

- » Taking charge of your long-term plans
- » Implementing retirement planning strategies

Chapter **1**

Looking Ahead to Your Future

From a young age, various adults in our lives tell us to plan ahead. Although it may be sunny and clear outside this morning, they tell us to take rain gear for this afternoon's forecasted heavy rain. When packing for a day at the beach, they suggest sunscreen and money for lunch. And do your best in high school, they say, because your transcript will in part determine which colleges accept you.

Although some parents provide guidance to their children on the topic of long-term financial planning, most don't because they aren't sufficiently knowledgeable or are reluctant to explain these things to their kids. And therein lays a pretty significant problem concerning finances for your adult and especially later adult years.

And retirement has its own set of trials. Unexpected life events (such as a loss of a job, the death of a loved one, or a major medical problem) and economic challenges can throw a wrench in the best plans. The severe recession and stock market decline in the late 2000s — both of which were the worst in decades, and then the 2020 COVID-19 pandemic — highlight other potential planning obstacles. Many near retirees and recent retirees caught off guard face the possible need to keep on working beyond typical retirement age, the need to reduce spending and

make do with less (for example, one car rather than two), and the need to cope with the loss of jobs, diminished investment portfolios, and reduced home values.

These challenges can occur at any time during life, but they're especially challenging when they happen when you're in or near retirement. You have less time to make up for setbacks (and any mistakes you make) as you age. At some point in most folks' lives, working longer or going back to work no longer are viable options. That's why planning and regularly reviewing and reevaluating your plans is essential.

We know many of you are reading this book having done little or no planning to this point. Don't worry, though. It's not too late to start planning. Studies of retirees show those who are most content in retirement are those who did some planning, even if it was a small amount. Planning is how you match your resources with your goals and expectations and identify where adjustments need to be made. Even if you're already retired, planning now can improve the rest of your retirement.

This chapter discusses important themes that run throughout the book: the value of planning ahead and getting on the best path as soon as possible, the importance of taking personal responsibility, and the significance of taking a long-term perspective to make the most of your older years. We also discuss how to keep the right focus to optimize your retirement planning.

Planning for the Longer Term

Planning doesn't sound fun, and for many people, it isn't one of life's most enjoyable activities. But nearly everyone values the benefits of proper planning: peace of mind, financial security, more options and choices, improved health, and a better lifestyle.

During your later adult years you have many choices about different financial issues. You can change some of the decisions after you make them, but others can't be altered. If you do decide to make adjustments, you have fewer years to benefit from the new choices. That's why as you approach your older years, planning your finances is more important than it was earlier in life.

In this section, we discuss the important issues that warrant your planning attention, explain why you should be the person to take the most responsibility for making that happen (even if you hire some help), and quantify the value of your taking our advice.

Identifying long-term planning issues

What's on your mind (or should be on your mind) regarding your financial future? Consider how many of the issues in the following sections require long-term planning.

Choosing among an employer's pension options

You need to look not just years but decades into the future to determine which pension option may best meet your needs and those of your loved ones. A *pension* is an employer-provided retirement benefit from money that your employer puts away on your behalf, wherein you receive a monthly payment based on your years of service and earnings. A pension typically is just one of several sources of retirement income you may have (the others typically being Social Security and personal savings including retirement accounts), so you must consider how these will fit together over many years.

Pensions (check out Chapter 7 for more info) differ from other sources of income, such as 401(k)s, individual retirement arrangements (IRAs), profit-sharing plans, and employee stock ownership plans (ESOPs), mainly in that only pensions guarantee you a fixed monthly payment backed by your employer. With other types of retirement savings, the amount you receive in retirement depends on the amount you contribute and how you invest the account. (See Chapter 5 for more info on other retirement accounts.)

Leaving an employer and deciding what to do with your retirement account money

When you change jobs, get laid off, or retire, you often are faced with choices about when and how to withdraw money from retirement accounts — such as 401(k)s or 403(b)s — and minimize the tax hit from doing so. Moving money is a decision you have to make today, but don't make light of this decision because it affects how much money you'll have in the decades to come.



REMEMBER

Some employer plans allow you to keep retirement money in place even if you're no longer employed with the company. You may choose to accept the offer to keep money in place if it's a plan with good investment options and low costs. Planning retirement account withdrawals requires long-term tax planning if you want to make the withdrawals in the best way possible. For more information on handling retirement accounts, see Chapter 5.

Determining whether you can afford to retire and how much you can safely spend per year

To assess whether you can afford to retire and how much you'll be able to spend after you do retire, you have to do some analysis relating to your spending habits, temperament, and investing holdings. And, to be sure that you don't run out of money or come close to running out of money, you also need to consider a wide range of scenarios for how your investments may perform in the years ahead. You can't assume investments will return their historic averages each year. In fact, we've seen some stock indexes generate low returns or even negative returns over periods of a decade or more. See Part 2 for more information on each of these issues.



REMEMBER

As with other aspects in life, differentiate between the things you can control and the things you can't. The economy will go through recessions and the stock market will decline. Predicting their timing, depth, and duration is beyond anyone's control. Although you can't control these events, you can be prepared for them. Your plan should reflect that by having some flexibility and, if possible, a cushion. For example, you can control some of your spending and how much risk you take investing.

Deciding when to begin collecting Social Security

Deciding when to begin collecting your Social Security is a complicated decision that's impacted by many factors, including tax laws, your earnings and your spouse's earnings, your marital status, and your health, among others. As we discuss in Chapter 10, you have to look years and decades ahead to make an appropriate and successful decision.

Considering a reverse mortgage

Reverse mortgages are becoming increasingly popular to provide supplemental retirement income to cash-poor (and relatively house-rich) elderly. With a *reverse mortgage*, you receive payments (or a lump sum) from the lender. Interest on the loan (and fees) compounds, but the debt doesn't have to be paid until the home is sold. When you consider taking out this type of mortgage, you should do plenty of long-term analysis to compare your options and be sure you're getting the right one for your situation. See Chapter 8 for the details.

Contemplating additional medical insurance

Health insurance is always a prickly issue to deal with because it's difficult to know what medical issues you may be facing 5, 10, 20, or more years from now. Sure, you can gain a general sense from your parents and from the types of medical issues that aging adults confront, but only time will tell what unique issues you'll confront. Different options you have to consider pre- and post-retirement are long-term care insurance (see Chapter 9 for more info) and Medicare supplements (refer to Chapter 11).

Weighing the option to buy more or different life insurance

When others are dependent on your employment income, you may need some life insurance coverage. And, depending on your specific assets, the type of life insurance you may most benefit from may change over the years.

BE AWARE OF AND INVOLVED IN YOUR INVESTMENTS

Keeping a close eye on your investments and knowing what's going on with your money is important, particularly during your senior years. You should never blindly trust someone with your money.

Consider the victims who lost tens of billions of dollars to hedge fund Ponzi-schemer Bernard Madoff, many of whom were near or in retirement. The prime targets of the Madoff scam (and of most financial scams) were people in their 50s and older who worry about their standard of living and income, though they're what most people consider financially comfortable. Within this group was another target group: Entrepreneurs and successful professionals. Risk-taking usually is part of their personal profiles, and risk-takers often are attracted to unique and little-known strategies. That's why con artists seek them.

Madoff investors lost so much money in such a total fraud primarily because of a lack of homework. Victims failed to conduct proper research (or even any research) on Madoff's claimed returns. They simply invested with Madoff due to the recommendations of others investing with him. With a private money manager like Madoff, investors should have been far better educated regarding his investing options and conducted lots of due diligence. They should have insisted on knowing what his investment strategy was and how it was supposed to work. They should have reviewed audited statements of the amount of assets he claimed to be managing. If they had, they would have noticed that the market for the stock options he claimed to be trading wasn't big enough to support his portfolio, much less all the other investors' trading options.

Interestingly, it came out that Madoff largely refused to provide much information to inquisitive prospective investors and essentially blew them off and turned them away. In retrospect, such behavior makes sense because Madoff wasn't interested in and didn't need to accept money from investors who were asking too many questions. After all, they may have uncovered his enormous fraud.



REMEMBER

To determine your life insurance needs, you should have a good sense of your current financial assets and current and future obligations. Refer to Chapter 2 for more information on evaluating your need for life insurance.

Developing your estate plan

Your financial circumstances of course will change in the years ahead, and so, too, tax and probate laws will likely change. Planning your estate involves many issues, including ensuring your own financial security, taking care of your affairs in the event you're unable to do so yourself, and protecting and providing for your heirs. Head to Part 4 to find out more.

Taking personal responsibility for your financial future

Our lives are filled with responsibilities — jobs, family obligations, bills, household maintenance, you name it. We all try to make time for friends, fun, and recreation as well.

With all these competing demands, it's no wonder that many folks find that planning for their financial future continually gets pushed to the back burner. Most people don't have the time, desire, or expertise to make good financial decisions. But you've taken a huge step to erase those obstacles in reading this book. We provide sound counsel and advice, and now you're investing the time and energy to get on a better path toward retirement.



REMEMBER

From this point forward, we urge you to always remember that you — and only you — can take full responsibility for your financial future. Of course, you can hire advisors or delegate certain issues to a willing and competent spouse or other beloved relative or friend. But, at the end of the day, it's your money on the line, and you had better take an interest in it! Delegating your responsibilities without knowledge, understanding, and some involvement is a recipe for disaster. You could end up without vital insurance, be taken advantage of in terms of fees, or even be defrauded among other unsavory outcomes.

Saving and planning sooner and smarter pays off

Throughout this book, we discuss financial strategies and tactics for making the most of your money over the coming decades of your life. The sooner you get control over and optimize your finances, the bigger your payoff will be.



REMEMBER

You should never rush into making changes that you don't understand and haven't had time to properly research. Procrastination comes with many costs, including lost financial opportunities. Creating a financial plan and sticking to it is so important when planning for retirement. Chapter 3 helps you make your own plan.

Consider, for example, something that nearly everyone wants to do: save and invest for future financial goals such as retirement. Take the case of the Fuller family, who came to Eric for financial counseling years ago. The Fullers enjoyed a healthy and relatively stable income, yet they saved little, if any, money annually. They knew how to spend money!

In terms of savings, they had about \$100,000, which may sound like a lot, but given their annual income (\$150,000) and ages (late-40s), they still hadn't accumulated savings equal to a year's worth of income. The money they had wasn't well invested — nearly all of it was in low-interest bank accounts and a pricey life insurance policy that provided just \$500,000 of coverage (not nearly enough given their incomes and the fact that they had dependent children). Of course, they could have done worse (at least the money was growing slowly). However, they weren't going to reach their retirement goals unless their money started working harder for them.

Over a number of months, the Fullers worked with Eric and were able to implement the following changes, which they stuck with for the years that followed:

» **They increased their savings rate.** They were able to consistently save about 15 percent of their annual incomes (about \$22,500 per year), which was up from just 4 percent (\$6,000). They accomplished this through a combination of reduced spending and reduced taxes by directing their savings into tax-advantaged retirement accounts including a 401(k) and SEP-IRA.

"Cutting our expenses was easier than I thought. We were wasting money on things we didn't really need or even use in some cases," said Mrs. Fuller. Her husband added, "We felt much more relaxed and less stressed by cutting our expenses and boosting our savings."

» **They improved their investment returns.** Rather than earning a meager return having their money in low-interest bank accounts, the Fullers enjoyed 8 percent annual returns by investing in a diverse mix of stocks around the world along with some high-quality bonds.

» **They purchased better insurance coverage.** The Fullers needed about \$1.5 million of life insurance coverage — triple the amount they had been carrying. They were able to buy that increased level of coverage along with some additional needed disability insurance by raising their deductibles on some other insurance policies and by switching to lower-cost (but still high-quality) providers.

So what were these changes worth to the Fullers? As they themselves said, they had much more peace of mind and comfort with their new financial situation. In the remaining part of this section, we briefly examine the true financial value to them over the decades following the changes.

If the Fullers had continued saving as they had been (saving just 4 percent of their incomes yearly and keeping that money in a bank account), in ten years (when they reached their late-50s), they would have accumulated \$188,000. This would have put them in a relatively poor situation for their future retirements given their annual income of \$150,000.

On the other hand, the changes (saving 15 percent annually and instead earning an average investment return of 8 percent yearly) would lead the Fullers to have more than \$541,000 in ten years — nearly triple what they would have had if they hadn’t made changes. The differences are even more dramatic looking 20 years out. Check out Table 1-1 to see the calculations.

TABLE 1-1 **The Long-Term Value of Saving More and Earning Higher Investment Returns**

Number of Years	Status Quo (Save 4% per year, earn 2% per year)	With Changes (Save 15% per year, earn 8% per year)
10	\$188,000	\$541,000
20	\$295,000	\$1,494,000

By making sensible changes, the Fullers are well positioned to retire with a hefty nest egg. (In fact, they could consider retirement sooner.) In the absence of those changes, however, they would have a small amount and be unable to even come close to maintaining their lifestyle during retirement.

Eyeing Keys to Successful Retirement Planning

Although you may like to consider other factors — such as your health, relationships with friends and family, and interests and activities — as more important than money, the bottom line is that money and your personal financial fitness are extra-important factors in your retirement lifestyle.



REMEMBER

Getting caught up in planning the financial part of your future appears easy. After all, money is measurable, and so much revolves around the money component of retirement planning. So what can you do to successfully plan for retirement? You could simply work really hard and spend lots of time making as much money as possible. But what would be the point if you have little free time to enjoy yourself and others? Fortunately, you can implement the following strategies when planning for retirement. We weave discussions on these important issues throughout the book.

Saving drives wealth

You may think a high income is key to having a prosperous retirement, but research shows that the best way to retirement bliss is to save. Research demonstrates that wealth accumulation is driven more by the choice to save (rather than spend) than it is by a person's income.

For example, professors Steven Venti and David Wise examined nearly 4,000 households across an array of income levels to challenge the notion that many households lacking high incomes don't earn enough money to both pay their bills and save at the same time.

Venti and Wise examined these households' current financial statuses and histories to explain the differences in their accumulations of assets. Their findings showed that the bulk of the differences among households "... must be attributed to differences in the amount that households choose to save. The differences in saving choices among households with similar lifetime earnings lead to vastly different levels of asset accumulation by the time retirement age approaches."



REMEMBER

It's not what you make but what you keep (save) that's important to building wealth. Of course, earning more *should* make it easier to save, but many folks allow their spending to increase with their incomes.

Keeping your balance

Most people we know have more than one goal when it comes to their money and personal situations. For example, suppose Ray, age 50, wants to scale back work to a part-time basis and spend more time traveling. He reasons, "I don't want to wait until my 70s, because what if my health isn't great or I don't make it!" But Ray also wants to help his adult children with some of the costs of graduate school and possibly with buying their first homes.

Ray's situation — of having multiple goals competing for limited dollars — is often the norm. Thus, a theme we discuss throughout this book is how to trade off competing goals, which requires personal considerations and balance in one's life.



REMEMBER

Unless you have really deep pockets and modest goals, you need to prioritize and develop price tags for each of your goals.

Understanding that planning is a process

The Aircraft Owners and Pilots Association has a slogan: “A good pilot is always learning.” Likewise, to have a good retirement, you should view planning as an ongoing activity, not a one-time endeavor. Financial planning is a process. Too many people develop financial plans and then think they're finished. Taking this route is a good way to run into unpleasant surprises in the future.

A plan is based on assumptions and forecasts. However, no plan — no matter how carefully it's developed — gets all the assumptions and forecasts correct. Even your best, most careful guesses may miss the mark. So every few years, you should review and update your plan.

As you're reviewing, assess how much reality differed from your assumptions. Sometimes, you'll be pleasantly surprised. Your portfolio may earn more than you expected, or you may spend less than you estimated.

Other times the review won't be as pleasant. The markets may have dragged down your portfolio returns. Or your spending may have exceeded your estimates. In either case, you aren't reaching your goals.

Even if you do meet the mark in most instances, you still are never really done planning and revising. You're bound to experience changes in your life, the economy, the financial markets, tax law, and other areas. You may come across new opportunities that weren't available a few years ago or that weren't right for you then but make sense now. You need to continually adapt your plan to these changes. You may need to adjust your spending or change your investment portfolio.



REMEMBER

You don't have to be obsessive. Daily, or even quarterly, changes in your portfolio that are different from the plan aren't a reason to go back to the drawing board. But every year or so (or when you have a major change in your personal situation), take a fresh look. Review the plan and your progress. Figure out what went right and what went wrong. Decide whether your goals or situation have changed and whether any adjustments are needed. Finally, implement the new plan and enjoy life. After all, that's what the money is for.