



Secure your future wisely.SM

Do not let your retirement windfall blow away

By Brian Loy, CFA, CFP
Reno Gazette-Journal, July 19, 2010

A chap worked many a years at a factory. His routine every Friday, after the factory whistle blew, was to walk to the bank to deposit his paycheck. On the route, he'd pass by a boat store, where he stop and spy at his favorite bass boat. The story ends with the obvious question, *"On his final day of work, with his gold watch in his pocket and retirement check in hand, will he open the doors to the boat store, or will he make it to the bank?"*

A retiree, voluntary or not, faces many challenges. What should he or she do with a substantial retirement check? Is it large enough, along with other sources of income to own a worry free and comfortable lifetime of independence and living with dignity? And what are you going to do for the next three or four decades of life?

The following are three major items that should be on your 'checklist' to discuss with your family and your trusted advisors (including financial, tax and legal experts).

Taking the Keys to the Boat: What can you 'afford' to spend or withdraw from your distribution, and not reinvest for your financial future? It might be buying a boat, taking a big vacation, or paying off debt. And because most retirement distributions are taxable, how can you minimize the tax consequences? Do you take a partial distribution from the 401k and roll over the balance to an IRA, or do you rollover the entire distribution to an IRA and take IRA distributions? To Roth, or not to Roth?

Retirement Paychecks: How much should your retirement checks be and where should you invest to generate those checks (at a minimum for the duration of your life)? We can be our own worst enemy taking too large a withdrawal (e.g. 3% - 5% withdrawal rate (maximum) for a retiree age 65), allowing emotions (fear, over-confidence, etc.) to sabotage prudent investing, and panicking over market volatility and monthly statement values while ignoring that inflation creeps upon us daily. Successful investors marry expected investment returns, inflation, and withdrawal rates, with diversified investment strategies abundant with risk management.

Working Part-Time at Boat Store: There are many reasons Americans work beyond age 65 (e.g. financial need, benefits, and 'staying in the game'). A 30 year retirement of leisure risks boredom, and worse yet, being boring.

I see plenty of bass boats listed on Craigslist. Perhaps the sellers have lost interest... perhaps they need the bucks. Best you put things in your favor, turn those windfalls into legacies, and have a very short list of *"If I could do it all over again, I'd..."*