Retirement Done Right

In 1951, Dr. Albert Einstein was working as a physics professor at Princeton University. One day, he and his teacher's assistant were walking across campus when the assistant asked the question, "Dr. Einstein, how do you think our advanced physics students did on their final exam?" Dr. Einstein replied, "Not very well." The assistant looked surprised and shocked as he responded, "But Dr. Einstein, why wouldn't our students have done well when we gave them the same test as we gave them last year?" Dr. Einstein replied, "The questions were the same, but the answers are different this time."

In many ways, planning our retirement takes a similar path as Dr. Einstein's advanced physics class. The questions are still the same, but the answers are different. Here are some of the more important questions:

Do I have enough to retire?
Will my money last as long as I live?
What kind of lifestyle can I afford?
How much risk should I take?
What to do?

Every individual should have a retirement plan regardless of his or her age. This means talking to an advisor about how much money is needed to retire using today's assumptions regarding life span, health, income levels, inflation, and projected investment returns. As you near retirement, consider a few tactical steps to maximize your security and peace of mind.

Evaluate personal spending.

Instead of worrying about which stock to buy or sell daily, save more money and you'll get accustomed to spending less now. The good news is that spending is typically highest in the early stages of retirement and declines as the years pass. Take an honest look at your pre-retirement lifestyle, expectations for future spending, and planned activities (such as hobbies and travel). Your conclusions in this thought process will shape your income requirements, and the level of risk in your portfolio.

Coordinate your planning.

Connect the dots between your financial plan and your estate and tax planning. Work with a trusted fiduciary advisor who puts your interests first and can regularly meet face to face with you and your family. Empower your financial advisor to work directly with your estate lawyer and CPA to be sure you get the best results. We do this for our clients and the results and follow through can make a big difference on tax day and when facing big life transitions.

Create a system and follow it.

Today, most individuals invest for growth. Balancing the risk/return and growth/income decision requires thoughtful portfolio design, periodic review, and rebalancing from year to year. And the personal discipline to stick with the plan! An individual is 20 times more likely to achieve desired results with a written plan. It should include details regarding risk, taxes, and portfolio design.

Manage your withdrawal rate.

Research shows that even in the most favorable market environments, taking more than 6% annually from a portfolio over a 30-year period can lead to premature depletion of assets. Determining a sustainable withdrawal rate is wise and allows retirees to maintain stable income throughout various market environments.

Plug the tax and expense drains.

The up and down movements in the stock market are out of your control, so try not to worry when they don't move in your favor. Instead, plan for adverse markets and pay more attention to characteristics that are controllable. Evaluate the possible impact of taxes on your retirement income. How much should you withdraw from the portfolio to receive enough income after taxes? Should you first withdraw from taxable or tax deferred accounts, given your age, tax rate, asset composition, and other personal factors? What expenses are set in stone for you and which are optional?

Assume inflation.

Figure inflation into retirement spending projections and expected investment returns. Although inflation has averaged just over 3% on a long-term basis, many advisors say that a 4% assumption is more prudent. The difference between these two rates is substantial over a lengthy retirement. For instance, to maintain purchasing power throughout a 25-year retirement period, a $100,000 annual withdrawal must increase to more than $209,000, assuming 3% inflation, and $266,500 at 4% inflation. There is a big difference.

Make it count.

Many people spend more time planning their vacation or next automobile purchase than they spend thinking about retirement. Your golden years are one of the more important periods of your life – you will enjoy them better if you're prepared. Take the time to investigate.

Keep it simple.

Invest in things you understand or that your professional advisor can explain in language that makes sense. Great results do not need to be complicated. The far more important concept is the eighth wonder of the world…time and compounding. If an investor will invest in the best businesses in the world, led by the smartest management, providing world-class goods and services to an increasing global consumer, the results tend to be good. And, in most cases, dividends that tend to increase each year helping income keep pace with inflation.

Great results are most often the product of great relationships. Don't be afraid to ask questions and seek out qualified experts who can keep you on course as the answers change. Less worry and peace of mind is the goal. We are here to help support your success!

About the authors: Vinton Fountain III, Buck Beam, Brice Gibson and Christopher Riley CFP are members of Fountain Financial Associates, a registered Investment Advisory Firm in Wilmington, NC. Their mission is to give clients and their families a better life. Learn more at www.fountainfinancial.net. Advisory Services offered through Fountain Financial Associates, Inc., a Registered Investment Advisor. Securities offered through Cetera Advisor Networks LLC. Member FINRA/SIPC. Fountain Financial Associates, Inc., and Cetera are not affiliated.