Planning for Your Retirement

By F. Bill Billimoria

Most people, when planning for retirement, think first about money. They are concerned, and correctly so, about pension plans, the inadequacies of Social Security, and the best tax-deferred investments. However, that is putting the cart before the horse. Planning for retirement should begin with deciding where you want the horse to go. Determine your retirement lifestyle goals first—preferably years in advance—then balance those goals with your checkbook by doing some realistic financial planning.

Begin by making a list of how you envision your retirement lifestyle. Each spouse should develop his or her own list, since you may have different dreams that may need to be reconciled. Some of the questions your list should address are:

- Where do you want to live? Somewhere warm? Big city or small town? Near your children or special friends or in a retirement community near a fish-filled stream?
- Take a good look at your current home. Would you feel more comfortable in a smaller home, a mobile home, an apartment? Do you want a place with a garden? Will you be able to handle the upkeep of your yard and the house? Is it convenient? Do you like the neighborhood, or is time for a change?

Retirement is no longer a matter of settling into a rocking chair and dying two years later. You could be "retired" for twenty years or more. Think of it as a new phase of your life. List how you want to spend all that time. Travel? Where to? Maybe you want to spend time on your hobbies, return to the classroom, or do volunteer work. You may even want to start your own business (consulting, franchising, etc.) or work part-time for an employer.

Plan and pace the timing of these changes. Moving to Hawaii and starting up a small business the day after you have collected the gold watch is a tremendous adjustment, both for you and your financial resources. You may want to stay in your current home for several years, for example, before you move.

Once you have listed and prioritized your ideal retirement lifestyle, and the pace at which you will step into that lifestyle, begin to work with your advisor to determine where, realistically, the money will come from to achieve your dreams. Financial reality may dictate modifications of your goals, but by knowing where you want to go and how you are going to get there, you will have increased significantly the chances of achieving your retirement dreams.

Financial Issues

Once you have examined the non-financial issues of retirement—where you want to live, what you want to do—it is time to determine how much money you will need to save now to achieve your retirement lifestyle later. While it is best to evaluate your retirement strategies with the help of an advisor, the following offers some useful guidelines whether you use an advisor or not:

Start with anticipated expenses. A general rule is that you will need 70 to 75 percent of your preretirement income to live on during retirement. The percentage would obviously decline the higher your preretirement income. The rule works fairly well, if you anticipate your retirement lifestyle to basically reflect your preretirement lifestyle: same home, some routine expenses, such as food, taxes, hobbies, etc.

A more in-depth approach is required, however, if you anticipate unusual expenses such as medical expense, taking care of an aging parent or an adult child, providing gifts to your grandchildren, retiring in a different state or a foreign country, or taking big-ticket vacations. You may also want to break down these expenses into those anticipated during early retirement (paying off your mortgage, for example) and later retirement.

How many years will you need to incur these expenses—that is, how long do you plan to live? Some experts recommend that you determine your post-retirement life expectancy, and double it! You will also need to take inflation into consideration, no easy job in itself.

Next, where will the money come from for your retirement lifestyle? Determine the Social Security benefits you will be entitled to, distributions from your company pension and profit-sharing plans, your own pension programs such as Individual Retirement Accounts (IRA's) and annuities, and income from your investments. Will you work part-time after you retire? Do you plan to sell your home? Take into account that too much income could affect Social Security benefits (up to age 70) and taxes.

Once you know what you need and what you have, determine how much money you will need to save each year until retirement to cover the gap, unless you are one of those who do not have a gap. If the gap is too great, you may need to cut back on your retirement ambitions (no trips around the world), increase current income, or increase current savings.

The time to get started on your retirement plan is NOW. In addition to taxes and inflation, the single most common reason why people fail to achieve financial independence at retirement is PROCRASTINATION. Surveys have shown that the biggest worry for most Americans is a secure retirement, yet most people spend more time planning their two-week vacation than they do planning their entire retirement. Small wonder that of one hundred people reaching age 65, only four are truly independent, 23 have to keep working and 73 are dependent upon the government, friends and relatives!

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