Retirement Daily

Saving/Investing for Retirement

Prepare for the unexpected on the road to retirement.

Retirement Planning For When the Unexpected Occurs

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By Sandra D. Adams

I was working on this column in Southfield, Mich., on a day a couple of months ago, when hundreds if not thousands of General Motors (GM) white collar workers at offices around the Detroit area were being walked into blacked-out offices to be given news about the future of their employment. Many of these folks are likely only a few short years from retiring. Maybe, like so many of the clients we work with at our firm, they had planned well and were on track for their planned retirement with sufficient funds to meet all of their desired goals and dreams -- as long as they continued to work and save to their target retirement date. But GM had other things in mind.

Losing a job is just one of the many unexpected events that can occur in someone's life in the years leading up to retirement, potentially throw savings goals and plans off course. Divorce, the death of a spouse, an unexpected medical event or disability, or the need to act as a caregiver for a loved one are all events that can impact our retirement plans in a negative way. A very negative or extended stock market decline just prior to retirement can also hinder retirement plans and, in most cases, is unexpected.

As the old saying goes, you should always expect the unexpected. What can you or should you be doing now to make sure that you can keep your retirement strategy on track, even if one of these unexpected life events comes creeping into your life?

Plan Early and Update Often

Although many folks don't like to think about it, start now with digging into how much you will need in retirement. As a general rule of thumb, start with your current take-home pay -- if your retirement income projection is similar to your current take-home pay, and you are content with how you are living, you are in good shape as long as you have the income sources and assets to generate that same income in retirement.

If your income projection is significantly less than you are currently bringing home now, what will change in retirement to reduce your need for income? Will you have significantly less debt? Will the activities you plan to do in retirement cost significantly less? Be realistic. Take a pulse of where you are in your savings goals versus your needs on a regular basis so that you stay on track. Update your strategy if you are not meeting those goals. And if you are someone who wants to plan for contingencies, getting ahead of your goal might be your *real* goal.

Save, Save and Then Save a Little More

When times are good and while you can, stretch yourself to save to meet the savings goals you set for yourself. There is a delicate balance between spending to enjoy your life now and setting aside funds for your future retirement. It makes sense to set significant retirement savings goals, especially if you didn't start as early as you wanted to. Making it a habit to save more each year - even 1% each year - will help you reach or exceed your retirement savings goals. Other ways to get ahead can include allocating a portion of your annual raise to savings or putting part of a bonus into retirement savings. Aim to save, save and save a little more to put yourself in position to absorb the unexpected.

Take Control of What You Can Control

While you cannot control what happens to the markets, or your job (for the most part), or your health (other than eating right and exercising), there *are* things you can control.

You can control your savings rate: You can be disciplined about saving, save regularly, and continue to save more over time.

You can save in the right places: You can max out your savings within your employer retirement savings plans on a tax deferred basis, have a liquid cash emergency reserve fund of at least three to six months of expenses, and you can have an after-tax investment account and/or Roth IRA (if your income tax bracket allows) in case a life event causes an earlier than expected retirement or a temporary unemployment situation.

You can keep debt under control and plan to have as much debt paid off going into retirement as possible: Having low fixed expenses in retirement allows you to use your cash flow for wants versus needs and provides you with greater flexibility if an unexpected event occurs.

Put Protections and Guardrails in Place

Planners like to call this risk management. What we're talking about is having protection in place so that events which might throw your plan off pace don't sink the retirement ship. Having a reserve or emergency savings account is a good first step. But, what else might you put in place?

- Disability insurance is always something helpful to have -- whether it is coverage through your employer or purchased on your own -- to cover the possibility of long-term disability that would prevent you from doing your work.
- Long-term care insurance is important to cover the potential for medical diagnosis that might require assistance with care.
- Life insurance to provide for you and/or your spouse or loved ones in the case of death.
- Continuing education and networking: What? Keeping up your credentials and training so that, if your current job is phased out, you are prepared to jump back on the horse quickly and become re-employed if you need to be. Many folks become complacent in their current role and with their current employer, so if something unexpected happens with their company or their role, they are completely unprepared to seek new employment. And, unfortunately, it takes more than 40 weeks for older workers to become re-employed, according to a report by the U.S. Government Accountability Office. Being prepared can make all of the difference.

Seek Good Advice

This is not a time to DIY. There are way too many things to do wrong when it comes to going through a potential early retirement transition. Seeking the advice of a trained professional can help you determine the best course of action for your situation. In most cases, following a few simple rules can keep you out of trouble and likely on track for your retirement.

The longer you can wait to draw from retirement savings, the better off you will be, especially if you plan on a normal to longer-than-normal life expectancy. Since many folks will need to draw on their retirement funds for 30+ years, the longer they can wait to start drawing on them, the longer those funds can be expected to last.

If you can wait to draw on your Social Security until at least your full retirement age (FRA), do so. Drawing prior to your FRA locks in a permanent reduction in benefits. Waiting until age 70 to begin benefits guarantees you an 8% per year bonus between FRA and age 70. If you plan on a long life, waiting makes sense, especially if Social Security is the majority of your guaranteed retirement income sources.

If you have a pension, avoid the knee-jerk reaction to take a lump sum distribution to access the funds immediately. Take the time to do an analysis and see what the best choice is for your individual situation. The best option may be to draw a monthly pension for life (with a spousal benefit, if you are married, to assure income to your spouse should something happen to you) rather than taking a lump sum and having the funds subject to market volatility in the future. Take into consideration, as well, your family structure for purposes of legacy distribution options and flexibility.

"The more things change, the more things stay the same" - Jean-Baptiste Alphonse Karr

We like to say that, when we do an initial financial plan for a client, it is very likely something will change when they walk out the door. Life happens. A financial plan must be fluid and flexible.

And so must you, in planning for your retirement. As frustrating as it may be to have something unexpected happen just as you're reaching for the golden doorknob to retirement, if you expect the unexpected, plan for the contingencies, and have some spending flexibility built into your plan, you will be on your way to a long and successful retirement.

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