Retirement Revisited

By Evelyn R. Preston

Seniors get a bad rap—but really, we only repeat ourselves for emphasis, to cement our wisdom and channel our knowledge. Therefore, I eagerly remind readers again that for 2013: change is inevitable; new fiscal policies will impact us greatly; counting our pennies—how we save and spend our retirement dollars—remains Job One. From homegrown fiscal cliffs to foreign fiscal chaos, most retirees' financial concerns bear repeating because they mirror personal challenges and reflect a perplexing future.

Question: *What's the "4% Rule" for withdrawing savings and is that the best way to insure our money will last as long as we do?*

Answer: A fixed percentage withdrawal strategy isn't set in stone. It's a starting guideline that can be adjusted yearly for: cost of living (inflation) increases, Society Security raises, return on personal investments, lifestyle changes, etc. Any withdrawal percentage can be raised in good years, lowered in down market times, and "charted" over the long term to indicate its lasting effect over 20 or 30 years.

Question: *In retirement, is it better to rely on income only (CDs/bonds/annuities) or dip into principal via withdrawals from total returns (stock/equities)?*

Answer: There's risk associated with relying on any one strategy; a steady fixed bond return is attractive but lower yields can lead to seeking more volatile, less highly rated choices. Equities retain their on-going earning power but can be less stable as in the market gyrations of recent years. As recommended when investing, diversification into some growth/dividend paying stocks along with bonds and fixed payouts (Money Markets, CDs, etc.) offer a more balanced portfolio even while withdrawing funds.

Question: *Which investments should I dip into first as I begin to take withdrawals?*

Answer: It's imperative to make sure you first take out the Required Minimum Distribution (RMD) from your retirement accounts when you reach age 70½. (You must consider all qualified money but the total RMD may be taken from one or several accounts.) The penalties are severe if you fail to follow the rules. Spending it all isn't required; you can always reinvest some or all into a taxable account to continue saving. Mutual funds won't charge you to re-invest, "though taxes" will be due. Therefore, you might first consider which assets take the least tax hit—non-performing investments and losers, any muni bonds and certainly taking long term capital gains before short term gains—the choice of a sale is yours.

Question: *Have you read that the Government is considering changing retirement plans like 401Ks (private workers), and 403Bs (public employees), into a plan offering a guaranteed 3.5% return plus cost of living (COLA) increases and that additional retirement money would have to be funded with after tax contributions?*

Answer: Actually, this idea has been talked about for the past four years although to date, there's nothing specific in the works. Potentially troubling for those still contributing, the status of current retirement plan dollars probably wouldn't change—only new plan contributions after some future date would be affected. However, beyond speculation about a number of revenue enhancing measures, seniors must remain vigilant and realistic—their nest eggs could be at risk via higher taxes and/or loss of exemptions.

Question: *Do you think the average senior will have to downsize to make ends meet?*

Answer: A WSJ article (12/10/12), shows that while 40% of retirees plan to downsize, their projected gains may not result in any real windfall. Unless seniors plan to move to a much less expensive area of the country and/or greatly change their lifestyles, savings could be minimal. New housing/moving costs and unexpected expenses of condo fees/mileage hikes/storage charges and extra travel or entertainment may even eat into their assets.

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