4 PHASES OF RETIREMENT

Years ago, when you mentioned the concept of retirement, visions of a long and relaxing stretch of time after your career ended would come to mind. Many people envisioned having a 20-30 year time span filled with activities like traveling to exotic locations, leisurely days of relaxation and recreation, and time spent with the grandchildren. The possibility of long-term care was usually the only issue to be concerned with during retirement.

Times have certainly changed! Today, the concept of retirement has taken on a whole new meaning. As the cost of living continues to rise, pre-retirees and retirees are finding it less and less financially feasible to fully enjoy these years as previous generations have done. Living off of social security and a savings account is just not enough.

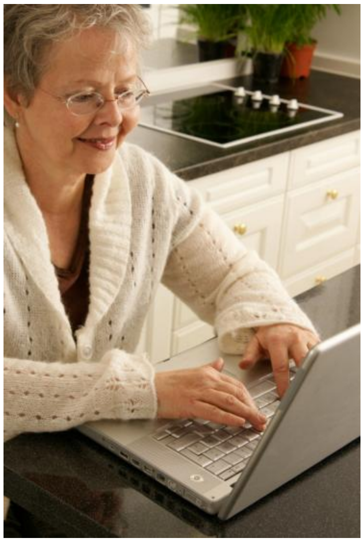
Social Security, typically a component of any retirement plan, was never intended to be the sole source of retirement income for anybody. In order to reach any sort of comfortable retirement income today, people will need quite a bit more money than what social security can provide. The Social Security Administration recently stated that 96% of American workers are covered by Social Security (including non-working spouses who are also eligible for payments). However, the amount you are eligible for can be different depending on when you start collecting: while most circumstances allow you to start collecting Social Security at age 62, waiting until age 70 will result in higher benefits.

Although Social Security should be a part of your retirement planning, for purposes of this article, we want to point out that it will most likely not help satisfy someone's entire retirement income needs.

Some have saved their entire lives with the intent of being able to enjoy the golden years, but when putting together a plan to live comfortably on these savings, these factors now have to take into consideration many factors, including:

- The impact of inflation.
- How much you can afford to take out of your retirement plan each year.
- What required minimum distributions do you need to take from your retirement plan.
- What financial benefits you may have if you delay your retirement.
- What outstanding mortgages, large debts, and bills you may have.
- The total amount of wealth you have collected and saved for retirement.
- Your health and long-term care costs during retirement.

These are just a few of the complex issues that retirees need to consider. A good strategy for approaching and preparing for retirement is through a well-executed, long-term plan. Sadly, the reality for many people is that they may have experienced situations such as an untimely death, divorce, disability, or other unpredictable and unpreventable obstacles that changed or altered even the best of intentions.



As a result, many people today find themselves in the twilight of their working years, having saved less for retirement than anticipated and scrambling to find a way to compensate or make up for the cash they will need to realize the type of retirement they once desired.

People in their 50's and 60's without large retirement accounts may not have enough time to receive the full benefits of compounding the returns on their investments. With today's low interest rates, many of your safer choices will not grow as fast as those when interest rates were higher.

Today, many people are delaying their actual retirement date. Each year you continue to work can help your planning in two ways. First, delaying retirement means another year you are earning income and saving for retirement. Second, you may not need to use your retirement savings during the years you continue to work. Delaying your retirement hopefully allows your nest egg to grow for another year.

Even in your 50's and 60's, your retirement savings can still have the opportunity to grow by the time you need to access your funds. The tax law provides a few provisions for individuals over 50 who are continuing or even just starting to save for their retirement.

If you are 50 or older, you can put up to $6,500 ($1,000 more than younger savers) in your regular IRA or Roth IRA. If you are over 50 years old, you can also add an extra $6,000 to a 401(k) plan (compared to your younger co-workers). IRA's and 401(k) plans provide for tax-deferred growth, while Roth IRA's can offer tax-free growth. These options are always attractive for those still working and over age 50, but there are many restrictions and guidelines on who can participate and to what extent. This is an area where we can help you. **For clients who want to learn how to maximize their retirement savings, we always enjoy the opportunity to discuss your specific situation and plans.**

For many Americans, retirement today can be broken down into four phases:

Pre-retirement is the period when you begin to take a look at slowing down and plan your life after your career is over. This is when you should ask yourself how much money you will need to make the most of your retirement. As a starting point, most experts suggest you will not need your full earnings to carry you through retirement but a high percentage of it. The percentage is higher if you earn less and can be lower if you earn more. Although everyone's situation is different, one of the keys to success is to prepare an active budget of your expected expenses in retirement. You can then review how much you have saved and invested to meet your own situation.

While most people in retirement pare back expenses like work clothes and commuting costs, some incur additional expenses such as health care. In this phase, it is crucial to map out what you want your retirement to look like, and how and where you expect to live so you can begin to plan for life after your career has ended. This phase is also helpful time to think about setting some goals you can stick to and monitoring your cash flow.

PRE-RETIREMENT

During the **Early Retirement** phase, many people still have a lot of energy and enthusiasm and can enjoy physical activities like golf, tennis and traveling. During this phase, it is important to have a cash flow plan because of expenses incurred from more extensive travel and activities than normal.

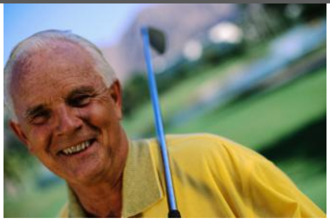
It's not unusual during this phase to work part-time. Also, many people will need to replace or supplement work benefits such as life and health insurance and, if you work part-time, possibly disability insurance.

In addition, many volunteer at not-for-profit groups and/or serve on organizational or corporate boards.

The challenges of this early retirement phase are not just financial – they can also be about filling time. Many retirees start looking for part-time work, simply out of boredom.

Although early retirement may sound appealing, it's important to think through the financial and non-financial implications when making this decision. The increase in life expectancy can affect your decisions. During this period, it's essential you hold a full review of your estate plan so any unexpected situations will not interrupt the comfort of you or your loved ones.

EARLY RETIREMENT



This next stage, **Full Retirement**, is the middle of your retirement cycle. By now, you have hopefully realized your travel dreams and fulfilled many of the goals you had planned to achieve in your retirement.

Although you may be in good health, many people during this phase decide to slow down and find more enjoyment in activities that are less fatiguing and slower-paced. The hassles of traveling don't sound as tolerable anymore. Instead, local events and the pursuit of hobbies less physically tasking start to sound more appealing.

During this phase, many people belong to groups or clubs that meet regularly and provide regular social interaction. Your expenses may actually be lower than in the Early Retirement phase if activities such as traveling have been reduced.

In today's low interest rate environment, many experts are recommending that withdrawals from retirement plans be more conservative than those taken during periods of higher interest rates. This is why we like to meet with clients to help determine an appropriate withdrawal schedule as it pertains to their unique situation.

FULL RETIREMENT

The **Final Retirement** phase includes the final years of retirement when you may find yourself battling the physical and mental challenges of old age.

During this final phase, some retirees move out of their homes and into assisted-care facilities, nursing homes or the homes of children. Many times, medical expenses, including prescription drugs, take up a significant share of your monthly income.

FINAL RETIREMENT

Conclusion

Regardless of your age or which phase you are in or approaching, here are some important things you need to constantly review and consider:

Realize your cash flow needs can be different at each phase of retirement. Your early phase and final phase have the potential to be the most expensive; expenses can usually be lower in the full or pre-retirement stage.

People are living longer. Better health habits, advances in medicine, and many new drugs have extended people's lives longer than prior generations. It's imperative to monitor and review your investment choices on a regular basis to give yourself the best possibility of meeting the cash flow needs you will need during each phase of retirement.

It's imperative to periodically rebalance your investment portfolios to reflect changing priorities and living patterns as you go through each of these retirement stages. You should systematically revisit how you can adjust your portfolio based upon your actual life and health changes, goals, needs, objectives, and risk tolerances.

It's essential to review your needs for long-term care and other costs (like medical and burial expenses) before and during retirement.

It's crucial to constantly monitor cash distributions from your retirement savings. We have experienced a significant decline in interest rates over the last decade and that can affect your portfolio. In this low interest rate environment, it's even more important that you have a strategy for taking distributions from your portfolio. In the past, a larger distribution rate might have been acceptable; however, with today's low interest rates, it's imperative to make sure your withdrawal rates are reasonable and will be sustainable over the long-term.

The bottom line is that it is wise to make sure you plan and monitor throughout each stage of retirement. Remember, the only thing constant is change!

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