

# Retirement “facts” that may be fiction

There are enough books and other forms of guidance about retirement that one would expect to find all the advice necessary to secure a comfortable retirement. But not all of the advice and strategies necessarily will meet your needs.

What’s more, there may be “facts” about retirement and retirement planning that have been conventional wisdom for many years but could be worth challenging. Here are four of them:

*“Fact” #1: You’ll need 60% to 80% of the income earned in your working years to live comfortably in retirement.*

These figures pop up frequently and are based upon the assumption that certain job-related (and other) expenses will disappear once retirement begins.

But is it logical that you can live happily ever after on less money than you earned in your working years? Do you truly want to live on less than what you are earning currently?

The answer to those questions is no if, for example, you expect to travel, pursue expensive hobbies or provide financial assistance to your children or grandchildren. And, unfortunately, illness or just advanced age may mean huge medical bills that might not be reimbursed completely by insurance. (Of course, if you no longer will have a mortgage, or need to pay college expenses any more, you could need less than that 60% to 80% of your income.)

Bottom line: Analyze your individual situation to determine how much that you’ll need to live on in retirement.

*“Fact” #2: Retirement is a time for “leisure.”*

There’s no longer a bright line dividing pre- and post-retirement. In a survey of 1,200 baby-boomers conducted by AARP, almost eight in ten reported that they expected to take a job after retiring.

For some the reason may be need, for others the desire to keep active. The relaxation of the rules for reduction of Social Security benefits when you continue both to work and to collect has meant more working retirees. This year, retirees at the full retirement age (age 65 and 6 months or older) may keep all of their benefits, no matter how much that they earn.

But some professionals note with caution a retiree’s potential earning power. According to Notre Dame economics professor Teresa Ghilarducci, “[j]obs for older workers generally don’t pay as well as those for younger workers, and the raises aren’t as good.” So,

she recommends, when trying to put a number to your retirement income earnings projections, you may want to estimate on the low side.

*“Fact” #3: Money coming from your tax-sheltered retirement plans is likely to be taxed at rates less than those at which you were taxed during your working years.*

You make contributions to a 401(k), IRA or other retirement plan with pretax dollars. But you'll begin paying tax when you take your money out—generally at ordinary income tax rates.

Today, for most middle- and upper-middle-income taxpayers, tax rates are likely to fall in the 25% to 30% range, significantly lower than in decades past. Those numbers aren't likely to drop radically after retirement, especially if you continue to work. And, of course, with historically low income tax rates, it's reasonable to assume that the only direction that rates are likely to go in the coming years is up.

When trying to figure out what you will net after tax from a distribution from your retirement plan then, it's probably a good idea to assume that the money will be taxed at the top tax rate at which you're currently paying tax.

*“Fact” #4: Retirees should switch from stocks to fixed-income investments, such as CDs and bonds.*

This statement is too broad a generalization to apply in all circumstances.

As everyone knows, the stock market can be volatile. Short-term downturns may not be damaging to investors who can wait out the market. Yet switching from stocks to bonds or cash investments is an oversimplified approach to reducing risk. For one thing, bonds can have their bad years as well. And a strategy that does not produce an investment return that exceeds inflation is a losing one.

The best approach is an individualized one, tailoring your portfolio to your tolerance for the ups and downs of the markets and adopting techniques that handle risk in an intelligent manner, reducing uncertainty as much as possible, while seeking opportunities that will help your portfolio grow.

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We would be pleased to serve as your professional resource as you plan your retirement. We can offer valuable insights with regard to the management of your investments, both today, as you plan for retirement, and later as you enjoy your retirement years.