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Marc A. Hebert's 'Money $ense': Are you safely retired?

By Marc A. Hebert
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Are you retired or thinking about retiring soon? Is running out of money during retirement one of your biggest concerns?

Given the uncertainty of the economy and the markets, outliving your assets, which is called longevity risk, is on many retirees' minds these days. Although not often thought about, the reverse situation can also be an issue. Getting to the end of life with a big pile of money and lots of unfulfilled dreams isn't pleasant, either.

With these concerns, here are our suggestions for staying safely retired and enjoying it.

Have a budget: A carefully crafted budget can help you control your spending and is a good starting point for estimating your monthly withdrawal needs. Many think they will spend less during the retirement years but for most people this may not happen.

Set a realistic withdrawal rate: A safe withdrawal rate is an amount of money, expressed as a percentage of your portfolio, that can be withdrawn every year. This is the rate that is most likely to leave just the right amount of money at the end of a retiree's lifespan.

Spend less during difficult times: If the economy is in trouble and your portfolio is dropping, consider spending more conservatively.

Establish an emergency reserve: An emergency reserve will help you avoid unexpectedly taking money out of your portfolio.

Consider inflation: Inflation is the general increase in costs of goods and services. An example is a postage stamp. One stamp now costs 55 cents, but back in 1958 it only cost 4 cents. (Adjusted for inflation, that stamp would cost 37 cents based on today's buying power so the actual cost has increased.)

Be realistic: How much are you actually spending? Can this amount be reduced? Have you factored in health care costs?

Plan for Social Security benefits: Carefully review your Social Security benefits and develop a strategy to maximize these. The amount you receive depends on some factors, such as the age you begin your benefits and work history. You may want to take into consideration your cash flow needs, health and expected longevity when deciding a starting date. Consider the survivor benefits for your spouse as well.

Consider working part-time: Earning an income from retirement means having to spend less from your portfolio, which leaves more of your savings invested and growing. Just make certain to assess the impact that working has on your Social Security benefits.

Minimize taxes: Have a good understanding of the types of accounts you have. For example, a retiree could have taxable investment accounts, Traditional IRAs, and Roth IRAs. Barring any nondeductible contributions, distributions from traditional IRAs will generally be taxed as ordinary income. If certain parameters are met, distributions from Roth IRAs are generally tax free.

Depending on your birthdate, you will have to take required minimum distributions from your traditional IRA starting at age 70½ or 72. You will need to consider the impact this will have on your income taxes. Roth IRAs do not have this requirement.

If you have both retirement and after-tax accounts, consider where to draw income that will have the most optimal tax effect. Perhaps taking money from a retirement plan account while you are in a low tax bracket is a good decision. Consider putting any money you don't spend in an after-tax account for later use.

Have some equities: Having some stocks in your portfolio can help your retirement income keep pace with inflation. Make sure the percentage of equities is right for you. Too much stock exposure during volatile markets can scare you away at inopportune times while too little exposure can cause inflation to eat away at your purchasing power.

There are an abundance of research studies and online articles on retirement that could really help you plan. You could also consider getting professional help such as from a certified financial planner, who can prepare a retirement plan and monitor the results. As you can see, it takes a bit of work to stay retired but it is well worth the effort for the peace of mind it can bring.

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