ROCHESTER BUSINESS JOURNAL
RBJ
WWW.RBJ.NET
OCTOBER 12, 2018

Post-retirement finances need careful monitoring

Planning doesn't stop after working days come to an end

By MATTHEW REITZ

People spend decades saving for retirement, but many aren't sure how to approach planning for the rest of life once it's finally time to consider walking away from work.

Workers agonize over saving for retirement and accumulating wealth throughout their lives, but many people don't consider a plan for how to manage the nest egg they've set aside. Developing a plan to manage your money throughout your post-working years is crucial to achieving the retirement of your dreams.

Sage Rutty Financial Advisor Connor Holly, CFP, says everybody has a different approach to retirement, but it can generally be split into early retirement, mid-retirement and the later years. One recurring theme throughout each stage, Holly said, is that people should be reviewing their retirement and estate plans frequently.

Prior to retirement, Holly says individuals should make sure all the boxes on their financial plan have been checked off once it's no longer a question at that point whether or not someone should stop working. People should, however, be flexible about when to retire as it may be largely dependent on where markets are at that time.

Seneca Financial Advisors CEO G. Joseph Votava Jr. said that roughly five years prior to retirement, individuals should start to take a close look at their living expenses. Before planning for the future, people need to have an idea of what their costs are and how they want to live in retirement.

"The idea is that you go into retirement (and) you don't want to have to step back from (activities)," he said. "A lot of people say 'I won't need as much money in retirement,' but that's not true because you have more time to spend money."

Early in retirement many people are in their 50s and 60s and want to take trips and do other activities while they still can, Holly said, noting for a lot of people the first few years of retirement is very exciting and people want to treat themselves. People should, however, monitor their finances closely during this time period to ensure they aren't burning up all their funds.

Individuals can be aggressive with investments in their 20s, 30s and even 40s, with the ability to wait out a long-term dip in markets and make up for any losses, experts say. As people age, however, it makes sense to shift funds into more conservative accounts and carve out money for day-to-day expenses and cash flow.

"It's a whole different thing if you're retired and relying on your portfolio to provide income," High Falls Advisors President and CEO James Englert says of investing during your retirement years. "You can't manage all of your assets the same way as you do in your accumulation phase."

William Prentice II, founder and managing partner of Prentice Wealth Management, said in the years preceding retirement people should start to be very mindful about taking too much risk, which can be destructive to an entire plan. Prentice said behavioral mismanagement and spending habits are often what hurt investors, not choosing the wrong stock or funds in which to invest their money.

Individuals learn over time to spend within their means, but as their paychecks and income disappear people must learn to manage their spending and investments differently during retirement.

Englert said the worst possible thing that can happen is if an individual in retirement or nearing retirement has all their investments in the stock market and sees a significant downturn. He said it would be a disaster to have to sell off stocks on their way down to raise cash for current expenses.

Much has changed since Englert started his career in 1980 working in employee benefits for Eastman Kodak, he says, noting there wasn't an awful lot of planning necessary for prior generations.

"Back then people worked until age 65 and probably had 30 or more years of service and then retired," he said. "And retirement was a lot easier back in 1980 because a lot of companies had a pension."

With most companies not offering a pension, it's up to each individual to plan for their retirement and spend wisely during those years. Since the decline of defined-benefit pension plans, people in the U.S. have generally not saved enough for retirement, according to Prentice.

"The reason that defined benefit pension plans worked is they were the golden goose that would keep on laying eggs," Prentice said. "If you got $5,000 a month, spend it that month and another check magically showed up next month."

Individuals with pension plans were, and still are, generally unable to access large sums of money, which prevents them from exhausting their retirement resources.

"You can kill the golden goose any day you want to with your 401(k)," Prentice said, adding people often don't think about the long-term ramifications to financial security if they withdraw significant sums of money early on in retirement.

As individuals age into retirement, personal expenses tend to decrease, but health care costs increase. The costs of health care are enormous, Prentice said, and people are often not honest with themselves about the true costs of health care.

"People go to Medicare and that's a great system, but I don't think a lot of people realize they have to pay," Votava said, adding medical costs have been increasing faster than other expenses.

Holly said reviewing Medicare and other insurance coverages is essential, and it may make sense later in life to switch to a more expensive plan with lower deductibles. Health insurance and long-term care insurance are critical to finances later in life, Holly said, as those costs can add up exponentially in the final years of life.

If possible, Holly said people should ensure they are protected for long-term care that won't ruin their family's financial situation.

Taxes are another major expense in retirement, and Votava said individuals should pay close attention to their withdrawals from retirement and other accounts in an effort to minimize tax liabilities.

Englert said individuals often overlook the post-death transfer stage, where any remaining assets are transferred to family, friends or others. He says many people don't consider themselves as having an estate, but nearly everybody has retirement savings and owns a home or other property.

Individuals moving into their 80s and 90s should continue reviewing their estate plans, Holly said, as the risks of going from healthy to sick to passing away can change quickly. It may make sense for some people to begin gifting money away to family and friends before death.

"Even if you don't have a huge net worth, a lot of clients enjoy giving money to grandkids and kids to watch them enjoy it while they're alive," Holly said.

Individuals should also ensure they speak with the people who are named as beneficiaries in their plans, experts say, and ask those with power of attorney and other statuses if they want the responsibilities attached to those roles.

Matthew Reitz is a Rochester-area freelance writer.