RETIRING *in style*

It's not as difficult as you may think - but the time to start is N-O-W!

By E. Jeffrey Roof

"Anything worth doing is worth doing right." Words many of us heard throughout our youth. Words we should continue to heed as we plan and invest for future retirement needs. Why shouldn't you plan to retire "in style"? It's not as difficult as you might think and the alternative is certainly less appealing.

Here's how to begin.

If you start soon enough, the initial steps in planning for retirement are not even financial in nature. First, clarify your definition of style. For some, beer and bratwurst at the ballpark is just fine. For others, it needs to be champagne and caviar in the Caymans. Style is a rather subjective term, so spend some time clearly defining your expectations.

Next, clarify your definition of retirement. There is a myriad of possibilities. These can range from saying good-bye to the civilized world as we know it to simply changing your career focus or paring back your practice hours. Most definitions of retirement have a common thread of personal freedom and flexibility woven throughout. As with style, spend time determining what definition ideally fits you. This will change over time but you need a starting point and a target at which to aim.

Okay, enough of the touchy-feely stuff. Now it's time to get down to brass tacks. Once you have established your overall expectations, these need to be quantified in financial terms. How much annual income and how large an asset base will you need to support the retirement lifestyle you've defined?

There is no quick way to determine this accurately. An often used rule-of-thumb for annual income needed during retirement is 70 percent of your last year's earnings adjusted for inflation. While this may provide a starting point for projecting your retirement needs when there are many years between you and the gold watch, avoid broad generalized assumptions when retirement is with in a 10-year horizon. Your annual income needs are unique and should be assessed accordingly. Focus on details and plan for unforeseen contingencies.

After carefully outlining your specific spending requirements and determining whether you'll have any work-related revenue during retirement, you can begin to quantify the asset base needed to make up the difference. For many individuals, accumulated investments will be the main source of retirement income, not just a supplement. It is prudent to overestimate the assets you'll need because there are factors outside your control that can negatively impact your financial well being once retired.

A post-retirement life span of 30-plus years is not unusual. Several economic cycles will come and go. Just look at the variety of economic changes and challenges faced since 1969. Your asset base, and the investment strategy you use to preserve it, will need to weather many storms. So plan accordingly.

Here are five simple steps that will help you retire in style:

1. Begin investing for your retirement now.

The easiest way to assure you will retire in style is to begin investing for your retirement early. Sure, there are other priorities vying for those same dollars… new car, new house, etc. But there will always be near-term financial needs competing for your long-term investments. By starting early, you minimize the amount you need to set aside because time will help compound your return. It's the best leverage going.

For example, a 30-year- old investing $2000 annually in a tax-deferred IRA or 401(k) plan that earns 10 percent a year on their investment will accumulate approximately $350,000 by age 60. If they had started the same scenario just five years earlier, their balance at age 60 would be approximately $580,000. A $230,000, or 66 percent, enhancement in asset value for only $10,000 in cost.

2. Eliminate as much debt as possible before retirement.

I suggest that more retirements have been delayed and more early retirement incentives ignored because of accumulated debt than any other reason. A large debt burden adds both financial and psychological strain to retirement planning. Often, ever-increasing career earnings have been followed by immediately expanding debt. Or vice versa. The majority of this debt should be resolved if you truly hope to retire in style.

If your current lifestyle is funded by deficit spending, either examine changing your habits or learn to really love that job. Fund your own retirement, not your banker's.

3. Don't underestimate the impact of inflation and taxes.

Distributions from tax-deferred vehicles, such as conventional IRAs and 401(k) plans, will be taxed as assets are distributed to you during retirement, usually at ordinary income tax rates. Plan accordingly. Likewise, it is possible there will be several changes to local, state, and federal tax codes between now and the end of your retirement. Some will be positive, some not. Another reason to overestimate your long term needs.

While inflation has been very low in recent years, the average annual increase for cost of living from 1972 to 1997 was 5.45%. Factor some inflationary increase into your projected income needs and structure your portfolio to preserve purchasing power throughout your retirement.

4. Avoid myopic investment strategies.

Years ago, a common retirement investment strategy was to migrate the vast majority of a retiree's assets to bonds. While this maximized annual yield, the portfolio realized little, if any, long-term appreciation. The result was significant erosion of the portfolio's true value versus inflation and the retired investor's assets gradually lost ground.

Today, there is a different issue. We've come to expect ongoing annual equity returns in excess of 20 percent. This is not surprising when stocks as a whole have continued to perform at such lofty levels.

The downside to this windfall is forgetting there is a downside. Recent corrections correct themselves so quickly, they appear as mere hiccups in an upward marching market. A reasonable long-term performance projection of 10 percent from an equity-weighted balanced portfolio looks miserly by current return standards.

But basing your retirement funding on a 15% plus annual return expectation is very short-sighted. Even more so is a post-retirement investment policy that has the most conservative investment in your portfolio being an S&P Index fund.

Keep reminding yourself that this, too, shall pass and eschew long-term investment assumptions that will not stand the test of time.

5. Plan to retire in style.

There is an old saying, "If you don't know where you are going, how will you know when you've arrived?" Planning to retire in style is the best way to assure you will. Look to a professional to help you with the process. Clearly quantify your goals and how you plan to reach them. Establish a disciplined investment program and regularly benchmark your performance. Be prepared for bumps, make adjustments, but stay the course. And save me a spot at the beach.

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