Retirement Planning

MCKAY WEALTH MANAGEMENT

Preparing to Retire

One of the trickiest adjustments you'll ever have to make is to transition yourself from the work world to retirement. Building that retirement nest-egg was only half of the battle. Now you have to make your money last for the rest of your life.

Sounds like a tall order? Yes, but not an impossible one.

Once you're retired, your role changes from paycheck collector to portfolio manager. It's up to you to determine how to divvy up your nest egg so that you can begin collecting income, continue to make money and manage the tax impact, while staying ahead of inflation.

Here are some things to think about as retirement looms on the horizon.

5 Years Before Retirement

As you near retirement, it's a good idea to begin mapping out your game plan before you say, "Sayonara!" to the work week. Here are some considerations you might explore to get prepared. The better you plan 5-10 years before you have to, the easier it will be to make that jump from work to retirement.

Where Will You Live? Since where you choose to live has a major impact on your expenses, weigh your options carefully.

Many retirees choose to stay put and others decide to travel. Still others relocate to retirement communities in warmer climates. Which choice will you make?

Good health aside, your choice will depend on how much money you've saved thus far and how much you'll be able to sock away in the next few years. The Internet is the best place to research your options, particularly if you're considering a major relocation.

Your retirement assets may last longer if you downsize your home or move to a less expensive community. If you decide to sell your house, you can use the excess equity the house has earned to feather your new nest, to the degree your old house is paid off.

If you plan to stay put and still want to enhance your retirement, you can begin to pay down your debts now so that more of your retirement pool can go directly to living expenses rather than debt. Calculate how much you will need to retire whether you stay home, travel or relocate. Then look at your nest egg's earning power, lasting power and ability to provide adequate income to meet your goals.

Points of Interest

- Preparing to Retire
- 5 Years Prior
- 2 Years Prior
- The Final Touches

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5 Years before retirement

- Pay down mortgage
- Pay off your debt
- How will you fill your days?
- Tax full advantage of maximum contributions
- Review your investment strategy

Retirement Planning

Many retirees can expect to draw income from three sources:

1. Social Security
2. Employer Sponsored Retirement Plans
3. Personal Savings

2 Years to Retirement

Determine Your Estimated Income

It's to your benefit to calculate your projected future retirement income as best you can, so that you can develop strategies to close income-expense gaps you see down the road.

- Social Security sends out a personalized income statement each year that details your future income. It's based on your earnings thus far, and will rise or fall depending on your future earnings. Review your annual Social Security benefit statement or contact Social Security at 800-772-1213 for an estimate of your monthly check.

- Contact your HR department for an income estimate on your retirement plan. You can look at different scenarios to get a good idea on how much will come from your current job.

You may have pension plans with former employers. It may be a good idea to contact those former employers to find out if you have any residual retirement savings with them. If you do, find out how much and how and when you can access the money.

Estimated Income From Investments

Now it's time to look at your investments. Work with a financial professional who can help you organize them so that you can receive income, while continuing to generating growth. You may not be able to withdraw as much as you expected. You might not be able to draw more than 3% to 4% in your first year without increasing the risk that you'll run out of money.

Once you decide to live off your investments, your first priority is keeping that money safe. You have to weigh the benefits of generating high annual returns against the possibility of losing principal.

Plan Health Care Expenses

This is the time in your life when you may require the most comprehensive health coverage, yet ironically, you may be able to afford it the least: particularly if you don't plan well. Many employers don't provide health care coverage to retirees. Since medical costs are increasing exponentially, your health care coverage has to be designed to meet your coverage needs.

Retirement Planning

Create a Post Retirement Budget

You should apply for Medicare three months before your 65th birthday.

Once you itemize the details of your expected income and expense ratio, you can begin to draft a budget. Take time to track your expenses. Good budgets take time to develop, often a few months, as you learn to document unexpected expenses or quarterly/semi-annual payments as they pop up, and incorporate them into your budget. The budget will indicate what your expenses are now, relative to your income. Use the budget to forecast your income / expense ratio as you continue to pare down your expenses before retirement.

Now you may well discover that you'll need to work longer than you expected, or you could get some happy news and decide you want to accelerate your retirement plans. Before you do either, though:

- Decide how you will begin to withdraw benefits. Will you withdraw Social Security early at age 62 or will you wait until you're 65 to receive full benefits?
- Decide whether you will withdraw from your qualified retirement plans at age 59 ½ or some other time before 70 ½ when you are mandated to withdraw. Will you take a lump sum or monthly checks?

We will work with you to help you decide how best to retire.

The Final Touches Before Retirement

Streamline your finances and rethink your budget. What are your "must haves" "want to haves" and "nice to haves?" It's very enlightening to see just how much your budget can be cut once you're not working. Consider paying off any pesky bills that threaten to weigh on you in the future.

Consider repositioning your portfolio to a more conservative stance, yet make sure a portion is positioned to continue generating earnings to withstand erosion by taxes and inflation.

Plan your income sources. Decide what part of your nest egg you will withdraw from first with an eye toward mitigating the tax impact as much as possible.

Notify HR. Let your employer know your planned retirement date. This way, your company has the time it needs to complete paperwork for pension plans.

Get ready to roll. If you are going to roll your employer-sponsored savings plan over to an Individual Retirement Account (IRA), it will take some time for the rollover to occur. It's better to get the ball rolling before your leave.

Call Uncle Sam. Since it also takes time for Social Security payments to kick in, you should apply now. For early retirees, remember, age 62 is the earliest age you can withdraw. If you're 62 or older, you'll be collecting social security on a scale, according to your full retirement age, which is based on your birth year.

And last but not least, plan that retirement party!