TRANSITIONING FINANCES FOR RETIREMENT OR JOB CHANGES

By: Mark McGavran, MBA, Vice President, Wealth Management Consultant

It seems every time you turn around you hear about people leaving their jobs or opting to retire. Study after study shows it's a trend that's not going to slow down or reverse itself. For a lot of Americans who are vacating the workforce, this important decision wasn't a rash one made overnight. Many have prepared for this life event for years — some for decades.

Maybe your own retirement seems like a long way off. Or maybe not. What if you have to change jobs unexpectedly or experience a furlough or layoff? How would this affect your retirement plan? If you're laid off and receive a severance package, you should talk to your financial advisor to see if retiring earlier than planned is a feasible option.

Regardless how many years you have left in the workforce, one thing is for certain: *Now* is the time to evaluate the progress of your retirement planning journey and develop a clear vision of your destination.

With that in mind, here are four considerations to help you plan your transition, add to your financial security, and make important strategic decisions as you move toward your retirement goals.

AMERICANS RETIRING IN RECORD NUMBERS

As individuals grow older, they're opting to transition from the workforce to retirement at an astounding rate. Since the year 2000, the number of Americans retiring daily has almost doubled. Roughly 10,000 people turn 65 years old (the standard retirement age) every day. By 2030, the Census Bureau estimates that all baby boomers will be older than 65.[1]

1. TACKLE THE BASICS FIRST.

One of the most basic, and most critical, decisions you will need to make if you haven't already done so is to determine when you want to stop working and start collecting Social Security. This decision directly impacts your retirement income stream once you begin receiving benefits and for the rest of your life.

Social Security income (SSI) can be tricky — work with your advisor to determine the best SSI timing for your situation. You can start taking benefits as early as age 62 and as late as age 70. However, the earlier you take your benefit, the less monthly income you receive. For each year you wait to begin taking your SSI, you'll get an 8% increase in the monthly amount you're paid. Once you start your income benefit, you'll receive annual raises determined by the government. (There's been a yearly increase of about 2% over the past 10 years.) Generally, the longer you wait to take SSI the better. That way, this part of your retirement income can help support your lifestyle long-term.

Bottom line, delaying the start of your Social Security benefits can add as much as $100,000 to your retirement income. By working a few more years – even parttime – beyond your normal retirement date you can earn more income from your job, build on your savings, and postpone cash withdrawals. You may also want to talk with your advisor about tapping into other income opportunities.

2: MOCK UP A TRANSITION-TO-RETIREMENT BUDGET.

Hopefully, you'll spend 20 to 30 years enjoying your retirement. But at what cost? Once you transition from the workforce, you're likely going to be living off relatively fixed finances. You need to estimate how much money you're going to need to live the lifestyle you've chosen. Generally, new retirees spend a little more when they first transition from the workforce, then a little less as they grow older.

As you plan your retirement budget, it's important to have a good idea regarding what your expenses will be once you arrive at this stage in your life. For example, you should:

- Know where you want to live. Perhaps you may choose to move to a favorite place you've visited on vacation or to a lower-cost state or country with an attractive income tax rate or cost of living.
- Decide what you want to do with your time. Perhaps you dream of starting a second career, traveling the world, taking up a new hobby, or volunteering for your favorite charity.
- Budget carefully for constantly rising health care and insurance costs.
- Factor in inflation. Goods and services are likely to cost more in the future.

Share your retirement budget with your financial advisor so he or she can review your financial situation and adjust your portfolio to help you achieve your dreams.

3. INVEST FOR YOUR RETIREMENT FUTURE.

Remember, what you invest in is as important as how much money you save. Investments you make for transitioning into retirement should include a mixture of stocks, bonds, and cash. This is very easy and convenient to do with retirement vehicles such as a 401(k) plan or an Individual Retirement Account (IRA). The proper mix of these investments for your financial needs will depend on your age, risk tolerance, and number of years to retirement. Other investments such as hedge funds, private equity, and even real estate can sometimes harm a retirement plan because of their illiquid nature — and may add to your expenses over time.

As you think of your retirement as the beginning of your next phase in life that could last another 30 years or more, you want to make sure your investments are structured to ensure a proper growth level throughout all those years. Resist the urge to reduce your investment risk too low. Instead, work with a qualified portfolio manager to determine the best investment growth level for your investments. In the end, a diversified growth component of your accounts will provide the best vehicle to help you keep up with inflation and provide the assets you need throughout your retirement.

4. KEEP YOUR EYE ON THE DESTINATION.

Successful transitions from working to retirement are affected by two different criteria: expenses and retirement date. Simply put, the longer you stay in the workforce actively contributing to your retirement accounts, the more successful your retirement plan. However, if retirement comes sooner than planned you can still have a smooth transition and enjoy a fulfilling retirement.

Everyone's financial situation is different. That's why it's important to work with your advisor to determine the best retirement options for your unique lifestyle. Contact us today — we will listen to your concerns, offer tailored solutions for your unique lifestyle, and help you structure your assets to last through your retirement years.

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1 Source: yahoo/finance, Kristin Myers, “Americans are retiring at an increasing pace,” https://finance.yahoo.com/news/americans-retiring-increasing-pace-145837368.html, November 21, 2018.

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Mark is a wealth management consultant for the Commerce Trust Company. He facilitates the introduction of our prospective clients to a comprehensive service team which includes private banking, investment management, trust administration, and financial planning. Mark provides an integrated and seamless client experience as we partner with clients to meet their long-term goals and objectives. Mark joined Commerce Bank in 2003 as a senior financial services representative and progressed into a management position as branch manager of a new branch in Olathe and then moved to private banking where he spent the next seven years. Prior to joining Commerce, Mark was a financial advisor for Morgan Stanley where he held Life and Health insurance licenses and a securities license. Mark earned his bachelor's degree in finance from Fort Hays State University and his master of business administration degree from University of Kansas. He is past president of the board of directors for Olathe Public Schools Foundation and has been a board member since 2012.