SMART INSIGHTS FROM FINANCIAL PROFESSIONALS

3 Essentials For A Successful Retirement

To plan for the next phase of your life, you need clear strategies to provide for these three retirement needs.

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Retirement is the longest vacation you will ever take.

To get the most out of that special time, which rewards all your years of hard work, retirement requires careful and precise planning. But the reality is, most people spend more time planning a dream vacation than they do analyzing and charting all the details of their retirement.

And while it is important to devote plenty of thought to the various components of retirement, one needs to know where to start. Here are the three most important things to understand and have to make your retirement successful:

A CLEAR VISION

Many people don't really have a clear vision of what their retirement will look like. The greatest gift retirement gives you is freedom. You finally have the freedom of time, the most valuable commodity, and the ability to spend the time the way you want to. So, what will be your priorities in retirement? Are you somebody who dreams of traveling, who has a bucket list of places to see? Or do you want to develop a hobby? Maybe it's more about family, spending more time with your grandkids while helping your kids have time to focus on their careers.

Then be realistic about what your retirement activities are going to cost. The retiree traveling a lot will obviously need a larger budget. Whatever your priorities, it's imperative to be as specific as possible about what your lifestyle expenses will be as well as your general living expenses. When you have the freedom of time that you've long been working toward, you'll want to have the freedom of doing what you want with that time.

AN INCOME DISTRIBUTION PLAN

How do you make sure you have the income to support the retirement lifestyle you want? What are your guaranteed sources of income? What does your Social Security benefit look like? What about your spouse's benefit? You need to determine when to turn those benefits on, because you want to be able to maximize those. It's a similar approach if you have access to pension. Do you make sure it continues for your lifetime, or if married, that it covers your spouse's lifetime, too?

For most people, Social Security and a pension are not sufficient to cover expense needs. In that case, determine what the gap is. Look at investments and create a distribution plan. This can be hard for people. The reality is, nobody knows for sure what the market is going to look like tomorrow; even the best investors don't know what the market is going to bring in six months, a year, or two years. The main reason retirees fail is because they're invested in a way where their investments do not meet their risk tolerance. What happens is they can't stay committed to the plan, because the market does what it always is going to do – go up and down – and people panic and sell at the wrong time. Therefore, it's critical to set up a plan that is congruent with your risk tolerance so you have the ability to stay invested.

Successful retirees do not let the market dictate their happiness. They're creating a distribution plan that helps them be efficient and successful regardless of market conditions. There are multiple ways to set up income distribution plans, and there's no perfect strategy. You can use insurance products or market-based strategies, but what's important to understand when looking at those different options is that each one will have an advantage and disadvantage. You should work with an advisor who is duly licensed and therefore not biased one way or the other. The advisor can help walk you through the advantages and disadvantages of all the different strategies.

A TAX STRATEGY

Taxes are something most retirees underestimate. It's not just about what you make, but what you get to keep and what you have to spend in retirement.

You need to take into consideration current taxes and future taxes. We don't know what future taxes will be – that's a key variable. Successful retirees are going to have a plan that addresses both, and that plan should take into consideration several factors: money that's going to be tax-free, which could be money from a Roth; or from a cash-value life insurance policy; tax-deferred money in your retirement accounts; or that's grown within an annuity; and tax-advantaged strategies such as qualified charitable distributions – that's a great strategy once you reach age 70 ½.

One mistake people make is using primarily their bank accounts for all their money needs in their early retirement years. They keep their tax bill low in those years, but when that account is about empty, they turn to their 401(k)s and IRAs, and every one of those dollars is taxable. And what happens if there is an emergency? Working with an advisor who understands taxes allows you to create withdrawal strategies that use a mix of money from different accounts so that you're better able to manage taxes.

About Jennifer Lahaie

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