

20 Retirement DECISIONS

YOU NEED TO MAKE RIGHT NOW



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When should I begin taking Social Security?

How should I diversify my investment portfolio?

How will I manage my medical expenses during retirement?

What about my 401K?

Do I have enough money to retire now?

How should I manage my medical expenses during retirement?

RAY E. LEVITRE

CERTIFIED FINANCIAL PLANNER

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To the awesome women in my life—
My wife, Jana, and my daughters, Brianna and Alexis

ABOUT THE AUTHOR

Ray E. LeVitre is a fee-only Certified Financial Planner who specializes in helping people develop and manage their financial plans at and through retirement. Ray has seen all sides of the financial services industry. Early in his career he spent time at Fidelity Investments, Citicorp, and Mutual of New York and later went on to build a career at Merrill Lynch working as a financial consultant and branch manager. Ray now runs an independent fee-only financial planning practice. He has been retained by many *Fortune* 500 companies to teach financial management seminars to their employees and has been quoted by *Newsweek*, *Money* magazine, the *New Yorker*, *U.S. News & World Report*, *Business Week*, *Kiplinger's*, *MSN Money*, and several newspapers and financial industry magazines.

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My clients—A special thanks to each of you for placing so much trust in me as your financial advisor and for giving me the opportunity to help you develop a strategy to reach your financial goals. The strategies outlined in *20 Retirement Decisions You Need to Make Right Now* are a culmination of my experience in working to develop fundamentally sound solutions to your unique financial situations.

And finally, I would like to thank the many companies that have invited me onto their corporate campuses and into their work sites to teach their employees how to manage a retirement-plan distribution and develop a solid investment strategy.

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A Parting Thought

Notes

WARNING FROM THE AUTHOR

If you are reading this book you are likely retiring right now. So, congratulations are in order. CONGRATULATIONS! From now on every day is Saturday.

I have spent the past twenty years helping people successfully make the financial transition from the workforce into retirement. This book is a culmination of my experience with my clients.

During my time in the financial services industry I have worked for some of the biggest and most well known financial institutions in the United States. While I am grateful to each of these firms for the employment opportunities they provided, I think that their business models are severely flawed. They seem to be much more concerned with making money for themselves rather than making money for their clients. You should be aware of the conflicts of interest that exist in the financial services industry as you seek financial advice and buy financial products at retirement. Making a mistake now could negatively impact the way you live for the next thirty to forty years. Here are some words of warning and some advice to follow as you make the financial transition from the workforce into retirement.

Warning #1 Hidden Agenda

Most people have the need for a financial advisor to help them make money decisions at retirement. The problem with this is that most financial advisors work on commissions and have a hidden agenda to sell something. While most are well-meaning, keeping their jobs ultimately means they've got to make a commission. In their intense efforts to meet sales quotas and pay their mortgages, they wind up pitching loaded financial products (mutual funds, annuities, and life insurance) to make a quick buck. If this occurs you will wind up with investments and insurance that are best for your advisor and his/her firm and not necessarily what is best for you. Read chapter 3, *Fire Your Broker!*, to see how to find objective advisors who are more interested in your goals than in theirs.

Warning #2 Expensive Products

The investment and insurance products sold by commissioned advisors are expensive. When you buy loaded (*i.e.* commissioned) financial products, the product sponsors simply build in additional up-front, back-end, and annual expenses so they can compensate your advisor. Since these fees are often hidden, most investors never really know what they are paying. You can read chapter 18, *"No-Load" Means Lower*

Costs, to learn how to avoid excessive fees.

Warning #3 Poor Service

Because commissioned advisors are under such extreme pressure to make money for their firms, they have to keep finding new clients and selling more expensive products. This is a problem. When an advisor is focused on acquiring new clients, little time remains for existing clients. The bottom line is that most people receive poor to no service from their advisors. Unfortunately, this is accepted as the norm, thus advisors are not held to higher standards. As an investor you should know what you are paying in fees (both those seen and those hidden) and make sure your advisor is providing service equal to the fees you are paying.

Advice

Due to the complexity of the financial world, I believe most people should hire a financial professional to help them develop a plan and make all the financial decisions outlined in this book. I also believe that investors need to be educated so they can monitor the advice they receive and hold their advisors to much higher standards. If you read this book you'll have a good idea of the issues your advisor should be addressing, the way he or she is compensated, and the types of products and services he or she can offer. Armed with this information you can make sure your advisors are working for you and not just pushing products to meet the pressures of corporate sales objectives.

To avoid the major problems in the financial services industry, I believe all investors should follow these four basic principles as they pursue financial success:

- Work with a fee-only Certified Financial Planner (CFP) who has at least ten years of experience.
- Develop a written, comprehensive, financial plan, and review it with your advisor often.
- Create an investment policy statement to act as a framework for making investment decisions.
- Purchase only low-expense, no-load financial products (mutual funds, annuities, and life insurance).

The fact that you are reading this book says that you are serious about your retirement and making the right decisions with your money. Making the right decisions now will provide peace of mind and ensure financial success throughout retirement.

THE 20 FINANCIAL DECISIONS YOU MUST MAKE AT RETIREMENT

Are you retiring now? If so, this book is for you. There are thousands of retirement planning books that focus on helping baby boomers manage their money in the years leading up to retirement. *Twenty Retirement Decisions You Need to Make Right Now* is the only book of its kind, written specifically for people who are retiring now.

If you are ready to leave the workforce and begin retirement, then the pressure is on to make the right choices with your retirement money. The decisions you make at this critical juncture, many of which are irrevocable, will profoundly affect your financial security and your lifestyle for the next thirty to forty years. There is much more to retiring than simply deciding what to do with the money in your 401(k). *Twenty Retirement Decisions You Need to Make Right Now* addresses the most significant financial decisions people must make as they make the transition from the workforce into retirement. Making all of these decisions is a big task, but one that is well worth it, since the next thirty to forty years are riding on the decisions you make right now.

Every chapter deals with a decision you must make at retirement. My recommendation is to begin by reading chapters 1, 2, and 3 on financial planning and choosing a financial advisor, then proceed through the rest of the chapters, reading about the topics that are the most pressing to you right now. Each chapter was written independent of the others, so it is not necessary to read the book in its chapter order. The 20 Decisions Checklist on page xvii will help you track your progress as you check off each decision you make and help ensure that nothing falls through the cracks.

Do-It-Yourselfers and Delegators

If you are a do-it-yourselfer, you'll find all the resources necessary to develop and manage your financial plan on your own. However, I think you should seek a second opinion periodically from a financial professional who works on an hourly basis. If you are a delegator, then my advice is to use the book as you meet with your advisor to discuss each retirement decision. Being educated before you meet with your advisor will help you ask the right questions, address all the issues, and hold your advisor to higher standards.

You Retire Only Once. Do It Right!

Each of the five sections of the book addresses various components of retirement planning. For instance, Section One: Retirement Planning, will help you assess what your current retirement situation looks like and determine whether you are on track to meet your retirement goals. This section also outlines the importance of having a written, comprehensive financial plan, how to find objective financial advice, how to determine a safe portfolio withdrawal rate, and what to do if you plan to retire early.

In Section Two: Sources of Retirement Income, we'll explore the issues surrounding Social Security, teach you how to maximize your company pension benefits, and teach you how to avoid the most common investor mistakes so that you can be sure not to sabotage your most important retirement income source—your investment portfolio. This section also deals with the issues and choices facing people who, at retirement, take a distribution from an employer-sponsored retirement plan. Before making any decisions about your money, be sure to reference this section for a very detailed analysis of your retirement options.

Section Three: Developing a Successful Investment Strategy covers important investment planning techniques. After all, reaching your retirement goals will depend largely on how successful you are as an investor. This section deals primarily with how to develop successful investment strategies, including asset allocation, proper portfolio diversification, choosing investments, ongoing portfolio management, how to protect principal while investing in the stock market, and how to handle company stock positions.

In Section Four: Insurance and Retirement, we'll discuss how to obtain healthcare coverage during retirement, and whether or not you need long-term care insurance. Without these safeguards in place, you could prematurely deplete all of your hard-earned assets. In addition, we'll figure out what to do with the life insurance policies on which you've been paying for so long. This section will teach you how to evaluate your insurance needs.

Section Five: Other Retirement Considerations will help you determine what to do with your mortgage and also which estate planning documents you need to obtain.

Twenty Retirement Decisions You Need to Make Right Now explains, in basic terms, the highly complex financial concepts that you need to understand in order to make the most critical retirement decisions. Use it as a comprehensive information source on retirement planning and successful money management techniques. This book is an important resource that will help you build a financial strategy to guide you toward the retirement lifestyle you deserve. You get to retire only once. Do it right!

The 20 Decisions Checklist

- Decision #1:** Do I have enough money to retire now?
- Decision #2:** Is it worthwhile to develop a comprehensive financial plan if I'm already close to retirement?
- Decision #3:** Who should I trust to advise me about my financial future?

- Decision #4:** How much can I safely withdraw from my portfolio?
- Decision #5:** If I retire early, is it okay to withdraw funds from my IRA?
- Decision #6:** When should I begin taking Social Security?
- Decision #7:** Which pension payout option should I choose?
- Decision #8:** Which retirement plan distribution option should I choose?
- Decision #9:** How should I manage my personal savings?
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- Decision #12:** What should I do if the bulk of my portfolio is invested in one or two stocks?
- Decision #13:** What criteria should I use to identify the best investments?
- Decision #14:** Should I buy load or no-load mutual funds, annuities, and life insurance?
- Decision #15:** How will I manage my portfolio on an ongoing basis?
- Decision #16:** How will I cover my medical expenses during retirement?
- Decision #17:** Should I buy long-term care insurance?
- Decision #18:** Should I cancel my life insurance policy, since I no longer need the coverage?
- Decision #19:** Should I pay off my mortgage at retirement?
- Decision #20:** What strategies should I use to ensure that my estate passes to my heirs and not to Uncle Sam?

SECTION 1
RETIREMENT PLANNING

1

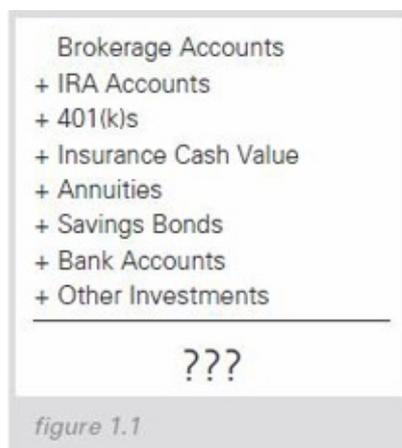
RETIRING NOW!

RETIREMENT DECISION #1: DO I HAVE ENOUGH MONEY TO RETIRE NOW?

Are you ready for the time when every day is a Saturday? When it comes to retirement planning, too many people face a reality gap. Sixty-four percent of American retirees are confident that they will have enough money to live comfortably throughout retirement.¹ That same survey revealed that three out of four retirees have less than \$100,000 total in savings and investments.² A \$100,000 nest egg is barely enough to produce \$500 in income per month during retirement. Many studies indicate that middle-income baby boomers will need much more than \$1 million in their investment accounts the day they retire.

America fails the Retirement IQ Test, with an average score of 43 percent.³

Where do you stand? Are you overconfident that you will reach your retirement goals?



When you add up all your financial assets on the first day of retirement, what will your portfolio need to total in order for you to reach your retirement goals? How far

are you from that goal? You need to take a good hard look at your overall retirement situation to answer these questions and to ensure that your savings nest egg will generate enough retirement income to last for decades.

Of course, the amount needed at retirement differs for everyone and ultimately hinges on your answers to the following questions:

- When will you retire?
- What is your current income?
- What percentage of your current income will you need each year during retirement?
- How long do you estimate you will be in retirement?
- What will your income sources be during retirement?
- What will be the rate of return on your investment assets during retirement?
- What impact will inflation have on your retirement goals?

The best way to see if you're on track is to submit yourself to a retirement analysis. Don't worry; it's not that painful. I'll walk you through each step. To develop a retirement analysis, you will need to take the following nine-question quiz. Once you've completed the questions, I'll refer you to some retirement calculators online. We'll simply plug in some numbers, and you'll see where you stand. Friends of mine, Ron and Linda Hansen, have already taken the quiz. To help spark your thinking as you evaluate your own situation, I've included the Hansens' answers as a case study. I'll also discuss each question to ensure you consider the right factors in your answer. Let's get started.

1. When do you plan to retire?

If you are reading this book you are probably planning to retire soon. The average American retires at age sixty-two.⁴

The amount of money you will need to accumulate will depend on your age at retirement. An early retirement will require that you have a larger nest egg, since you'll have to stretch your resources over more years. Pushing retirement back a few years will allow you to delay the time when you'll need to start withdrawing money from your investment portfolio. The longer you work, the longer your nest egg will likely last.

Question #1: When do you plan to retire?

Your Answer: _____

Case Study: Ron and Linda Hansen, age sixty, plan to retire this year.

2. How much annual income will you need during retirement?

Financial planners suggest you'll need to have about 70 to 80 percent of your pre-retirement gross income to maintain your current standard of living. This, of course, can vary widely depending on your lifestyle.

Less than one-half of workers (47 percent) have tried to calculate how much money they need to accumulate for retirement.⁵

During retirement you will pay less in taxes, save less, spend less on your children, and have less of a mortgage burden than you did while working. While many expenses will decrease during retirement, others will increase. Figure 1.2 outlines some of the most common changes in spending during retirement.

Expenses Likely to Decrease	Expenses Likely to Increase
• Home Mortgage	• Healthcare
• Savings	• Travel
• Income Taxes	• Second Home
• Work-Related Clothing	• Personal Education
• Life Insurance	• Hobbies/Recreation
• Commuting	
• Professional Education	

figure 1.2

How Do You Want to Spend Your Retirement Years?	
Travel the world	19.6%
Pursue creative passions	16.7%
Give back by volunteering	11.3%
Start a second career	11.2%
Sit home with my feet up	10.1%
Keep working (I need the money)	9.1%
Spoil the grandkids	4.2%
Launch my own business	3.6%
Keep working (I love my job)	3.4%
Go back to school	2.1%
Other	8.7%

figure 1.3

The way you decide to spend your retirement years will have an impact on how much income you will need. Have you thought about what you want to do during retirement? The poll on the previous page reflects the most common desires of retirees.

Moving to another city will also greatly affect your income needs. According to

AARP, only one in ten Americans age sixty or older actually choose to relocate during retirement.⁶ However, if you do plan to move to another city, you must adjust your estimated retirement spending depending on the cost-of-living differences from region to region. A cost-of-living calculator is an easy way to see how your new home will affect your living expenses.

Moving at Retirement: Cost of Living Calculator

- Bankrate.com—
<http://www.bankrate.com/calculators/savings/moving-cost-of-living-calculator.aspx>
- CNNMoney.com—
<http://cgi.money.cnn.com/tools/costofliving/costofliving.html>

Annual Retirement Expenses			
	Average Budget for Couples 65 to 74	Your Budget Now	Your Budget at Retirement
Housing	\$13,547		
Transportation	\$7,669		
Food	\$5,572		
Healthcare	\$4,967		
Utilities	\$3,392		
Taxes	\$1,374		
Household	\$2,884		
Insurance	\$2,600		
Contributions	\$1,923		
Entertainment	\$2,636		
Clothing	\$1,323		
Personal Care	\$821		
Misc.	\$1,426		
Total	\$50,134		

Source: Consumer Expenditure Survey, 2007

figure 1.4

Use the worksheet in figure 1.4 to help you get down to the nitty-gritty of your annual retirement costs. The more you detail your spending habits, the more accurate your retirement picture will be. Figure 1.4 shows a list of annual expenditures for the average American couple between the ages of 65 and 74. How your expenses match up to these average figures depends on your lifestyle.

In the column titled *Your Budget Now*, estimate your current annual expenses. To make it easier, take your monthly expenses and multiply by twelve. Then in the last column, *Your Budget at Retirement*, estimate what these costs would be if you were to retire today. This figure is your yearly retirement income requirement.

Question #2: How much annual income will you need during retirement?

Your Answer: _____

Case Study: The Hansens have set their retirement income goal at \$75,000 per year (in today's dollars).