GUIDE TO AGING

Poole Locke Associates

Retirement Income Source®

A Guide to Aging: Seven Age Milestones to Remember

By David J. Scranton, CFA®, CFP®, ChFC, CLU

Working Americans at or approaching retirement age today face many unprecedented challenges unique to their generation. That's why it's important to have a retirement plan that addresses these challenges and uncertainties head-on. One of the keys to doing just that is being aware of the retirement planning milestones that occur from age 50 onward. Several of these milestones present you with options that could significantly impact whether you have enough income to help achieve your retirement goals.

Of course, sound retirement planning is more than just a matter of paying attention to these age milestones. But being aware of them and making the right decisions in coordination with your financial advisor when each one comes along can help improve your odds of success! With that in mind, let's go through each milestone one at a time and discuss its significance along with some of the things you may want to consider when deciding whether to take action.

1. Age 50

This is when you are first allowed to make "catch-up" contributions to 401(k)s and other tax-deferred employer-sponsored retirement plans, as well as IRAs. Amounts are subject to change each year, and up-to-date guidelines are always available at irs.gov. Congress added the catch-up contribution option to retirement plans due to concerns that Baby Boomers, specifically, haven't been saving enough for retirement—which most studies and surveys indicate is true. Deciding whether you should make catch-up contributions is a matter you should discuss with your financial advisor while considering numerous factors, including when you'd like to retire, your additional financial assets (both current and expected, including Social Security), and your retirement goals—which we'll discuss much more in just a bit.

2. Age 55

If you separate from your job, you may be eligible at this age to take an income distribution from your 401(k) or another employer-sponsored plan without paying an additional 10% tax for early withdrawal. Although there are exceptions to this "age 55 rule," there are also ways to use it to your financial advantage depending on your needs and situation. Regardless of that situation, there are some general things you may want to consider regarding any major financial decision or move you may take at this age. One of those, again, is whether the move aligns with your specific long-term financial/retirement goals. Perhaps the most important thing to consider, however, is whether your decision allows you to maintain a sufficient focus on "financial defense" in your overall strategy.

Starting at age 55, financial defense becomes increasingly important to help ensure you are protecting the assets you'll need to generate retirement income. Another way to look at it is to realize that by age 55, you should start shifting from a "growth mindset" to an "income mindset."

Focusing primarily on portfolio growth and asset accumulation in your 30s and 40s is reasonable, but by your mid-50s, it's important to recognize that, for most people, portfolio growth should no longer be your top priority. That's because when you're investing first and foremost for growth, you're probably focusing on capital gains and relying mostly on tools and strategies tied to stock market growth. The problem is that when you invest for growth, you may get shrinkage. When you strive for gains, you may get losses, and sometimes those losses can be devastating. While a big monetary loss at any age is unfortunate, it becomes worse as you get older because you increasingly lose the luxury of time to rebuild your nest egg. None of this means you can't continue investing in the stock market or growing your portfolio after age 55—it just means you should understand there is a more strategic way to do it that can help lower your risk and better align with your new top priority: retirement income.

3. Age 59 ½

Withdrawals from your employer-sponsored plans are no longer subject to the 10% early withdrawal tax once you reach this age, but you will still owe taxes on distributions from traditional 401(k)s and traditional IRAs. Whether you need or want to take advantage of this rule for any reason depends on many factors, including — once again — your retirement goals.

It's surprising how many people reach their 60s without ever having identified their specific goals for retirement. A good way to start this process is by deciding whether your goals are performance-based or purpose-based. If they are performance-based, it means your primary objective is to have a chance of getting the highest possible returns on every investment. Most people recognize the risk inherent in that approach (especially as they get older) and therefore identify their goals as purpose-based. Their primary objectives are to have a more reliable income throughout retirement, try to avoid any major financial losses, grow their portfolio at a reasonable rate, and try to leave a financial legacy for their loved ones.

Each of those goals underscores why it makes so much sense to start focusing on income-based investing by the time you reach age 60. Most people see this clearly when they examine their goals more closely and write down specifically how they'd like to spend their time. Most people look forward to activities like traveling, dining out more, enjoying their favorite pastimes, and spending time with their children and grandchildren. If that sounds a bit like you, then an important question to ask now is: how would you like to pay for those activities? Is it by drawing from a lump-sum asset, selling portions of your investments, or through your regular income stream? If the answer is income (and for most people, it is), the next question to ask yourself is: doesn't it make sense to try to maximize my investment returns in the form of income?

4 & 5. Ages 62 and 67

We'll discuss these ages together because they both relate to Social Security. At 62, you are eligible to receive Social Security income at a reduced rate. For each year you postpone taking your benefits (until age 70), your monthly check will be larger. If you wait until at least age 67, that is considered your "full retirement age," meaning the age at which you may first be entitled to receive unreduced Social Security benefits.

And, if you wait until age 70, you'll get the biggest possible monthly benefit for Social Security—potentially as much as 76% larger than if you had started receiving payments at age 62.

If you're like most people, whether you start taking your benefits at 62, 67, or 70, Social Security alone won't provide nearly enough income to achieve your retirement goals. Thus, you need the right asset allocation to help maximize your benefits, and you need to coordinate them with your other sources of retirement income. But how do you do that?

There is no single answer to that question that's right for everyone, but the basic idea behind your allocation should be this: to have a strategy you can count on to help generate lifelong income as reliably as Social Security, and that helps protect you from market volatility and the risk of spending down the principal. Spending any principal at all in retirement is a slippery slope, especially in the early years of retirement.

In short, retirement income for any purpose should adhere to the advice your parents probably gave you years ago: spend only your interest, not your principal. Fortunately, there are many strategies and options specifically designed to generate income through interest and dividends that can be coordinated with your Social Security benefits to help ensure your income will align with your retirement goals. Best of all, these options carry less risk of a major loss than growth-based strategies, which means they satisfy your increased need for "financial defense" after age 50.

6. Age 65

At this age, most Americans are eligible for Medicare, the federal government's retirement health insurance program, as well as for a private "Medigap" insurance policy to help with co-payments and deductibles not covered by Medicare. Unforeseen healthcare costs are a major factor that can undermine any retirement plan, so it's important to work with your advisor to discuss and coordinate decisions specifically relevant to healthcare. This also illustrates why it's so important to have an advisor who works with you on an individual and ongoing basis; while your goals may not change, circumstances — such as your health — often do.

7. Age 73

Currently, the government stipulates that Required Minimum Distributions (RMDs) from traditional retirement plans such as 401(k)s or IRAs must begin at this age. The tax penalty for not taking sufficient RMDs each year, starting at age 73, is a whopping 25%. Therefore, it's important to do your RMD calculations correctly, and it's equally important to satisfy your RMDs without compromising your overall financial strategy and potentially putting your retirement goals at risk.

For example, using a strategy in which you satisfy your RMDs from capital appreciation in your growth stocks or mutual funds, rather than from interest and dividends, is really no different than taking the money from the principal. Again, that's because sometimes, when you invest for appreciation, you end up with depreciation instead. When you bank on growth, you may end up getting shrinkage.

Summary

Whatever age milestone you may be at or approaching, keep in mind that retirement planning in today's complex and uncertain financial environment shouldn't be a "do-it-yourself" activity for most people. The far better alternative is to find and work with an experienced, qualified independent financial advisor. Find an advisor who makes client education a high priority; who has a specific and consistent vision; and who specializes in helping clients address the unprecedented challenges unique to today's generation of retirees and near-retirees. In short, that means an advisor who specializes in retirement income!

Poole Locke
Associates
Retirement Income Source®

1521 Concord Pike, Suite 103 West, Wilmington, DE 19803
(302) 439-0733 | poolelocke@poolelocke.com | www.poolelocke.com

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