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PRINCIPLED WEALTH ADVISORS



Five Steps to Financial Success in Retirement

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Leaving behind your working life and moving on to retirement can be both exciting and scary. It's fun to envision a future filled with relaxation and free time to do anything, everything, or nothing. However, it can also stir up a great deal of fear and worry about how you'll manage your finances to ensure you can afford the life you imagine. Keep reading to learn the steps you should take to ease your mind and build a path to a future with a solid foundation.

1 Get Organized

Create an inventory of all of your accounts, and document where they are along with account numbers, user names, and passwords. Use a spreadsheet or start a binder to keep track of all the details.

2 Analyze Expenses

It's critical to review your lifestyle and your expenses in order to determine your monthly financial needs in the future. As Stephen Covey, the international bestselling author of *7 Habits of Highly Effective People* says, **"Begin with the end in mind,"** meaning decide exactly what you want in retirement and then figure out how much money you will need to support it.

Ask yourself these questions:

- What does your ideal retirement look like?
- Where will you live?
- Will you have a second home?
- Will you travel?
- Will you work part-time?
- When will you retire?



While the answers to these questions outline expenses that are generally within your control, there are expenses you either can't control or can't predict like taxes and medical care. Sometimes, you can pay taxes upfront when making investments, and other times, you pay taxes when you withdraw the funds, so don't forget about that when estimating your retirement expenses.

As for medical care, we'll discuss more on that later, but just be aware that Medicare may not cover all of your health-related expenses, and you may want to purchase a supplemental plan.

Once you decide how you want to live, your next step is designing a retirement income that meets your needs.

3 Allocate Assets for Income

Where will your money come from in retirement? First, consider annuities, streams of payments that last a certain period of time and come at regular intervals. If you are a U.S. taxpayer, your social security payment is a guaranteed annuity. Pensions, while becoming less common, are another type of annuity.



For many, social security and pensions are not enough. You may also supplement your income by setting up your own annuity, which is a financial product subject to the claims paying ability of the insurance company and comes in different forms:

Immediate Annuity: You pay a lump sum and then receive payments in small amounts including interest over a designated period of time.

Deferred Income Annuity: This is similar to an immediate annuity except the payouts begin at a specific age, typically 80 or 85.

Immediate and deferred income annuities come in two forms: fixed and variable.

Fixed Annuity: The payment amount is guaranteed.

Variable Annuity: Payouts fluctuate and are tied to the funds in which they are invested.

Along with annuities, you can draw money from your portfolio to fund your retirement. Each investment comes with different laws and regulations regarding distributions and taxes. Here's a look at what you can expect when withdrawing funds from a 401(k) and IRA.

401(k)

If you have a 401(k), an employer-sponsored savings plan that is taxed upon withdrawal, you are required by federal law to begin minimum distributions at age 72, under the SECURE ACT now signed into law, unless you are still working and the plan is from your current employer.

IRA

Like a 401(k), a traditional IRA is taxed upon withdrawal. You are allowed to start taking funds out of an IRA at age 59 ½, and a required minimum distribution takes effect at age 72.

Roth IRA

The big benefit of Roth IRAs is that the contributions are made with after-tax dollars, meaning you've already paid taxes on these funds, so the distributions from these accounts are tax-free. Additionally, as the account grows, you do not face any taxes on investment gains. Roth IRAs also do not have any required minimum distribution, so if you don't need the money, you can leave it alone and let it grow.

While it's generally recommended to keep your principle intact to grow your assets to combat inflation, it is typically safe to withdraw 3% to 4% of your portfolio annually.

4

Manage Risk

Most investors believe the biggest risks they face are external forces such as an economic recession or stock market downturn. It's true that these events will have a short-term impact. However, the greater risk is your behavior.



Many studies have shown that investors do more damage to themselves when they act on emotions, and watching your assets fluctuate is sure to stir your emotions. It's best to keep your feelings out of your finances. The reality is that the stock market goes down on a regular basis, and the decreases happen much faster than the increases. It leads people to panic. You can avoid a knee-jerk reaction by putting three years of living expenses in lower risk investments like short-term bonds. That way, you can continue to stay focused on long-term investments.

You can also manage your risk by reviewing your medical insurance so that you are not one health crisis away from financial disaster. More than half the population will face long-term care expenses so consider long-term care insurance. Additionally, remember that not all health expenses are covered by insurance, particularly dental care, so be sure to allocate funds for those needs. Establishing a health care financial plan is particularly important if you are single and/or do not have children you can rely on to provide any support.

5 Consider Your Succession Plan

Once you are gone, what will happen to your assets, and how can you make sure your loved ones, including your surviving spouse, have adequate resources to support themselves? Put measures in place now to make sure others know your wishes. Consult a trust and estate lawyer who can help you get your affairs in order. Consider creating trusts that come with tax benefits. If you do not have children and/or are single, consider what you want to happen to your assets.



A Final Thought...

You can certainly follow these steps yourself and plan for your retirement on your own, but if this all seems daunting, consider hiring someone like a CERTIFIED FINANCIAL PLANNER™ Professional. An advisor like this can help you:

- ✓ **Analyze your expenses and introduce you to tools to organize your data**
- ✓ **Assess the annuities you have like you social security, pension, etc.**
- ✓ **Help you plan how much to withdraw from your 401(k) and/or IRA and when to do so**
- ✓ **Explain the impact of using your principal from your portfolio**
- ✓ **Provide insight and counseling when scary market downturns inevitably occur**
- ✓ **Guide you on leaving a legacy that supports your loved ones**

Your retirement is coming sooner than you think, so start planning now for your financial future.



carystamp.com

110 Bridge Road, Tequesta, FL 33469

700 Canal Street, Stamford, CT 06902

Main Phone: (561) 471-7700

Email: info@carystamp.com

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