Everyone Wants to Know How Much Gold Is Needed for Those Golden Years

Can You Afford to Retire?

by Alexandra Armstrong, CFP

When we first meet with new clients we ask them to list their financial goals in order of importance. Although the answers may vary, we find everyone's ultimate financial goal is to retire in comfort. The closer clients get to the actual event, the more they express concern about how it's all going to work out. The key question they want answered is: Are they going to have enough income to cover their expenses — not only for when they first retire, but also for the rest of their lives?

While the goal may be simple, the solution is not. It would be a lot simpler if we knew how long we were going to live after we retire. When you factor in market conditions, tax law changes, health care costs and the rate of inflation, projecting your income sources and expenses gets more complicated.

However difficult it may be to figure all of this out, our job as financial planners is to try to quantify what can't be exactly estimated!

Ideally you should start planning for your retirement several years before you actually retire. That way if you find you can't support your current lifestyle when you retire, you can make some adjustments — either spending less now or working longer. Regretfully the decision to work longer isn't always your choice.

The first step is to try to estimate your current sources of retirement income and then project what your expenses will be when you retire. In this month's article we'll look at your projected retirement income and the choices you have to make with each one. Next month we'll review your estimated expenses.

Source of Retirement Income

When you first retire, the sources of retirement income fall into two categories: predictable income (pensions, annuities and Social Security) and variable income (personal and retirement investments and work).

Predictable Retirement Income

Your current and past employer. If you're fortunate enough to receive pension income, and nowadays most people don't, you need to consider all the options. Ask your pension plan administrator for a written estimate of your monthly pension income for the various payment options based on your expected retirement date.

For instance, you would receive the highest monthly payment if you elect to receive income over your own lifetime only. You receive less if you specify that the payments will be for your life and for that of your surviving spouse (or another beneficiary) after your death. Be aware that if you're married and choose the first option, your spouse has to sign a release form.

You may have the option of receiving guaranteed monthly income (an annuity) or actually rolling the money over to a self-directed retirement plan. If a rollover is an option, carefully consider whether receiving guaranteed monthly lifetime income makes sense for you. In many cases, it's a good option.

Other Retirement Income. Once you've determined what your pension will be, if you have one, the next step is to look at your 401(k) plan or other employer-sponsored retirement plans to which you and your employer have contributed. Usually you have the choice of leaving your 401(k) assets with your employer or rolling this money into a self-directed individual retirement arrangement (IRA).

You might have taught sometime during your career and have money with TIAA-CREF, which offers many payment options. Based on our experience with clients, you'll need professional help from your financial planner in order to figure out the pros and cons of the various payout options it offers, as well as actually applying for the benefits.

You'll need to allow plenty of time for this process, since you'll need to obtain a signature from the administrator of each TIAA-CREF plan that you have.

In addition, you may have your own retirement accounts — individual 401(k)s, IRAs, Roth IRAs, SEP-IRAs and so on.

You should list the value of each of these plans. You don't have to take money from these accounts until six months after you turn 70½ years old but at that point you're required by the Internal Revenue Service to take a certain percentage from them (except the Roth IRA); this percentage increases as you age.

Social Security. After you've looked at all your retirement accounts, look at your Social Security income options. Depending on your age, you may want to postpone receiving Social Security benefits. Generally we suggest that people should try to wait at least until their full retirement age to receive benefits.

Your full retirement age depends on your year of birth. For someone born in 1943-1954, the full retirement age is 66. For someone born in 1960 or later, full retirement is age 67.

At that age, your Social Security payments won't be reduced even if you decide to take another job after you've retired.

If you're able to wait until later than your full retirement age, you'll receive more income. For every year you wait you get an 8 percent increase. Thus if you postpone receiving income until you're age 70 (the last year it will increase), you'll receive 132 percent annual income of what you'd receive at full retirement age. It takes about 12 years to break even. So this decision depends on the state of your health and that of your spouse as well as your other sources of income.

For the most accurate estimate of your benefits, contact the Social Security Administration at

www.ssa.gov

Variable Retirement Income

Investment Income. Next you want to look at your investments and determine what income they're currently producing. When you're working, usually you invest for growth of principal and minimal current income in order to minimize taxes. When you retire, you may want to adjust your portfolio and invest more for "total return," where you receive more current income while still trying to achieve continued growth of principal. For the time being, just list what you actually receive now.

Summary of Retirement Income

Now that you know what your various sources of retirement income will be, we suggest you make a list of all your retirement and personal accounts. Next to each investment, indicate its current total value and the current annual income it generates, subdividing the income into taxable and nontaxable categories. For example, your list of sources might look like the one in the table on this page.

Conclusion

After going through this exercise, you should have an idea of what your retirement income will be. If it doesn't appear to be sufficient to meet your estimated expenses, don't panic. There are adjustments that can and should be made to the income sources as well as to your projected expenses. In our next article I'll discuss balancing your retirement income sources and expenses.

ESTIMATED ANNUAL INCOME

	Taxable	Nontaxable
Pension	$ ________	$ ________
Social Security*	$ ________	$ ________
Annuities	$ ________	$ ________
Retirement Plans	$ ________	$ ________
Personal Investments	$ ________	$ ________
Totals	$ ________	$ ________

** According to your taxable income, 85 percent of Social Security benefits may be taxable.*

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No specific investments were used in the examples. Actual results will vary.