RETIREMENT PLANNING

Nervously Nearing Retirement? Four Do's, Four Don'ts and One Never

With so many critical decisions to make and lots of opinions to consider, here are some common-sense tips to keep you on track.

(Image credit: Getty Images)

It has always struck me as ironic that planning for retirement takes so much work. And the closer you get to leaving your reliable paycheck behind, the more intimidating the prospect becomes.

As someone who works with retirees and soon-to-be retirees every day, I was not surprised when one survey, by career site Zety, found that, among those who feared retirement, 40% reported that they fear retirement more than death. There are so many critical decisions to make — and so many opinions out there about how to get it right.

Of course, as a retirement adviser, I think it's a good idea to get some help. And the sooner the better. But it's also true that a lot of the choices you'll make as you prepare to cross the finish line will come down to common sense. With that in mind, here are nine practical tips — four do's, four don'ts and one absolute never — to help those who are nervously nearing retirement.

First, the do's …

1. DO know how much income you'll need from your investments and when you'll need it.

Investors should never take more risk than necessary to reach their financial goals — and this is especially true in retirement, when it's much harder to recover from a big loss.

Once you determine how much income you'll need in retirement and how much guaranteed income you'll receive from Social Security and your pension, you can begin transitioning your portfolio allocation to appropriately cover any shortfall.

You'll likely want to keep some money invested for growth, but you don't have to swing for the fences. Singles and doubles will do.

2. DO tune out the noise.

You've likely noticed that there is no shortage of experts when it comes to retirement planning — in the media and in your everyday life. The closer you get to retirement, the more you can expect to hear all about how you should invest, when to claim Social Security, which Medicare plan to choose, etc.

It's all noise. There are no one-size-fits-all solutions. Your retirement plan should be tailored to fit your unique needs.

3. DO prepare for the unexpected.

Along with establishing an income plan that covers your expected costs in retirement, it's important to have a backup, just in case your regular cash flow is interrupted, or an unexpected expense pops up. I recommend keeping an emergency fund in a separate account that's extremely liquid and easily accessed, such as a high-yield savings account, money market account or even a bank savings account.

I know it's tempting to keep all your money working for you in investments that offer better returns, but there's something to be said for the peace of mind of having that money right there when you need it.

4. DO keep your plan on track.

The best retirement plan is one you can stick to, so it's important to be realistic about your budget, your income plan and your goals. However, even the most accurate plan will need updating from time to time based on what's happening in your life, with the markets and with the economy in general.

This is when it helps to have a trusted adviser watching out for you, monitoring your portfolio, communicating with you regularly and suggesting adjustments that can keep you on course.

Now for the don'ts …

1. DON'T ignore inflation.

Inflation's effect on retirees isn't always as obvious as it has been for the past year or so. Often, it's a silent killer that slowly eats away at a retiree's savings. Though bonds — the typical "safe" go-to investment in retirement — can still play a role in reducing portfolio risk, you also may want to consider the benefits of fixed-index growth-only annuities.

This type of annuity contract provides payments based on the performance of an underlying stock market index, like the S&P 500 — which can result in a better inflation-fighting return — but it's also protected against loss.

2. DON'T overlook the fees you're paying.

Just like inflation, it's amazing how much the fees tied to certain investments can deplete a nest egg over time. Before you retire, take the time to research these costs, including:

- **Mutual fund expense ratios.** These costs are charged to shareholders to cover a fund's annual expenses and can sometimes be hard to spot. It's worth the effort. According to the SEC: "Even small differences in fees from one fund to another can add up to substantial differences in your investment returns over time."
- **Annuity fees.** The fees attached to annuity contracts can vary from one company to the next. But in general, the more complex your contract, the more you can expect to pay in fees. This is especially true when it comes to optional features, known as riders, which can affect various aspects of the contract (such as a death benefit payout or income payment guarantee). Knowing these fees can help you assess the true value of your investment.
- **Advisory fees.** Unless you're working with an adviser who's a fiduciary, it may be hard to track some of the fees you're paying and what you're getting for your money. Don't hesitate to ask.

3. DON'T chase the sizzle.

It can be tempting to chase yield, but it's definitely a risk. Instead, look to invest in companies that have strong fundamentals and show consistent earnings. I know reliability can be boring, but it's the key to a successful retirement income plan.

4. DON'T get emotional.

Emotions — fear, greed, pride, regret, etc. — are the enemies of an otherwise solid retirement plan. We all experience these feelings, of course — especially when things are going very wrong or very right. But if you can tamp down your emotions and avoid knee-jerk reactions to good or bad news, it should help you reduce negative impacts to your portfolio and your overall plan.

And now the *never* …

NEVER pursue the 'hot tip.'

Amateur investors are a little like amateur poker players in that they tend to talk more about their wins than their losses. If something sounds too good to be true, it probably is. Or it's old news that many others already have heard about long before you.

Economist and author Thomas Sowell once said, "When you want to help people, you tell them the truth. When you want to help yourself, you tell them what they want to hear." The truth is that planning for a long-lasting, successful retirement can be incredibly challenging. But with a combination of your own common sense and good advice from a retirement specialist, it's definitely doable.

The hot tip you do want to follow: Do your homework, prepare for the inevitable retirement risks and build a financial plan that allows you to feel confident about enjoying your retirement.

NYSUT NOTE: The best thing you can DO for your retirement, is to have a solid plan in place, so that you DON'T outlive your money. You can get started with your plan by enrolling in the NYSUT Member Benefits Corporation-endorsed Financial Counseling Program. This program gives NYSUT members access to a team of Certified Financial Planners® that will provide fee-based financial counseling services. To get unbiased, objective advice customized for your specific situation visit the member website.

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As president of FFG Wealth Management, Tom Diorio is passionate about developing plans that help his clients protect, grow and pass on their wealth in the most prudent and tax-efficient ways possible. Retirement and estate planning are Tom's strengths, and he is both a Retirement Planning Specialist and a Certified Estate and Trust Specialist (CES).

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