ActivePaper

Budgeting tips to enjoy solvency in retirement

TRACKING EXPENSES, DELAYING SOCIAL SECURITY PAYMENTS TO AGE 70, STORING UP CASH RESERVES AMONG WAYS TO ENSURE SUCCESS

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Welcome to the rest of your life.

After scrimping and saving for decades to accumulate a proper nest egg, you recently retired or are on the verge of saying goodbye to your working life. Now you want to make darn sure you don't outlive your money.

"People work for, usually, around 40 years to prepare for this," said Craig Wulff, vice president and Durham branch manager at Fidelity Investments. "It's something people look forward to. But at the same time it can be an extremely ... daunting time."

The dauntingness, Wulff added, stems from the "so many variables" that are at play in retirement. That includes that great unknowable – how long are you going to live?

And then there's the lifestyle issue.

"How do you really want to live in retirement?" Wulff said. "Do you just want to turn on and turn off the lights, pay the electric bill? ... Or do you want to visit the grandchildren? Travel?"

Here are some tips for making your savings last for the rest of your life – however long that might be.

Create a budget.

A key to a (financially) successful retirement is calculating how much you need to maintain the lifestyle you want and then comparing it to the income you can count on – Social Security, pension, money you can withdraw from your investment portfolio each year and any other income sources you might have.

A good way to calculate how much money you need is to start by taking a "financial snapshot" of what you spent last year, said financial adviser Steven Katzenstein of HPG Wealthcare Advisors in Raleigh.

Don't forget to make adjustments if last year's capital expenses, items such as buying a new car or putting a new roof on your house, were unusually light or heavy.

Mint.com offers free software that you can use to establish a budget based on past spending.

You also need to factor inflation into future years' budgets. A 3 percent inflation rate is a good rule of thumb. You can find an inflation calculator at Calculator.net.

If your budgetary needs are within your income, congratulations. If not, you'll need to make adjustments or risk outliving your money. And if you're not sure, financial advisers are adept at helping you figure out how your assets stack up against your anticipated expenditures.

Keep track of your expenses.

People often don't realize how much they're spending on, say, eating out or buying clothes until they start tracking their expenses, Wulff said. Scrutinizing your expenses could suggest relatively painless ways to economize. The rule of thumb used to be that people spent less money once they retired, but that doesn't necessarily hold true today, said Janet Fox, president of ACH Investment Group in Raleigh.

People who retire early and are in good health often want to take full advantage of their retirement years. That can mean more travel, more eating out, more rounds of golf, from your investment portfolio.

There also can by psychic benefits, Fox said, such as increased interaction with others and just plain old keeping busy.

Eliminate your credit card debt.

Paying double-digit interest on credit card debt is an unnecessary expense. If you owe money on your credit cards, pay it off as fast as you reasonably can. Going forward, limit your spending to what you can afford each month.

"My belief is, you shouldn't ever have a balance that isn't paid off" monthly, Katzenstein said.

Consider saying 'no' to your adult children.

The financial well-being of retirees can be derailed by adult children who have fallen into the habit of seeking a handout from their parents.

"I urge (retirees) to think about themselves first," Hudson said.

"When it comes to adult children, you did your best job taking care of them when they were small and getting them off to a good start," she continued. "Let them be on their own and look out for themselves. It sounds like a harsh message, but at a certain point you have to look out for yourself."

Keep some cash in reserve.

Financial planners advise keeping enough cash on hand to pay for unexpected expenses that crop up and can't be avoided.

In addition, said Raleigh financial planner James M. Richardson of Richardson, Carrington, Weaver and Associates: "If you have a downturn (in your investment portfolio), you can pull from cash. You don't have to go to your investments."

Being forced to sell investments in a down market has an outsized impact on your portfolio.

Some financial advisers counsel that peo-

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etc. "I had a client a couple of weeks ago say to me, 'I'm definitely spending more money in retirement,' " Fox said.

Consider delaying your Social Security.

Although you can start receiving Social Security benefits at age 62, good things come to those who can afford to wait.

"Your benefit gets larger the longer you wait," said Kendra Hudson of Woodward Financial Advisors.

Social Security checks are reduced for those who elect to receive benefits at age 62. For those born between 1943 and 1954, you must wait until age 66 to receive 100 percent of your monthly benefit.

And if you delay beyond age 66, your benefits jump 8 percent each year until you reach age 70. So if you wait until age 70 to receive benefits, you'll receive 132 percent of your benefits.

Revisit your retirement plan periodically.

Plans need to be updated as life happens. The death of a spouse or receiving an inheritance can impact your income upwards or downwards. Health problems or the need to take care of elderly parents can mean extra expenses.

Revisit your investment portfolio.

For decades your investment portfolio has been focused on growing your assets with an eye towards retirement. Once you're retired, you may want to revamp your portfolio to include investments that offer income streams – such as stocks that pay dividends and Real Estate Investment Trusts.

Consider part-time work.

A part-time job can reduce withdrawals ple keep enough cash and assets that are readily convertible to cash, such as certificates of deposit, money market funds and short-term bonds, to cover six months of expenses.

Richardson advises having enough of those cashlike assets to cover three years of expenses that aren't covered by regular sources of income such as Social Security, pensions, annuities, etc.

In other words, you want to be able to fill the gap between your income and your expenses in the worst of times.

The financial crisis provided "a beautiful example" of how this can work, Richardson said, as most people who didn't dip into their investment portfolio recouped their paper losses in about three years as the markets improved in the wake of the recession.

Plan for the long haul.

With people living longer, retirement is turning into a marathon for many of us. Financial advisers say you need to be prepared for that.

At Fidelity, the default mode is that women should plan to live until age 94 and men should plan to live until age 92, said Wulff. Adjustments can be made after taking family histories into account.

"For our clients, we assume everybody lives to 95," Kendra Hudson of Woodward Financial Advisors said. "Statistically speaking, that's very unlikely – but it is possible. So we are planning for the worst-case scenario."

To be clear, that worst-case scenario can have a definite upside.

"We all think longevity is a great thing, which it is as long as we stay healthy," Hudson said. "But, from a financial perspective, the fact that people are living longer is financially challenging."

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