Strategies for a Successful Retirement©

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The primary goal of retirement planning is not outliving your money. Below are planning strategies that would lead to a successful retirement.

1. **Be critical of financial advice.**

Financial advisers are fond of directing their clients to invest in equities, because they offer more growth potential than fixed income investments. Yet recent history proves otherwise. As the stock market is highly volatile and unpredictable, retirement planning the traditional way that relies on the stock market for growth is clearly inadequate and unsuitable. However, history also shows that the stock market can deliver good returns some of the time. Effective retirement planning should not rely entirely on the stock market for growth, but should only use it as one of the tools for building your retirement nest egg.

Because of the wholesale loss of all asset classes in 2008, many advisers believe that the diversification strategy has failed. The problem is really not the strategy itself, the problem is the execution of the strategy by advisers who focused on diversifying only within the US domestic stock market. For example, many advisers would diversify by allocating assets among large cap growth, large cap value, small cap growth, small cap value, and so on. But these are only different classes of US stocks. Instead of investing only in the US market, as represented by the S&P 500 index, a stock portfolio in today's economic environment should diversify beyond domestic stocks, and incorporate various kinds of equity such as international stocks, real estate, as well as commodities.

Given the thousands of investments available on the market, it can be bewildering for an investor to choose the right investment. It is essential that you do not fall for the sales pitch from a financial professional, no matter how good it sounds. You should always ask for written materials that explain the investment, such as prospectuses and brochures, and insist on an analysis of the potential downside of the investment. If you still need help on understanding the investment, you should consult an objective financial adviser for a second opinion, as well as additional opinions by doing research on the internet, which has a wealth of information on just about every kind of investment. Only after you have understood the investment would you decide on whether to go for it. Yes, it takes time, deliberation, and due diligence. Is there a better way to protect your retirement assets?

2. **Be safe. Make preservation of capital a top priority, regardless of your age.**

Warren Buffet has famously said that the first rule for investing is 'never to lose money,' and the second rule is 'never forget the first rule.'

Since investing in equity is oftentimes beneficial but risky, one way to moderate the risk is through rebalancing. Rebalancing in the traditional way is shifting the gains from the strong performers to weak performers within a portfolio, in the hope that the weak performers would gain grounds in a cyclical manner when the current strong performers become weak performers. However, rebalancing this way increases the risk exposure of the portfolio when it becomes ever larger with the gains because when the gains are retained within a stock portfolio, all the gains continued to be subject to the same volatility of the market, resulting in the loss of all gains in the event of a market downturn, since gains under this scenario are only paper gains.

Rebalancing under the new strategies is to shift the gains from equities to fixed income investments. This results in realizing the gains from time to time, and repositioning them to safer investments, thereby protecting all the gains from being vaporized in a market downturn. Repositioning equity gains to fixed income can result in a higher, and real, return for an investor over time.

3. **Be realistic. Retirement planning is not a 50-year affair.**

Advocates for the buy-and-hold strategy, as well as long term investing in the equity market, such as John Bogle, always point to the positive historical performance of the US stock market in the past 40-80 years. While the data are irrefutable, they are nevertheless irrelevant because most Americans saving for retirement have only a 25-35 year time frame to get the job done. While it is true that retirement planning can span 50 years or more, as people can live a long life after retirement, but the time beyond age 60 or 65 is often dedicated to asset consumption rather than asset accumulation. So most people do not have the luxury of waiting for the market to recover from a severe downturn, as what happened in 2000-2002, and 2008-2009. They also cannot afford the uncertainty inherent in the equity market, no matter what promises it may hold.

What Americans need to realize is that they need to accumulate enough real assets that they can access for retirement. Aside from social security and a pension, which are about the only assets that American workers can count on for their retirement, they need to make sure that their retirement savings will generate sufficient income to cover their expenses and to support their life style through retirement with just as much certainty as social security and a pension.

4. **Be flexible. Explore alternatives to stocks.**

Many investment and savings alternatives with lower risks can do better than stocks. In addition, securities such as Ginnie Mae, Treasury bonds, and savings bonds are fully insured by the Federal government. There are many income producing securities, such as Master Limited Partnerships and municipal bonds, which enjoy lower tax benefits, and which should be a part of a retirement plan. Similarly, annuities and cash value life insurance should also be part of a retirement plan because they can offer a good income stream with tax benefits.

5. Be proactive. Develop multiple sources of income.

The prevailing advice from many financial advisers is that American workers should maximize their participation in their employers' 401(k) plans, or similar qualified plans. When they retire, they can then withdraw from the balance in these accounts according to a withdrawal schedule, such as 4-6% per year to meet their needs without exhausting the accounts. The result is that such plans constitute the entire retirement savings of the workers. It does not matter if the worker has multiple 401(k), or IRA accounts, the approach of investments in these retirement accounts is overwhelmingly in common stocks and bond funds, which are highly affected by the stock market. This strategy is the reason for many Americans to have experienced the disastrous consequence of losing a large chunk of their retirement savings in recent days, not to mention that some of the employer-sponsored plans are limited to company stocks, such as Enron.

The better strategy is to develop multiple sources of income, some of which should be totally independent of the stock market, or company stocks, such as guaranteed annuities, various savings bonds, or rental income if real estate investment is part of the retirement plan. This is essentially a diversification strategy, which can incorporate as many sources of income as can be developed according to individual conditions. For example, a part time job can be a viable source of income, if it is the kind of work that a retiree truly enjoys. Instead of one large annuity, several laddered, smaller annuities may do a better job to counter the effect of inflation over time, because the payout is larger with increasing age. Utilizing several insurance companies rather than just one for annuities also is a prudent way to minimize default risk, as insurance for annuities is limited.

6. Be strategic. Resolve to minimize taxes and to maximize benefits.

Americans are also advised on a daily basis to contribute the maximum to a tax-deferred retirement account at work, or to individual IRAs because of the current tax reduction benefits. However, deferring taxes now may result in a much larger tax obligation in retirement. Roth IRA or Roth 401(k) may be a better way to go, because the total tax paid would be lower if paid now, than if it's paid later when the account has grown tenfold or twentyfold. For example, if a worker contributes $1000 to a 401(k) account, he saves $250 if he is in a 25% tax bracket. When the account grows tenfold to $10000, and the worker takes that as a distribution, he would have to pay $2500 for tax, if he is still in a 25% tax bracket. Conversely, if the worker instead contributes the same $1000 to a Roth account and pays the $250 now, there will be no tax due when the account grows to $10000 at distribution. In effect, the worker pays $250 tax for a $10000 benefit in the future, which amounts to a 2.5% tax rate.

If investments in a Roth account are converted to an income stream through a life time annuity, there will be no income tax due whatsoever from the annuity payout, and the worker can enjoy a lifelong tax free income, which can far exceed the initial investments.

Moreover, paying taxes when one is young and working is inherently more affordable than having to pay taxes when one is in retirement without a regular paycheck.

For high income individuals, using cash value life insurance is a tax efficient approach to saving for retirement. The cash value in a life insurance will always be available as a liquid asset and accessible in the form of tax-free loans during retirement. The loans are not required to be repaid. As indicated earlier, this approach requires that the life policy be maintained in force until death for it to work. So it is a life-long commitment as a retirement asset.

Delaying social security benefit claims is yet another way to maximize retirement income that has a life-long guarantee. Early benefit claims would result in a permanent reduction of benefits that may amount to hundreds of thousands of dollars. For example, if a person is entitled to $2000/month in social security benefits at age 66, which is the full retirement age, but instead begins to draw the benefits at age 62, he/she may stand to lose as much as $500/month in benefit reduction. This benefit reduction amounts to $6000 a year, $60,000 in 10 years, and $120,000 in 20 years.

One strategy that many retirees have employed with some success is moving from a high tax state to a low tax state to reduce the overall tax burden during retirement. The caveat is that some states that have no income tax actually have high property taxes, which result in a net higher tax overall. Prospective retirees should study the local conditions of places where they intend to live during retirement. Since retirees may need more medical care, they may also consider localities that offer superior medical facilities. These are the strategic issues that prospective retirees should consider to maximize the various benefits they wish to have.

7. **Stay liquid.**

One reason why all investments, be it stocks or bonds, lost a substantial amount in 2008 across the board was that all mutual funds experienced massive redemption requests when investors lost confidence in the market. When there are more sellers than buyers, asset prices can drop precipitously regardless of their underlying value.

The same principle applies to retirement investments. It is critical that retirement assets be as liquid as possible, so that one does not have to sell into a down market in order to raise funds for living expenses. How much liquidity is necessary depends on the cash flow needs of an individual, and how much security he desires. Generally speaking, five to ten years' worth of liquidity may be needed on a rolling basis to make sure that there is no panic liquidation and that emergency contingencies are covered.

8. **Reduce expenses.**

The lower the expenses, the longer the retirement savings will last, and the more successful retirement life will be. One sure way to reduce expenses is to reduce taxes by paying some of it prior to retirement, as indicated above. Another way is to eliminate all debts, including mortgages, consumer and college loans for children before retirement.

As medical and long term care expenses are known to constitute a large share of retirement outlay, they are a crucial part of retirement planning. Since many of such expenses are speculative, many people are reluctant to plan ahead by purchasing long term care insurance. If they do not in fact use the benefits in the long run, investments in long term care insurance would amount to a waste of resources.

In response to such concern, some insurance companies are offering long term care insurance that is integrated with cash value life insurance, as well as annuities, so that if there are no long term care benefit claims, all the cash value remaining in the policy will be paid to the beneficiaries as death benefit.

There are also long term care policies that offer a 10-pay rider (accelerated payment), or, in a few cases, a return of premium rider, which allow investors to prepay for such benefits prior to retirement, and to recapture the investment if the benefits are not claimed, so that their overall health care expenses can be reduced during retirement.

In essence, retirement expenses can be greatly reduced if some of such expenses are paid prior to retirement. If expenses can be reduced, the need for retirement income and the savings to support such income can also be reduced accordingly, and the likelihood for a successful retirement will be greatly enhanced.

9. **Treat retirement as a business venture. Develop a long term plan.**

Today, if an American worker retires at 60 or 65, she must be prepared to pay herself for 20-30 years. Early retirement prior to age 60 means that there must be sufficient retirement resources to pay herself for up to 40 years. Whether one likes it or not, one has become solely responsible for producing a paycheck in retirement, instead of an employer.

It is therefore critical that every American worker plan for a retirement that is sustainable. It is also necessary that the plan be based on strategies that would lead to the achievement of specific retirement goals. If the task is beyond your expertise, you should consult a financial planner who can assist you in sorting out the various issues that you need to address, much like a business that needs a business consultant to help put it on the right track to success. Workers who are approaching retirement should test-drive their plan one-two years prior to actual retirement, so that they can work out problems which they may not be aware of.

While people in their 20's or 30's may consider retirement as a remote concern, and would prefer to put off planning for it, they need to realize that retirement is not an issue only for the older folks. Retirement planning is simply a process which involves the management of one's resources, which include income, savings, spending, investing, and debt. Proper resource management would lead to a successful retirement, whether you call it retirement planning or not. By way of motivation, all young people are capable of being millionaires. All it takes is saving and investing $5000 per year. At a moderate 8% return, they will become millionaires in 35 years. So the earlier they begin the business of managing their resources, the earlier they will achieve their millionaire status and beyond.

10. Be vigilant. Guard your retirement investments closely.

While you can delegate the job of investment to financial professionals, you need to make sure that you understand what is happening to your investment accounts at all times. Bearing in mind that the world has become a global village, and that the world of investment is fast changing, it is incumbent upon you to keep up with all the changes to ensure that your retirement plan is on track. In this post-Enron, post-Bernie Madoff, and post-Lehman Brothers era, not even the largest and oldest financial institutions are immune from failure. So the best way to protect your retirement is to be vigilante and be proactive. As Marilyn Cohen and Chris Malberg note in their book: "No more cruise control," even for the safest bonds that one could count on in the past. (***Bonds Now!,*** John Wiley & Sons, Inc, New Jersey, 2010, p. 3.) For example, despite its safety, you can lose money on Treasury bonds, because if you purchase a bond at a premium price above par, and sell the same bond at a discount below par, you lose money on the differential.

So, be careful and be vigilant. Make sure that you know what you are doing with your retirement investments and what your financial advisers are doing on your behalf, as nobody cares for your many more than you.

11. Plan ahead

If you follow these strategies, it is highly likely that you will have a successful retirement without the fear of outliving your money. These strategies do require some planning to meet your individual needs. The time to start planning is now, no matter where you are in your life. As Kim Bensen discovered in her efforts to lose over 200 pounds in 2 year that planning was the key to her success: "The amount of time and effort you put in, especially in the beginning, is directly proportional to your ultimate success. Don't take the time, *make* the time. . . . Getting "good" at planning is a gift you can give yourself, and it's a gift that will last you forever, a long-term, risk-free investment for the rest of your life." ***finally thin***, by Kim Bensen, Broadway Books, New York, 2008, p. 99.

Though Kim was referring to planning for a weight loss diet and a new lifestyle, the value of planning applies equally to planning for a successful retirement. The problem with most people, as often noted, is not 'planning to fail, but failing to plan,' which results in failure just the same. Re-planning is equally important if your previous plan has not worked. If you have lost a lot of money due to the market downturn of the last few years, it's imperative that you retool and rescue your retirement from further loss. So, please do yourself a favor, start planning for your future and your retirement today!

12. Test drive your retirement

If you have a retirement plan in place, one or two years prior to your planned retirement, you can test drive your retirement by actually living on the expenses and income that you expect to have during retirement. This will give you a reality check to see if things will go according to plan. It will also give you an opportunity to adjust your plan before your make the final commitment to retire.