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THE LARGEST COMMERCIAL/INVESTMENT REAL ESTATE NEWSPAPER IN THE WORLD

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Things to think about when looking to retirement

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"May you live as long as you want and never want for as long as you live."

With proper planning this Irish Blessing can be fulfilled. Starting in 2008, the first Baby Boomers, that generation born between 1946 and 1964, turned age 62 and became eligible to receive Social Security benefits. Recent research from an American College Study revealed that most people approaching retirement have no written Blueprint to help them reach their financial goals. Thus, suggesting a potentially dangerous tendency to oversimplify an increasingly complicated financial planning situation that needs to account for rising inflation, long-term care, increasing health care costs, longevity, adult dependent children and the ever changing tax environment.

As you contemplate your own retirement, consider the following laundry list of ideas to aid in your successful transition from "wealth accumulator" to "wealth harvester".

I. What will your retirement look like?

The concept of retirement is changing. Today, many people view retirement as an opportunity to have greater control over their lives. Some people plan to stay active and work in retirement, but only on their own terms. Others have changed occupations and have forged out on their own to start new businesses. Others have decided to move to retirement communities and enjoy the "retirement culture" by focusing on their favorite hobbies or learning something new. What is your retirement objective?

II. Are you on track to obtain your retirement objectives?

First, it's essential to create a budget and evaluate your core expenses and your monthly discretionary expenses. Next, we create a list of guaranteed income sources that will be available to you in retirement such as pensions, social security and annuities. Financial Advisors, such as a Certified Financial Planner™ can help you determine if you are currently on track by creating a financial model that takes into account income, taxes, expenses, minimum required distributions etc. to determine the probability that you will achieve your goals.

III. What Social Security factors will affect your retirement income?

For some, Social Security could provide a substantial portion of your guaranteed income in retirement. The payments you receive are calculated based on your employment history and when you decide to start collecting distributions. The longer you wait to start collecting, the higher the benefit you shall receive. However, at age 70, there is no benefit to delaying. Did you know that you could work while collecting? Just be aware that if you take social security before full retirement and earn more than a certain amount, your payments could be reduced. Once you reach your full retirement age, you can earn as much as you would like without having your benefits reduced. Realize too, that social security benefits are taxable, depending on your income during retirement.

Married couples have more choices to consider when it comes to social security. When the higher wage earner begins to take benefits impacts the spouse's benefit and survival benefit. A lower earning spouse could be eligible for up to 50% of the higher wage earning spouse's benefit. Because Social Security is an integral part of one's retirement income, contacting a qualified financial advisor to determine the most effective means of receiving the maximum benefit is highly recommended.

IV. How can you increase your savings and retirement income?

You could maximize the contributions that you are currently making to your 401K, 403B or IRA. If you are age 50 or older, you can take advantage of catch up provisions that allow you to contribute an additional amount to help boost your savings.

Reprint continued on Page 2

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An evaluation of your current expenses and anticipated expenses in retirement could help you trim the cost and possibly increase both savings now and retirement income later. Working longer, delaying Social Security payments and considering part time employment in your early retirement years are other planning ideas that should be considered.

V. Have you educated yourself on your health care options?

Health care expenses in retirement can be unexpected and higher than planned. Based on data from the U.S. Department of Health and Human Services, we can expect health care costs to rise an average of 6.1% annually until 2019. Fidelity Investments estimates that a 65 year old couple that retired in 2010 would need $250,000 to pay for medical expenses throughout a 20 year retirement- not including long term care costs. Now is the time to research and consider planning options such as long term care insurance and supplemental health care options. Take the time now to understand the Medicare application process, knowing premiums and timelines, because these can be impacted by your age and social security.

VI. Is your current investment portfolio structured to meet your goals for retirement?

As you approach retirement a thorough review of your investment portfolio should be conducted. Consider consolidating old 401K portfolio's into an IRA which will simplify the overall management of your financial plan.

As you transition from a "wealth accumulator" to a "wealth harvester", redefining your goals, need and timing for income and risk tolerance is critical. The same portfolio weightings used to save for retirement are typically much different than the weightings required for distributions. A diversified portfolio, appropriate to your new stage in life must be developed to meet the new requirements placed on it. Your CFP® practitioner can help you in the construction and the monitoring/ rebalancing of the portfolio.

VII. Do you have an overall game plan for retirement? Will your assets and income outlive you or will you outlive them?

It's imperative that all aspects of your planning are integrated. The creation of a detailed retirement income plan can be evaluated by using simulators. During the wealth harvesting stage, require your financial advisor to use projectors that base returns on the "Monte Carlo" simulation that will simulate investment outcomes for hundreds of possible historical returns. This will enable you to select a rate of return that has a higher probability for providing sustainable income throughout your entire retirement. No projection is guaranteed, but making projections based on average rates of return during the wealth harvesting stage can quickly result in premature depletion of savings, particularly if losses occur early in retirement.

To build a retirement income portfolio, consider dividing your assets into categories. The first category would meet your short term income requirements (1-3 years), an intermediate category would be utilized for assets that are expected to be used within 4-5 years and a final category for assets that are not expected to be used for over 6 years thus enabling you to invest for maximum reward.

Within each category there are a number of investment options that can be used depending upon when you need the funds. The purpose of building an income portfolio is to develop a plan that provides you with a sustainable income that minimizes risk and maximizes the potential for long term success. Your advisor can help you build a personalized plan and help you monitor the progress over time to assure that the plan remains on target.

Hopefully, these ideas can help you achieve your retirement goals and fulfill the Irish Blessing of "never wanting for as long as you live."

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