MIDLANDS BUSINESS TRENDS

SMART COLUMN

Afraid of Outliving Your Assets?

by Andrew Jones

Departure from the work force is a time to anticipate, but often, fears about money can dampen the joy of retirement. The fear of outliving one's assets is common among those who are preparing for and entering retirement. Increased life span, inflation, stock market volatility, and the possible need for assisted living can all create financial strain. It is imperative to have an understanding of what your expenses will be in retirement in order to create a plan to cover these costs. The good news is that with proper planning and knowledge of what your finances may look like, you can prepare for retirement and reduce your anxiety.

One of the first expenses to consider is the possibility of any lifestyle change, including home renovations and travel plans. It is important to plan for these because there will always be unexpected or non-routine costs such replacing the roof, purchasing a new air conditioning unit or buying a car. If travel is in your plans, be sure to budget for it. Remember, since life spans are increasing, you may want to project all expenses to age 100, especially if there is a history of longevity in your family.

An expense to avoid is the carry-over of debt. Pay off your mortgage and credit cards now so you will not have interest and principal payments that can drain the money you had earmarked for retirement. If you feel you cannot pay off your existing home's mortgage prior to leaving the workforce, it may be wise to consider downsizing to a less expensive living situation.

As you near the age of retirement, delaying withdrawals from your portfolio becomes more important than extra savings. For example, by simply earning 7% annual returns on your investments with no withdrawals from your retirement accounts you can almost double the size of your retirement assets in ten years.

Delaying retirement is another important way to protect your investment portfolio's longevity. If you don't want to keep your current job for ten more years, consider a career change, part-time work, or even start your own business! One more way to reduce investment portfolio withdrawals in retirement is to postpone Social Security benefits from age 62 to age 67, or even to age 70 (which also increase your benefit amount). Use the Social Security website estimator to calculate your Social Security benefits at different retirement ages: http://www.ssa.gov/estimator/.

Inflation can become your investment portfolio's biggest adversary. Inflation has averaged close to 3% historically, so as your goods and services increase in cost your investment portfolio needs to keep up with these costs. In retirement you may wish to lower your investment portfolio's volatility by including income-producing investments such as bonds, but it is also important to have some growth assets such as stocks and real estate in order to keep up with (and hopefully outpace) inflation. Consistent, safe withdrawals are important in protecting your investment portfolio's lifespan. Large withdrawals (even for a short period of time) can be detrimental to your investment portfolio's ability to survive your retirement years. Try to keep your annual withdrawals at around 4% if you want your portfolio to last to age 100.

One of the most difficult expenses for which to plan, both financially and emotionally, is the possibility that you can no longer care for yourself. Assisted living and nursing home costs can be very expensive, particularly if one spouse moves to assisted living care while the other spouse continues living at home. One option to protect your retirement savings is long-term care insurance which will shield your assets should you suddenly have the additional monthly expenses of paying for assisted care.

Retirement is a time to relax and enjoy. Create a plan for yours today!

Andrew Jones, CFP®

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