14 Steps to Retirement Planning

Excerpted from Chapter 21, Financial Planning for a Secure Retirement by John T. McCarthy

To summarize the overall strategy for pre-retirement planning, I have identified 14 steps to follow on the road to a financially secure retirement. You can use this list as a checklist as you proceed through the planning process.

1. Make a commitment to actively plan for your retirement; sit down with your spouse; set a target date and initiate steps.
   Active planning involves taking specific steps to achieve a positive course of action. Effective retirement planning is by no means a passive activity. The emphasis is on taking control of your financial destiny. The first part of any financial plan is setting a goal, in this case a target retirement date. Married couples should realize they are financial as well as legal partners. I encourage both spouses in this partnership to be involved in the overall process. Retirement planning means putting a well-designed game plan in motion.

2. Identify where you are today, your assets and liabilities.
   Value your current investment portfolio and work toward improving your return on investment. An integral part of the financial planning process is to identify where you are. You must gather all quantifiable data and then proceed to prepare personal financial statements. You will be aided in assessing your current financial condition by analyzing a net worth and income statement. In retirement planning, it is also useful to estimate retirement needs and income sources by using a post-retirement income statement. It is advantageous to identify and then break down the makeup of the current investment portfolio.

3. Recognize the importance of rigorous saving in your pre-retirement years.
   Attempt to save 10-20% of your income to build your retirement nest egg. The single most important thing you can do in pre-retirement is to save for the future. Active planning is synonymous with rigorous saving. The number one strategy is to accumulate as much capital as possible prior to retirement.

4. Make your pretax retirement savings vehicles your number one priority.
   Make full use of such powerful tax-advantaged investments as 401(k)'s and 403 (b)'s if available to you. Realize the continued importance of IRA's to your capital accumulation goals. If you are self-employed, utilize a Keogh.
   Your limited annual savings should be allocated to those plans that have been designed expressly for retirement. These super retirement vehicles offer you the most tax-advantaged way to build your nest egg. You will want to maximize those investments that offer both tax deductibility (pretax) and tax deferral. Once these twin-advantaged programs have been exhausted, you should then turn your

attention to tax-deferred investments. Tax deferral is an important retirement planning tool, and you should realize that IRA's at the minimum offer this advantage.

5. Make an effort to reach retirement relatively free of debt.
   You are advised to plan on entering retirement without major liabilities, such as a mortgage, installment loan or car note. It is not essential to begin retirement debt free, but it is advantageous because it reduces the retirement cost of living. Entering retirement with a clean debt sheet will increase the net worth figure.

6. Learn your Social Security benefits and get an estimate of your monthly benefits.
   Social Security is an important part of the retirement income. As such, it is helpful to determine how much this income will provide. Understanding your benefits will help you decide on early or part-time retirement. Additional considerations include spouse's benefits and taxability of benefits.

7. Know your pension benefits and work to understand what you can expect.
   Your pension is a prime source of retirement income. At retirement, you will be faced with a multitude of complex options as to the method of distribution. Understanding what you may expect in benefits and the choices available gives you the necessary insight to plan for retirement. A basic comprehension of the pension type, formula and tax options is invaluable in pre-retirement planning.

8. Investigate your health insurance needs at retirement, the costs and the coverage.
   Health coverage is far and away the most important insurance protection to be considered in retirement planning. Adequate health coverage is vital to a financially secure retirement. Your net worth and income will be quickly depleted in the face of a catastrophic illness. Prior to retirement, it is advised that you stay in a group plan. At no time do you want to be alone when it comes to securing proper coverage. At age 65, regardless of your working status, you will want to participate in the Medicare program. You can then supplement Medicare with a secondary coverage. Be prepared in the retirement years to have health care costs account for more of your cost of living.

9. Calculate your post-retirement cost of living with a provision for inflation.
   If you were to retire today, how much would it cost you to maintain your desired lifestyle? What percent of your current income is necessary at retirement? Retirement does bring significant changes in the makeup of the expenditure component of the income statement. Estimate housing costs, fixed expenses, budgeted living expenses. On a positive note, realize that tax liabilities and saving costs will be reduced once you are retired. Recognize that inflation is a fact of life and that it will raise your annual living expenses. Inflation should be factored into your retirement costs.

10. Calculate a post-retirement income statement, listing estimated sources of income.
    Where will your income come from once earned income ceases? Planning involves identifying the retirement income sources. An analysis should be conducted tabulating expected pension income, Social Security benefits, investment income and miscellaneous income sources such as part-time employment or the sale of assets.

11. Estimate the value of your investment portfolio at retirement.
    What do you estimate your capital to be worth at retirement? Project your current investments and new annual savings at an estimated return with the help of the compound growth tables. Break out the value of this sum that is tax-deferred. Work at building up this tax-deferred amount.

12. Focus your attention on the importance of asset allocation and a solid long-term plan for your investment portfolio.

13. Take steps to assure that your estate plan is in order.

14. Work to educate yourself on important planning considerations, investment choices, tax effects, pension options, estate matters, inflation, tax deferral, etc.
    Retirement planning involves becoming a better informed in matters affecting your financial future. Individuals will be well served by improving their financial literacy.

    To this end, you are advised to seek out and participate in retirement planning sessions and seminars. Spouses are encouraged to attend any sessions as a team. If your employer offers pre-retirement counseling, take advantage of this information source. The library, financial magazines and personal finance sections of the newspaper are sources of continuing education. The factors affecting retirement planning are dynamic. Stay abreast of changes. The best approach is to focus energy on a lifetime planning and learning process.