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Retirement in sight? Double up on savings

Even at age 55, about 40% of holdings should be in stocks, say experts

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Karen Ansell worked her last full day as a corporate vice president of human resources April 3.

She once thought she'd never be able to retire at 62.5. But actions she and her partner, Mary Lou King, have taken in the decade leading up to her retirement made it possible for Ansell to retire early from Steiner Leisure Ltd., though she will continue to do consulting work.

She came late to financial planning, she said; she was in her late 30s before she really started saving. "Because I lost valuable time in compound interest," Ansell said. She credits living within a budget and learning about investing, plus keeping a high-paying corporate job throughout the recession, with enabling her to catch up.

Making smart financial decisions in the years from age 55 to retirement can mean the difference between a comfortable retirement or just scraping by. While some forces are out of one's influence, facing up to things you can control — such as spending, saving and investment choices — is crucial, say experts.

"This is a good time to take a moment, assess and do a reality check," says Mari Adam, a financial planner in Boca Raton. "From 55 to 65, you've got time to really make a difference. … If you don't do that thinking till you're 65, it's kind of too late."

By 55, you should have saved six to eight times your desired annual retirement income, she said. If you don't, you're going to have to cut spending and increase savings to catch up. Scaling down your lifestyle and ramping up your savings is one of the best pre-retirement moves you can make.

“Nobody wants to cut back on the lifestyle expenses,” says Linda Lubitz Boone, president of the Lubitz Financial Group in Miami. But, “it’s the thing that they have the most control over and nobody wants to do it.”

Not too many years ago, Ansell’s chances for a comfortable retirement didn’t look good. When she was in her 30s, she and a partner embarked on a business venture that failed and she ended up in bankruptcy and foreclosure. When she arrived in Florida a few years later, “I didn’t have any money,” she said. She was so broke that when her car engine died, she struggled to pull together enough money to rebuild it. “At that point, I decided I’m not going to be stupid about this again,” she said. “I’m going to educate myself.”

She and King, who have been together for 19 years and married in 2008 in California, got even more serious about their finances in their early 50s and consulted a financial advisor. On his advice, they created a budget to cover their living expenses. Everything they made beyond that went toward savings and retirement investments, including contributing the maximum to their 401k accounts.

“All of a sudden it would build up,” Ansell said. “That was one of the best things we ever did, was live in our budget.” Three years ago, as Ansell began to think seriously about retiring, the couple pushed to pay off the mortgage on their Coconut Grove house before Ansell gave up full time work.

King, who is 66, is not ready to retire from her job as a professor of cell biology at the University of Miami Medical School, where she runs a biological research program. In the meantime, Ansell can join her health insurance plan.

Meanwhile, Ansell is hoping her savings will continue to grow. As many people get older, they may believe they should move all their assets out of the stock market and into bonds and CDs. That’s a mistake, advisors say. Most people, even in retirement, should keep up to 60 percent of their assets in equities.

“You’re 55. You have a lot more than 10 years. You have the rest of your life,” Boone said. “That’s the biggest misconception that people have about retirement.”

While she takes into account her clients’ tolerance for risk, Boone advises them their investments need to keep producing income. “We never design a portfolio based on risk tolerance,” she said. “We could be dooming them to failure. You're going to fail and run out of money most likely if we invest your money conservatively."

Adam agrees. "The minute you hit retirement, I still want to see 50 percent to 60 percent in stocks," she says, estimating that investors need 40 percent invested in equities just to stay even. She recommends stock mutual funds, particularly index funds.

Here are nine financial issues to think about as you head toward retirement.

▪ **Save as much as you can.** This is a time to make sure you're maxing out your 401k, as well as contributing to an IRA and to a Roth IRA if you're eligible. Adam recommends saving in both tax-deferred retirement accounts such as a 401k or IRA, and in accounts you can withdraw from tax-free after retirement, such as a Roth or individual investment account.

▪ **Do your research before taking Social Security.** Boone advises most people not to start drawing Social Security at 62. Each year you wait essentially earns you another 7 percent to 8 percent in monthly benefits. Married couples (and anyone who was ever married for 10 years) have more complicated options; making smart choices can add up to as much as $250,000 in total income over the years for a couple, and $100,000 if you're single, said Adam.

"If you don't do your homework and take [Social Security] the right way, you're leaving thousands of dollars on the table." Couples might want to speak to a financial advisor about this decision, though Boone cautions taking advice from the Social Security Administration itself. The SSA does have some good calculators on its website that let your run scenarios. You can also register there and find out what your benefit is expected to be.

▪ **Pay off your debts.** If you're paying interest in credit cards, auto loans or other debts, that's money that you could be adding to your investment portfolio. "If you've got credit card debt at 55, that's a huge red flag," Adam said. "You're not digging yourself out of the hole, you're digging yourself into a hole."

▪ **Get professional advice.** People heading toward retirement may benefit from a consultation with a fee-only financial advisor, who can look over your investments as well as discuss Society Security strategies and other issues. You can find a fee-only planner through the Financial Planning Association (FPAnet.org).

▪ **Consider where you're going to live.** Having a home with no mortgage is a good move heading into retirement, but South Florida's high costs for home insurance and real estate taxes may still mean your current home is too expensive. Downsizing sooner rather than later could help you boost your savings.

▪ **Make a retirement budget.** Boone advises people to expect to spend as much in retirement as they do now, and maybe a little more if they plan to travel. The rule of thumb is that you can probably withdraw an amount equal to 4 percent of your investment principal per year. That means if you have $1 million in retirement savings, you can safely withdraw $40,000 a year to add to whatever you get in Social Security or pensions.

▪ **Update your wills, trusts and beneficiaries.** People of any age can benefit from estate planning, but it's especially important as you get older or enter into a second marriage, or if you're an unmarried couple. Retirement accounts, rather than being part of a will, are distributed to beneficiaries you choose, and you want to keep those designations current.

▪ **If you haven't saved, plan to work longer.** "There are not a lot of options for people who have reached 65 and don't have a lot of savings," Boone said. "Social Security was never meant to be a sole source of income for people."

▪ **Plan for changes in your plans.** Divorce is common at mid-life, as is widowhood. Or you may want to keep your high-paying corporate job until you're 66 or 70, but your employer may have other ideas. "The only thing that we know for sure is that your life is going to change," Boone said. "The more we can plan to give you choices in the future, the better your outcome is going to be."