

RETIREMENT PLANNING: THE DISTRIBUTION YEARS - 3 STEPS TO LIVING SUCCESSFULLY IN RETIREMENT

The day has finally arrived: you're ready to pack up the office and say goodbye to the daily grind for good. So long to long commutes, office politics and the demanding boss. Welcome to the world of retirement. Here are some practical steps to take to as you begin the distribution phase.

1. GET YOUR PORTFOLIO IN ORDER

During retirement, the absolute last thing you want to worry about is whether or not you'll have enough money to last your lifetime. To that end, here are a few helpful hints to managing your money so you can focus on the more important task of enjoying your new free time.

First off, make your life a lot easier (and less bogged down by paper) by consolidating your accounts. This includes rolling any 401(k)s you might have into a single IRA account, and consolidating any taxable accounts. Having only 2 or 3 accounts to keep track of makes your portfolio much more manageable.


Once your accounts have been consolidated, it is a good idea to do a portfolio check up to make sure you are doing all the right things to ensure your money will last throughout your retirement. In particular, pay close attention to:

ASSET ALLOCATION: Studies have shown that asset allocation is the major factor for determining the amount of risk you are taking in your portfolio. It is especially important to make sure your asset allocation is reflective of the appropriate amount of risk for your situation during the distribution phase of retirement because, unlike during the accumulation and transition phases, time may no longer work in your favor. For one thing, you are less likely to have the ability to offset major market losses with ongoing contributions of new money to your account. At the same time, you also will most likely need to pull money out of your portfolio, which could put it deeper into the hole when the market is going through a downswing. On the other hand, not taking any risk could be just as detrimental to your retirement plans. Because of the effect inflation can take on an income-only portfolio, we recommend that a retiree's portfolio carry some growth positions (i.e. stocks) to stave off this threat. It might be a good idea to seek the advice of an investment management professional to help determine what the appropriate amount of risk is for your particular situation. As a general rule of thumb, though, the percentage of equity in your portfolio should be no more than "120 – your age."

DIVERSIFICATION: Equally as important in managing risk for a retiree is to make sure your portfolio is well diversified. A diversified portfolio owns as many different assets as possible (some ways to diversify: through international holdings, through market capitalization, through owning different asset classes) so that not all of your holdings are moving in the same direction at the same time. Diversification dampens the volatility of your portfolio so that rather than experiencing wild swings up and down, instead you get relatively steady long-term growth.

2. SET UP YOUR INCOME STREAM

Once you are retired, you no longer get that monthly paycheck from your employer to help pay for your expenses. Most retirees will need to start drawing from their investments in order to supplement any income they receive from the government (via Social Security) or their



employer (via a pension plan). To make life easier, we recommend that clients who require income from their portfolios set up a regular distribution from their account so that funds are moved automatically into an account from which they pay their monthly bills. This distribution would act just like a direct deposit for a monthly paycheck and eliminates the burden of continually having to contact your account custodian to have them distribute funds as needed.

Something important to remember, especially if you have periodic distributions set up, is to keep an eye on the amount of cash available for withdrawal from your account. In most cases, your account will be invested in things such as stocks, bonds and/or mutual funds; though the value of these holdings may be more than enough to cover your withdrawal, if there is no actual cash available you can run into an “insufficient funds” error with your custodian. As a general rule of thumb we recommend keeping at least 3-6 months worth of expenses in cash and available for distribution. This takes care of your distribution needs while also keeping your cash position at a minimum, leaving the majority of your portfolio invested for the potential of long-term higher returns. In addition, when it comes to replenishing your cash balance, remember that interest, dividends and capital gains distributions generated from the positions you own will help with this. However it is a good idea to stay apprised of your amount’s cash balance so that if you do need to sell a holding for funds it can be done in time so as not to interrupt the your monthly distributions.

3. MAKE ESTATE PLANNING DECISIONS

If you haven’t done so already, you should make sure your estate plan is in order early into your retirement. The longer you put off implementing an estate plan, the more you risk making decisions when you are less healthy and not as mentally sharp as you were before. One of the main purposes for an estate plan is to legally minimize taxes and ease the burden on your heirs in their time of grieving, so the decisions you make should be well thought out and with this in mind.

Some key things to think about during the estate planning process are:

ACCOUNT BENEFICIARY DESIGNATIONS: You should make sure that any accounts or insurance policies for which you have named a beneficiary reflect your wishes. Because named beneficiaries on file for accounts where this is possible take precedent over any wishes expressed in a will or trust, it is important to make sure that this information is kept up-to-date.

WILLS AND TRUSTS: At a minimum you should create a will so as to give your heirs some direction with regards to your estate planning wishes. In some cases, especially for estates that exceed the annual exclusion for estate tax purposes (\$2 mil per person in 2007) it is a much better idea to establish a trust to handle your estate. We would recommend talking to an estate planning attorney, who will help you create the documents needed in any good estate plan. In addition, once your plan has been created, you should spend some time with the successor trustee or executor to go over its details, such as asset distribution desires. In fact, it would also be ideal to sit down with all beneficiaries and explain what your estate plan is, as this reduces the ever present possibility of infighting at the time of your passing.

GIFTING STRATEGIES VS. INHERITING: It is an age-old decision: do you gift away your possessions while you are still alive or wait until you have passed away to do so? Again, this becomes an important question especially for people whose estates exceed the annual exclusion amount for estate tax purposes. Your estate planning attorney should be able to help you come up with a plan that will benefit both you and your heirs, and minimize the taxable impact for your estate.


POWERS OF ATTORNEY: Establishing Powers of Attorney for financial and healthcare decisions is very important. Though this is a morbid topic, it should not be avoided, less your family suffer like that of Terri Schiavo's. Again, think of this as a matter of easing the burden on those left behind to make the decisions; if you have done your estate planning correctly the way will be much clearer to them.

Your retirement years should be looked at as a reward for all of the hard work you put in prior to leaving the workforce. As such, you should start the distribution phase off right by taking the appropriate steps to help make the ensuing years less stressful. First, start by making sure that your portfolio reflects your risk tolerance and that it is invested properly so it has the potential to meet your income needs throughout retirement. Then establish a means to tap into that income by setting up automatic distributions from your invested assets so you do not have to worry about cash flow problems. Finally, create an estate plan that expresses your wishes and takes care of both you and your heirs. With these three things seen to, you can spend your retirement time worrying about more important things, like your golf game.

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Financial Perspectives was founded in 2000 by Charles "Chuck" Gibson—a CERTIFIED FINANCIAL PLANNER™ certificant, Accredited Asset Management Specialist, and Chartered Retirement Plans Specialist—who has worked in the financial advisory industry since 1994. With more than \$50 million in assets currently under management*, Chuck and his staff have advised hundreds of individuals, businesses, and other organizations, helping them establish sound investment strategies by providing informed, objective financial planning and asset management advice.

*As of 04/16/2007. Dollar value of assets under management at any given time can and does fluctuate according to current market values, economic conditions, etc.

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