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CAPITAL MANAGEMENT

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Greetings!

Our newsletter this month is titled "Countdown to Retirement: Take Control of Your Assets."

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

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Countdown to Retirement: Take Control of Your Assets

After years of saving and investing, you can finally see the big day--retirement. But before kicking back and relaxing, you still need to address a few matters. Chief among them is assessing how much retirement income you may need. To do this, you'll need to consider your major costs in retirement, such as housing and health care, the estimated length of your retirement, whether you will have earned income, your desired retirement lifestyle and the rate of inflation. Next, you'll need to identify all of your potential retirement income sources and review your asset allocation.

It may sound like a lot of work, but decisions made now could make the difference between your money outlasting you or vice versa.

Calculating Your Retirement Needs

When retirement was years away, determining how much income you would need to sustain you in your golden years may have involved a lot of estimates. Now, you can likely be more accurate in your calculations. Consider the following factors:

- Your home base--Do you intend to remain in your current home? If so, when will your mortgage be paid in full? Will you sell your current home and downsize to one of lesser value, or do you intend to "trade up"?
- The length of your retirement--The average 65-year-old man can now expect to live about 22 more years; the average 65-year-old woman, about 24 more years, according to research conducted by the Society of Actuaries.[1] Have you accounted for a retirement of 20 or more years?
- Earned income--According to the Pew Research Center more older Americans--those aged 65 and older--are working than at any time since the turn of the century, and today's older workers are spending more time on the job than did their peers in previous years.[2] If you continue to work, how much might you earn?
- Your retirement lifestyle--Your lifestyle will help determine how much preretirement income you'll need to support yourself. A typical guideline is approximately 60% to 80%, but if you want to take luxury cruises or start a

business, you may well need 100% or more.

- Health care costs and insurance--Many retirees underestimate health care costs. Most Americans are not eligible for Medicare until age 65, but Medicare doesn't cover everything. You can purchase Medigap supplemental health insurance to cover some of the extras, but even Medigap insurance does not pay for long-term care, eyeglasses, hearing aids, dental care or private-duty nursing. For more on Medicare and health insurance, visit Medicare's consumer website.

- Inflation--Although the inflation rate can be relatively tame, it can also surge. It's a good idea to tack on an additional 3% each year to help compensate for inflation.

Running the Numbers

The next step is to identify all of your potential income sources, including Social Security, pensions, employer-sponsored retirement accounts and other personal investments. Don't overlook cash-value life insurance policies, income from trusts, real estate and any equity in your home.

Also review your asset allocation--how you divide your portfolio among stocks, bonds and cash.[3] Are you tempted to convert all of your investments to low-risk securities? Such a move could potentially place your assets at risk of losing purchasing power due to inflation. You may live in retirement for a long time, so try to keep your portfolio working for you--both now and in the future. A financial advisor can help you determine an appropriate asset allocation.

A New Phase of Financial Planning

Once you've assessed your needs and income sources, it's time to look at cracking that nest egg you've built up. Your first step is to determine a prudent withdrawal rate.

Next, you'll need to decide when to tap into tax-deferred and taxable investments. Some say that it may be better to liquidate assets in taxable accounts first, allowing any earnings on assets in traditional IRAs and other qualified retirement vehicles to potentially compound under the tax-deferred umbrella. However, keep in mind that earnings and deductible contributions in tax-deferred accounts are generally subject to income tax upon withdrawal at then-current ordinary income tax rates, and that withdrawals prior to age 59½ are generally subject to a 10% additional federal tax--on top of any regular income taxes owed.

Also, remember that, with some exceptions, the IRS mandates individuals to begin taking required minimum distributions (RMDs)--based on IRS life expectancy tables--after you reach age 70½. Failure to take the required distribution can result in a penalty equal to 50% of the required withdrawal amount. For more information on RMDs, see the IRS's RMD resource page or call the IRS at 1-800-829-1040.

It's easy to become overwhelmed by all the financial decisions you must make at retirement. The most important part of the process is to consult a qualified financial professional and/or a tax advisor to make sure that you're prepared for this new--and exciting--stage of your life.

[1] Society of Actuaries, press release, "Society of Actuaries Releases New Mortality Tables and an Updated Mortality Improvement Scale to Improve Accuracy of Private Pension Plan Estimates," October 27, 2014.

[2] Pew Research Center, "More older Americans are working, and working more, than they used to," June 20, 2016.

[3] Asset allocation does not assure a profit or protect against a loss.