Money, Magic and Myths

By Evelyn Preston

As I age, I'm ever more aware that each year is increasingly important to ensure a healthy and abundant lifestyle. Because I'm now into the final third of my money life, I'm reminded of financial guru Ric Edelman's general caveat:

Licensed advisors are most schooled and more interested in the first two phases of financial planning: 1) saving money for expenses and retirement and 2) investing those savings for future use. Part 3)—withdrawal and use of retirement funds earn advisors fewer fees and no new income so understandably they are less motivated in the active management of many older clients' accounts.

This isn't cynical; it's just a reminder that accessing the funds built up over a lifetime requires extra vigilance. Retirees need to be involved in deciding the best use of their proverbial "nest egg."

Question: I plan to retire soon. Any special focus beyond "running the numbers" and diversification?

Answer: Experts in the WSJ suggest several critical moves to make in the years before retirement. 1) Think hardest about irrevocable decisions: Social Security and pension start dates, lump sum or monthly payouts (or a mix) and ditto for annuity choices; 2) comparable costs of downsizing/ retirement communities; 3) purchasing big ticket items—a new car, home repairs—using current income; 4) stashing cash for "just in case" emergencies or a down market upon retirement.

Also consider tax-rate diversification among different investment vehicles and re-reading the fine print on assets that may be passed on to heirs.

Question: At 70 ½, I'm receiving Social Security, my mutual funds' IRA yearly Required Minimum Distribution plus the 10% "free" (no strings) payout allowed annually from my annuity. Because that's not enough to live on, should I take the higher but-set-for-life annuity payout or dip into more of my IRA funds?

Answer: Since both annuity payments and IRA fund withdrawals are considered "ordinary income," there's no tax advantage to either. But as you realize, "annuitizing" locks in a specified, no risk, on-going amount—a "good deal" depending on your longevity. However, growth mutual funds may actually outpace withdrawals but with the obvious market risk (as well as longevity). Review past performance of the funds you own and discuss possible allocation changes to mitigate the downside before making any decision.

Question: With so much confusing information about finances, are there any basics we tend to forget?

Answer: Never neglect the magic of compounding—continued earning on the appreciated value of those earnings—proof that time can become your greatest asset. Also, always remember that over time a mutual fund may increase in two ways: 1) the price per share and 2) number of shares owned via stock splits and the reinvestment of capital gains/dividends to buy more shares.

For long term holdings, it can be eye-opening to compare the number of shares originally bought multiplied by the cost of those initial shares with the number of shares now owned multiplied by the current price per share. Don't just look at the difference between the net asset values (fund prices) of then and now without calculating the often-substantial increase in number of shares owned.

Question: What are some myths about money, especially related to seniors?

Answer: 1) Older people need the majority of assets in bonds. When savings shrink in a downturn, growth from stocks may help to avoid running out of money. 2) You'll spend much less in retirement; you'll just spend differently and probably with less income. 3) Medicare will cover most healthcare costs. The need for more care plus rising costs from co-pays to drugs will probably not lead to big savings for seniors. 4) Moving to retirement havens (Fla., Ariz.) will save money; you may just trade—not lower—overall costs such as finding less expensive real estate but much higher property and sales taxes. Run the numbers before running away from home!

Evelyn (Evie) Preston has worked as a financial advisor for over 25 years. Her book, "Memoirs of the Money Lady" is available at www.eviepreston.com. She can be reached at 650.494.7443.