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If you've got the money ...

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Income in retirement takes planning, 3B





# RETIREMENT

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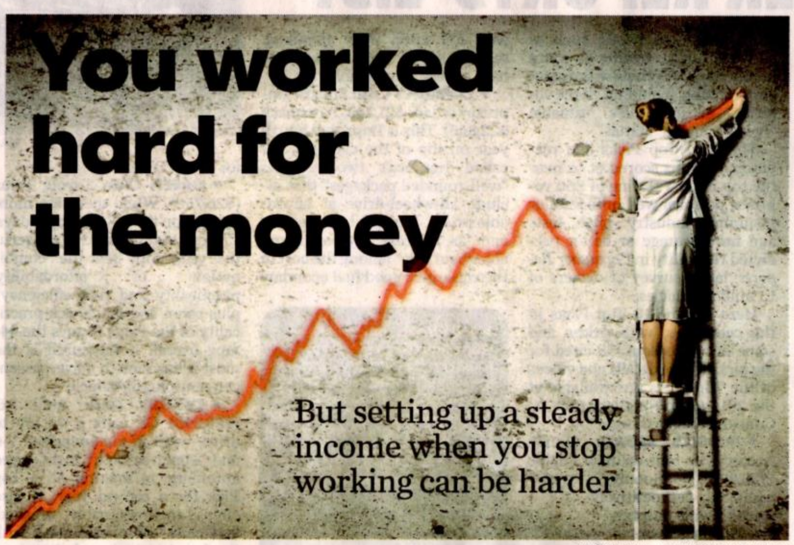

# You worked hard for the money

## But setting up a steady income when you stop working can be harder

SERGEY NIVENS, GETTY IMAGES/ISTOCKPHOTO

RETIREMENT LIVING

It's pretty well established that we can live another 30 years after a "traditional" retirement at 65 — just about as long as we did in our working years.

While that's good news in one sense, it presents a whole set of new problems, many of them money-related — like just about everything else in life.

Let's tackle one of people's biggest concerns about retiring: How do you know exactly how much money you need every week, or every month, or, for that matter, every year? Once you figure that out, how does that compare with how much you've saved?

For example, you're living on income of $5,000 a month now. That's what you think you'll need when you retire. How can you make sure that you'll have enough between your savings, pension (if you have one) and Social Security?

James Nichols, head of advice for ING Retirement Solutions, says people spend a lot of time focused on building a big pile of money for retirement. "But the reality is when you're moving into retirement, a big pile of money doesn't do you much good unless you know how to turn that into income," he says.

"It takes 17 of us easily 40 hours of work — MBAs, CFPs, CPAs, lawyers — to create a business plan for the rest of your life," says Ron Weiner, president of RDM Financial Group in Westport, Conn. "It is incredibly complicated." When you retire, you're not making more money to make up for mistakes, he says.

An adviser can help you sort out some of the challenges you face, says Nichols. "There are so many risks and challenges, it's very hard to be an expert on your own," he says. "Building a plan ... is key. And understanding what sort of compromises you may or may not need to make to make sure your income lasts a lifetime. We talk about individuals' needs, wants and wishes."

As every financial planner will tell you, the first thing you and your adviser have to do is create a budget.

Understanding that budget is the first step in the process, says Lena Haas, senior vice president and head of investing product management and retirement at E-Trade Financial. Start with your real needs. "What are your fundamental needs to survive each month — mortgage, rent, utilities, food, medical expenses," she says.

You also need to figure out your wants, geared toward the lifestyle you're seeking. "Do you want to travel? Are your children far away?" Haas says. "Start thinking about special buckets, like heath care, college expense if you still have children, or maybe taking care of an older parent or relative." Then, she says, figure out how those expenses jibe with your retirement income.

To make sure you're not caught short by unexpected bills, Mark Fried, president of TFG Wealth Management in Newtown, Pa., says you should have three to six months' income and expenses in reserve. "It's a ballpark of bank statements and health care bills," he says.

Once you have your reserves, start looking at your cash flow in retirement — the actual cash that ends up in your pocket, not your current salary. Say your annual salary while you're working is $150,000. "What you need to realize is, after taxes, after deductions, after your 401(k) contributions, you may be living on only $80,000. What is that actual cash flow coming into the house? That's where we start," Fried says.

Andrew Rafal, founding partner of Strategy Financial Group, a Phoenix-based financial advisory firm, says that the next step is to look at Social Security, and when the client should take it. If they make the wrong choice there, they can miss out on hundreds of thousands of dollars.

Haas says you need to look at all your sources of income. "Many people have, in addition to Social Security, a 401(k) from various employers, or pensions or annuities. It is helpful to understand all those streams of income. You can manage all of those and simulate that paycheck."

Then you must look at how much money is coming in, and how much is going out. If you have a monthly shortfall, you can look at your investment portfolio to make up the difference. "The traditional way of looking is no longer true — invest in a conservative portfolio, so we don't lose principal. People live longer, and interest rates are quite low and will probably stay low for some time. Instead of keeping money in cash, it is important that they have a diverse portfolio, but not overly aggressive."

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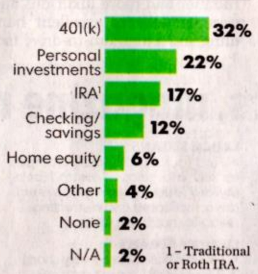
"What a financial plan really does is take all your hopes and dreams, figure out what that costs, apply some tax and inflation assumptions, look at what you have, and it's not that hard to figure what rate of return you need to achieve all that," says Weiner.

"If it turns out that 2% is all you need, you can be in bonds. If you need 26%, people's feelings about markets and money have to be considered. You can't just say, 'I don't want to take risks.'"

Finally, Fried adds, you can't just write a plan, and set it on the shelf. "You will have to make corrections," he says. "If you don't do it enough, you may have to make dramatic changes later."

### HOW RICH SAVE FOR RETIREMENT

Asked how they were saving for retirement, the majority of respondents to the 2013 Merrill Edge Report said 401(k).




**Source** Merrill Lynch Edge Fall 2013 Insights survey of 1,016 Americans with investable assets from $50,000 to $249,999

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