7 cardinal rules to retirement planning

By Carl Edwards

An onslaught of retiring baby boomers; the uncertain duration of Social Security funding; difficulty with workplace retirement accounts like 401(k)s – even if these factors were stronger than they are now, you'd still have a heavy burden in managing your finances during retirement.

Financial planning for retirement has always been a daunting prospect; the current landscape simply makes your preparation that much more crucial in using your assets well.

Many advisers and clients rely too much on single product lines. This misuse often gives products and the financial industry in general a bad name. Advisers who are restricted in the types of financial products they can offer or understand may not provide the best advice. Independent and credentialed planners, on the other hand, don't have their hands tied in what they can offer clients and may provide better advice.

Here are seven essential points that everyone should know regarding retirement planning:

• **Avoid trying to time the market.** Markets often move in cycles and some investors believe that they can boost their investment returns by buying at the bottom and selling at the top. The problem is that investors are terrible at correctly predicting market movements and multiple studies have shown that market timers usually end up with significantly smaller retirement savings than buy-and-hold investors. While it can be stressful to see your portfolio plummet during a market correction, it's important to stay calm and focus on your long-term strategy.

• **Use risk-appropriate financial vehicles**. Retiring can be a risky business. The days of relying on employer-provided pension plans are largely over and retirees now have to deal with risks including investment, inflation, healthcare, longevity and others. Though the total elimination of risk isn't possible, we can manage many of them through competent retirement planning and a clear understanding of factors like your goals, time horizon and financial circumstances.

• **Invest in the most tax-efficient manner.** Taxes can take a big bite out of investment returns, which is why we stress tax-efficient planning with our clients. While taxes are just one piece of the overall financial puzzle, it's important to structure your investments so that you are able to keep what you earn.

• **Complete a cash flow analysis.** Retirement will involve major changes to your finances. Sources and timing of income will change and financial priorities may shift as you start generating income from retirement savings. A cash flow analysis will identify spending patterns and help ensure that you have enough income to support your retirement lifestyle.

• **Guarantee your required income.** For many retirees, having income that is not subject to market fluctuations is an important part of their retirement plan. Many will have at least some level of guaranteed income from Social Security or defined benefit pension plans. However, if you are worried that your expenses exceed your guaranteed income, a financial adviser can help you explore options for additional streams of income for life. Guarantees are subject to the paying ability of the income provider.

• **Utilize longevity planning.** Today's retirees are living longer than ever and many worry about outliving their assets. Longevity planning is about preparing for a happy, comfortable and independent retirement and can help ensure that your wealth lasts as long as you need it to.

• **Consider the effects of inflation.** Inflation is one of the biggest issues facing retirees because they are disproportionately affected by rising prices. Escalating food, fuel and medical costs can devastate a retirement portfolio unless these costs have been factored into your planning. Positioning your retirement portfolio to fight inflation is critical to ensuring adequate income in retirement.

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