**Are You Ready to Retire?**

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All too often I am struck by how unprepared people are for retirement because they haven't focused on the basics of family finances prior to retirement. Here are some things to think about which will form the foundation for your Retirement Plan.

Are you ready to retire? The answer is “it depends.” It depends on what “retirement” means to you and your partner and how well you have prepared for your specific scenario. Retirement used to mean work to age 65, quit, then stay home and watch the grandkids. Now it can mean semi-retirement or a new career altogether. Or travel or volunteering or moving. The possibilities are endless. You must decide on your path. Don’t let circumstances force your decision.

According to a 2020 survey (Transamerica), 45% of workers plan to move slowly into retirement by working fewer hours at their current job or working part time at a different job. After a life time of work, many stress at not having a purposeful position surrounded by colleagues. This gradual approach offers a way to test the waters as well as learn how to pay the bills when the consistent paycheck goes away. You can experiment on how to fill those nonworking hours. It also is a way to add to Social Security because SS calculates your average indexed monthly earnings during the 35 years in which you earned the most. If this gradual approach is feasible, it should be considered.

Here are comments from a 50-something single female who came to Colorado as an independent contractor (1099) because it was the first time she was not tied to a job location: “Regarding working part time, it provides a comfort factor for me because a) it’s extra income even though it’s not strictly necessary, but with a volatile market, I still like to have some income and b) it keeps my brain working and active and c) it keeps me connected to my professional world. I feel if the market did crash and I really needed to go back to work full time, I wouldn’t have a huge gap on my resume to explain. What really matters to me is the market in the 10 years immediately post-retirement.  That has a huge determination on whether or not my money will last.” Money Coach advice: Never have money in the stock market that you may need within the next five years. Use cash first, then bonds. Refill these cash and bond “buckets” to keep the five-year window free of stocks.

As a Money Coach it is difficult to provide “When can I retire?” advice. Let me start by identifying ways indicating you are not prepared for retirement and will have to consider living off your kids:

 You have spent more time planning your last two-week vacation that you have planned for 30-40 years of retirement. Time to put the plan together!

You and your spouse have not thoroughly discussed what retirement means. Partners will have very different views of "retirement." Start the discussion now!

You have refinanced your first mortgage four times and have a substantial second mortgage. Where did the money go? Good guess it went to pay for your overspending. Another indication: You have taken money out of your 401(k) for “expenses.” Stop overspending!

You come to the Money Coach four years before your planned retirement, and I find out you now are overspending $3000-$5000 a month (actual case a decade ago). I could not help this couple. They most likely are still working (and still overspending).

You think Social Security is supposed to pay for your expenses in retirement. Reality - the formula used by Social Security results in benefits that replace about 42% of a person’s earnings. Paying for retirement is a four-legged stool: pension/retirement savings, personal savings, Social Security, and earnings you receive from your portfolio after retirement begins. A stool with only two or three legs is less secure.

You think all your investments are "safe" in cash accounts. You must have a balanced portfolio of cash, bonds, stocks, and “other.”

You misuse your credit card as your Emergency Fund. You have more vehicles than registered drivers. You eat out all the time.

You think Medicare will pay all your medical bills after age 65. Fidelity projected in 2020 that the average American couple will face $295,000 in healthcare bills after 65 in addition to Medicare, not counting dental and Long-Term Care.

Some things to consider when planning for retirement:

The secret to living within your means after retirement is living within your means before retirement.

 The key to retirement is low expenses. Live below your means. Understand the difference between “needs” and “wants.” Track your expenses; control your expenses.

To begin with modest assets and build a fortune obviously requires thrift.

If you can't pay off your credit cards at the end of each month, declare a personal financial emergency. Stop using credit cards. Have a plan to pay off your debt.

Your primary investment goal is retirement. For each day you work now, you must make enough to pay for that day and one day in the future when you will have no income.

Studies shows that the decision-making ability of people older than 65 is worse than that of adolescents. Areas include financial and medical decisions. Unfortunately, this fact is well known by financial and annuity salesmen. Be careful! Only use a Fiduciary for financial advice.

Steps you should take when planning for retirement:

1. Talk with your partner and discuss your options (include the house and mortgage). Put together a written plan. Start today. Include action steps. Act! Keep flexible because things change, and you must also change your plan. Remember to focus on how you will spend your free time? It is very important that both parties keep physically, socially, and mentally active, and out of each other’s way.

2. Determine your expenses now. Record every dollar spent for three months and put into a category. Average this information to prepare a monthly budget. Then, estimate your expenses for retirement years (in today’s dollars).

3. What is your income now? What are the sources of income going to be during retirement? Will this income cover your future expenses? If not, adjust. Spend less, save/invest more. You can withdraw about 3.5% of a "balanced" portfolio each year. Remember, if this withdrawal comes from a regular retirement account, you must pay taxes on the withdrawn amount.

Bottom line: planning and flexibility and common sense. Act now!