

READY, SET....RETIRE! 4 THINGS TO KEEP IN MIND AS RETIREMENT APPROACHES

It's finally happened – after 40+ years in the workforce the brass ring of retirement is close to your reach. However, before you make that transition from the daily grind to sleeping in on the weekdays, do you know if you are really prepared for the change? Here are 4 things people 5 years away from retirement should do to help smooth out the transition:

1. CHOOSE A RETIREMENT DATE

Setting an actual date for retirement does a couple of things for you. First, it gives you a target to work towards. If you know you absolutely want to stop working in 5 years, you will do whatever is necessary to make sure that happens. In tandem, setting the date also defines the time horizon over which you have to prepare. This makes it easier to figure out what needs to be done in order to get ready for that day in the not-too-distant future when you'll stop working.

2. DO A FINANCIAL INVENTORY

Once the date is picked, it's time to get down to the nitty-gritty of retirement planning – figuring out what you need to live on during retirement and what's available to you to meet those needs. Once you have those numbers, we can work towards the next step of the process.

Expenses

As a general rule of thumb, most retirees need between 70-80% of their current income during retirement. While this is a good starting point, as retirement approaches, it helps to be a little more accurate. For this purpose we recommend coming up with a budget of your current living expenses to help you get an idea of what you may need. Don't forget to factor in major expenses such as your home mortgage (if you have one) and healthcare costs, and what affect, if any, inflation may have on your overall expenses.

Sources of Income

Besides figuring out your expenses, retirement planning also involves figuring out how you will pay for these expenses once your regular work paycheck stops. Traditionally, there have been three sources of retirement income available to people: Social Security, employer-provided benefits (i.e. pensions) and personal savings.

Social Security

The Social Security Administration sends an annual report to all employees who have paid into the system, which details the benefits they are entitled to. When it comes time to plan for retirement, you'll want to dig the most recent statement out to help you figure out how much to expect. Generally, the earliest a person is allowed to tap Social Security retirement benefits is at age 62. The right time to start receiving Social Security benefits will depend on a number of factors, but most importantly when you plan to retire and your income needs at that time.

Employer Benefits

Though employer-sponsored pension plans are going the way of the dinosaur nowadays, there are still a few companies out there who offer this as a benefit. If you are one of the fortunate few whose company does have a pension plan, when you approach retirement be sure to contact your HR department to find out: 1) if you are entitled to a benefit under the

company's plan; 2) how much the benefit would be if you are entitled to one; 3) when you are eligible to receive it; 4) if the benefit has a cost of living adjustment associated with it (to take inflation into account); 5) if survivor benefits are provided by the pension plan; 6) if your company offers a lump sum payout option (we would recommend you seek professional advice to see if this option is best for you).

Savings and Investments

Increasingly, what you have managed to save yourself will make up the brunt of your retirement income as traditional pension plans disappear and the fate of Social Security benefits remains in question. Consequently, when it comes time to seriously plan for your retirement it's important to gather all the information on available savings and investments. This means tracking down statements for all retirement accounts (employer-sponsored plans, IRAs, annuities, etc.), taxable brokerage accounts and any other savings. Moreover, once you have gathered all of your account information, it is recommended that you consolidate what you can to make your portfolio easier to manage.

As retirement gets closer, the time horizon over which you can continue to regularly sock money away to help pay for your expenses after you stop working lessens. Consequently, if possible you should take full advantage of the high contribution limits offered through qualified retirement plans like a 401(k) so as to bulk up your retirement savings during this time. The government even recognizes the importance of putting as much money away for retirement as possible by allowing employees over the age of 50 to contribute an additional \$5,000 on top of the \$15,500 annual limit (in 2007) to these types of plans. Furthermore, if you still have some money to spare at the end of the month consider contributing to a Roth IRA (if you can meet the eligibility requirements) or investing for the long-term in a taxable brokerage account. It is a good idea to have a mixture of taxable, tax-free and tax-deferred money to tap into during retirement so you are not limited to one type or source of income.

Generally, as your time horizon to retirement shortens we recommend that the amount of risk taken (as reflected by your asset allocation) be reduced. This is because you have fewer years to make up for major market losses with continued savings before you start pulling money out of your portfolio. When you are 5 years away from your retirement date, if you have not made any adjustments already, you should begin rebalancing your portfolio so it is no longer heavily over-weighted in stocks. A good rule of thumb to use is that the percentage of growth-oriented investments in your portfolio (i.e. stocks) should never be more than "120 minus your age." In addition, maintaining a disciplined strategy through this phase of retirement planning is especially important. It ensures that you do not fall victim to short-term trends that may take a bite out of your long-term plans.

3. RUN A RETIREMENT PLAN

You have done a budget and feel pretty confident you know what you need on a monthly basis during retirement and you have gathered information on all the available sources of income you expect – now it is time to run the numbers. The closer retirement is, the more important it becomes to take this step; it will allow you to assess your ability to meet your retirement date. Crunching the numbers at least 5 years from your target date gives you some time to make any necessary adjustments to your current plans in case you are not quite on track to meet your goal. Your retirement run may tell you that you need to up your savings, pick a later date or a combination of both; it can also tell you that you are right on target and can retire today – either way it provides people with a better understanding of how financially prepared they are for retirement. Some may be tempted to take excessive risk in order to make up for any shortfall; we do not recommend this as a course of action so close to retire-

ment. As previously mentioned, the reason lies with your time horizon – there are less years available to make up for any devastating losses due to market downturns before you'll need to start replacing your salary with distributions from your portfolio.

In addition, to ensure that your plan stays on track, it is also important that you update your retirement run annually, especially if something has changed in your circumstances since the previous year.

4. DEFINE A RETIREMENT LIFESTYLE

Equally as important as being financially prepared for retirement is making sure you are mentally prepared. Experience has shown that the transition from having a job to go to everyday to retirement can be difficult if you have nothing to occupy your time. Retirement should be looked at as a reward for all your years of work, so you should find a way to enjoy it. We find that the happiest retirees are those that have something to do with their time, whether pursuing a favorite hobby or sport, working part-time at something they like doing, spending more time with family or finally being able to travel to all the places they have yet to see. As you get ready to make the transition into retirement don't forget to seriously think about how to best fill your free time.


Furthermore, if you are married it is vital that both spouses take time to discuss their retirement plans with each other way before actually leaving the workforce for good. This gives you the opportunity to make sure both of you are on the same page with regard to what your retirement goals are (i.e. when you want to retire, whether one spouse is able to retire before the other, etc.). Discussing what type of retirement you can afford before you actually do retire helps establish a joint goal to work towards.

As you come up to the age where retirement is a not-too-distant prospect, it is necessary to take a practical look at how prepared you are to face both the financial and mental challenges being retired presents. As a result, the years leading into retirement are important planning years. If you spend your time wisely and get ready by doing everything above, you can sail smoothly through the transition phase.

Melanie Pelayo, CFP® is a financial planner and investment advisor for Financial Perspectives, Inc., a Bay Area financial advisory firm. She focuses on finding retirement planning strategies for the pre- and post-retiree, and is particularly interested in helping people her own age get educated about their finances. You can contact Melanie by emailing info@financialperspectives.biz.

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Financial Perspectives

Suite 315
39899 Balentine Drive
Newark, CA 94560-5359