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WITH

Jack Canfield

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CHAPTER 3

NAVIGATING RETIREMENT'S TURBULENCE

BY ROBERT NORTON

Imagine you are going to fly from New York to San Diego but there is only enough fuel on the plane to get to Denver. When would you think it would be best to address this issue? Over Denver, when you are now out of fuel? Or, on the ground in New York?

You would obviously want to deal with this issue before you left the ground. A successful retirement works the same way. You do not want to be five - ten - fifteen years into retirement only to realize you are now out of money.

According to a study by Wells Fargo, of 1,000 middle class Americans, 70% of those with a written retirement plan are confident they have enough money for retirement. Of those without one, only 44% are confident. An even more pronounced finding was that those with a written plan had three times as much saved as those who did not. This does not have to be an eighty-page document. A concise overview will work in all but the most complex cases.

A "successful" retirement has a different meaning for different people. Does it mean more time to devote to grandkids, or more time for leisure and travel? Getting your golf handicap down to single digits? Or it could mean being able to devote your time to charitable enterprises or starting a new business. Whatever it means to you, the first step is to identify your income needs and developing a plan to meet those needs.

The previous generation's retirement was a simpler process. Many retirees worked for one company for the majority of their careers. At age 65, they would get a retirement party along with a gold watch and a pension. The pension plus their Social Security was their income. And often the pension would have a cost of living increase much like Social Security, so that income would continue to increase over time. Today, few companies provide their employees a traditional pension. It is up to the employee to make sure they have saved enough for their retirement. More importantly, it is their responsibility to make sure they don't outlive their retirement savings!

Combined with the fact that we are living longer, the challenge of providing a secure retirement becomes ever more daunting. We are now faced with having to provide an income stream that may have to last 20 to 30 years or longer. Remember that inflation will continue to drive the cost of living increasingly higher.

So where to start? The first step in solving any problem is to assess where you are at the current time. Are you already in retirement or are you looking to retire in the next 1, 5, 10 or 15 years? How much have you put away towards your retirement? This should include all retirement, investment, bank and annuity accounts. You may even have whole life insurance policies that could provide income in retirement. Do you have investment properties or business interests that will continue to provide income during your retirement?

TAKING BENEFITS

One very important thing to consider is your Social Security benefits and how and when you will begin taking them. There are 567 ways a married couple can take their benefit payments. Making a mistake in how you claim these benefits can be extremely costly. Anyone who starts their benefits or spousal benefits prior to their full retirement age will receive a reduced benefit for life. Full Retirement Age (FRA) is based upon your year of birth. For those born in 1937 or earlier, FRA is 65 years old. FRA increases by two months for every year from 1939 - 1942. (i.e. 1938 FRA = 65 years 2 months, 1939 FRA = 65 years 4 months ...) If you were born in 1943 - 1954 your FRA is 66 years old.

Birth years of 1955 - 1959 again increase by two months for each year. Anyone born in 1960 or later has a FRA of 67 years old.

The natural inclination for most people is to start taking benefits as soon as they are eligible. I recommend that you do an analysis of your benefits to determine when and who takes their Social Security benefits. The wrong choice can cost you tens of thousands of dollars or more over the course of your retirement. When I do a Social Security analysis for clients, they are often amazed at how large a difference the different claiming-strategies make in their long term income. Depending on when you were born, retiring at age 62 could cost you up to 30% of your benefit. It is definitely worth the time to make sure you are using the proper strategy for your particular situation. As a side note, widows and divorcees should always determine if the spousal benefits would be a more advantageous means of collecting.

The Social Security Handbook has over 2,728 separate rules governing your benefits. They will provide you no guideline as to which claiming strategy would be most beneficial for your circumstances. You alone must determine your claiming strategy and it will be the one with which you must live. This is a complex area that has far-reaching implications for a solid retirement income. It is worth the time to do an analysis to determine the most beneficial way to collect these lifetime benefits for you and your spouse. You have spent your entire working life paying into Social Security, it only makes sense to try and get the most benefit that you can.

Now you need to determine how much you will need to cover your living expenses. This could be a percentage of your pre-retirement income or an aspirational number. I recommend that the first number to come up with is a basic needs number. By this, I mean how much is required to pay all necessary expenses. Think of this as all the monthly expenses that won't change whether you are still working or not, including your mortgage, if you still have one, taxes, insurance, car and utilities. You will probably still want to eat, so food should be in there too. Now, without any additional luxuries, you will have a baseline number to solve for. Using this number you can determine how far ahead of the game you are, or if some modifications may need to be made.

This is where you gauge how much fuel you have in your plane (i.e. retirement plan) and where you plan to fly. You can make adjustments.

How far can you fly, how fast? Can you bring friends along and make multiple stops along the way? Knowledge is power. This is the information you need to know before you go on your long and hopefully very enjoyable journey through retirement. Knowing where you are and where you are going can provide a great deal of peace of mind. I think this is the key to a "successful" retirement. You don't want to be constantly fretting over your retirement. You want to have a solid grasp on your situation and the long-term prospects for your future. You want to have a map to follow on your journey.

LOOKING FORWARD

Okay, so now you know where you are and where you want to go. What's the best way to invest your assets to accomplish your goal? What is the best plan? Much like a diet, it is a plan you are comfortable with and one you will stick to. There are multiple strategies people use to accomplish these goals. There is a bucket strategy and a 4% withdrawal strategy. Many people will dedicate a portion of their assets to create a personal pension. They can create their personal pension to provide an income stream to cover their base expenses. This income will last for their lifetime and can increase over time. The key again, is to find a plan you are comfortable with and can stick to.

Work with an advisor. Find someone whose approach and plan makes sense to you. Think of him or her as your co-pilot on your journey to help you set your course. Advisors help to make sure the equipment is running correctly, the wheels are properly inflated, the wing tabs and rudders are functioning. We watch the radar for turbulence or storms and help navigate through these difficult times. Good advisors are constantly scouring to find opportunities and potential pitfalls that may affect clients. This information is used to make sure retirement plans remain on course.

The advisor-client relationship is important. You will be disclosing much personal information. For an advisor to do as good a job as possible, we need to have a very good picture of your needs and goals. So find someone who you would be comfortable enough with to sit down and share a meal together. Ideally you will be working together for many years. I still work with my very first client from 1992 when I started at Merrill Lynch.

I am always surprised when I meet someone who has not, and who is unwilling to spend a couple of hours to plan for a retirement that can last decades, though they will spend hours planning for their vacation. Putting our heads in the sand like an ostrich and hoping for the best is not a plan or strategy. Do the work and get your plan on track. Once you are up and running with a solid long-term plan you will have done the bulk of the work. Now you, along with your advisor, will monitor your plan and any changes in your life, and adjust accordingly. When you have a plane up in the air and cruising along on a proper flight path, the hardest part is done. Now you need to monitor the equipment and watch the weather so you can make any needed adjustments.

PREPARE FOR THE FINISH LINE

One other area that is vitally important and often overlooked in a solid plan regards your estate and end of life. Ben Franklin said, "In this world nothing can be said to be certain, except death and taxes." We will all succumb to the ravages of time eventually. Our loved ones will be left behind to grieve and miss us. They will also be required to wrap up our financial affairs. Having a few key documents in place prior to becoming ill or incapacitated, can alleviate a lot of pain and heartache for our loved ones.

A Will, financial and medical Powers of Attorney, and a Living Will should all be part of your planning. Your Will directs the disposition of your assets: who you want to get what and how much. The powers of attorney will allow someone to make financial and medical decisions for you should you be unable to do so for yourself. Whether you become incapacitated for a brief or very long time, decisions will need to be made regarding your financial and medical affairs. Without your powers of attorney, your family will have to go through the legal process of guardianship to get someone appointed for you. It would be much better for you to have these in place to eliminate wasted time and additional expense for your family.

A Living Will or advanced healthcare directive allows you to plan for the extent of the life-saving measures you do or do not want taken. Three years ago, I lost my mother and ten months later, my father. My dad's situation was such that we had to make a decision no one ever wants to make. My dad had a Living Will. My brothers, sister and I knew what he wanted done. It was there for us to read in black and white. In one of the saddest and difficult days in our family's life, our dad had lifted some of the burden from us. We knew what he wanted and we did as we were told.

Death and illness is always a sad and difficult time for a family. Planning for life's inevitable decline and end can alleviate many of the burdens of this time. Make your wishes known and get the proper documents in place so your family can focus on what is important.

Do these things now, get your plans in place and you can fly off into your retirement with confidence.

Sources:

Wells Fargo Study, *Middle Class Americans Face a Retirement Shutdown*. 10/23/2013

www.social security.gov

About Robert

A financial professional since 1992, Robert Norton started his own financial firm in 2000, intent upon providing the unbiased investment-management and retirement-planning services retirees and pre-retirees need to pursue their financial goals.

"My mission," Robert says, "is to work with people in an environment of mutual respect and enjoyment of each other's company. I want to be a useful partner, in helping my clients gain financial confidence, so they can focus on what is most important in their lives."

In addition to over 20 years of experience, Robert brings to clients a Bachelor of Science Degree from Clemson University's School of Commerce and Industry as well as his Series 7 and 24 Securities registrations, held through LPL Financial. His experience and training have made him a versatile professional capable of helping clients with a variety of financial needs.

As an independent advisor, Robert works exclusively for his clients – not for financial companies or brokerages. He is free to make sure his clients' needs are always the top priority.

Robert's honors include appearing as a guest on 1210 WPHT's "The Big Talker" and the former WWAC TV. He's also a multi-year winner of the Five Star Wealth Manager Award*. The greatest tribute to him, though, is a loyal and growing clientele.

Away from work, Robert enjoys spending time with his six wonderful nieces and nephews, and with his near-constant companion and best friend, Bohdi, the dog.

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Award based on 10 objective criteria associated with providing quality services to clients such as credentials, experience, and assets under management. Prior to 2012, award was based on client satisfaction. Respondents evaluated criteria such as customer service, expertise, value for fee charged and overall satisfaction. The overall score is based on an average of all respondents and may not be representative of any one client's experience.