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Bentley Wealth Advisors, LLC
Plan. Integrate. Implement. Live

Reaching Retirement--Now What?

You've worked hard your whole life anticipating the day you could finally retire. Well, that day has arrived! But with it comes the realization that you'll need to carefully manage your assets so that your retirement savings will last.

Review your portfolio regularly

Traditional wisdom holds that retirees should value the safety of their principal above all else. For this reason, some people shift their investment portfolio to fixed-income investments, such as bonds and money market accounts, as they approach retirement. The problem with this approach is that you'll effectively lose purchasing power if the return on your investments doesn't keep up with inflation.

While generally it makes sense for your portfolio to become progressively more conservative as you grow older, it may be wise to consider maintaining at least a portion of your portfolio in growth investments.

Spend wisely

Don't assume that you'll be able to live on the earnings generated by your investment portfolio and retirement accounts for the rest of your life. At some point, you'll probably have to start drawing on the principal. But you'll want to be careful not to spend too much too soon. This can be a great temptation, particularly early in retirement.

A good guideline is to make sure your annual withdrawal rate isn't greater than 4% to 6% of your portfolio. (The appropriate percentage for you will depend on a number of factors, including the length of your payout period and your portfolio's asset allocation.) Remember that if you whittle away your principal too quickly, you may not be able to earn enough on the remaining principal to carry you through the later years.

Rule of thumb

Many investment professionals recommend you follow this simple rule of thumb when allocating your retirement assets:

The percentage of stocks or mutual funds in your portfolio should equal approximately 100% minus your age. (Obviously you should adjust this rule according to your risk tolerance and other personal factors.)

Understand your retirement plan distribution options

Most pension plans pay benefits in the form of an annuity. If you're married you generally must choose between a higher retirement benefit paid over your lifetime, or a smaller benefit that continues to your spouse after your death. A financial professional can help you with this difficult, but important, decision.

Other employer retirement plans like 401(k)s typically don't pay benefits as annuities; the distribution (and investment) options available to you may be limited. This may be important because if you're trying to stretch your savings, you'll want to withdraw money from your retirement accounts as slowly as possible. Doing so will conserve the principal balance, and will also give those funds the chance to continue growing tax deferred during your retirement years.

Consider whether it makes sense to roll your employer retirement account into a traditional IRA. IRAs usually offer greater withdrawal flexibility than employer plans. A rollover to an IRA also allows you to consolidate your retirement assets.

Plan for required distributions

Keep in mind that you must generally begin taking minimum distributions from employer retirement plans and traditional IRAs when you reach age 70½, whether you need them or not. Plan to spend these dollars first in retirement.

If you own a Roth IRA, you aren't required to take any distributions during your lifetime. Your funds can continue to grow tax deferred, and qualified distributions will be tax free. Because of these unique tax benefits, it generally makes sense to withdraw funds from a Roth IRA last.

Know your Social Security options

You'll need to decide when to start receiving your Social Security retirement benefits. At normal retirement age (which varies from 65 to 67, depending on the year you were born), you can receive your full Social Security retirement benefit. You can elect to receive your Social Security retirement benefit as early as age 62, but if you begin receiving your benefit before your normal retirement age, your benefit will be reduced. Conversely, if you delay retirement, you can increase your Social Security retirement benefit.

Consider phasing

For many workers, the sudden change from employee to retiree can be a difficult one. Some employers, especially those in the public sector, have begun offering "phased retirement" plans to address this problem. Phased retirement generally allows you to continue working on a part-time basis--you benefit by having a smoother transition from full-time employment to retirement, and your employer benefits by retaining the services of a talented employee. Some phased retirement plans even allow you to access all or part of your pension benefit while you work part time.

Of course, to the extent you are able to support yourself with a salary, the less you'll need to dip into your retirement savings. Another advantage of delaying full retirement is that you can continue to build tax-deferred funds in your IRA or employer-sponsored retirement plan. Keep in mind, though, that you may be required to start taking minimum distributions from your qualified retirement plan or traditional IRA once you reach age 70½, if you want to avoid harsh penalties.

If you do continue to work, make sure you understand the consequences. Some pension plans base your retirement benefit on your final average pay. If you work part time, your pension benefit may be reduced because your pay has gone down. Remember, too, that income from a job may affect the amount of Social Security retirement benefit you receive if you are under normal retirement age. But once you reach normal retirement age, you can earn as much as you want without affecting your Social Security retirement benefit.

Phased retirement

According to a recent survey by the AARP, 61% of respondents named the need for money as the primary reason for working beyond retirement age. Over 50% named the need for health care.

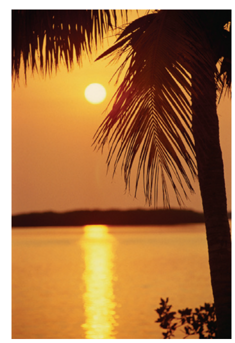
Other reasons given were the desire to stay mentally and physically active, and the desire to remain productive and useful.

AARP, "Attitudes of Individuals 50 and Older Toward Phased Retirement," 2005.

Facing a shortfall

What if you're nearing retirement and you determine that your retirement income may not be adequate to meet your retirement expenses? If retirement is just around the corner, you may need to drastically change your spending and saving habits. Saving even a little money can really add up if you do it consistently and earn a reasonable rate of return. And by making permanent changes to your spending habits, you'll find that your savings will last even longer. Start by preparing a budget to see where your money is going. Here are some suggested ways to stretch your retirement dollars:

- Refinance your home mortgage if interest rates have dropped since you obtained your loan, or reduce your housing expenses by moving to a less expensive home or apartment.
- Access the equity in your home. Use the proceeds from a second mortgage or home equity line of credit to pay off higher-interest-rate debts, or consider a reverse mortgage.
- Sell one of your cars if you have two. When your remaining car needs to be replaced, consider buying a used one.
- Transfer credit card balances from higher-interest cards to a low- or no-interest card, and then cancel the old accounts.
- Ask about insurance discounts and review your insurance needs (e.g., your need for life insurance may have lessened).
- Reduce discretionary expenses such as lunches and dinners out.



By planning carefully, investing wisely, and spending thoughtfully, you can increase the likelihood that your retirement will be a financially secure one.

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