CELEBRATING 55 YEARS
nerej

Things to think about when looking to retirement - part 2

July 19, 2012 - Front Section

Part 1 appeared in the July 13th edition of NEREJ in the Financial Digest section.

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. 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 CFPÂ® 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."

Gerard Robinson, CFP, AIF, CFS, ChFC, Capital Analysts of New England, Inc., Quincy, Mass.