

Forbes

WHY IS POST-RETIREMENT PLANNING MORE COMPLEX THAN YOU EXPECTED?



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If you thought investing in your 401(k) plan was hard, just wait until the time comes when you have to start taking money out of your retirement plan.

Are you ready for this?

"In pre-retirement planning, the investor needs to decide three things: how much to invest, asset location and asset allocation," says James DiLello, Associate Professor of Decision Sciences at Pepperdine Graziadio Business School in Los Angeles. "In post-retirement planning, there are many more decisions. For example, how much to withdraw, asset allocation, when to draw down a pension if applicable, when to begin Social Security benefits, drawdowns from taxable versus tax deferred accounts, and planning for use of your estate after you are gone."

It's tough to predict the future. It's even tougher to plan for it. If you're like many others, you prefer the comfort of certainty over the anxiety of unpredictability. When you're working, you can nestle into a cozy routine. Once you retire, everything changes. Change can strike in many ways. And this change is only the first thing that confronts you.

"The transition to retirement can be daunting on many levels — emotionally, psychologically and financially," says Greensboro, North Carolina based Tiffany Lam-Balfour, Investing and Retirement Specialist at NerdWallet. "Emotionally, your career often provides a sense of purpose and it can be hard for some retirees to cope with finding a new purpose. Psychologically and financially, moving from saving for retirement to spending in retirement can be challenging because of the change in mindset while dealing with different risks and managing circumstances that most people haven't experienced before."

If you view change as you would view any opponent you confront on a playing field, then you stand a chance. What do you do when you prepare to take on a rival? You study that adversary, get to know his moves, his tendencies and your own vulnerabilities to them. For greater insight, you study past games, both those of your own and those of your foe.

The same applies here. You must recognize change is your enemy. And you must realize the context within which change will attack you.

"Post-retirement planning can be more complex than pre-retirement planning because the entire structure of peoples' finances changes dramatically, almost overnight," says Ryan Cicchelli, founder of Generations Insurance & Financial Services in Cadillac, Michigan. "They have transitioned from the

accumulation phase of their lives to the preservation phase, and that can be an eye-opener. During the accumulation stage, most people preparing for retirement are contributing to their retirement accounts. Their employers are likely contributing to their accounts as well, and then the market contributes with returns. Once the transition into retirement happens, the only one left contributing to their accounts is the market. Beyond that, following a strategy means discipline with the balance of withdrawals versus returns. People should also be very mindful of the amount they pay annually in management fees."

If you aren't ready for this sudden shift from making (or saving) money to taking (or withdrawing) money, another emotional factor can make things seem more tangled: the fear of running out of money. You suddenly realize every decision you make will have a butterfly effect that can come back to haunt you.

"It can seem very easy for your cat to chase a squirrel up a tree, but it may be very hard to get the cat back down," says Paul Tyler, Chief Marketing Officer of Nassau Financial Group in Hartford. "Your assets behave much the same way. Your nest egg will grow if you consistently follow basic rules. However, drawing down the assets in retirement requires you to make big bets on your health, market volatility and how long you will live."

Of all these decisions, determining where and when to withdraw money may be the most frightening. There are so many parts to your retirement financial machine that any misstep can have the entire mechanism seize up.

"Post retirement planning is much more complex because it involves decision-making around where to take our income from to live, not simply where to invest the funds," says Ben Soccodato from The SKG Team at Barnum Financial Group in Elmsford, New York. "The reality that the market or one's portfolio does not go up in a linear fashion, so taking from the right place at the right time or the wrong place at the wrong time can be the difference between success or failure in a retirement plan."

These decisions are difficult and unnerving because you realize they are so unforgiving. For example, in your 20s you can make a disastrous investment decision. It's not worth worrying about because you literally have decades to recover from that one mistake.

Fast forward forty or fifty years and a similarly disastrous decision might be unrecoverable. You simply don't have the time to bounce back from a bad choice.

"At this point in your life, you have probably earned all the money you will earn in your career and there is little room to make up for lost ground like you could do while you still have an income," says Jason Field, financial advisor at Van Leeuwen & Company located in Princeton, New Jersey. "Cash flow and risk management come to the forefront of

planning when the savings/accumulation phase is done."

This doesn't mean you shouldn't be prepared to pivot. After all, things change even after they change.

"Once you are retired it is that much more difficult to go back and adapt," says Michael Windle, Owner and Financial Advisor at Custom Wealth Solutions in Plymouth, Michigan. "When you put together a retirement blueprint for a retiree, it needs to include all of the potentially hidden things that could come up, like health issues, shielding from market pullbacks, adapting to tax law changes, and inflation. Ideally you want to have a plan put together before you actually retire. Keep in mind you could be retired for up to one-third of your life or more and having a concrete plan is of the utmost importance."

Among all the changes, among all the details, stands out one gnawing reality that is likely to get more than merely worse in the coming year, it'll probably get more complicated. You don't want to think about it, but you should. Everything you do from now on in retirement will be shaded by this singular certainty: taxes.

Taxes can change the calculus between how much (pre-tax) money your retirement plan says you have and how much (after-tax) money you actually have to spend on the things you need.

"In retirement you need to make sure you're taking the money out of your accounts in a tax efficient manner (Taxable vs non-taxable, tax bracket effects, etc.)," says James O'Donoghue, Financial Advisor at BCG Securities in Cherry Hill, New Jersey. "The largest issue is making sure you don't run out of money obviously, but retirement expenses are often larger and more complicated than expected. For example, not having employer sponsored insurance, estate planning, etc."

It's not only the tax implications during your life, but ultimately you may need to understand and account for the tax implications with regard to your legacy.

"When clients retire, they are faced with numerous decisions such as how much they can afford to spend; how to maximize their value of accumulated portfolio (tax optimization); how best to generate income from investments and when to begin taking Social Security," says JJ Jeffries, Principal Consultant at Capco in Charlotte, North Carolina. "While decumulation planning poses complex investment challenges like Roth conversions, Social Security planning, it also opens up other life events that may go beyond investments like trust & estate planning and philanthropic giving."

There's nothing in the retirement savings phase that comes close to the complexity of estate planning. This exercise leads to a cornucopia of questions.

Read the whole article at <https://bit.ly/3fGUcZb>

Ryan Cicchelli, founder of Generations Insurance & Financial Services, is committed to providing clients with financial security through a personalized, friendly approach. Ryan's top concern is helping clients make informed decisions about all things related to healthcare and retirement.

To contact Ryan, call 231-878-7074 or visit www.GenerationsIFS.com



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