“Not their fathers’ retirement”

The prospect of planning for retirement during the worst financial crisis of the past 60 years is a grim one.

The resource accumulation plans of many are under assault from several directions: Stock and bond portfolios have been damaged or destroyed, home equity values have plummeted, employer contributions to 401(k) are being discontinued or reduced; and even those rare few who have pensions are in dangerous territory. Regardless of whether a client has planned their retirement expenses and set achievable savings goals or has done little or no planning, in this climate, every client is going to need dedicated guidance and assistance to create or salvage their retirement plan.

The basics goal of retirement planning is to accumulate enough funds to last throughout the retirement years, a time frame that is now a lot longer than it used to be. Actuarial studies conclude that men who attain the age of 65 can expect to live an additional 17 years. Enjoying even greater longevity, women who reach the age of 65 can expect to live an additional 19.7 years. This is definitely good news assuming that these longer life spans are being considered when formulating retirement plans.

WHAT DO YOU DO NOW?

The current economy demands that retirement plans and investment strategies be adjusted. After a client’s initial painful assessment of their losses, goals must be re-evaluated, and, in some cases, retirement may have to be delayed to allow for a rebuilding of the nest egg. Others may cut their current spending to increase their contributions to their retirement accounts. Some may decide to downsize their retirement expectations by either purchasing a smaller retirement home or relocating to a part of the country where the cost of living is lower. Others may decide to take on post-retirement employment to mitigate financial pressures.

Clients need to be familiarized with the various traditional retirement income resources. Near-retirees must personally reassess their “risk comfort zone.” This can be tricky. Some will now be overly risk-adverse as a reaction to recent losses, while others may opt to take on too much risk in misguided effort to region lost dollars quickly. The benefits of each retirement resources must be carefully weighed against any restrictions, and the optimal retirement wealth accumulation plan determined and implemented.

- **Tax-deferred accounts.** The design of most retirement plans includes a self-funded retirement account. However, if a client has lost employment, or fears it will happen, they may stop their voluntary 401(k) and RIA contributions. Also, many cash-strapped employers are discontinuing or reducing employer contributions to the 401(k). Both 401(k) and IRA contributions must be maintained. Chances are that clients have lost funds in the current market and, by continuing their savings plan, they will be able to recover that loss sooner. The contribution limit on traditional or Roth IRA in 2009 for a person over 50 years of age is $6,000, which includes a $1,000 “catch-up” allowance. Nonworking spouses may also be eligible to contribute to an IRA.

Keep an eye on converting clients’ tax deferred traditional IRAs to tax-free Roth IRAs next year. A significant opportunity will exist in 2010 when the adjusted gross income limitations on conversions will be lifted, allowing high-wage earners to convert their traditional IRAs to Roths.

There are certain conditions where early withdrawals may be made without penalty, such as higher education expenses, medical expenses, or first-time home buyers. Except in cases of emergency, clients must leave IRA and other deferred accounts intact in order to grow back to previous levels and avoid substantial losses. Clients may be tempted to use retirement nest eggs to pay for their children's education expenses, but you mist point out that student loans are possible, but there are no loans available to finance retirement.

- **Pension plans.** If a client has a pension plan, request that they bring in their most recent employer pension plan correspondence and financial statements so you can help determine if their expected retirement benefits are in jeopardy. During economic downturns, clients who are employed by companies that are in bankruptcy or are restructuring are the ones at most risk, but all employer-provided pension plans should be examined for underfunding.

If you find that a pension plan is at risk of being unable to provide retirement payments, note that the federal Pension Benefit Guaranty Corp. may step in and pay benefits, but only up to a certain amount. The maximum amount paid is determined by a sliding scale that is based on age and whether there is a benefit for a surviving beneficiary. Also, some early-retirement programs or enhanced programs may not be covered by the PBGC. More information is available at the agency's Web site, www.pbgc.gov.

- **Home equity.** Clients who had planned to use their home equity to fund a portion of their retirement will need careful advice. The amount of planned available capital has likely been reduced because of the decrease in the market value of homes and a lack of liquidity in the housing market. If a retirement plan included the use of a reverse mortgage where individuals "borrow" the cash equity of their home from a lender, and the borrowers are not required to repay until death, sale of the home, or relocation the monthly payment stream from the bank will be less due to a decrease in home equity.

- **Social Security.** Never underestimate the importance of Social Security benefits when designing a retirement plan. Social Security has many desirable attributes: It is provided for an individual's life, which is extremely attractive considering that life expectancies are increasing; it is adjusted for inflation and has limited favorable tax treatment; and spouses who have never worked may be eligible to collect benefits.

WHEN TO RETIRE?

The longer a client's time horizon until retirement, the longer they have to recover from recent losses and increase retirement resources. A delay in retirement of a few years may be the prudent option for many clients. Some who retire early may be covered by their former employer's health plan, but most early retirees will need to purchase private health insurance or opt for COBRA, an extension of former employer health care coverage. Both will be costly, but the cost of private insurance will be determined by the retiree's health. If retirement is delayed until the age 65, most will be eligible for Medicare Part A, which provides hospital insurance, and Medicare Part B, which covers doctor and outpatient services.

A delay in retirement can also provide financial advantages to the monthly Social Security check. The amount of the monthly benefit is determined by an individual's highest average adjusted indexed monthly earnings over a 35-year period. In simple terms, if a client works longer, they receive a larger monthly benefit. Qualification for full benefits is indexed by birth year: Those born in 1973 or earlier will qualify at age 65; those born more recently will not qualify until they reach ages 66 to 67. If a client opts for an early Social Security benefit at 62 years of age, the monthly benefit will be decreased by about one half of 1 percent for each month between 62 years and the full retirement age. Therefore, a client born after 1960 who takes a Social Security benefit at age 62, rather than waiting until the full retirement age of 67, will reduce their monthly benefit by 30 percent.

Optimally, clients should attempt to wait at least until their full retirement age to apply for Social Security. A loss of 30 percent per month cannot be offset by the advantage of collecting early within less than 16 years. There are, however, special circumstances where it is beneficial to take Social Security benefits early, such as dire financial circumstances or poor health.

Another advantage to deferring Social Security benefits until the full retirement age is the ability to collect unlimited earned income while still collecting Social Security benefits without reduction. For years before a client reaches the full retirement age and for the year they reach full retirement, there are maximum monthly earned-income amounts. For 2009, if a client is under full retirement age for the entire year, his Social Security benefit would be reduced #1 for every $2 he earns above the annual limit for earnings of $14,160. A client reaching full retirement age in 2009 would receive benefits reduced $1 for every $3 she earns over $37,680 for the portion of that year before reaching full retirement age.

Lastly, clients retiring after full retirement age will receive a delayed retirement credit that increases monthly benefits. For clients who reach their retirement year after 2008, the credit is 8 percent per year. Credits can be received up to age of 69, resulting in a client receiving his largest possible Social Security benefit at age 70.

BEWARE!

Fraud is seemingly epidemic, so retiring clients need to be cautioned regarding their investment decisions. The old adage, “If it sounds too good to be true, it probably is,” applies. Investments that claim to consistently perform above market should be scrutinized. Likewise, affinity fraud schemes that prey upon friends, relatives and acquaintances is growing as these perpetrators capitalize on the trust bestowed upon them. Anyone can call themselves a financial advisor, so you must caution your clients to both research the individual with whom they are entrusting their money and require investment statements from a custodian. Clients should not rely solely on reports generated by the advisor. Also, clients should be educated about fraudulent advance-fee scams those asking for money up front to ensure a large future return and be warned not be conned into parting with their retirement nest egg.

Clients prudent enough to think past the discomfort of pondering their own demise and how put their affairs in order early need to be aware that fraud is present in the funeral home industry. Advance funeral arrangement research is advised, but clients should be wary of prepaid funeral plans. They should also be acquainted with the FTC Funeral Rule, which mandates a printed price list for funeral arrangements to enable consumers to comparison shop. The rule also considers the sale of services that are not legally required and not wanted by the consumer.

On the legal side, retiring clients should at least have the foresight to prepare a will that names the executor of their estate and heirs to their assets. Durable power of attorney should be documented, thereby naming the individual chosen to legally handle financial affairs should they become incapacitated. Various other advanced directives should be drafted, thereby ensuring that an individual's health care preferences are respected.

CONCLUSION

Not satisfied with "their father's retirement," many near-retirees have transformed the concept of retirement. They have generally good health, a longer life expectancy, and big plans. Good retirement planning has been essential for them, and now so is restructuring and re-assessing those plans. A lot has happened in the financial markets over the past year, so make sure you re-acquaint yourself with your clients' retirement plans and help them make the adjustments necessary to strengthen their nest eggs.