Are You Ready for Retirement?

We spend years dreaming about and saving for retirement, which for many people will be as long as their working years. There are steps you can take to help turn your dreams into reality. At RBC Wealth Management, our first priority is to help clients achieve their financial objectives, starting with a plan for retirement. The following steps can help you prepare for this important event in your life.

DETERMINE HOW MUCH INCOME YOU WILL NEED DURING RETIREMENT

The general rule is you will need 80-100% of your pre-retirement income during retirement. However, depending on the lifestyle you want to lead and your family obligations, this amount may be excessive or insufficient.

The best way to determine how much income you will need is to itemize your current expenses and determine what will decrease and what will increase. Your Financial Consultant can assist you with this process by preparing a customized Personal Needs Analysis.

IDENTIFY YOUR INCOME SOURCES

It is important to understand your sources of retirement income and whether they are exhaustible or lifelong. Potential income for retirees will generally come from four sources: Social Security, company pension and profit sharing plans, IRAs or other individual tax-deferred accounts and personal taxable savings. Personal savings, both taxable and tax-deferred, is the most significant source of income for many retirees. Part-time employment may also provide an important stream of income for some.

One of the biggest decisions you will have to make regarding Social Security is when to begin receiving benefits. If you choose to receive benefits prior to your full retirement age, you will receive a reduced benefit. The earliest you can receive benefits is age 62. If you postpone your first payment beyond your normal retirement age, you will qualify for a larger amount, although your benefit will stop increasing at age 70.

DEVELOP A RETIREMENT INCOME PLAN

Once you have determined your income sources and income needs, your Financial Consultant can help you understand how to convert your savings and investments into a steady stream of income. This plan should provide an adequate income stream for the duration of your retirement which could last 25 to 30 years, or more. You will need to determine which income sources you should draw from first, keeping in mind the tax implications of your choices.

The combined effects of inflation and taxes can dramatically affect the future growth of your retirement portfolio. Inflation can be a powerful enemy, eroding away your purchasing power. Much of your income generated during retirement, such as Social Security, pension payments and investment income will remain taxable. So, while you may not be earning taxable income from a salary during retirement, you still could end up in a high tax bracket.

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When it is time to put your financial plan into action, combining assets and accounts can simplify your money management. Consolidating your accounts can help you track your overall assets and investment performance, implement your retirement income plan, and reduce the costs associated with your investments.

CREATE A RETIREMENT INVESTMENT PLAN USING ASSET ALLOCATION

How you invest your retirement assets will likely change as your lifestyle and expenses change. Your Financial Consultant will work with you to create an asset allocation strategy to help meet your needs.

Asset Allocation is the process of diversifying your investments in different asset categories. By diversifying your money across and within different asset classes, you can minimize certain kinds of risk and potentially improve your overall returns.

How you allocate your assets depends upon several factors, including your financial objectives, attitudes toward risk and investing, desired investment return, tax-bracket and time horizon. Because your life is constantly evolving, the asset allocation you utilize today may not be appropriate for you in the future. Therefore, it is important to monitor your asset allocation periodically and rebalance your portfolio as needed.

REVIEW YOUR WILLS, TRUSTS, AND BENEFICIARY DESIGNATIONS

Everyone should have an estate plan. Your estate consists of all the assets you leave behind when you die. An estate plan allows you to direct how and to whom your accumulated assets will be distributed after your death.

There are certain issues that, if not planned for, create a burden on those who are left behind, including financial burdens and transfer of asset issues. Review and update your will as necessary to accurately give vital information to others about your assets and debts, to make sure that your wishes regarding the disposition of your assets are respected, and to keep estate and income taxes to a minimum.

A trust can provide a variety of options and flexibility, including control, continuity and potential tax savings. A trust agreement is a legally binding document, prepared by an attorney, which creates a trust and establishes the rules that control the trust's management.

Having the proper beneficiary designations on your retirement plans, annuity contracts and insurance policies can have significant impact on the distribution options available to your heirs. It is important to list both primary and contingent beneficiaries to protect against the unforeseen.

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For employer-provided retirement accounts, check with your plan provider to see what distribution options are available to your beneficiaries.

Generally speaking, qualified employer-sponsored plans, such as a 401(k) Plan, do not offer beneficiaries as many distribution options as do IRAs. This is particularly true if you have non-spouse beneficiaries listed on your retirement account. They may not be given the opportunity to "stretch-out" their distributions, and continue on with the tax-deferred growth. Ask your Financial Consultant about your options.

REVIEW YOUR INSURANCE NEEDS

Your insurance needs may change in retirement. Your health insurance will become a more important factor in your life as you grow older. Make sure you review your life, health, homeowners and auto insurance policies to ensure that your coverage fits your new lifestyle.

Long-term care (LTC) insurance gives you peace of mind that if you were unable to care for yourself because of an extended illness, your family's assets won't be depleted by the cost of nursing or custodial care.

CONCLUSION

Planning for retirement is critical. It is best to start the process as early as possible and continue the process even through retirement.

After talking with you and understanding your current situation, assets, goals and objectives, your RBC Financial Consultant will work with you to develop a strategy to help meet your retirement goals.

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