

Smart Future, LLC Newsletter March 2010



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Retirement Tips: Plan to draw down under 4% of your savings to be safe. Try to build up sources of passive income in your earning years. Learn to spend conservatively.

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Plan Your Money to Match Your Lifespan

The current life expectancy for a person living in the United States is now 78 years of age. This is up by nearly 65% since the year 1900, when people were considered “fortunate” to live past age 47. These days, living to age 100 has become more commonplace. The United Nations estimates that by the year 2013 there will be about three million people worldwide over age 100.

For many of us with longevity in our gene pool, the possibility of outliving retirement savings is very real. The sooner we act to change our spending and savings habits, the greater the chances that there will be plenty of money to last our entire lifetime. I advise my clients to take several actions to address this.

The first action is to take a hard inventory of what you have in your 401(k), 403(b), SEP, or other market-based retirement vehicle. Look at not only the total monies in the account(s), but analyze the performance over the past three years. Ask your money manager to explain the asset allocation, or the mixture of stocks, bonds, ETF’s and other instruments that comprise the total. Then make sure the mix is right for you. What had worked for you in your 20’s is likely not the same asset mix that you need in your 40’s and 50’s. Review it every few years, and make sure you understand the fees involved.

Next, take a look at other potential sources of revenue for your retirement years. These sources can include cash from a whole life insurance policy, annuities, an inheritance, and hopefully Social Security. If you can create a source of passive income in your earning years from publications, royalties or residual checks you can anticipate that additional income stream in retirement.

Then, determine how much money you will need to have to live comfortably in retirement. Surprisingly, it may not be that much different from what you need in your working years. Subtract all work-related expenses. Now add in the additional expenses of leisure, such as more golf games, and longer vacations. Remember that you still need to pay the mortgage, (unless yours will be paid off by retirement time), eat, drive your car, and pay other monthly bills. Look to aggressively pay off your mortgage and any other debt well before retirement. Streamline expenses now so that you grow accustomed to it.

Make a realistic budget for retirement. Now for the tricky part: How many years should you plan for? The rule of thumb is to draw down no more than 4% of your savings annually. Try to draw down closer to 2.5% if possible. For those with other sources of income this should be feasible. A recent Fidelity study revealed that 51% of those aged 55-64 had only \$88,000 or less in retirement savings. Plan and act earlier to avoid running out of money in your old age. Make those changes today!

One of the most significant moves you can make now is to purchase a long-term care insurance policy. Long-term care annual costs are over \$100,000 and can rapidly drain your assets. Purchase a whole life policy with a non-market-based guaranteed savings built in. You may need the cash down the line. It’s tough to have to keep working into our senior years because of poor planning, yet it is happening all around us.

You can make changes today so that your future is bright. Contact me and let me help you plan for a happy, wealthy retirement.

Sincerely,
Nancy Curtin, CLTC