

# RETIREMENT: A Lot More than Money



**B**arrett Doss, the neatly bearded actor who plays a thoughtful financial advisor for the brokerage firm Ameritrade, makes a point that real advisors widely agree with — financial advice is about a lot more than money.

Kathleen Christy, a wealth strategist at PNC, concurs. She asks new clients to look 10 years into the future and then run some scenarios, or test cases—do they want to volunteer, pursue a hobby, maybe start a part-time business?

## BY TOM GROENFELDT

“When they’ve been working 40, 50, 60 hour weeks, their persona is wrapped up in their job, and when they retire and there is nothing to do except stay at home and figure out other things to do, it becomes a culture shock. If you have two spouses, one will end up asking the other to ‘please go find something to do.’”

As the old saying goes, we married for better or worse, but not for lunch.

“Retirement is so much more than just the financial side. The emotional side is one of the biggest things that will make or break someone’s success, and spouses often have not discussed with one another what retirement will look like,” she added.

“If they work with a planner, it gives them the opportunity to start these conversations. Then they can go home and have that conversation with each other, can come up with some plan of what they might like to do in retirement.”

The first priority, of course, is to save enough, and that requires understanding spending. Almost every week, said Lynn Dunston, founder of the Dunston Finan-

cial Group in Denver, they see clients who have been earning \$200,000 a year each but aren’t financially prepared to retire.

Financial planners can help clients sort through personal decisions about retirement and how they want to live before and after retirement. Some people want to retire as soon as they can. Others, generally the self-employed who have no excuse to dislike their boss or working conditions, may want to work forever, although perhaps at a more leisurely pace.

### When to start taking Social Security?

The full retirement age (depending on the year you were born), when people can collect 100%, is 67. Start at 62 and you get 75%, while waiting to age 70 gets you 132%. Generally, advisors suggest waiting as long as you can, but if you’re ill or your family has a history of short life expectancy, you may be better off taking the benefits early.

### Tax planning

Peter J. Cannif at Advanced Portfolio Design, LLC, in Westford, MA, warns that tax deferral plans such as IRAs and 401(k)s can become a tax trap. They require individuals to withdraw a minimum amount, which varies by year, when they’re halfway through 70, which can push someone into a high tax bracket if they have accumulated a lot of assets.

### How much to withdraw annually?

A rule of thumb used to be 4% of assets, but some planners think that is too conservative. Discretionary spending usually declines as people reach 80 and travel less, but health costs may eat up part of that.

### Should you leave your retirement in a pension fund or take a lump sum and put it into an IRA?

“That depends,” says H. Jude Boudreaux, a partner and senior financial planner at The Planning Center here in Chicago. “Illinois government pensions are notoriously underfunded, leaving the state with three options—increase taxes, decrease benefits or increase employee contributions. If I’m approaching retirement with a state pension, I’m going to look into its funding. Many plans offer lump sums, which I could roll into an IRA and choose how to invest, but that carries a whole new set of risks. How much risk do I think is in the state’s pension?”

### Housing

Boudreaux sees Chicago-area clients selling large family houses in the suburbs and moving to condos downtown, which are smaller and less expensive to maintain. Several planners see clients who want a second house somewhere warmer. Boudreaux advises renting in an area before making a decision about buying, so you can see if the place is what you really want. And for just finding a warmer spot in February, he recommends northern Florida, which is more of a summer resort; rentals are less expensive than in Sarasota or Miami.

Retirement doesn’t have general rules, although it does have individual expectations. It does have limits—the amount you’ve saved. Travels, buying a boat, redoing the kitchen or a big landscaping project, come out of a finite pool of money—they’re not something you can pay off over three or five years from a regular paycheck.

“Retirement planning is a big life decision—it may be the biggest [conscious] decision,” said Erin Hadary, a partner at Dunston Financial Group. “You go to school, get a job, and you unconsciously do what society does. Retirement is revisiting



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the issue of ‘what do I want to do with my life?’ The cage door is open.”

It’s important to understand your own life and values; retirement is not a good time to keep up with the neighbors. Some retirees will enjoy generously defined benefit plans, from private or public employers, that pay a set amount monthly, sometimes with cost-of-living adjustments. For many, however, those have been replaced by defined contribution plans, such as 401(k)s that depend on how well individuals have saved, what contributions their plan has had from an employer and how well the funds have been invested.

“People don’t often appreciate how expensive life is,” said Dunston. “And retirement isn’t necessarily going to be cheaper. People are used to spending at a certain level, and they often continue this spending into retirement. But then, when they don’t receive the usual paycheck, they have to adjust. In some cases, individuals retire only to find from budgeting that they have to go back to work.”

“You should look at all this five years before retirement,” said Christy. “It’s much better to step down your expenses over

a few years than to accomplish this just when that regular paycheck stops. Being financially successful in retirement is not so much about how your investments are performing, but about how you are managing your expenses.”

She suggests a test run, living only on the income you will have available to you after retirement. If you do this in your mid-50s, you will have an opportunity to boost savings, to better prepare for the day the regular paycheck stops.

### Greatest complications

What are your obligations to parents, children and former spouses? How much will this cost and for how long?

“Just because the kids are out of the house doesn’t mean they are off the payroll,” said Christy. What do parents and children owe on college loans? What can the parents reasonably be expected to help pay? Several financial advisors warn that being too generous can threaten your own retirement.

“There’s always an inclination to do for others, like kids or grandkids, what we couldn’t do for ourselves,” said Boudreaux. “You have to make sure your retirement

is in place before you help your kids or grandkids, so you don’t have to rely on them to take care of you later in life.”

For parents who have indulged their children, pending retirement may be the time for tough love—pushing them into fending for themselves. Unfortunately, this often requires overcoming 30 years of compounded behavior.

In financial planning, there’s the old adage that if something looks too good to be true, it probably is. Annuities are a case in point. They are often promoted as a simple fix for retirement income—a guaranteed return for life. Annuities are always good for the salesperson, less often for the retiree. A guaranteed return comes at the expense of the investment upside, and they usually require buyers to lock up their savings for years, or face a steep penalty for early withdrawal.

“Retirement planning is complex, and financial planning continues to develop,” said Dunston. “It is a different phase, not the accumulation phase where you are socking money away. What to do is to make sure it lasts for 30-40 years.”

One client said his financial goal is for his last check to bounce. □