Planning Your Golden Retirement

I saw a cool commercial on TV the other night. A young woman walks into her boss's office and announces that she intends to retire—in 15 years! Visibly shocked, the boss is confronted with the prospect of having to replace her in such a short time period. At this moment, the office door opens and the staff comes in with a congratulatory retirement cake and candles.

In the skit, the young lady is essentially doing what we all would like to do; she's thinking ahead.

We laugh at this commercial because we recognize its comic theme--we sense that for something to be funny, there has to be a little bit of truth to it. Unfortunately, the critical truth is that very few people really plan ahead for their retirement.

Research from the National Institute on Retirement Security (NIRS) finds "retirement savings are dangerously low, and the U.S. retirement savings **deficit** is between $6.8 and $14 trillion." The study included all households—not just households with retirement accounts. The report concluded that the average working household has virtually no retirement savings. "The median retirement account balance is $3,000 for all working-age households and $12,000 for near-retirement households." Based on these statistics, the golden years may not be so golden.

There are some who have only a vague idea of what retirement involves. They never stop to quantify it, spending more time talking about retirement, but never really doing anything about it. The easiest way for most people to accumulate retirement savings is through their 401(k) plans, but everyone does not have a 401(k) and many employees either fail to participate or to contribute enough.

Obviously, everyone's situation varies, depending on a person's age, family size, income, years remaining until retirement, and spending patterns. I'm often asked, "What is my number (how much money do I need to retire)?" We can throw out some rules of thumb, but it really depends on lifestyle.

A first step to planning might be to determine how much you actually spend monthly and yearly. Looking back at your check register and/or credit cards over the last 12 months could help determine your spending pattern. It's surprising the number of people who have no idea what they spend.

The next step is to create an inventory of current assets you can use once you retire. A current net worth statement could be a useful starting document. This will help you project these numbers forward and enable you to make reasonable assumptions as to rates of return. You can also include whatever you have been saving or setting aside each year.

With this financial master plan in hand, you can develop a tax-efficient retirement strategy. Thus, by the time you are ready to retire, you will have mapped out an asset allocation strategy and tax minimization plan spread over multiple accounts, which may include Roth and traditional IRAs, 401(k) plans, annuities, and after tax accounts. These various accounts have different ramifications. For example, when making withdrawals in retirement and combining them with social security and possibly pensions, taxes can be minimized and income maximized. With some advanced planning, you should be able to reduce your taxes in retirement.

IRAs and 401(k)s are pre-tax and tax-deferred during the accumulation phase. That's a good thing, but remember, this money is 100% taxable upon withdrawal. If you don't have a 401(k) plan, there are many other ways to save for retirement. Roth IRAs are after-tax, but grow tax-free and can be withdrawn tax-free (there are various ways to participate in Roth IRAs regardless of the income restriction). Annuities are after-tax, build tax-deferred, and the gains are taxable first upon withdrawal. After-tax investment accounts typically are taxed on dividends, interest, and capital gains each year, and there may be additional capital gains during the withdrawal phase. Regardless, having the discipline to save for retirement each and every year is really the key to success—your choice of investment vehicle is secondary.

As you approach retirement, you will need to decide on when to apply for social security benefits. By applying early at age 62, your benefit will be reduced by 35%. For every year you wait, the benefit increases by about 8% until age 70. If you are married, spousal benefits should also be considered. There are some interesting strategies you can employ to maximize your social security benefits. Just call our office if you are interested in maximizing your benefits or simply have questions.

When nearing retirement, you will also want to consider future medical costs and insurance, as well as other unforeseen contingencies. This is also a good time to review your estate plan and legal documents.

Giving employers a 15-year notice prior to retirement is probably unnecessary. But developing a tax-wise accumulation strategy can really help to optimize your future retirement income.

This **Industry Insight** was written by Garrett S. Hoge.

Garrett S. Hoge, CFP®, ChFC®, MS of H Financial Management, is a private wealth manager based in Southpointe serving the ever-changing financial needs of his clients. Please contact Garrett at H Financial Management, 400 Southpointe Blvd., #420, Canonsburg, PA 15317, Phone: 724-745-9406, Email: garrett@hfinancial.net, or via the Web: www.hfinancialmanagement.com.