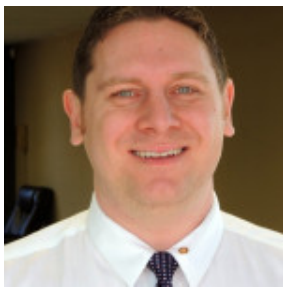


Money Matters: Plan for stages of retirement

By Nic Abelow

Although many Americans now plan for a retirement up to 20 years, your retirement may last much longer.



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Believe it or not, living nearly a century may someday soon be almost commonplace. As a result, rather than thinking of retirement as the final stage of life, a more realistic approach may be to view it as a progression of phases, such as early, middle, and late. This involves taking a fresh look at retiree expenses and income, as well as withdrawal and estate planning strategies.

The need for flexible planning

Traditionally, retirees were advised to project income needs over the length of time of retirement, add on an annual adjustment for inflation, and then identify any potential income shortfall. But the planning required may not be that linear. For example, research suggests that some retirees' expenses – other than health care – may slowly decrease over time.

That means many retirees – depending on personal expenses – may need more income early in their retirement than later.

That's why it's critical not just to determine a sustainable withdrawal rate at the outset of, but also to periodically evaluate that withdrawal rate.

Or consider another trend: The desire to remain active means many people are continuing to work part time or starting new businesses in retirement. In fact, some psychologists and gerontologists believe that many people don't really want to retire, but instead want to reinvent themselves through a mixture of work and leisure. As a result, older men and women may be inclined to jump back into the workforce – and possibly enjoy the most productive years of their lives.

Early years: Income and tax decisions

Keep in mind that adding employment earnings to your retirement “paycheck” requires careful planning because it may impact other sources of retirement income or bump you into a higher tax bracket. For example, in 2014 retirees who collect Social Security before the year of their full retirement age will see their benefits cut \$1 for every \$2 earned above \$15,480. Also, depending on adjusted gross income, you might have to pay taxes on up to 85 percent of benefits, according to the Social Security Administration.

The need to potentially stretch out income over a longer period than previous generations also means that some people may not want to tap Social Security when they're first eligible. Consider that for each year you delay taking Social Security beyond your full retirement age until age 70, you'll receive a benefit increase of 6 percent to 8 percent, depending on your age. One caveat: If you do decide to delay collecting Social Security, you may want to sign up for Medicare at age 65 to avoid possibly paying more for medical insurance later.

Also plan ahead as to how you'll pay for health care costs not covered by Medicare as you age. Remember that Medicare does

not pay for ongoing long-term care or assisted living and that qualifying for Medicaid requires spending down your assets.

If you have accumulated assets in qualified employer-sponsored retirement plans, now may be the time to decide whether to roll that money into a tax-deferred IRA, which could make managing your investments easier. A tax and financial pro can also help you decide which accounts to tap first at this point in your post-retirement planning – a situation that could significantly affect your financial situation.

Finally, don't overlook any pension assets in which you may be vested, especially if you changed employers over the course of your career. Pensions can supply you with regular income for life. Annuities may also play a role in helping you generate steady income.¹

Middle years: Distributions and lifestyle realities

By April 1 of the year after you reach age 70½, you'll generally be required to begin making annual withdrawals from traditional IRAs and employer-sponsored retirement plans (except for assets in a current employer's retirement plan if you're still working and do not own more than 5 percent of the business you work for). The penalty for not taking your required minimum distribution (RMD) can be steep: fifty percent of what you should have withdrawn. Withdrawals from Roth IRAs, however, are not required during the owner's lifetime. If money is not needed for income and efficient wealth transfer is a goal, a Roth IRA may be an attractive option.

Also, consider reviewing the asset allocation of your investment portfolio. Does it have enough growth potential to keep up with inflation? Is it adequately diversified among different types of stocks and income-generating securities?

Later years: Your legacy

Review your financial documents to make sure they are true to your wishes and that beneficiaries are consistent. Usually, these documents include a will and paperwork governing brokerage accounts, IRAs, annuities, pensions, and in some cases, trusts. Many people also draft a durable power of attorney (someone who will manage your finances if you're not able) and a living will (which names a person to make medical decisions on your behalf if you're incapacitated).

You'll still need to stay on top of your investments. For example, an annual portfolio and asset allocation review are important. Keep in mind that a financial advisor may be able to set up an automatic rebalancing program for you. And finally, be aware that some financial companies require that you begin taking distributions from annuities once you reach age 85.

Preparing for a retirement that could encompass a third of your life span can be challenging. Regularly review your situation with financial and tax professionals and be prepared to make adjustments.

Points to remember

- By April 1 of the year after you reach age $70\frac{1}{2}$, you'll generally be required to begin making annual withdrawals from any tax-deferred accounts.
- Match living arrangements to changing lifestyle needs and plan ahead for how you'll pay escalating health care expenses.
- Make sure that financial documents are true to your wishes and beneficiaries are consistent.
- Regularly consult with financial and tax professionals and be prepared to make adjustments, depending on how your life and needs change.

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