A NEW WAY OF PLANNING FOR YOUR RETIREMENT

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When the topic is money, few things command more attention than retirement planning. Despite all the time we spend thinking about our retirement income; most Americans are very poor at saving and planning for retirement.

Most discussions of retirement planning begin with an estimate of how much income we will need to survive. Many so-called experts would have us believe that we need 70% of our working income to live on at retirement. I do not believe in planning for a minimum "need". I believe in planning for "want". Why limit yourself to your perceived need rather than realizing your full potential? I believe that 100% or more of your working income may be possible at retirement.

HOW TO DETERMINE YOUR "WANT"

Instead of planning to meet your needs based on some percentage of your working income, ask yourself what you want from life. What life have you imagined? What is your dream?

Few people hesitate when asked about their dream. For some the dream is an early retirement with the time and good health to enjoy family and friends. Others imagine the opportunity to pursue their passions: art, music, travel. Some dream of chasing that infuriating dimpled white ball or landing the wily walleye.

Perhaps you dream of assisting your children and grandchildren with their education or helping your son or daughter to start a business. It could be that leaving a legacy in your community and improving life for future generations is your goal. Your retirement plan begins with your dreams, because they are the true currency of your life.

Once you have determined what you want in retirement, you have made a good start. You at least know where you want your retirement plan to take you. But, how do you determine the most efficient way to achieve your objectives? And, how do you know how much is enough?

HOW MUCH IS ENOUGH?

In the face of this great unknown, efficient retirement planning requires you to consider three phases of your financial life: accumulation, distribution, and legacy or transfer of wealth. Nearly everyone focuses on the first phase, accumulation, and ignores the others until they are at or near retirement. A single-minded focus only on the accumulation of assets is not much better than not planning at all. It is a bit like jumping in your car to start your vacation, your money tucked in your pocket, but without any idea where you are going.

Accumulation concentrates on gathering and growing assets. There are many ways to accumulate wealth: saving what you earn, being the beneficiary of a life insurance policy, receiving an inheritance, investing in stocks, bonds, and real estate that appreciate in value, or building a business and increasing its value -- just to name a few. During the accumulation phase, your asset allocation should be focused on growth investments.

There are also many different types of plans or strategies like 401(k), SEP, IRA, Roth IRA, Simple IRA, 403(b), 457 plans, etc. Determining which investments and plans that make sense for you requires self-examination. Here are some of the many questions you should ask yourself. What is my time horizon? What is my risk tolerance? What is my desired rate of return? What date should income start? How much income will I want?

KEYS TO GOOD DISTRIBUTION STRATEGIES

Distribution focuses on how you spend your assets when the time comes that you no longer live from your wages. There are several keys to good distribution strategies, including an estimated cost of living adjusted for inflation, the order that you tap into various assets, tax deferred investments, tax advantaged investments, legal tax avoidance techniques, and certain types of insurance products.

The key to efficient distribution is to maximize your income while minimizing your tax liability. You also want to make sure that your distributions do not cause you to run out of money before you run out of breath. To be successful at this requires a different asset allocation on your investments then what you had in the accumulation phase. During distribution, you are less concerned with growth and more concerned with income and protection of your principle.

WHAT HAPPENS WHEN YOU ARE GONE?

Legacy or transfer addresses what you ultimately wish to do with your assets when you leave this world. I am presuming you will not spend your last dollar the day you take your last breath. What happens to what is left? How do you get it where you want it to go? How do you make this transfer of wealth go smoothly, quickly and with minimal tax impact?

There are investment tools and legal documents that can be drafted to assure that this phase of your planning goes smoothly. Many people choose not to go through the extra effort. Ultimately, it is up to you and how much effort you are willing to put forth. Your decision again will be impacted by your dreams and visions and probably someone or more than one someone that you love very much.