5 Ways to Avoid Blowing Up Your Retirement Plans

RETIREMENT Lifestyles Advisors
INDEPENDENT INVESTMENT ADVICE

By: Patrick McNally

Why most people are not prepared for retirement

As a rule, if you're one year or less from retiring, you should be able to know exactly how much your monthly expenses will be and what your monthly retirement paycheck is going to be on the day you officially retire.

Will your monthly retirement paycheck cover your expenses?

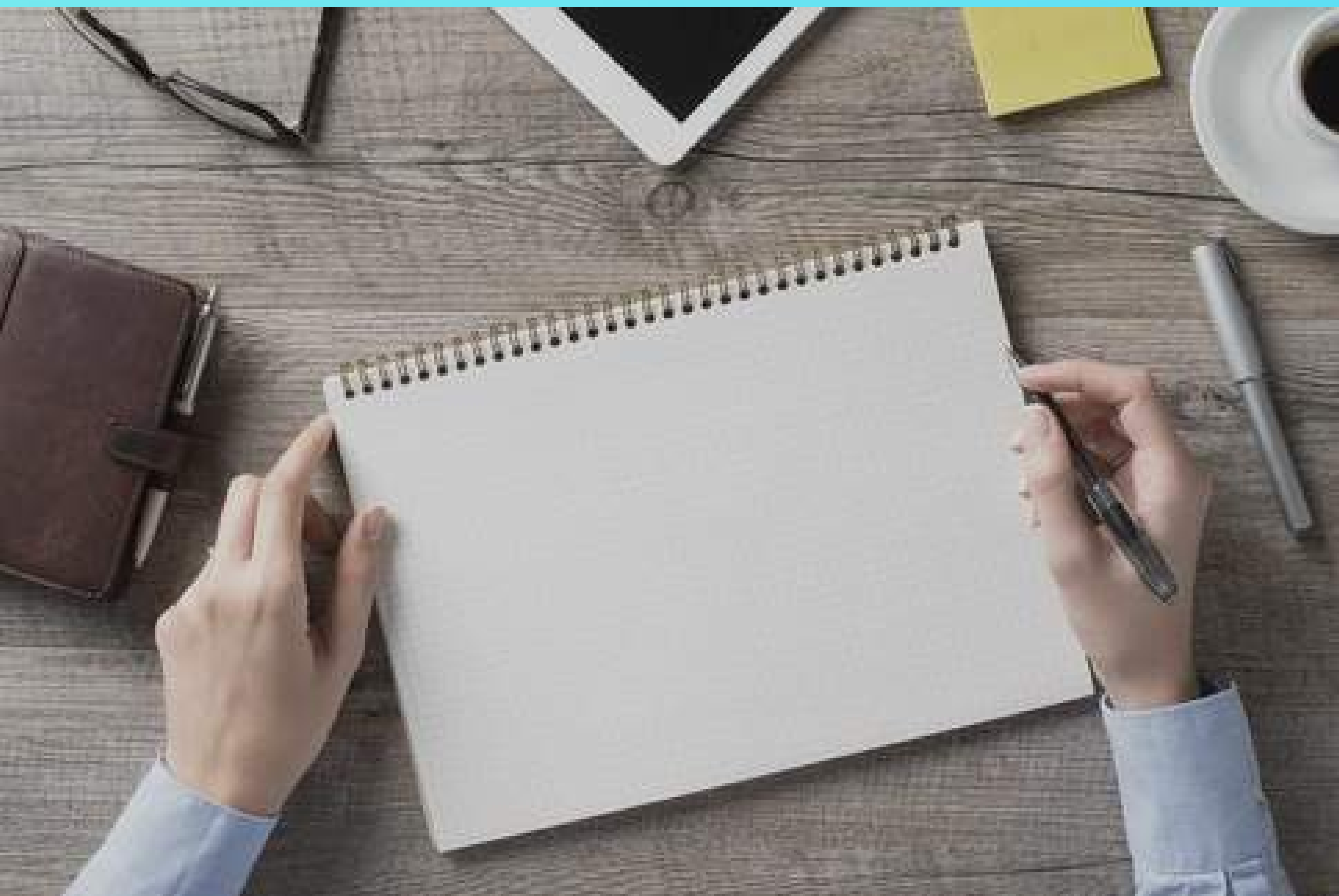
At Retirement Lifestyles Advisory Group we've worked with thousands of retirees and pre-retirees over the years to help them clarify their retirement goals and build retirement paychecks that are predictable, consistent, safe and increase over time, ultimately giving them peace of mind.

Follow these 5 steps and you'll increase your confidence, create a sustainable income and enjoy a stress free retirement.

Dedicated to Your Retirement Lifestyle,

Patrick McNally
CEO, Advisor, Author, Radio Host

Know Your Numbers



Not long ago I was meeting with a couple who were getting ready to retire within a few months. They had listened to my radio show and decided that it would be a good idea to come in and get a review of their plans.

After reviewing the investment accounts and talking about their plans to travel and catch up on some gardening at the house, I asked them what their current monthly bills were. They stared at each other for a second then at me… then back at each other again. After a few seconds they said, *"oh, probably around 3 or 4 thousand a month."* Then I asked how much they were expecting from Social Security and any other sources of retirement income… blank stares again, and then a guess of around 5 to 6 thousand per month.

I sent them home with a homework assignment. The first thing I wanted them to do was complete a budget sheet. I asked them to go back over the last 3 months and write down all of their fixed expenses, like car payments, and then average out their variable expenses like groceries and entertainment. Then, I had them visit Social Security's website and get their most updated statements.

After a few weeks they came back in to see me with all of their updated numbers. When I asked for their income and expenses they sheepishly grinned and said, *"We were a little off on our original numbers… we spend about $6,000 per month, and we'll be bringing in $4,500."*

In order to have a successful retirement that may last as long as 30 years or more, you have to know your numbers.

Action Steps:

1. Get a sheet of paper and draw a line down the middle dividing it in half.
2. On the left side write down your expected income from all sources (Social Security, pensions, annuities etc).
3. On the right side write down your monthly expenses.
4. Minus your expenses from the income... what do you get?

Don't be alarmed if your spending more than you bring in. At least you now have the information you need to make up any gaps in your retirement income.

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Get Rid of Debt

One of the most common questions I get is “Should I pay off all my debt before I retire?” The answer is… usually, but it depends.

I believe that paying off all of your debt should be a goal for everyone in retirement however it may not be feasible for some. The thing to remember is that every debt payment you carry with you into retirement is holding you back from doing the things you truly want to do.

The average consumer in the US today carries approximately $25,000 in credit card debt, on 5 different cards. The average minimum monthly payments would be around $800. Imagine if you had an extra $800 per month in retirement… what could you do with it? So my advice for credit cards is to definitely have them paid off and under control before you retire.

What about the house? I think it's a great goal to pay off the house before retirement if you can. If not, don't worry, just make sure you can pay the mortgage with guaranteed sources of income. A fun goal for many people is to “Time” their retirement date with their very last mortgage payment.

It’s really fun to see the excitement when clients write their last check to the mortgage company and then retire the very next Friday.

The next question I often get is, “Should I pay off all of my debt using my retirement account?” The short answer 99% of the time… NO.

Remember that every dollar you withdraw from your retirement account has never been taxed. So technically, you’re only going to keep about 70 cents of every dollar because you owe the other 30 cents in tax.

Unfortunately I’ve seen the aftermath of people who withdrew thousands or even hundreds of thousands of dollars to pay off their mortgage, or their cars only to get a massive tax bill a few months later that they couldn’t pay.

So talk to an advisor or tax person before you make any big withdrawals from your retirement accounts.

Action Steps:

1. Pay off all credit card debt fast.
2. Continue to pay off the credit card monthly.
3. Have a plan for the mortgage and car payments.
4. Try not to use retirement accounts to pay debt.

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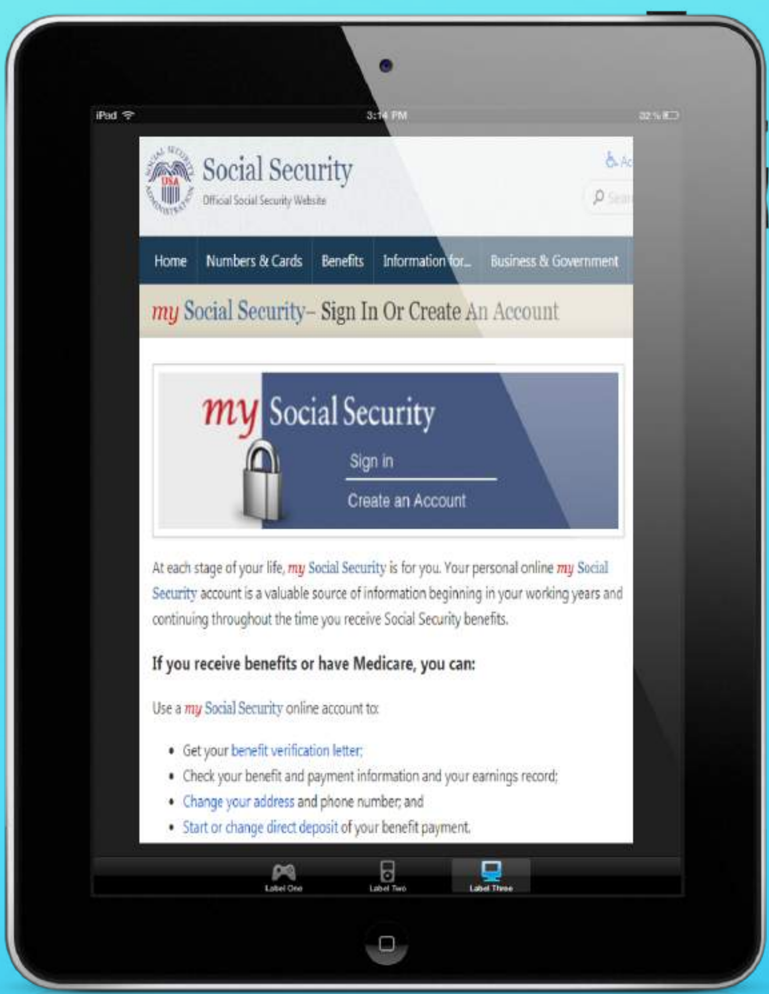
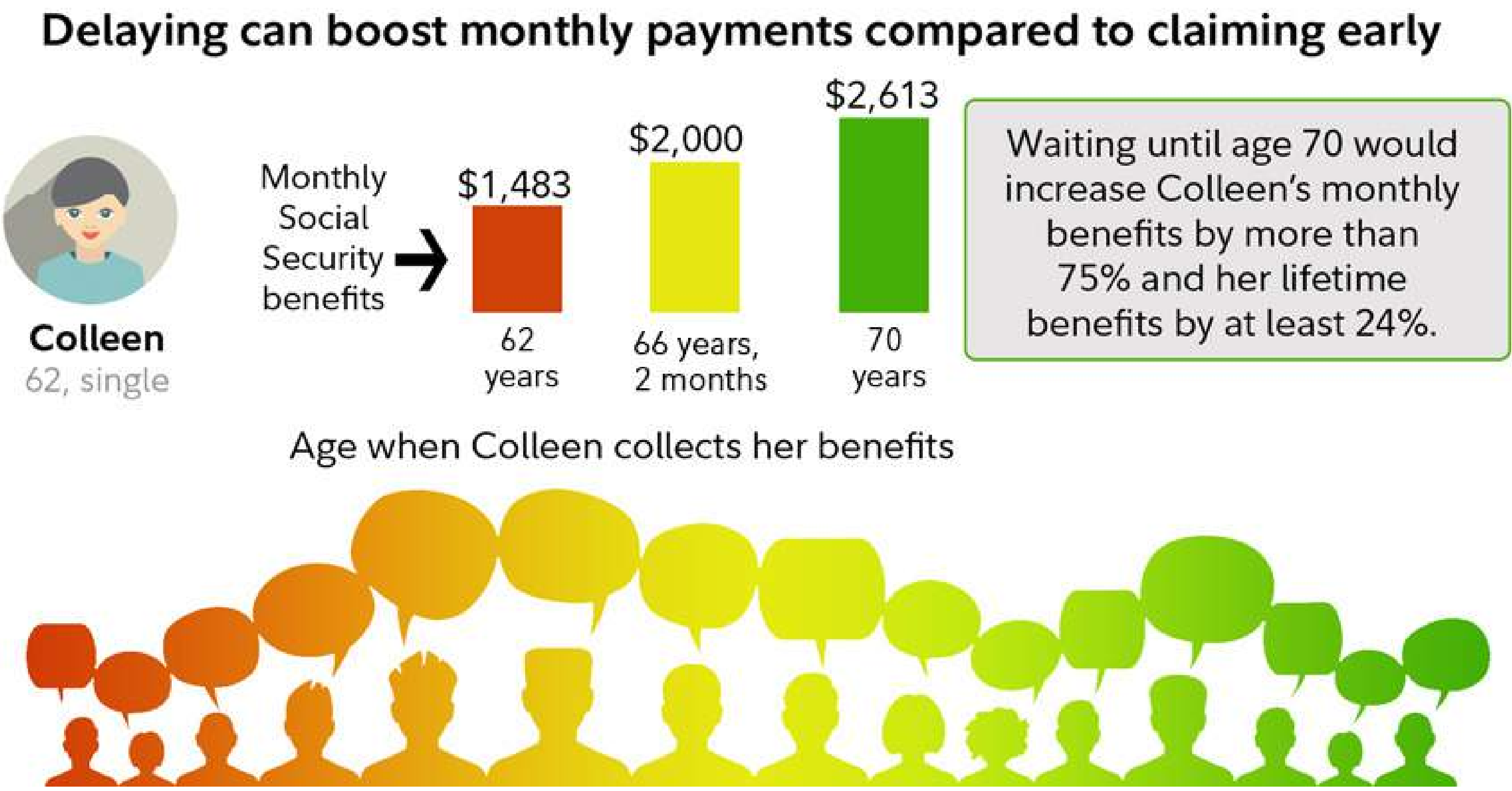
Wait to Claim Social Security benefits until full retirement age



Reviewing Social Security benefits seems like an obvious thing to do when you're getting close to retirement. But you would be surprised how many people I meet that have no idea what their Social Security paycheck is going to be once they quit their job and start claiming benefits. Maybe it's because not too long ago the Social Security administration stopped mailing out annual benefit notices. Today, you need to visit **www.ssa.gov** to create a login and password and then you can review your expected benefits.

Understanding the different benefit amounts will help you plan ahead for when you should actually file for your benefits. **The longer you wait to claim benefits, the more income you can expect**. Many people just go with the flow and decide to take their paycheck early at age 62 without weighing the potential lifetime loss of income. There's three different benefit ages that you need to be aware of. The earliest you can file is age 62, but your "Full Retirement Age" is most likely after 66. The maximum time you can let your Social Security account grow until, is age 70.

Health status, longevity, and retirement lifestyle are 3 variables that can play a role in your decision on when to claim your Social Security benefits. You may not be able to predict the true impact of these variables, but you can rely on the simple fact that if you claim early versus later, you will likely have lower benefits from Social Security to help fund your retirement.



At Retirement Lifestyles, we can run Social Security income planning variations that show you the difference in claiming early, versus waiting.

Once you can see the long term affects on your retirement income, you'll be armed with information you need to plan better.

Action Steps:

1. Go online to **www.ssa.gov** and create an account.
2. Download your most recent Social Security statement.
3. Review the income payouts at the 3 different ages.

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Use Lower Cost Investments

I was in a meeting with a couple and we were discussing the different types of investments we use in our income planning with clients.

The firm they were currently with had been investing them into mutual funds for years, so they were used to hearing about diversification in thousands of companies and owning multiple funds.

I asked them, "How much do you pay in fees each year to own those funds?" They answered, "Oh, our advisor doesn't charge us any fees to manage those."

I had to explain to them that it was true that their advisor wasn't charging them any annual fees to manage the funds, but that was because he had earned a commission up front of 5.75%. However, they were still paying fees inside of the funds themselves of another 1.85% per year.

On their original portfolio of $750,000, the costs were;

- Upfront advisor fee of 5.75% = $43,125
- Mutual fund mgr fees of 1.5% per year = $11,250
- Mutual fund turnover fees of 0.35% per year = $2,625

If we average the advisor commission over 5 years (1.15%/yr) an add in the others... they were paying on **average 3% per year** just in fees.

$22,500 per year.!!

99 out of 100 people I talk to have no idea that they are paying those types of fees. Their advisors don't disclose it.

What would an additional $22,500 per year of income mean to your retirement lifestyle?

Could you use that extra money to enjoy yourself?

What would you do with it?

Action Steps:

1. Research your mutual funds on www.morningstar.com
2. Look for lower cost replacements
3. Ask your advisor if it's true...

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Know What Rates of Return You Need, in Order to Never Run Out of Income

"The question isn't at what age I want to retire,
it's at what income"

-George Foreman

Most people tell me that the number one fear they have is the possibility of ***running out of money in retirement.***

The key to sleeping well at night is knowing how long your investments will last based on the amount of income you need. There are 3 rates of return you should know:

1. Your Retirement Rate; What's the minimum you need to earn on your investments to get you through?
2. Your Preservation Rate; What's the minimum you need to earn in order to end retirement with the same amount you started with?
3. Your Legacy Rate; What's the minimum you need to earn in order to leave behind a specific amount to your heirs?

Once armed with this information you'll be able to make good financial decisions about how much income you can withdraw each year without running out in the future.

Then you'll gain the **confidence and clarity** you need to be able to plan ahead.

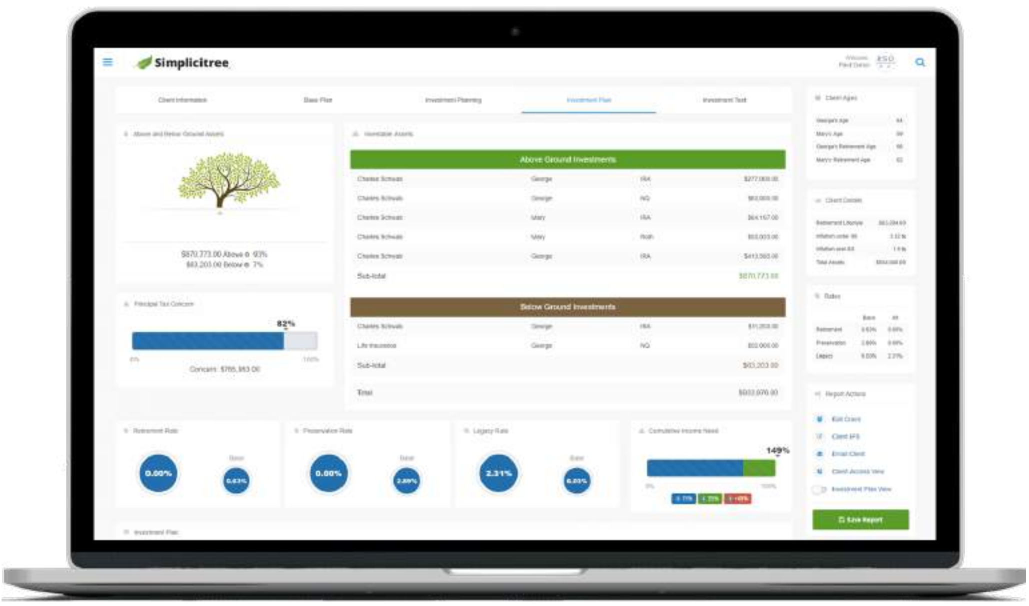
Proper income planning will give you a **simple** and **clear** path to follow.

You can build your own customized income plan by answering these 8 questions and calculating the math:

1. What age do you want to retire?
2. How much income do you want in retirement?
3. What are your annual expenses?
4. What is your expected Social Security income?
5. Are there any other income sources? Pension? Rentals? Part-time work?
6. What are the total amounts of all retirement accounts?
7. What are the amounts in non-retirement brokerage accounts?
8. What are the amounts of other savings? Banks? Annuities?

Questions?
Let's Schedule a Quick Call

www.TalkToPatrick.com



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