Retirement Countdown*

Key questions to ask and answer five years before retirement.

Are you really ready to retire?

Chances are you may be a little fuzzy about what your retirement will really be like. At some point, however, you'll need to bring your retirement into focus. Ideally, that's about five years before you hope to retire. Retirement is close enough to know what you want it to look like, and yet, far enough away that there's still time to hone your strategy to help meet those goals or alter your plans.

You need to prepare yourself *emotionally, physically*, and *financially*. That means, you and your partner must start a dialogue on how to get emotionally ready to jump ship, in what physical condition, and whether you have enough wealth to continue a comfortable life style for the next 30 years.

What are your expectations?

Do you and your partner agree on your anticipated retirement ages and lifestyle expectations once you are no longer working? Differences may affect more than your marital happiness; they may affect when and how you'll be able to retire. Five years before you plan to retire may be a good time to start jointly thinking through the details and prioritizing your goals. You need to make as accurate and realistic projections as you can and continue to review and refine those projections as you approach retirement.

What are you going to retire to?

Are you ready to experience the joy and challenge of life after work? Now that you are free to do whatever you want, what do you want to do? Retirement challenges you like nothing else. You have to reinvent your lives. At age 65, you are fortified with knowledge and experience but no place to take them. You need an action plan to transition into this new phase of your life. Your challenge is to discover new interests, new places, new careers, and new friends.

Where do you plan to live?

If you plan to uproot yourselves and relocate to another state, make sure you also consider how that will affect your cost of living, your access to health care, and your tax obligations. If you plan to stay put, you'll want to consider what modifications you want to make to your home and at what point in time.

Do you have a financial plan!

Try to develop a financial plan that shows *where you stand today* and *where you would like to be* on the eve of your retirement. This plan serves as a guide regarding the moves you need to make to ensure you are on track. It should be in written form backed up by a copy of your *spending plan*, your *current investment portfolio,* and your *net worth statement*.

Your *spending plan* is simply a cash flow analysis showing where your money is coming from and where it's going. It allows you to track down and control your expenses. Remember that *the best financial strategy is living well within your means*!" Try to strike a balance between *longevity* and *frugality* risks.

Your *investment portfolio* is a summary statement of your security holdings, wherever they are. It gives you an idea whether your wealth is unnecessarily sliced and diced, whether it's tax-efficient, and whether it's well-diversified.

The *net worth statement* shows how wealthy you are. It's what's will be left after you deduct everything you owe (your debt) from everything you own (your assets). Mathematically speaking:

Net worth = Assets – Debt

As an example, let's say you have $750,000.00 in assets and you owe $50,000.00. Your

Net worth = $750,000.00 - $50,000.00 = $700,000.00

Your net worth figure summarizes everything you have accomplished throughout your career. It's a number that tells you how rich you are. It shows your progress from one year to the next. It is, therefore, the number you should try to maximize.

But you are definitely richer than you think. To the net worth amount above, try to add the value of your *human capital*, the value of your *pension*, if any, and the value of your *social security benefits*. Adding these three elements might very well boost your wealth by say, $300,000.00! Now your Net worth = $1,000,000.00. You are a millionaire!

Do you have an investment strategy?

You can design your investment strategy going solo! It's, however, not advisable. You most likely need the help and guidance of a professional. Make sure that this professional is not a broker who works on commission even if he calls himself financial planner or financial advisor. He is neither. A broker's loyalty is to his firm, not to you. Instead, you should engage the services of an **independent, fee-only advisor** who acts as a **fiduciary** to you and who avoids any **conflict of interest** with you. In a nutshell, in his book, you come first.

Make sure that yours is a **real fee-only** advisor, not a financial salesperson in disguise. Look for an advisor who is highly credentialed, preferably one who has the CFP designation, who is a member of the Financial Planning Association as well as the CFP Board of Standards.

Before you sign an investment advisory agreement with your advisor, make sure to get a copy of her firm's brochure. Examine it carefully. Find out what she charges for a financial plan and for managing your investment portfolio. Above all, make sure that her *total fees* (advisor fees + fund fees) are reasonable, i.e., below 0.5%. *Advisors' fees are negotiable*. So don't be bashful. Negotiate! Get the best deal for yourself. After all, cost matters and leads you straight into the arms of the "*tyranny of compounding!"* In addition, it will force your advisor to choose *indexing* over *active management.*

Once you sign an investment advisory agreement, the advisor will design a long-term global investment strategy that will comprise less that *twelve* mutual funds and/or ETFs. Your portfolio will be divided between three major types of investments: Liquid Assets (cash and money market), Fixed Income Securities (bonds) and Equity (stocks). Deciding how much of your total investment portfolio you will allocate to each type is the so-called "*Asset Allocation Decision*." It is the key driver of your portfolio's risk and return. It is the single most important investment decision you will make. *Market timing*, *stock selection*, and *finding* the next top-performing manager or mutual fund add very little to your investment success.

The next step is to decide on how to effectively diversify your assets further by selecting the specific asset classes to include in your portfolio. You want to make sure that these asset components have low or, preferably, negative correlation with each other, that they reflect the *value* and *growth* styles, contain companies with different *sizes (small cap, medium cap, and large cap),* and have a foreign connection.

While the concept of "*not putting all your eggs in one basket*," is widely understood, most investors do not understand the concept of *effective diversification*. To achieve *effective diversification*, you don't need more than 10-12 funds. Adding an annuity to your investment portfolio is *not* a good idea. If an agent approaches you and tries to sell you an annuity, run the other way. Generally speaking, annuities are quite expensive and ugly. They are loaded with commissions, surrender charges, mortality and expense fees, administrative fees, and costly sub-accounts. There is hardly anything to like about them.

BONDS

	MATURITY			
	SHORT	**MEDIUM**	**LONG**	
HIGH	150,000	200,000		**QUALITY**
MEDIUM				
LOW				

STOCKS

	STYLE			
	VALUE	**BLEND***	**GROWTH**	
LARGE	75,000	100,000	75,000	**SIZE**
MEDIUM	50,000		50,000	
SMALL	50,000		50,000	

* INVESTED IN DEVELOPED & EMERGING MARKETS

Once you have completed the design of your portfolio, have selected your target asset allocation, and diversified effectively, all you have to do is to get in the habit of rebalancing your portfolio once a year, say in January, to keep it within your target range.

How will you pay for your health care?

After food, health care is likely to be your second largest expense in retirement. It is estimated that a 65-year-old couple retiring this year will need, on average, $220,000 to cover medical expenses throughout retirement. Have you planned for that?

Probably as important, have you considered buying *Long Term Health Care Insurance* to pay for your home health care or nursing home should you land in there? Buying at an early age between 55 and 60 is less costly. To keep your premium affordable, try to self-finance part of it. Select the options that you *really* need. And don't go for all "the bells and whistles" that the insurance agent suggests. LTHC Insurance helps you preserve your wealth and maximize your financial legacy.

When to apply for Medicare?

Medicare has two parts: Part A, which has no premium, and covers hospital costs and Part B, which covers physician fees and has a premium based upon your retirement income. You must sign up for Part A three months prior to turning 65. If you will continue working, you only sign up for Part A. Three months prior to your retirement (at whatever age), you must sign up for Part B, which will become your primary insurance. Premiums for Part B will be deducted from your social security. At retirement your insurance through your employer will become secondary if you stay on the plan. For further information and assistance go to your local Social Security Office or Medicare.gov.

How to Double Your SS Income (Well, Almost)

Social Security is America's finest retirement plan. Nothing gives you the same combination of income for life, inflation protection, tax benefits, government–backed payment guarantees, and built-in spousal protection, with no annual investment fee and no market risk.

Unless you have to, for either health or financial reasons, you should not rush your Social Security start date. Why? Because the earlier you claim Social Security benefits, the smaller your monthly checks will be. If you're married, filing early also lowers the income to your dependent spouse. By filing just a few years later, you'll get a much larger lifetime check and so will your spouse. The government pays you handsomely to retire late or at least delay taking your Social Security as long as you can or until you reach 70. You get a huge bonus if you start benefits later than your full retirement age. The size of your monthly check will have increased by 32% + cost of living increases compared with what you would have been paid at 66. If you're married and die first, your surviving spouse will also get the benefit of that increase.

The danger today comes not from dying too soon but from living too long and running short of money. At age 65, 50% of women can expect to live past age 88 and 50% of men past 85. Delaying Social Security can provide powerful longevity protection. If you're in good health, you should gamble on a long life, not an early death.

Are you a member of MPSERS?

If so, try to keep track of your benefits and learn how to calculate then independently. Your benefits will be determined by your last 3 or 5 years of annual income and the number of years of service. Following are the formulas:

Basic Benefit Formula: Annual Retirement Benefit = 1.5% (N) $(FAC)_5$
MIP Benefit Formula: Annual Retirement Benefit = 1.5 % (N) $(FAC)_3$

Where N = number of years of service;
FAC = Faculty Average Compensation for the last 5 or 3 years

Example: a faculty with 30 years of service and an average compensation for the last five years of $70,000.00

Annual Retirement Benefit = 1.5% X 30 X $70,000.00 = **$31,500.00**

Streamline and consolidate your investment accounts.

Once you retire, you should try to streamline and consolidate your *household* investment portfolio. Roll over all your 401(k)s, 403(b)s and 457(b)s into one IRA, preferably with one custodian. Eliminate all duplications and keep the total number of funds around 12. Consolidate all your non-retirement accounts into one joint or individual account with one custodian.

Do you have an Estate Plan?

Review your estate plan to make sure that it's up-to-date and contains all the necessary documents: wills, durable powers of attorney, an advance health care directives, and a letter of instructions. *As a general rule*, you do not need trusts and if you already have one, consider revoking it. Simplify your life!

Finally an integral part of your estate planning is updating both your primary and contingent beneficiaries for all your retirement accounts and life insurance policies.

SHARE WITH FRIENDS!

***The writer of this guideline is (humbly) highly credentialed with nearly more than 30 years in academia and 30 years as *a flat-fee only independent financial advisor*. Currently his firm does not accept new clients.**

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