Investment Insights

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Retired? Time to get serious about your finances! 3/24/06

You've finally reached the finish line: you've retired! The race is over; you can stop worrying about investing and growing your money. Now is the time to get conservative and dump those stocks and mutual funds and get into Treasury bills or CDs, right? All you need is that monthly income, nothing fancy; investing is for the young folks and aggressive folks, isn't it?

Not so fast! Your life isn't over, and neither is the need to manage your finances wisely. In fact, now that you are largely dependent on your savings for financial support, it's more important than ever to have a thought-out financial plan.

Let's take the government's definition of retirement age, and assume you retire at age 65. Age 65 was originally chosen as the official "retirement age" a hundred years ago when life expectancy was less than 50 years: if you made it to 65, you were one of the lucky ones, and retirement was your reward. Today, if you're married, and your spouse is also 65, there's a 50% chance one of you will live to at least age 92! If you're a single male age 65, you have a 25% chance of making it to age 92. A 65-year old woman has a 25% chance of living until age 94! In any case, there's a good chance your "retirement" may last 20-30 years!

If you're like most Americans, your investing career probably didn't begin until you reached your 40's. In your 20's and 30's, you were buying a home and raising a family, and it wasn't until you hit your peak earning years that you started to read the stock pages and think about managing your money. If this is the case, you're only half way through the race! You've got another 30 years to manage your finances, and because you're dependent on this money, mistakes in this period can be devastating.

When you enter retirement, your financial focus shifts from accumulating assets (saving) to distributing assets (monthly income). And whereas bad stock markets where the main enemies of your accumulating phase, in the distribution phase you are now your own worst enemy: one of your biggest risks now is longevity, or outliving your money. You may not believe you'll live to age 92, but what if you do? If you thought you'd be dead by age 80, what will those last 12 years of your life look like? Will you have the money to pay your bills, buy your medicine, and enjoy your "golden years"? Better to plan to live long and manage your money accordingly than fall into the longevity trap and run out of money.

When we draft financial plans for clients who are near retirement or in retirement, we look at resources (assets) and needs (lifestyle) forecast to at least age 90. Sixteen years ago, when we drafted such a plan for a 74-year old client, she laughed and said she was sure she wouldn't be around that long. This year, she'll be celebrating her 90th birthday. She still has the assets to support herself, and she's sure glad we planned for this. At age 74, she questioned the idea of having any money in the stock market. Now, as her bills have all risen with inflation, and the amount of money she needs every month has nearly doubled, it's become clear to her that growing her assets over time is critical.

Retirement is a change in your life, not the end of your life. Similarly, it's not the end of your need to intelligently manage your finances. The biggest mistake you can make is not planning to ensure the safety of your lifestyle and comfort in retirement.

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