

Steps Couples Should Take As They Approach Retirement

Cover the basics

Define your lifestyle. More than two in five (42%) couples surveyed don't agree on lifestyle expectations in retirement. Determine what you both want from retirement. Will you continue to work, and live your current lifestyle? Do you dream of traveling? Where will you live? Choose your target date. Three out of five (60%) couples surveyed differ on their expected retirement ages. Discuss with one another what age you would like to retire. Are you working toward an early retirement? Decide if you will work in retirement. More than two in five couples (44 %) surveyed don't agree whether they'll work in retirement. Before you can put a realistic retirement plan in place, it is important to understand if you will need to supplement retirement income with part-time work, or if you would like to work in retirement by choice.

Work as a team

Two heads are better than one. Though 57% of couples surveyed say one of the best pieces of advice they would give to newlyweds is to make all financial decisions together, less than half of couples make decisions jointly about day-to-day finances (45 %) or investment decisions for retirement savings (38%). Be an active partner and joint decision-maker when it comes to financial planning, don't leave it all to one spouse.

Create a plan

Fifty-four percent of couples surveyed have worked on a detailed retirement income plan to ensure they do not outlive their savings. Acquaint yourself with the key components of a successful retirement income plan (e.g., budget, asset allocation strategy, withdrawal strategy) and what makes them successful. Develop your own plan particular to your individual retirement time horizon, risk tolerances and goals.

Take inventory and know the details

Only 15% of couples surveyed are confident in their ability to both assume financial responsibility of retirement finances. Both spouses should know providers and account information for all savings and investment vehicles, including bank accounts, workplace savings plans, pensions, IRAs, brokerage accounts, life insurance, and annuities. This becomes particularly important in the event one of the two spouses experiences a sudden illness, catastrophic event or death.

Stay on track

Forty-nine percent of couples surveyed expect a very or somewhat comfortable lifestyle in retirement. It is key to monitor and rebalance your portfolio at least once a year to make sure you are comfortable with the level of risk. Proper asset allocation becomes more important during times of extreme market expansion and contraction, as asset classes grow at different rates and lose value at varying levels.

Catch up on savings

More than three-quarters (77%) of couples surveyed agree they will use a workplace retirement plan, such as a 401(k), as a retirement income source and 59 % agree they will use an IRA for retirement income. Help increase your savings by investing the maximum in your 401(k) and IRAs. Eligible workers ages 50 and older also have the opportunity to contribute an additional \$3,500 to their workplace retirement plan in 2009 beyond the \$16,500 annual limit, if their plan allows. IRAs provide similar catch-up opportunities to save more outside your 401(k) as well, with the opportunity for older workers to contribute an additional \$1,000 in 2009, beyond the \$5,000 annual limit. Annuities with no IRS contribution limits allow couples to meet their retirement savings goals by saving more tax deferred.

Consider income alternatives

More than two out of five (41%) couples surveyed are concerned about inflation cutting into savings and 19 % are concerned that their Social Security benefit will be reduced. Annuities can be an additional source of income in retirement, supplementing a pension and Social Security by providing a guaranteed payment to help cover essential expenses. Converting up to 30 % of retirement savings into an annuity may provide a guaranteed income stream without risking liquidity needs and long-term growth. Or, if you're still saving for retirement and have made maximum contributions to your 401(k) plan and IRA, an annuity may be considered to enable continued tax-deferred investment growth potential and to potentially generate income in retirement.

Discuss future needs

Assess retiree health costs. More than half (57%) of couples surveyed agree that unexpected major health care expenses is among the top concerns in retirement. Fidelity estimates that a couple retiring in 2009 at age 65 with no employer-provided health care coverage will need \$240,000 to fund medical expenses in retirement. Get to know Medicare and how any employer-sponsored health benefits will work with Medicare. If you will need coverage between your retirement date and when you are eligible for Medicare (generally age 65), find out the cost of coverage under COBRA and individual or association programs.

Consider long-term-care insurance

Seventy-one percent of couples surveyed agreed they do not have long-term-care insurance. Think about funding long-term care insurance if you haven't done so already. Consider that there is a 50% chance that today's 65 year-old couples could live well past the age of 90. Rising health care costs, coupled with inadequate health care coverage, can have a devastating impact on your retirement income plan.

Understand Social Security

More than one in five (21%) couples surveyed expects Social Security will be one of their top three income sources in retirement. Work with the U.S. Social Security Administration (www.ssa.gov) to familiarize yourself with how Social Security works, the benefits due to you, and the steps you need to take to activate your payments upon retirement. Determine your optimal age to begin taking payments; you may want to consider delaying the age at which you collect in order to increase your monthly payment. If you decide to retire prior to age 62, you should contact the Social Security Administration to order a revised statement with the new retirement date to determine any changes in your payment.

Consolidate assets for greater control

Almost two-thirds (61%) of couples don't agree about the frequency with which their retirement portfolio reviews take place. Given that couples will need to manage a number of income sources in retirement, it is important to consider consolidating accounts to have more control in monitoring and managing those assets. Seek out services that allow you to view all accounts from one central source. This will allow you to gain more control and will simplify your life.

*Published in Retirement Weekly
A Service of Market Watch
June 12, 2009
Vol. 7, No. 23