Only Retire Once

HOW TO AVOID

The 9 Deadly Mistakes

OF RETIREMENT

CHAPTER 1

Don't Underestimate How Long You Will Live

In This Chapter

- Making the Retirement Decision
- Mapping Out a Lifestyle You Can Afford
- Assessing Retirement Expenses and Income
- Planning Your Working-Life Exit

Planning for your retirement is a challenging job that requires people to make a reasonable guess about what might happen over the next 30 or so years. That's a tall order. But does retirement planning really need to be that magical or daunting?

Not really, especially if you stop focusing on the hundreds of details for a moment, step back, and survey the big picture. From this stress-free vantage point, retirement is a pretty straightforward job; simply put, planning for your retirement is just the wise allocation of two finite resources—time and money.

One of the resources—time—is absolutely finite. The other resource—money—is a finite resource as well, but thankfully, it's something we do have some control over.

Deadly Mistake #1

Outliving Your Savings

Living "Forever"

We often joke about living forever or never dying when the topic of mortality comes up in conversation. The quip is always good for a chuckle, but here's something to think about. If you're in reasonably good health, there's a chance you'll blow right past your 85th birthday and be around to see 90 candles on your birthday cake. That's great news if you're financially secure and in good health. The news is bad if you arrive at your 90th birthday and you can't pay for your basic living expenses.

Thinking About Your Retirement

Few people spend a great deal of time thinking about retirement, especially in the early years. When you're 24, the subject of retirement—and aging in general—is just laughable. By the time we are 34 or so with a mortgage and family commitments, retirement begins to lose its humorous edge—almost. After all, retirement from this vantage point is still 30 years away so planning can still wait until another day.

In our 40s and early 50s, retirement's event horizon seems perilously close. Still, many of us find a reason to put off taking action. We blame our current financial concerns (kids in college, other debt, and expenses), but promise to take up the question in earnest next year. Still, we find ourselves chuckling at work or at a neighborhood gathering when the topic of retirement is mentioned. Inevitably, someone (maybe you) will provide the punch line to any conversation about retiring; "Retirement, are you kidding? That's never going to happen."

The unfortunate fact about this gallows humor is that for many people the joke that they'll need to work forever or until they die is much closer to reality than they imagine. The fact is, millions of Americans will face financial difficulty during their retirement. But like most personal and even financial fixes, avoiding this fate is just a matter of deciding to take action.

Start With the Big Picture

Imagine you're building a house from the ground up. You likely know from the start that your house will be a one- or two-story structure with three or four bedrooms and an equal number of bathrooms. You also might be able to articulate your home's general layout and specific features of common areas like the kitchen.

At some point, you would meet with an architect and eventually a builder who would help match your financial resources with this big-picture vision. For most of us, this meeting means compromise on everything from kitchen appliances to the number and size of the bathrooms and bedrooms.

Retirement planning is a lot like this home construction scenario. It's a holistic process that forces us to align our ideal lifestyle vision with our current and projected financial resources. And similar to the home building process, it's a matter of choice, trade off, and compromise.

Current State of Retirement Planning

When Franklin Delano Roosevelt signed the Social Security Act in August of 1935, just surviving to your 65th birthday was pretty much a coin toss for both men and women. According to Social Security Administration statistics, only about 53 percent of the male population and 60 percent of the female population survived the high infant mortality rate prevalent at the time and then lived long enough to get a job, pay taxes, and get onto the Social Security roster. Today, more than 73 percent of men and 84 percent of women reach that status of tax-paying adulthood.[1]

In pure statistical terms, a 65-year-old male retiree today can expect to live about 19 more years or until age 84. Women can expect to live about 21 years beyond retirement or until age 86. Of course, these are just averages so the odds that you'll be celebrating your 85th or 87th birthday are pretty decent. In fact, about one out of every four of today's 65 year olds will live beyond age 90 and one out of 10 will live past age 95.[2]

And here's one more interesting (and perhaps concerning) aging statistic. A typical 65-year-old couple living today should at least consider the statistical probability that at least one of the two partners has an excellent chance to survive beyond the death of their spouse and live on to celebrate a 90th birthday.[3] Considering how dangerous it is just to be alive—getting run over by a bus, having a terminal disease, slipping in your bathtub, or falling down a flight of stairs—the assumption that *you*—the person reading this book—will be one of these threescore and thirty retirees is an amazing, but concerning, thought.

Why We're So Unprepared for Retirement

One major reason so many of us are unprepared for retirement is generational. The pre–baby boomer generation grew up in the shadow of the 1929 Great Depression. They experienced the effect of a failed economy. They watched banks and businesses close their doors and families lose their homes and farms. They experienced the awful, terrifying angst of being absolutely broke.

This experience defined a generation's attitude about money and saving for the future. It's also why most of us have seen our parents or grandparents carefully clean, fold, and store used aluminum foil, plastic wrap, and cottage cheese containers by the dozens. To this generation's way of thinking, you just never know what's going to happen so never, ever waste anything!

People don't plan to fail, they fail to plan.

The baby boom and successive generations have experienced no such angst about their future. Baby boomers in their 50s and 60s today grew up in an ever-expanding, post–World War II economy. And while this generation did experience the malaise-infused recession of the 1970s and the greed-stoked, boom-and-bust economic cycles in the 1980s and 1990s, these events hardly register on the hard-times meter when compared to the Great Depression. Even our six-year (and counting) crawl out of the effects of the Great Recession (a.k.a. the economic meltdown of 2008) fails to measure up.

No, the Great Depression and its particular set of historical and social circumstances (including the absence of any government-backed social safety net) is still the absolute benchmark for the total collapse of our economy.

Millennials, Generation X-ers and Y-ers, and the current generation coming of age are even further removed from the lessons of the Great Depression. These generations have known nothing but the expectation of plenty, and for the ones not so lucky, it's the world they aspire (and often expect) to join.

For the fortunate ones of these recent generations, they've had the opportunity to travel extensively. Many have lived in large, comfortable homes, driven late-model cars, and dined in fine restaurants. As members in good standing of our consumer society, they spend freely (often on credit) and save little, trusting a vague notion that it will all somehow work out in the end.

For some, this assumption will work out just fine, especially those with significant inheritances from their hardworking and successful Depression Era parents and grandparents. For those without such an endowed safety net, it's likely to be a rough ride without the financial discipline of a retirement plan.

Pensions and 401(k)s

When the "greatest generation" began retiring in the late 1970s and early 1980s, their loyal service (often to a single company) was rewarded with a generous pension and perhaps even access to post-retirement healthcare services. In 1970, 45 percent of all private-sector workers were still covered by a pension plan, according to the Employee Benefit Research Institute.[4] But by the 1980s, that long-term commitment to the individual employee began to shift as the actuarial reality of increasing lifespans and an ever-expanding retiree pool began to strain the resources of generous company pension plans.

In response, Congress passed the Revenue Act of 1978. The legislation provided the legal underpinning to support the concept of deferring income tax on retirement savings. Then in 1980, Ted Benna, a benefits consultant for the Johnson & Johnson Company, used the law to create the first 401(k) plan. A year later, the Internal Revenue Service issued a rule that allowed employees to fund 401(k) plans through salary reductions, and soon large companies, such as PepsiCo and Honeywell, began offering the benefit to their employees. By 1996, 401(k) assets topped $1 trillion. As of 2014, 401(k) assets exceed $3.5 trillion.[5]

Positive and Negative Sides of a 401(k)

Clearly, 401(k) plans enable millions to retire comfortably. These plans have largely replaced defined pension plans. Still, a 401(k) plan alone is not a replacement for a traditional pension plan. Company-matching policies for these retirement accounts vary widely, and they don't really compare to the pension plans of a generation ago because many of these traditional plans also included some form of healthcare coverage.

That's why every retiree's budget plan must include a line item for unanticipated health expenses and another line item for long-term care costs that exceed those provided by Medicare or private insurers. Here are a few considerations about investing in these plans:

Positive

- Employer-provided 401(k) plans allow you to control how much money is deferred (up to IRS and company plan maximums) and where your money is invested. Usually participants choose from a menu of investment options that include large cap (companies with a market capitalization value of more than $10 billion) and small cap (companies with a market capitalization between $300 million and $2 billion as well as international funds including emerging market funds.). Fast-moving technology-related companies are also offered as investment options through sector funds, as well as investments in low-risk bonds. As the owner of the fund, you get to choose the allocation percentages for each investment type.

Negative

- Investment freedom is a two-edged sword. You bear the responsibility for the success of your investment choices. Companies large enough to have a 401(k) plan work hard to ensure employees have access to basic investment training and advice. But the fact is that most participants make these decisions—if they pay attention at all—based on standard risk and time line calculations offered by the sponsoring company. That's a risky way to invest your retirement funds. For example, consider the effect on your 401(k) if you had allocated 95 percent of your portfolio's value to high-risk/high-return stocks in the technology sector right before the technology bubble blew up in 1999. Remember, whenever your investments suffer high losses, it's very difficult to make back the loss. For example, if your investments lost 80 percent in value it would take a 400 percent positive gain just to get even with your former position.

Good News / Bad News

Retirement planning today is certainly more challenging than it was a generation ago, but the good news outweighs the bad:

- ***Bad News*** – Yes, most companies no longer provide generous pension benefits to employees. But remember: most of these employees only collected these benefits for only 10 to 12 years due to shorter lifespans at the time.

- ***Good News*** – Your life expectancy beyond retirement has increased significantly. You have a good chance to live these extra years in better health. Yes, you'll have to be proactive about your own retirement planning, but if you plan wisely, you will have the money to spring for your 90th birthday celebration and pay the monthly fees at your comfortable assisted-living facility.

Creating Your Retirement Vision

A generation ago, most Americans had lower expectations for their post-retirement years. They generally took advantage of America's ever-expanding national road system and used their modern reliable cars to discover the land they had sacrificed to save. However, many baby boomers grew up taking full advantage of the unprecedented opportunity to travel nationally and internationally.

These same well-traveled retirees now plan on continuing their travel or re-engaging with a lifelong passion that was shelved while they climbed the corporate ladder or ran their own business. For this generation, retirement planning is more about the narrowing of choices, prioritizing what is fulfilling, and deciding what is affordable.

Despite all of the possibility—especially for the financially secure—some of our clients have great difficulty transitioning to retirement. Sometimes the difficulty stems from the loss of familiar workday routines and interacting with well-liked colleagues. Other clients miss careers that provided a tangible sense of self-worth and meaning for their lives. But on balance, most of our clients are ecstatic about retirement and fully embrace the opportunities of life with an open daily schedule.

A Day in Retirement

Later in this book, you'll get a chance to come face to face with the reality of making hard choices about your retirement vision, but for now just focus on the first day of your retirement. What would you be doing, thinking about, or planning for on that first day? Would you be training for a sporting event (a foot or bike race, perhaps)? Or do you imagine yourself getting up early, firing up your motorcycle or putting the top down in a classic convertible roadster from the 1960s, and heading out for the open road?

Envisioning a typical day or perfect day in retirement is a really good way to start the planning process. Try to start at the beginning of the day. What time do you get up? What do you do next? Do you make coffee? Do you go to the gym at 8:30 a.m. and secretly chuckle at the fact that you don't have a schedule to keep? If you're lucky enough to live near your grandchildren, might you imagine making a surprise visit?

You get the idea. Really think about how you'd interact with your new life. Imagine different scenarios based on time, affordability, or what your health will allow. If you feel overwhelmed by the possibilities and can easily imagine many ways to fill your day, then you're on the right track.

Other "Retirement" Pathways

Of course, not everyone works until they retire at the traditional age of 65. Some of our clients decide to retire in phases and step down from high-pressure corporate jobs to become a consultant for themselves or another firm. For many, shifting away from 10- to 12-hour workdays and moving toward a more reasonable and relaxed schedule is liberating. Other clients I've advised view consulting as a way to keep busy and at the same time ensure enough income to avoid the confines of living within a strict spending budget.

Where Do You Want To Live?

Most of us will stay in our current home after retirement, especially if the mortgage is paid. That’s actually a smart strategy, at least in the short term, even if you do anticipate moving at some point. If there’s no pressing reason to move, then take your time and make a reasoned and financially sound decision.

Below is a sampling of key questions to answer when discussing the desire to move:

- Will you keep your current home? How will you handle upkeep and maintenance? Would your life be easier if your house was smaller and you had less property to maintain?

- Is your house suitable for someone with limited mobility, i.e., one- or two-story construction? Would it be possible to reconfigure your home for single-floor living if necessary?

- Would you consider selling your home and renting a home to accommodate special needs?

- Is building a retirement-friendly home a possibility?

- How do you feel about moving into an active adult (55 years old and above) community?

- Are you considering relocating to a popular retirement location such as Florida, Arizona, or Nevada? If so:
  - Does the new community offer an acceptable level of quality medical care in close proximity to your new home?

From Our Practice... Inflation Matters

The long-term effect of inflation on retirement savings always surprises my clients. It's just hard to imagine how someone with a steady, predictable retirement income stream and fixed expenses would suddenly be unable to pay their bills.

I had a client who had retired in 1984 with a $3,000 monthly pension and a fully paid healthcare plan that didn't even require copayments. On the face of it, you'd think this individual had a fantastic benefits package; and certainly, my client had a pension plan that's unheard of today. Unfortunately, the plan did not include an inflation adjustment clause so the pension paid the same fixed monthly amount no matter the current economic condition.

So, as time went by—and even with the modest inflation we'd had since the client's retirement—the pension's purchasing power was slowly reduced by inflation (still around 4 percent a year) until one day my client could no longer afford his lifestyle. In fact, my client would need a pension of $9,730 in 2014 just to match his $3,000 per month pension that served him well in 1984. Sadly, the net effect was that my client had outlived this savings. Ultimately, we had to sell his home just to meet retirement expenses and to maintain a positive cash flow.

- Will residents have similar interests? How many residents are close to your age? Visit during the months of November through May when a greater sampling of residents will be in their homes.

- Does the thought of spending your days with older people in a 55 and older community sound depressing?

▶ Are you considering buying a retirement home? Clearly, this is not an option for everyone, but even if the idea of traveling between homes sounds exotic, it may not make financial sense. Here are some general notes for your consideration:

- How much time do you want to spend in your second home during the year?

- Have you really calculated the costs of a second home: maintenance, community fees, paying for year-round utility services, lawn services, and other unexpected expenses of home ownership?

- Have you compared the costs of renting a home for three months with the costs of owning a second home? You'll likely discover that renting is cheaper in most cases.

Calculating Expenses and Income

Despite a lifetime of direct experience with the third immutable rule of life, "everything costs more than you think," we still desperately cling to the notion that expenses will somehow be significantly lower after we retire.

Unfortunately, just like death and taxes, this reality of life does not change. That's why retirement planning is so essential. Without a plan and a realistic budget, your retirement years will be more *struggling to live* than living and enjoying life. The next chapter will help you make specific plans, but for now, here are some general thoughts and beginning steps.

Expenses

Most of us manage to underestimate the essentials of living on retirement budgets: food, shelter, clothing, and medical costs. But these budget line items don't compare with how much we underestimate the cost of having fun, i.e., vacations and other entertainment. After all, when you retire, every day is Saturday! Here are some key notes about the cost of fun and how to plan for these expenses:

- ***It's Your Dime:*** When you plan how much you'll spend on vacations and entertainment, remember that you are responsible for the full cost. If you traveled for your job and you used your frequent flyer miles to supplement these expenses, this perk ends with your job. Perhaps your former job allowed you to add vacation days at the end of your business travel days. If so, that perk is gone as well.

- ***Other Vacation and Travel Considerations***
  - What kind of travel do you like? Are you planning mostly domestic travel, or is international (Europe, Asia, tropical islands) your preference?
  - Will you take short, mini-vacations near your home to visit friends, family, or grandchildren?

- Do you plan to fund family trips that you'll take with your children and grandchildren?
- Do you plan more restaurant dining, or will you be entertaining your friends at home?

Retirement Contingency Planning

If the 2008 economic collapse taught us anything, it's the simple lesson to be prepared for anything. That's why I firmly believe in contingency planning that prepares you to handle unexpected expenses such as long-term healthcare and the inevitable swings in the economy. Here are some key just-in-case questions to ask yourself as you prepare to retire:

- How will I earn additional income if I lose a significant portion of my pension or investment portfolio?
- What are my marketable skills? Is consulting a possibility? Should I maintain certifications or licenses, and maintain work connections?
- Do I have a skill that might be turned into a part-time or even a full-time business (e.g., woodworking, event planning, technical skill training)?

Five-Star Tip: Prepare for the Cost of Fun

Most of us underestimate what it costs to live after retirement. Part of the reason for our cost miscalculation is directly related to time. When we're working and rearing our children, time is in short supply. After retirement, every day suddenly feels like a Saturday. That means you'll likely travel more, dine out more, entertain more, watch more movies, and go to more cultural events. All are great activities, but when the costs are added up, it should come as no surprise that the costs you projected for travel and entertainment doubles or even triples.

You should at least investigate alternative income possibilities before you retire. Your skills and expertise may be more valuable than you think, and knowing that you have a what-if plan will make your retirement even more enjoyable. For example, you might work or consult a few hours per month to keep your skills up to date and relevant as part of your retirement contingency plan.

What’s Next and Wrap Up

Chapter 2 is designed to help you leave behind any notion that your finances will be more predictable after you retire. It examines the many risks posed by financial surprises as we age and offers ways to meet this challenge. Finally, the chapter presents a comprehensive budgeting tool you can use to begin planning for your own retirement.

Here’s a recap of the key information presented in this chapter:

- Sure, no one lives forever, but if you don’t have enough financial resources to enjoy a long life and good health, then it just might feel that way.
- Think of retirement planning like building a house. Start with the big picture before worrying about the details.
- You, the person reading this book, have a very good chance of living past your 85th birthday and into your 90s. Be prepared!
- If you have a 401(k), it’s your responsibility to make sure your retirement assets are secure, so monitor its performance and seek out reliable advice.
- Imagining a day in retirement will help you construct a retirement plan you can live with and afford.
- If you plan to change your living situation, think carefully and don’t take hasty action. After all, once you’ve retired you’ll have plenty of time to make the right decision.
- Expenses rise to meet income. Don’t be surprised by the high cost of retirement.