Am I Ready to Retire?

7 Steps To Help Ensure That I'm On The Road To A Sound Retirement

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The financial decisions you make today can significantly impact your quality of life in retirement. But planning for retirement can be an overwhelming task. In the last few decades we've experienced significant economic volatility causing many to lose confidence in their financial futures. Couple this hesitancy with the abundance of conflicting information; it can feel like no matter what direction you go in, your retirement is destined for failure.

So how can you remain confident that the decisions you've made will aid you in achieving the retirement lifestyle you've been planning for all of this time? How do you know if you're on the right road to retirement?

Our answer is to keep your focus on long-term performance to support your lifestyle during retirement. That means avoiding the emotional reaction of panicking. The consequences of acting on fear can cause damage to the long-term value of your portfolio and the success of your retirement plan.

To be more specific, our answer includes crafting a smart asset allocation plan with a strategy to help preserve your assets in down markets. Ideally, this plan should be put in place before difficult market conditions occur. History shows that these tough, stomach-churning conditions are going to happen every so often. There is really no control over these situations except to be prepared with a plan along with an investment policy statement. That way, decisions you made when things were more stable can guide your decisions in the face of whatever is going on in the markets.

If you have a plan, be sure it covers the 7 steps that follow. If you don't have a plan, there is no better time than now to develop one to help you relieve uncertainty and restore your confidence.

Step #1 – PLANNING FOR YOUR DESIRED LIFESTYLE

This Lifestyle Plan is practical and down-to-earth. In addition, it is broad and comprehensive. And it can be inspiring.

From the beginning Lifestyle Planning addresses questions such as what life are you going to live in retirement? What do you want to be doing? How can you take your goals into account so that they become part of your future?

And those questions suggest a vital consideration: Retirement can be an emotional decision. We like to look at it as a beginning – not an end. Yes, it may be an end to your formal working career or your formal career with a particular company. Yet it can continue on to a new career – you could call it an "encore career." You could take on part-time work or take up a hobby that excites you. It may include volunteer work, which can add meaning and satisfaction to your life.

You have more time to participate in hobbies and other activities. Hanging out around the house or sitting in a recliner and watching TV to get through day after day is not common for the active baby boomer generation.

Are you financially ready for the retirement you desire? Lifestyle Planning looks into your current financial situation. What are your assets? What income can you count on? Can you afford to do everything you want in retirement? How much annual retirement income will you need?

Obviously, you want to fulfill your needs first. Then, together we will rate your wants based on your ability to afford them, or your willingness to give them up. That inquiry leads to practical considerations such as where to cut your wants, where to look for some flexibility, and how to draw on your assets. In the big picture, you want to satisfy the needs and wants as much as possible while at the same time considering tax implications.

Step #2 – TAKING INTO ACCOUNT YOUR INFLATION RISK

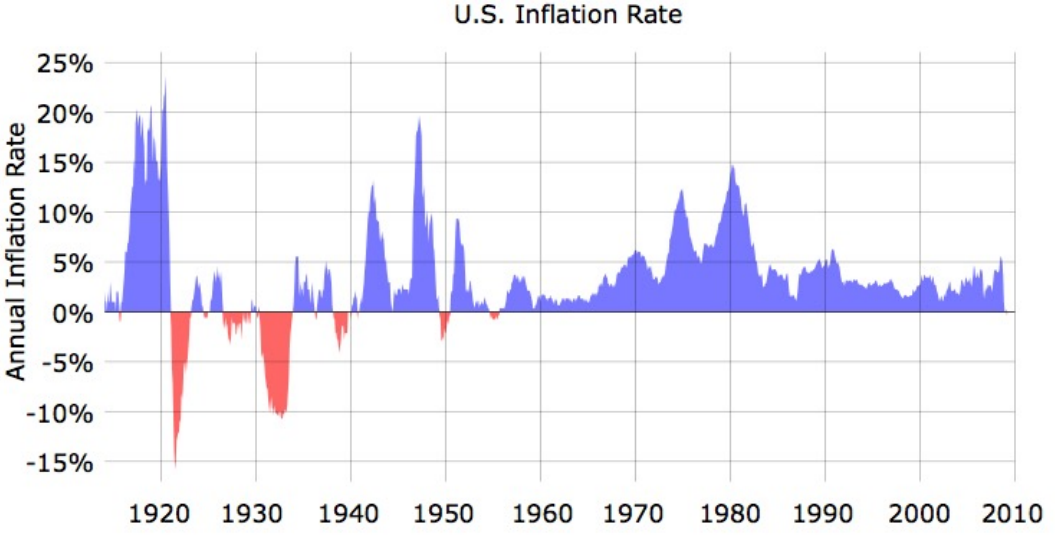
The largest risk confronting retirees planning for retirement is inflation risk. Inflation can usually cause more damage to the success of the plan than volatility. If you set up a systematic withdrawal plan from your investments and stick with the market, then in the long-term it's really the cost of goods and services rising that will impact your overall plan– more than market volatility.

Investing to beat inflation becomes more important as the cost of living goes up. Also, new costs do intrude as well. For example, medical costs seem to be on the rise and to be rising faster for retirees. The increased payments for Medicare benefits and the cost of prescription drugs start to eat up a larger portion of retirement income. So these medical costs would all get lumped into inflation risks.

Effects of Inflation

When you invest for longer periods of time (longer than five years), **YOUR SINGLE GREATEST RISK MAY BE INFLATION RISK.**

Historical Inflation Rate 1914-2009



https://commons.wikimedia.org/wiki/File:US_Historical_Inflation.svg
**The historical rates of inflation provided above are for illustrative purposes only and are not an indication of future rates of inflation.*

Step #3 – CONSIDERING YOUR LONGEVITY RISK

How long a retirement are you planning on?

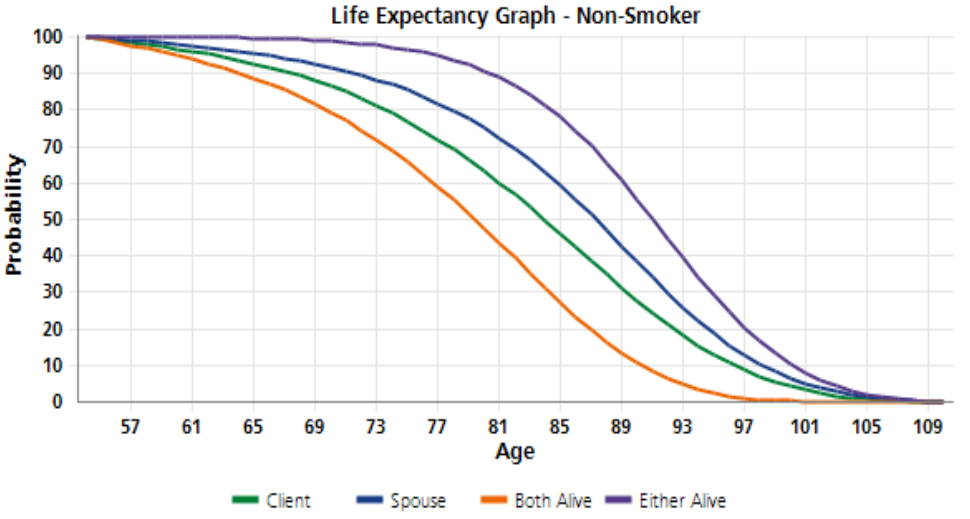
Longevity risk is a relatively new concept because the generation prior to the current baby boomers did not set out to plan for a 20- to 30-year retirement.

Because of medical advances and healthier lifestyles, we're finding that baby boomers could potentially live 20 to 30 years in retirement (maybe longer). Ultimately, their retirement may become longer than their working years. Then, there is inflation taking its bite over a longer period of time. This means that it may be vital to look at investment risks differently. Without equities in your retirement portfolio when you retire, the ability to keep up with inflation balanced with the need for funds to last long enough for a 20 to 30-year retirement may not be possible.

Life Expectancy

Life Expectancy Table - Non-Smoker
This table shows the probability you will to various ages, depending upon whether or not you smoke.

Probability	Client Lives to Age		Spouse Lives to Age		Either Lives to Age Inflation	
Chance You Will Live to Age Shown	Non-Smoker	Smoker	Non-Smoker	Smoker	Non-Smoker	Smoker
50%	84	76	88	80	92	83
40%	87	78	90	82	93	85
30%	90	81	92	85	95	87
20%	93	83	95	87	98	88
10%	97	87	99	90	101	91



Where does this leave the question of an early retirement?

All risks and factors must be scrutinized with great care. Your retirement savings must last longer. You will be giving up prime earning years. Inflation will be in play over more years. You won't be eligible right away for Medicare or Social Security benefits.

Step #4 – BEING REALISTIC ABOUT THE ROLE OF SOCIAL SECURITY IN YOUR RETIREMENT FUTURE

How much can you stake your future on Social Security?

It does seem reasonable to expect a diminishing role for Social Security because of the demographics of the contributors to the Social Security plan. It will take a growing amount of income from the plan in order to sustain the individuals now in and those entering Social Security.

This fact could lead to a reduction in benefits and/or an increase in payroll tax to cover the redemptions – to supply the income that's necessary to pay current Social Security obligations. A word of caution: Social Security makes up a smaller portion of income for retirees who are baby boomers than it did in the generation prior. Social Security is contributing only 20% to 30% of their monthly income.

One of the most important decisions you will make is choosing when to retire. This decision affects your Social Security benefits. If you choose to retire when you reach full retirement age (the age at which full benefits are payable is rising gradually), you receive full retirement benefits. Your benefits will be reduced if you retire before reaching full retirement age.

You may decide to work past your full retirement age. Then, you will get full retirement benefits no matter how much you earn.

Step #5 – GAINING A SMARTER INVESTMENT STRATEGY

An investment strategy that actively and strategically considers the elements of risk in any market cycle:

- will provide more peace of mind when markets are declining and
- avoid unnecessary rash decisions that have dire consequences.

Over the past 15 years we have witnessed 2 bubbles (the dot-com and real estate) with a bull market in between. The market volatility over those periods put investors on a roller coaster ride that ended up going nowhere. Your account may have had vast amounts of appreciation in the late nineties leading up to the dot-com bust, only to see that value evaporate over the next couple years. A new bull market emerged ultimately fueling a run up and subsequent bubble in the real estate market, which then popped and again deflated the value of your investments.

The buy-and-hold strategy over this period of time left investors with the same or lesser amount of money than they originally started with. Simply, the buy-and-hold strategy failed us. In addition, asset allocation failed us in the most recent market decline because all assets acted the same: They went down. (The idea behind asset

allocation is that some assets perform well when others don't. The recent downturn proved that theory wrong as the assets that typically perform well in troubled times, gold and real estate, performed poorly.)

A clear strategy to protect assets led me to a Capital Preservation Model with an Offensive Strategy. This is an active, dynamic way of investing in the investment markets. This strategy calls on the timing and allocation of investments in the markets based on price trends. That means that as market trends show improvement, we will commit more cash to our selected investment portfolio in an attempt to capture the upside potential of the market. As market trends show weakness, we will shift assets from the portfolio into a defensive position.

We reposition and reallocate the funds in the portfolio on a fairly regular schedule during highly volatile periods. On a weekly basis we review the performance of the portfolio compared to our benchmark, assuring that all procedures are followed to keep the strategy consistent. On a monthly and quarterly basis we have even further defined procedures to rerun the screening process to assure that all of our assets still meet the criteria we initially established and make any necessary changes and adjustments.

In plain English, this approach removes the reliance on sensationalized and emotional information to make sound rules-based decisions. It removes intuition and hunches and puts in place a definitive plan to invest in and divest from the markets based on anticipated trends in the markets.

Step #6 – ADDING TAX PLANNING TO THE EQUATION

Identifying the assets you can draw on is typically based upon the tax consequences of your investments.

Do you tap tax-advantaged accounts first or last?

Drawing on non-qualified assets or non-retirement assets that do not have tax-favorable status is usually the right place to begin. Those assets are taxed every year through the dividends that are distributed or as long-term capital gains or short-term capital gains that are distributed.

Individuals who do not have non-retirement assets would have to access retirement assets to support their lifestyle right off the bat, and, then, tax consequences are a vital consideration. Some IRAs, though, may hold contributions that were not deducted in the years that they were made. They would, therefore, represent some return of principal, and not be taxable.

However, everything that typically comes out of a 401(k) or a 403(b) or any qualified plan at work would typically be considered ordinary income and taxable that way. The question of Social Security should be addressed along with your withdrawals from your retirement plan. Discuss these questions with your CPA to find out how much income you can or should draw on in regard to your taxable consequence.

Step #7 – ADDRESSING YOUR LEGACY

Lifestyle Planning encompasses addressing your legacy. There, we focus on goals not only for your lifetime, but also for when you have passed.

Some philanthropy is always considered. Another important question is: What legacy would you like to provide for your children, grandchildren, or great-grandchildren? Perhaps, you would like to contribute to college expenses or to future homes for your children. Here, calling in an estate planning attorney is a vital step in addressing your legacy.

Most individuals we talk with have a will that they drew up, or had drawn up for them, at the birth of their first child. Some 30 years later they find out that now it's time to take the next step and plan for the next 30 years.

Dealing with your needs for a legacy to leave the children, grandchildren or any other family members concentrates on directing funds in the most prudent way or in the easiest transferable way. It considers existing laws and taxes, including the most efficient way to handle assets that exceed those limits set by current state and federal limits.

These 7 Steps contribute to a Lifestyle Plan – a smart way to plan for the lifestyle that will be yours for the next 20 or 30 years. You'll gain a Lifestyle Plan and retirement plan all built into one. We like to think that it leads to retiring "rich." Neither life nor retirement is all about money. We appreciate most the power of Lifestyle Planning to contribute to a life that is heartwarming, fun, and fulfilling.

DeCESARE
RETIREMENT SPECIALISTS
Transitioning You from Work through Life.

ABOUT STEVE DECESARE

Certified Financial Planner™ and President of DeCesare Retirement Specialists

One of Philadelphia's leading retirement transition specialist, Steve DeCesare, CFP®, is a second-generation financial planner who has spent the last decade of his career helping professionals transition into retirement with financial confidence.

His multi-disciplinary planning approach works to ensure that the investment, income, tax and estate strategies are in place to achieve each of his client's financial and lifestyle goals for retirement. Steve specializes in offering guidance to corporate employees regarding their company sponsored retirement plans such as 401(k)s and pensions. He also advises on rollovers to and investment decisions within Individual Retirement Accounts (IRAs). Additionally, he helps employees who are facing workplace transition with the critical decisions and financial plan adjustments that need to be made to help ensure a smooth progression of their financial life as they enter into their next job or retirement.

Steve is a CERTIFIED FINANCIAL PLANNER™ professional and Investment Advisor Representative of DeCesare Retirement Specialists a Registered Investment Advisor. He is also life and health insurance licensed in the states of New Jersey and Pennsylvania. Steve is a member of the Financial Planning Association (FPA) and a recipient of the 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 and 2021 Five Star Wealth Manager Award. As a financial resource, Steve has been quoted in numerous media outlets including *USA Today*, *Money*, *The Washington Post, The Wall Street Journal* and *Bankrate.com*.

We invite you to call DeCesare Retirement Specialists at 856.235.3830 to schedule a no-obligation, complimentary consultation to explore options for your current retirement plan.