

# Money Matters

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## Planning Makes the Difference Between a Good, Bad Retirement

By Aaron Skloff

**Q:** What are the most important financial considerations we should be concerned about going into retirement?

**A:** While there are a number of issues you should consider, the top five include:

- 1. How Long Savings and Investments Need to Last?** The average 65-year-old man has a 50% probability to live to the age of 85, while the average 65-year-old-woman will likely live to the age 88. That means over 20 years in retirement - or more than half the length of an average career.
- 2. What Percent of Retirement Assets Can be Withdrawn Each Year?** At a 5% withdrawal rate a balanced portfolio of stocks and bonds may last for 20 years, adjusted for inflation. That means only \$50,000 could be withdrawn from a portfolio worth \$1,000,000, today. An unbalanced portfolio or too high a distribution rate could easily derail a healthy retirement nest egg.
- 3. How Much Will Your Income Need to Increase Over Your Retirement Years?** Plan to double your income in 25 years. For example, the average new vehicle cost \$28,000 in 2004. In 2029, it is expected to cost \$58,600.
- 4. How Should Assets be Invested in Retirement?** Many investors believe the stock market is too risky during retirement. The risk of inflation eroding the value of a retirement nest egg requires many retirees to maintain exposure to the stock market – albeit at a more modest allocation than in pre-retirement.
- 5. Healthcare Expenses in Retirement?** Today's 65-year-old-couple may need \$175,000 for medical expenses in retirement. One out of every two retirees will be admitted into a nursing home for some period of time (short or long term). While Medicaid may be an option, the flexibility of private care or in-home care may be a preferred solution.

**Action Steps.** A consideration for pre-retirees and retirees are to develop a financial plan based on an estimate of expenses and resources. Examine your plan regularly. Distinguish between must-haves and nice-to-haves. Identify where your income will come from in retirement. Utilize tax-advantaged and tax-free sources of income – it can make the difference between an unsuccessful retirement and successful retirement.

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