egg, you could use part of it to pay off your debt, but only if it's sizable. Otherwise, it could jeopardize the financial future of your retirement. Next, get settled in to your retirement psychologically and emotionally. This is critical. Without activity and planning, this time in retirement could be one of boredom, worry, or even depression. Determine what makes you happy. Spending time with grandkids? Traveling? Learning a new skill? A life coach can be of great assistance.

Source: Transamerica Retirement Management.