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CELEBRATING 55 YEARS

Developing a "Gold Rated" retirement income plan that is right for you

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I teach a two part three hour class on the topic of retirement planning. The class covers all aspects of retirement planning including lifestyle planning, retirement needs and expenses, retirement income sources, investments, long term care strategies and lastly estate planning. The class participants have the option to select a follow up meeting with me to review their planning. As a result, I have seen many approaches that individuals take toward retirement.

I met with a couple recently following the class and was very impressed with their overall retirement planning strategy. I was so impressed I informed them that, in my opinion, if there was a "Gold Rating" for a retirement income plan they would receive it.

For confidentiality purposes, I will change their names to John and Mary. John is 67 years old and Mary is 64. Here are the reasons why their plan was a financially strong retirement income plan:

John was the higher earning spouse. He planned to work at a job he enjoyed until age 70 and then claim social security benefits. This will give him the maximum benefit. Social security will increase by 8% for each year you delay taking benefits beyond full retirement age. The income is guaranteed by the federal government and offers potential inflation protection. This higher age 70 benefit will also continue for his wife (she is 3 years younger) if he were to pass away- acting like a life insurance policy for his spouse.

John and Mary plan to have their mortgage paid off in full at John's age 70. A mortgage is typically the largest expense within any of our budgets. Eliminating this expense will lower their living expenses in retirement.

John and Mary have most of their wealth in their tax sheltered retirement plans and continue to add to their plans. By delaying distributions until age 70 (required at age 70 Â½) the account values will continue to accumulate. The major benefit of the compounding of interest and dividends happens later in life when account values are larger.

John and Mary will be in a position to finance a shorter retirement. If you retire at 60 and live to 90 you have to finance 30 years of retirement. This can be difficult to do with the rising cost of living and many of the risks associated with a long retirement. If John and Mary live to 90 they only have to finance a 20 to 23 year retirement.

Both John and Mary plan to have "encore jobs" in retirement. Mary operates a part time travel business that generates $25,000 a year and she plans to do this for the "fun of it" as long as she can. John plans to teach part time because he enjoys teaching and he can generate some income.

John and Mary planned for potential long term care expenses. They purchased a long term care policy to provide funds in the event one of them needs long term care. It would be difficult for one of them to retire financially if the other spouse required significant expenses for their care.

Lastly, they have a home in the suburbs of Boston that will be mortgage free in three years. Our projections indicate they will never need to sell their home since they have sufficient funds within their retirement plans however if they need to sell they could downsize and generate additional funds.

As you can see from the above example, these are some of the reasons delaying retirement to age 70 can be beneficial from a financial standpoint. Many individuals who enjoy their work also mention the mental stimulation, social contacts and health insurance benefits that working later provides.

For someone else, especially for someone who has low expenses, a pension and adequate retirement accounts, the ideal retirement plan may be to retire at age 60 and never work again. Another individual might retire from their career at age 60 or 65 and work part time in an "encore job." Every retirement income plan is different. Think about how you would like to live your retirement years and then develop a financial and lifestyle plan that is personal, practical and flexible. John and Mary have an excellent retirement income plan because it is right for them...and has many financial benefits. Only you - with the help of your advisors - can design a plan that is right for you!

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