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selling point

Top 10 Factors in Retirement Planning

Retirement projections aren't working out? Know the 10 key factors you have to work with.

You've been there before: Mr. Smith wants to retire at age 55, but the retirement projections you've run for him are unfavorable. How can you help him focus on what is truly achievable? Talk to Mr. Smith about the 10 key factors in retirement planning:

1 **Initial capital** The current retirement nest egg. Can Mr. Smith boost his investment assets by selling personal assets, such as expensive cars or vacation homes, and adding the proceeds to his capital base?

2 **Future savings** Planned additions to the nest egg between now and retirement. Can Mr. Smith increase his contributions to IRAs, 401(k), and/or other qualified plans to the maximum allowed? If he is already contributing the maximum, can he set aside nonqualified money in other investments, especially tax-deferred investments such as annuities?

3 **Spending level** Living expenses. Can Mr. Smith pay off debt now to free up more money for savings? Can he cut back on planned expenses in retirement, including travel or expensive hobbies?

4 **Rate of return** Annual increase (or decrease) in investment holdings, in percentage terms. Is Mr. Smith's asset allocation appropriate for his level of risk tolerance, time horizon, and desired goals? Potential rate of return is related to an individual's risk tolerance. More aggressive investments can offer greater potential return, but at an increased risk to principal.

5 **Age of retirement** Age at which individual retires. Although Mr. Smith wants to retire at 55, is he willing to work to age 62, when it is possible to obtain Social Security benefits (albeit at a reduction from full Social Security retirement benefits)?

6 **Years in retirement** How many years the individual expects to spend in retirement. Is the life expectancy used in the retirement plan consistent with IRS life expectancy tables? Has Mr. Smith's family history been taken into account?

7 **Pensions** Monthly check or lump sum due from employer(s). If Mr. Smith is not currently working for an employer who offers a pension plan, can he switch jobs in time to accumulate a pension from a new employer (he must work a minimum of five years for the new firm in order to be vested in its pension plan)?

8 **Working in retirement** Earned income in the retirement years. Would Mr. Smith entertain the idea of working part-time in retirement? Many retirees work part-time as consultants or contract employees in their previous fields, or branch out to an entirely new line of work in retirement.

9 **Adjusting retirement lifestyle** Changing portfolio withdrawal rates in relation to investment returns. Is Mr. Smith willing to cut back on discretionary items, such as expensive vacations or gifts, in years when his portfolio return is less than expected? For instance, if the planned portfolio withdrawal rate is 4 percent per year, Mr. Smith might withdraw only 2 percent in lean years.

10 **Redirect dependent support** Move some money from supporting dependents to retirement savings. Is Mr. Smith footing the full bill for his children's college education at the expense of his own retirement? There are other options for college funding—scholarships, loans, work-study grants, part-time jobs while in school—but no such other options exist for funding retirement.

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