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BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

MONEY notes

How to plan for your transition

Clients usually know when they hope to retire but are often uncertain as to whether or not their desired retirement date and standard of living are realistic given their financial circumstances, resources, and life goals. Retirement planning conducted well in advance of your anticipated retirement date can help you analyze your various retirement possibilities and options and also help you understand the kinds of decisions you may need to make. For example, if you hope to retire early and also want a generous annual travel budget, you may need to decide if you are willing to save more money between now and your retirement or if you are willing to work an extra year or two or reduce your travel budget.

Whether you are closing in on retirement or you are earlier on in your career, the reality is that we all make financial decisions throughout our lives that have the potential to impact the amount of financial resources available to us in retirement. Accordingly, we wanted to provide a basic outline of some of the many considerations and concerns that often come into play during the retirement planning journey.

I. When should I start the retirement planning process?

a. Ideally, you begin the financial planning process once you have begun to accumulate assets and significant responsibilities (aka a spouse, real property, children, etc.). Many of our clients begin their financial planning journey between age 35 and 50. While there is no "right" time to begin, it is better to err on the side of starting early rather than late.

b. Also, keep in mind that retirement planning is a component of your overall financial plan. Think of it in the same way you might plan for your young child's upcoming higher education expenses. It is a significant future event that requires advanced preparation and planning in order to achieve your desired outcome.

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c. Most of our clients begin seriously planning for their retirement about 5 years in advance of their desired retirement date. By this point in time, they have a good handle on important data points like what their Social Security benefits will likely be, what their pension and/or annuity payments will be, what their asset base is, etc.

II. What is retirement planning?

a. At its heart, retirement planning is the process of developing and stress testing a plan that addresses how you will replace the income you currently earn in your career to support yourself in retirement. Given life expectancies in the US, most clients find themselves planning for a 25+ year retirement. This is a long time to live without a salary!

b. Retirement planning is not just about the money, though. For most people, retirement is a time to pursue passions, a time to learn and grow, and a time to better connect with family and friends. A major part of retirement planning is helping you figure out how you can incorporate these things into your life.

c. In short, retirement planning involves:

- Determining what sort of retirement you want. Not all retirements are created equal. Whether you want to enjoy the simple life at home or travel the world will impact your retirement plan.
- Analyzing how much your desired retirement lifestyle will cost. Establishing a retirement budget is a lot like the current monthly budget you have now—just with a few key assumptions and adjustments like factoring in inflation and health care costs.
- Assessing how much you've already saved and are currently putting away. After getting a handle on your current savings and investment strategy, you may need to consider adjustments to your plan.
- Helping you understand your risk tolerance and cash flow needs and then determining an asset allocation mix that offers you the return you will need during retirement without exposing you to undue risk.

III. Ways to enhance your chances of retirement planning success:

- If possible, avoid entering retirement with a lot of debt (including a mortgage).
- Make sure your fixed expenses are relatively minimal.
- Assuming you are healthy, delay taking Social Security until you are somewhere between full retirement age and 70. In most cases, this helps maximize the amount of Social Security benefits you will receive during your lifetime.
- Understand how you will cover what most likely will be hefty health insurance costs should you wish to retire prior to your Medicare eligibility at age 65.
- Consider taking on some part-time work during the early years of your retirement. Even earning a modest $20,000 - $30,000 for a couple of years will enhance your chances of retirement planning success and provide you more financial flexibility.
- Ensure your asset allocation mix is implemented across all your accounts and is appropriate given your risk tolerance, investment time horizon, and desired return characteristics.
- Be flexible and willing to adapt to changing circumstances.

IV. Should I consider working a couple more years?

a. Working even just 2 or 3 years longer than you may have originally intended can pay off in a number of ways:

- Gives you more time to play catch-up on IRA and 401(k) contributions
- Provides you an opportunity to increase your monthly Social Security benefits
- Allows you to delay tapping into your retirement savings
- Keeps you socially and intellectually engaged longer

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- **b.** Maybe you want to keep doing what you've always done, or maybe this is a chance to pursue that 'second act' career you've always dreamed of embarking on
- **c.** It's a plan worth considering—but even the best laid plans sometimes don't pan out
  - 61% of current retirees say they were forced to retire sooner than they'd planned
  - Whether due to layoffs, age discrimination, health problems, or caregiving responsibilities, retirement intent and retirement reality don't always align so you need to be prepared just in case

V. Preparing for the day

- **a.** Start by getting a clearer picture of the guaranteed income you can rely on
  - Social security
    - – Quick discussion of calculation factors and then view your estimated benefit at www.ssa.gov/myaccount
  - Pension
    - – Default is for any pension to be paid as a 'qualified joint and survivor annuity'
    - – Requires payment to be made over your expected remaining lifetime with an ongoing spousal survivor benefit not less than 50% of what was being paid when you were alive
    - – Alternatively, you may be able to choose some other form of payout based on the prevailing interest rate when you retire
- **b.** Factor in any other guaranteed income sources (e.g., annuities) and align your guaranteed income against your essential and important expenses to see how much of a gap remains (which your savings will need to cover)

VI. Managing your investment portfolio in retirement

- **a.** Think about risk as you transition from accumulation to decumulation (sequence of returns risk means any market losses early in retirement get amplified)
- **b.** But don't forego growth completely
  - With today's retirements often lasting 25 years or longer, you need your assets to keep growing and can afford to take on more risk with assets you won't need to access for another 10+ years
  - Just remember to stay diversified

VII. Don't overlook tax planning

- **a.** Remember, you'll still need to pay taxes on income, interest and dividends
  - Depending on your income, up to 85% of your Social Security benefits will be taxable
  - Any distributions from your tax-deferred IRAs or 401(k) account (including RMDs if you're age 75 or older) will be taxed as ordinary income
- **b.** And you'll need to remember to set aside funds for annual property and excise tax bills

VIII. Avoid overspending especially early on in retirement

- **a.** When the day finally comes to turn the page, many new retirees look at their retirement savings balances and feel a sense of relief—it's more than they ever thought they'd be able to save
- **b.** It's only natural to want to splurge a bit and enjoy your newfound retired life
  - But according to a New York Life study, more than three-quarters (77%) of Americans have no idea how much of their retirement savings they can safely spend each year
  - More concerning, nearly one in three (31%) think they can spend 10% or more of their savings each year
  - At that rate, most retirement savings accounts would be wiped out in a little more than a decade
  - A more realistic annual spend amount from your retirement savings is about 3%.

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IX. Stay Flexible

a. It's important to have a thoughtful and comprehensive financial plan, but remember that plans are only blueprints

b. Inevitably, somewhere along your financial journey, the unexpected will arise

c. This is why you need to have contingencies in place to effectively deal with unpredictable obstacles

d. Contact your BLBB Advisor today at 215-643-9100 to discuss your future retirement plans so that you are prepared when that big day comes

YEAR-END PLANNING TIPS

As we approach the end of 2021, now is a great time to consider whether or not you should take advantage of any year-end tax strategies. Listed below are some of the most common strategies and tips. Before making any moves, however, you should consult with your tax advisor to identify what makes the best tax sense for you. Also, given that U.S. tax laws are likely to change in the coming year, your tax advisor and your estate planning attorney may have additional planning suggestions for you.

- If possible, maximize your 2021 contribution ($19,500) to your employer-sponsored retirement account (401k/403b). Also, don't forget about the additional $6,500 catch-up provision allowed for those age 50 and older.
- Complete your charitable gifting (and consider using appreciated assets to make any such gifts).
- Consider a partial or full conversion from a traditional IRA to a Roth IRA. This could be particularly attractive to those earning more than $400,000 - $450,000/year as the ability to convert after 2021 may be repealed.
- If you are required to take an annual distribution from an IRA account, complete this distribution.
- Check your Flexible Spending Account balance and use any remaining moneys prior to year-end. Please note, however, that this annual use it or lose it requirement does NOT apply to Health Savings Accounts.
- Alert your financial advisor and accountant to any unusual capital gains or losses occurring outside your BLBB account(s) as it may be appropriate to do some tax-loss harvesting or to take additional capital gains before the end of the year.
- Make any gifts to family or friends (the 2021 gift exclusion amount is $15,000 per recipient). At present, the lifetime exclusion is $11.7 million. It is quite possible this amount will be reduced next year. You should consult with your estate planning attorney or tax advisor to determine whether you should accelerate any gifting in 2021.

BLBB does not provide guidance with respect to taxes and clients should consult their tax advisor to review personal tax situations.

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