Financial Principles, LLC

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Five Important Questions to Answer Before Retiring

Consortium of Securities America Advisors Offer Tips for a Retirement Income Distribution Plan

Fairfield, NJ (November 17, 2010) – According to a Barclays survey, 60 percent of wealthy individuals say they never plan to retire. This group of "Neveretirees," is expected to grow over the next several years as more than 70 percent of respondents under the age of 45 say that they will always be involved in some form of work. Equally startling is the fact that 32 percent of these people plan to work between five and 20 hours per week in retirement and seven percent plan to work more than 20 hours per week.[1]

Some may read these results and assume that hardworking Americans want to continue to challenge themselves well beyond the traditional retirement age. That may be true, but according to a consortium of financial professionals affiliated with Securities America, the real motivation may be fueled by the fear of giving up the comfort of a paycheck and having to begin to draw down retirement accounts.

"With life expectancy continuing to rise, there's a strong possibility you or your spouse could spend just as much time in retirement as you did in the workforce," says John Egan, founder of J.M. Egan Wealth Advisors with offices in Madison and Point Pleasant Beach, New Jersey (jmegan.com). "The longest recession since WWII, continued market volatility and the prospect of diminished returns going forward serve to underscore the notion that income from work may be necessary to meet an investment income shortfall or serve as a safety net in the event of another significant market downturn."

However, while understandable, partner at Fairfield, New Jersey-based Financial Principles (FinancialPrinciples.com) Mike Flower says "Planning to continue to work is as unrealistic as counting on a 20 percent return every year on your investment portfolio." He points out that the inverse is true. Many Americans over the age of 55 are losing their jobs and being forced into early retirement due to the recession. Recent government figures indicate that as of March 2010 more than 8 million jobs had been lost since December 2007 and for workers who are 55 or older, the jobless rate had doubled to 6.9 percent. [2]

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"Planning to support yourself in retirement by continuing to work seems even more unrealistic when you consider that the Employee Benefit Research Institute's 2010 Retirement Confidence Survey showed 41 percent of retirees reported that they retired sooner than they planned, often for reasons including health problems, disability, and company downsizing or closure," says Bob Hapanowicz, founder of Pittsburgh-based Hapanowicz & Associates (hapanowicz-associates.com).[3]

According to the consortium of advisors, in many cases the panic over leaving the workforce stems not from lack of retirement funds, but from lack of concrete planning for distributing retirement income. Working with a financial professional can help answer these five important questions so that the retirement plan is not to ever retire:

- **How much is too much?** Flower says that it's important to set a portfolio withdrawal rate that does not deplete assets too quickly. He says retirees may generally feel comfortable withdrawing 4 percent each year from savings to cover retirement living expenses. "This is by no means an absolute figure that fits all situations," says Flower. "Changes to your retirement lifestyle, market returns, and inflation rates can all influence what's reasonable and sustainable."
- **How should assets be allocated? "**There was a time when retirement meant converting all equities to bonds," says Hapanowicz. "While it's inevitable that your portfolio will experience both positive and negative returns over the years, a sustainable withdrawal amount is more severely threatened when those down years occur early in retirement." He says that this is particularly important today, where the recent recession coupled with the increased length of retirement requires an allocation to equities for growth potential and diversification.
- **Which account should be drawn from first?** With tax-deferred accounts such as IRAs or 401(k) plans, taxable investment accounts, and annuities, choosing the account to use first to meet retirement income needs is an important decision. "You have to look at distribution options with a multi-year lens," says Egan. That can help minimize taxes *and* maximize asset growth." For those retirees aged 70½ or older a qualified retirement account (like traditional IRAs and 401(k)) is subject to IRS-mandated required minimum distributions (RMDs).
- **How to remain balanced?** "Income draw-downs will impact overall asset allocation, that's inevitable," says Hapanowicz. As such, it is necessary to regularly review the whole portfolio and rebalance when, and if necessary to maintain a mix of stocks, bonds, and cash that is appropriate given an investor's age and risk tolerance.
- **Is more insurance necessary?** "Some investors are perfectly comfortable with a 90-percent chance that they won't outlive their money while others want more of a guarantee," says Egan. Most investors are accustomed to managing market and inflation risk, but retirement adds longevity and healthcare costs to the equation. A financial advisor can help you assess all the risks you may be most susceptible to. "If you're worried about running out of money later in life, you might consider converting a portion of your savings into a regular stream of income-payments by purchasing a lifetime income annuity. If the cost of long-term care is a worry, you consider purchasing long-term care insurance," says Flower.

About Financial Principles, LLC

Financial Principles understands the importance of planning – whether it's for retirement, saving for college or even charitable giving. Two senior partners, Bradley H. Bofford, CLU, ChFC, and Mike Flower, bring a combined 30+ years of financial services experience to their clientele. Both are recognized as qualifying life members of the prestigious Million Dollar Round Table, "The Premier Association for Financial Professionals®". As representatives of Securities America, Inc., Bofford and Flower are able to provide comprehensive services and advice in all areas of personal finance, such as estate planning, retirement planning and tax reduction strategies.

Bofford and Flower believe that a well-informed client is essential for success. They love taking clients from fear to confidence regarding finances, by placing a strong emphasis on educating people about how to prepare for and enjoy a comfortable retirement. Both advisors have contributed to articles in several leading trade publications including *Investment News, Financial Advisor,* and *Research* magazine as well as consumer outlets such as *BusinessWeek, Money* and *New Jersey Business* magazine. Visit www.financialprinciples.com to learn more about the advisors at Financial Principles.

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Written by Impact Communications in conjunction with Michael Flower, John Egan and Bob Hapanowicz, Securities America, Inc. Registered Representatives.

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