WHAT IS RETIREMENT INCOME PLANNING?

from The Retirement Income Store®

The Key Questions About Retirement Planning

When should you start retirement planning? The simple answer is as early as possible. However, even if you haven't started by the time you hit your 50s or early 60s, it's not too late. A last-minute plan is better than no plan. Regardless of when you get started, here are three key questions every retirement plan should address:

1. "When should I retire?"

   The answer will depend on a variety of factors, and some people mistakenly believe they have less choice in the matter than they do. They believe financial obligations may force them to continue working for longer than they'd like. Oftentimes, that's only because they haven't taken the time to review their situation with the right advisor. For most people, 65 is a reasonable retirement age. Medicare benefits begin at 65, you can start collecting Social Security at any time, and there are no penalty taxes for withdrawing from your retirement accounts.

2. "How much do I need in retirement savings to retire?"

   You may have heard some financial analysts try to answer this question very broadly. For example, a popular notion for years has been that you need at least $1 million in retirement savings to retire comfortably. Others suggest the "80% Rule" is a good way to figure it out, meaning you need enough to live on 80% of your working income after you retire. However, those guidelines oversimplify the issue. After all, many a millionaire has managed to go broke, while other people have met their retirement goals on considerably less than $1 million. The truth is the answer is going to be dramatically different for every person depending on a variety of factors.

3. "What are my retirement goals?"

   This is the question your retirement plan should start with, and the answer should be as detailed and specific as possible. Where will you live? How will you spend your time? What do you want to achieve? Is an "encore career" one of your goals? Identify everything you want to be, do, and become in retirement and write it down!

Your Retirement Planning Team

Most likely, you would never undertake a major building project without getting the right team of professionals involved. The same should go for building your retirement plan. The right professionals can help you understand *all* your options, avoid common and costly mistakes, and navigate the complexities of today's financial markets. Here are some of the main areas where professional guidance is most important:

- Insurance – With age comes increased medical expenses. For most people, leaving their job also means leaving their healthcare coverage. That means you'll have to navigate the complex Medicare system, where professional guidance can be invaluable. There are also issues to consider around life insurance and possibly long-term care insurance.

- Taxes – Once you retire, new tax challenges emerge, particularly once you reach the age when you must start taking required minimum distributions, which is now age 72. That's when the IRS mandates that you start taking annual withdrawals from your retirement accounts and pay taxes on them. A qualified professional can help make sure you're able to meet your RMD obligations without spending down your principal, which is one of the most common and costly mistakes retirees make with their money.

- Estate Planning – Most people mistakenly think of estate planning as relevant to how their assets will be distributed after they die. The fact is estate planning also encompasses the accumulation and preservation stage of your wealth. That's why it's so important to have the right guidance in this area; the consequences of making bad decisions, or neglecting estate planning altogether, can impact you in many ways while you're still alive.

- Saving and Investing – Naturally, the core member of your retirement planning team should be your financial advisor. He or she can help you understand all your retirement savings and investment options, and work with you to create a strategy that helps protect your money and ensures you'll have reliable income to meet your retirement needs and goals. Very often, the right advisor already has good working relationships with other professionals like tax specialists and estate planning attorneys. This can make assembling your team much easier and give you the assurance of knowing all these professionals are communicating and working together on your behalf.

Preparing for the Right Challenges

There are many challenges that emerge in retirement, and the main purpose of your retirement plan is to prepare you to meet these challenges. Among the most important to prepare for are:

- Longevity – Life expectancy averages for Americans today are longer than ever. That's great, but it also means your retirement plan must cover a longer period than you may realize, about 30 years based on the most recent longevity statistics.

- Protecting Your Principal – Spending down any invested principal during retirement is a slippery slope. It's also one of the most common mistakes retirees make. The longer you live, the more this risk increases if you don't have the right strategies to avoid it.

- Inflation – Most people don't realize that the effects of inflation hit retirees harder than the general population for a number of reasons. As a result, they underestimate its impact. The situation gets even worse when you factor in the next major challenge you must prepare for.

- Healthcare Costs – As noted, with age comes an increased need for healthcare, often combined with costlier insurance premiums. While most people *do* factor healthcare costs into their retirement plan, it's another area that is frequently underestimated. The fact is healthcare costs increase at a much faster and steeper rate than the general rate of inflation.

- Social Security – Although it is a guaranteed source of retirement income, for most people Social Security alone isn't nearly enough to meet their retirement goals. That's why it's important to have a plan that maximizes your benefits and coordinates them properly with your other sources of retirement income.

- Required Minimum Distributions – As mentioned, RMDs start at age 72. That's when the IRS requires you to start taking yearly distributions from your retirement accounts. RMDs start at 3.7% and increase every year after that. Probably the most important question to address when it comes to RMDs is: "Is my asset allocation generating enough interest or dividends to satisfy my RMDs without touching principal?"

The Importance of Overprotection

The most important ingredient in an effective retirement plan for today's generation of retirees and near-retirees is overprotection. Not just protection, but *over*protection from the risks of spending down principal, the effects of inflation and healthcare inflation, and from the very real potential of another major stock market correction. The key to overprotecting your retirement plan lies in shifting your financial focus, after age 50, from portfolio growth to retirement income. Once you make that shift, you're typically investing by contract in tools and strategies that are less vulnerable to market volatility. These same tools and strategies also give the investor a degree of transparency and dependability lacking in growth-based options focused heavily on stocks and mutual funds.

Ultimately, when you're working with a financial advisor who specializes in retirement income, you know you're working with someone uniquely qualified to help you build a retirement plan whose main ingredient is overprotection. They'll also have a strategic focus on making sure you have reliable income to meet the challenges unique to retirement and achieving your individual retirement goals *regardless* of market conditions!

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