

The retirement you deserve

Some thoughts for you to consider

By E. Jeffrey Roof

Ahha, retirement

The seductive thought of finally having both time and money at your disposal. A situation dreamed of and yearned for by many, from professionals and executive to blue collar laborers. At times, we tend to fixate on the lure of being “retired,” a relatively recent concept in American working culture. Perhaps it’s the perceived freedom offered by financial independence. Or perhaps it’s the freedom from daily schedules, deadlines, and unappreciative bosses.

Faces of those who have successfully reaped their just desserts beam from the covers of monthly financial tabloids. “How To Retire Before You’re Fifty”, “Retire In Style”, “Ten Mutual Funds For Retirement”, “Picking Your Retirement Getaway”. The deserved reward sought by many working Americans.

Brokerage firms, mutual funds, banks, and insurance companies all tout products they can provide to assist you in your quest. Most financial planning discussions will emphasize the value of retirement-oriented vehicles such as 401(k)s, IRAs, and SEPs; acronyms relatively unheard of 15 years ago. Online software packages, claiming to help you properly invest for your retirement, abound. But, with all the emphasis and tools, do we truly do a better job in preparing for a successful retirement? Yes and no.

After 16 years of helping individuals effectively plan for retirement as well as helping companies create effective retirement plans, I’ve learned that it

is often the fundamentals that prevent individuals from achieving the retirement they desire. Here are five key areas that are often troublespots:

Not clearly defining your expectations.

Adequately funding your retirement is directly dependent on what your retirement expectations are. Successfully retiring means very different things to different people. Early in the process, you need to determine your personal goals, i.e. income, residence, lifestyle, etc. for post retirement years. Paying off the home in Susquehanna Township and occasionally visiting your cousin in Arizona will require a different level of financial wherewithal than maintaining your local residence, a second property in Hilton Head, and traveling abroad for several weeks a year.

Clarifying your expectations of life-after-current-career can provide nonfinancial benefits as well.

The transition to retirement can be stressful, especially for relationships. And it is not unusual to have couples looking toward the future with very different individual perspectives. Come to a consensus on joint expectations long before you anticipate making any retirement decisions.

Can we talk?

Clearly and regularly communicate these expectations with all concerned, from your spouse to your professional advisors.

Several years ago while heading a regional bank’s trust and investment department, I received

word from a senior portfolio manager that two married clients were very upset. During my meeting with the clients, a physician and his wife, I learned they planned on selling their practice within two years, retiring, and expected to live on \$200,000 of annual portfolio income.

An excellent accountant had worked with the family for years. A top-notch attorney had completed estate-planning preparation and was currently negotiating the sale of the business. The couple had several trusts, various investment management accounts and were quite pleased with their investment results.

The problem? None of the professionals ever quantified, nor had the clients mentioned, the post-retirement yearly income expectation. And the portfolio size, while noteworthy, was not going to generate \$200,000 of after-tax income without invading invested principal. This revelation was naturally upsetting and their income expectations had to be adjusted downward accordingly.

An all-too-common example of fundamental expectations being overlooked when all the pieces appear to be in place.

The devil is in the details.

A 1993 study of retirement income needs by Bruce Palmer of Georgia State University is often used to provide a rule of thumb for the percentage of working income that needs to be replaced during retirement years. According to the study, individuals earning \$90,000 per year during their working

career need to replace 75% of that income during retirement to generally maintain their standard of living. Generally speaking, individuals earning less than \$90,000 annually need to replace a higher percent of their working income, while those earning more need to replace less.

While this average may be somewhat helpful as a starting point, you can easily see that the level of income needing to be replaced will differ significantly from individual to individual. Your situation is unique and needs to be treated as such.

Be wary of pat answers and standardized solutions. Current debt, lifestyle expectations, family obligations, etc. influence your retirement income needs and investment structure. It is critical to detail your specific spending requirements when you are close enough to retirement age that these projections will have some validity but distant enough that financial adjustments can be successfully implemented.

The beginning, not the end.

Consider the fact that an increasing number of individuals will spend one-third of their lifetime in retirement. Do the math; retire at 60, live until 90. While many worry about not having enough to retire today, a greater financial concern may very well be not having enough to be retired tomorrow. If you thought breaking into the job market was tough in your 20s, imagine doing so in your 70s. Outliving your retirement assets is a valid misgiving that necessitates diligent planning and asset management long after your formal career journey is completed.

Two areas significantly affecting your post-retirement financial health are taxes and inflation.

The long-term impact of these two factors is often underemphasized. Doing so can be hazardous. On the tax front, the assets you've accumulated tax-deferred in traditional retirement plans and IRAs will be taxed as ordinary income when dollars are distributed to you. Appropriate investment planning, as well as a good accountant and attorney, will help reduce the bite but Uncle Sam will get his due. This fact needs to be considered when calculating the assets and return needed to meet your retirement expectations.

Likewise, inflation can have a dramatic effect on the ability of your accumulated assets to support you through retirement. While recent inflation figures have been relatively low, 20 to 30 years is a long time. Department of Labor statistics indicate an average annual inflation rate of 5.45% in the 25-year span of 1972 to 1997. Looking at it from a slightly different perspective, it required \$380 in 1997 to buy what \$100 did in 1972.

The bottom line is an investment portfolio's balance needed to grow by at least 5.45 percent annually just to preserve its original purchasing power. If you are also withdrawing 5 percent of the balance annually, the portfolio needs a total return of 10.45 percent just to keep pace. In most situations, a balanced approach (i.e., stocks and bonds) to post-retirement asset management is both prudent and necessary. Don't anticipate converting all your investments to fixed income vehicles and simply living off the interest.

Early and often.

The recent experience of many AMP employees demonstrates that ongoing retirement planning is important.

Circumstances outside your control may create opportunities for, or necessitate reevaluation of, retirement planning timeframes and expectations. The only constant in financial/investment/retirement planning is change. It is always a work in progress. As in sailing, you set your initial course but variations in current, wind, tide, and weather will almost certainly require you to adjust your heading along the way, sometimes dramatically. Without that original plot, you will have no idea what adjustment gets you back on course.

Many individuals approach retirement planning as a sailor without charts; just hop in the boat and hope we land somewhere.

A common concern I hear when meeting a new client is, "We think we're investing a lot...but we're not sure it's enough?" Others prodigiously accumulate assets but lack a strategy to put these assets effectively to work for their benefit. The result is often an inefficient, expensive portfolio that may or may not meet their long-term retirement objectives.

The beginning of a new year is traditionally a time for resolutions. What better time to resolve your financial future by objectively assessing where you are at, where you want to go, and plan for the retirement you deserve.

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