Live Life Confidently!

5 Things to Do 10 Years from Retirement

Eric Nelson
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There's a red zone both in football and retirement planning where the game is often won or lost. For football, it's 20 yards from the goal line; for retirement, it's 10 years from your target retirement date. As you move down the playing field towards your goal, you may need to huddle up and review your strategy. Here are five things you should be doing for success as you enter the retirement red zone:

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1. Determine What Retirement Means to You

Before you start making financial plans, you must first be clear on what retirement means to you.

For some, retirement means working 40 hours instead of 60. For others, retirement means never working another day for the rest of your life. The key to this process is accepting that every day of the week has the potential to seem like a weekend, and all 168 hours of the week are yours to fill with whatever you'd like.

Many clients will continue to work part time or consult for their prior employer. Some will spend their days golfing, fishing, playing tennis or pickleball, babysitting their grandkids, and traveling. Others will volunteer their time doing charitable work.

Whatever it is you aspire to, it's important to have a general idea of what you want to do every day. From there, you can begin to shape a financial plan to support your retirement vision.

2. Determine How Much Money You Will Spend Monthly

Once you've defined what your retirement will look like, you can begin planning for it financially. The first thing you need to determine is how much you'll be spending every month on your retirement budget. How much you have saved is irrelevant if you're unsure of what you'll need to cover your expenses.

After meeting with hundreds of families, it's become clear that many pre-retirees do not know how much they need to live on a monthly basis. I've met with people who have $2,000,000 saved, but are used to $20,000 per month of living expenses. If that family does not have any pensions, they will have to save more or adjust their lifestyle.

I've also seen families who have $200,000 and need $10,000 per month of income, but are still able to support themselves because they have other forms of income during retirement, such as a pension.

Mills Wealth Advisors

Office : 682-350-8671
info@millswealthadvisors.com
www.millswealthadvisors.com

Mike Mills, CFP, CLU, CFS
President
Office : 682-350-8671
mike@millswealthadvisors.com
www.millswealthadvisors.com

Stephen Nelson, CFP
Financial Planner
Office : 682-350-8671
stephen@millswealthadvisors.com

An accurate retirement plan will be built off the foundation of your monthly household expenses. Without this number, no financial professional could provide the comprehensive advice you deserve.

3. Address the Sources of Income You Will Have During Retirement

In addition to analyzing spending, you must be aware of all the types of income you'll have during retirement. That includes income from Social Security, a pension, or other retirement accounts, such as a 401(k) or individual retirement account (IRA).

There are several choices that will have to be made if you have a public or private pension. For many, how you collect your pension will be the most important financial decision of your life. At the moment you retire, you'll have to decide if you'd like to receive a single life maximum pension payout, or a reduced payout to add spousal continuation in the event you predecease your spouse.

The timing for collecting Social Security payments is also important.

Many people take their Social Security benefits prior to their full retirement age. What some people may not realize is that taking your benefits at age 62 will reduce your full retirement benefit by 25%, and married couples lose the lower paying benefit should one spouse pre-decease the other. It's important to properly time this part of your retirement planning so that you're getting the benefits you need to sustain your goals.

These two decisions will often determine the long-term success of your retirement plan.

4. Revise Your Investment Strategy

The way you've been investing for the past 30 years is not how you should invest for the next 30 years. When we're younger the focus is on accumulation, but when you're in or nearing retirement you need to focus on income and keeping pace with inflation. Your investment plan should consist of more than just stocks, bonds, and mutual funds.

It may be a good idea if you don't have a pension to consider an annuity to create an additional income stream. The way you invest should also be determined by your personalized goals, risk tolerance and income need.

Investing is about much more than just diversification. Diversification is important, but if you owned a diverse stock portfolio in 2008 or 2000, that portfolio would have seen double digit losses.

What's more powerful than diversification is asset allocation. Asset allocation takes diversification to the next level in that you not only diversify your stock holdings, but you diversify into bonds, cash, annuities, and other asset classes to reduce the drastic swings of the markets.

5. Consider Hiring a Financial Advisor

It's possible to be a do-it-yourself investor because there are many inexpensive funds and research available. However, there's much more that goes into creating a comprehensive retirement plan than just your investments.

Ideally, your retirement plan should address your need for income, estate planning, survivorship planning, insurance needs, business continuation and inflation, among many other issues. Maintaining and constant monitoring of the plan gets more important the older you get. I believe that having a reputable, independent, fee-based, fiduciary financial advisor with a record of clean conduct is a necessity the closer you get to retirement.

www.millswealthadvisors.com

Matthew Brown
Associate Financial Planner
Matt@millswealthadvisors.com

Steve Hozie, CPA
Associate Financial Planner
steve@millswealthadvisors.com

Crystal Langenberg
Client Service Manager
crystal@millswealthadvisors.com

Mount a Strong Offense for Success

Like in football, the team that wins the game is often the team who played well in the red zone. If your favorite team constantly fumbles the ball at the goal line, you'll find it hard to claim a victory. The same concept applies to retirement planning.

We can take more risk when we're younger because we can afford the mistakes and we have time to correct them. But, the closer to retirement we get, the less affordable those mistakes become because we lose the time to reverse them. Review your investment strategy when you've entered the red zone of retirement to guarantee that you're properly preparing for your future.