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10 Tips for a Financially Sound Retirement

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If saving for retirement was a struggle before the financial crisis of 2008, imagine how lost jobs, flat wages, underwater mortgages, higher energy and food costs, and local and state tax hikes have combined to make the goal even harder.

Insufficient retirement money is the number one financial worry among 66 percent of Americans. Yet many of them have long-term retirement savings plans.

Americans who don't save for retirement often outlive their assets. Of those folks, 68 percent have less than $1,000 in savings. More and more in today's environment, people really have to take responsibility for their own retirement security.

So, think of saving for retirement as a second job!

Here are some strategies to help you plan for a financially secure retirement. You may not be able to achieve all of them, but the more the better.

- **1. Be debt-free before retirement**

Debt during retirement increases one's expenses while eroding one's nest egg. To avoid unnecessary financial burdens, take stock of your situation and create a plan to reduce debt as you approach retirement. In some cases, paying down debt might mean delaying full retirement.

Many experts still recommend owning one's home before or at retirement. During the 2008 financial crisis, clients with a free and clear home tended to sleep better than those who still had a mortgage.

If you retire holding a mortgage, ensure that you can afford the utilities, maintenance, and insurance payments that also come with owning property.

Also, consider downsizing to a smaller home; paying down mortgage principal and refinancing the remaining portion to reduce your monthly mortgage payments; and weighing the tax benefits against a complete pay down.

- **2. Design savings and spending plans**

This one is a must for everyone. Retirement planning is particularly hard because the implications of your choices tend to get magnified.

You'll need to determine the amount of savings needed for your desired retiree lifestyle. Completing the calculation can boost one's confidence; over 25 percent of Americans who have completed a calculation say that they are very confident that they will save enough money for retirement.

A spending strategy is equally important. Rather than follow a budget, many people spend what comes in. Try totaling the last 12 months' checks that you wrote to calculate a realistic withdrawal rate. Many professionals recommend a 4 percent spending rate of your savings, which should last for 25 years.

- **3. Think twice before leaving the workforce**

The mystique of retirement can look good from a distance, but later lead to regret something akin to 'buyers' remorse. So, try reducing work hours before quitting your job. It may enable you to return full-time, if needed.
Another consideration is retiree benefits. If you don't have them, many experts recommend delaying retirement until you qualify for Medicare***.*** As you near 65 years of age, you should be able to negotiate a flexible work schedule.

Fifteen years ago, if people retired without a retiree medical benefit, nobody gave it a second thought; they just went out and bought an individual health plan.

- **4. Be wary of cash buyouts**

Know the implications of taking a buyout.

Those who take buyouts can have later regrets about accepting money to retire, especially when they come to see themselves as a commodity.

There can be feelings of being disposed of because one has reached a 'best before date,' or has been bought out."
Employers often hire specialists to persuade senior staff members to take a cash buyout, which enables them to replace high-salaried seniors with less-expensive junior employees.

If tempted with a buyout, first ask yourself: What you would do after accepting the buyout?

Are there still opportunities for you to earn an income either through a part-time job, a shift in career, or turning a passion/hobby into a money making venture?"

- **5. Optimize tax strategies**

Use appreciated stock or mutual funds to make charitable contributions of $1,000 or more.
Say you have $10,000 in cash to donate to a charity, but you also have a stock worth $10,000, which you bought for $2,000, and you don't want to sell it.

Give it to charity.

The tax-exempt charity won't pay tax on your stock profit, and your donation will be tax-deductible.
You don't have to wait 30 days, because you're not selling at a loss. You still own the same amount of stock, but now you have a higher tax basis so if you do sell in the future, your capital gains tax bill won't be quite as big.

There are lesser tactics, as well. Only buy municipal bonds if you're in a 35 percent and over tax bracket (rare for most Americans), and choose exchange-traded funds, ETFs, , over mutual funds because you only pay taxes on profits when you sell your shares, thus avoiding annual cash distributions, which also complicate tax filing.

- **6. Use tax-efficient income streams**

Retirees should document, prioritize and categorize. The idea is to use the assets that we own to generate income in a tax efficient way.

Determine your annual base or mandatory expenses—food, clothing, shelter, utilities, medical, and transportation—and discretionary expenses.

To avoid unnecessary taxes, retirees should only generate income that is needed to cover base expenses.
Most essential for retirees is generating actual net retirement income dollars, because not every dollar of income is equal from a tax perspective. Every dollar taken from tax-free accounts is actually worth a dollar in net terms, whereas a dollar taken from a taxable account may only be worth 80 cents, given the tax rate.

- **7. Don't be an ATM to your kids or grandkids**

Be smart about how you give away money.

Grandparents should set up an investment fund with a goal that interests the child. “A grandparent 401(k)” . To most teenagers, college isn’t that sexy and fun to be working towards. But for teenage boys, their first car, by golly, that’s something they’ll work for.

For every dollar the grandchild adds to an investment or savings account, the grandparent can supplement.

- **8. Wait to tap into Social Security**

Nearly a quarter of older Americans rely on Social Security for 90 percent or more of their family income.
To guarantee sufficient monthly payments during retirement, one should know the best time to tap into Social Security benefits. The Social Security claiming decision is one of the most important, yet complicated, retirement-related financial decisions.

Many experts agree that waiting pays off. If claimed too early, the benefits could decrease up to 8 percent a year. If you wait until the age of 70, the benefits increase—and by quite a lot.

- **9. Prepare for the unexpected**

Update important documents every five years.

Any time there’s a birth, death, divorce, marriage. Especially as people are living longer and longer, and with health-care advances being at what they are, it’s important to have a health-care surrogate or a health-care power of attorney. A health-care power of attorney is a legal document that appoints somebody to make medical decisions on your behalf if you can’t.

Retirees also should consider investing in long-term care insurance, which typically covers the cost of home care, nursing-home care, and assisted living, usually not covered by traditional health insurance. They’re not covered much by Medicare and they’re only covered by Medicaid after you have spent all of your money,” says Richard Johnson, director of the Program on Retirement Policy at the Urban Institute.

When planning for retirement, don’t overlook care-giving. Family members may ask you for help. A retired couple may wind up with family members living with them, being called to baby sit, taking care of a spouse. Plan accordingly, as taking care of someone can cost money.

- **10. Enjoy spending within your means**

Many retirees don’t live as comfortably as they could, fearing they’ll run out of money.

When you’re 65, you don’t know how long you’re to live. What if I live to 110?’ There’s a lot of uncertainty involved. The solution is to buy an annuity. An annuity is a pot of your money that an insurance company converts into regular payments until one’s death.

The uncertainty diminishes. No matter how long you live, you will receive a regular payment each year.
But others say annuities involve risks. You lose long-term capital gain tax treatment on profits. You can’t offset gains with losses, and your heirs lose the stepped up tax basis if/when they inherit the account. Not to mention the high fees and big withdrawal penalties.