Kansas City Star, The (MO) - December 16, 2020 - page 24
December 16, 2020 | Kansas City Star, The (MO) | Kansas City, Missouri | Page 24

PERSONAL FINANCE

Be sure to examine all facts before making decision about retirement

BY SANDI WEAVER
Special to The Star

This year many have been furloughed, downsized or bankrupted out of a job due to COVID-19.

When you're near retirement age, you may want to make the leap and retire rather than find new employment. But should you? It's tempting to take the easier road, but financial planners want you to realistically analyze your situation first.

In September, a 65-year-old woman met with me regarding her investments. She had been furloughed, then her long-time employer downsized. She had decided to retire now and rely on her Social Security, her 401(k) and her brokerage account savings.

We discussed her investments, rolling her 401(k) to an IRA, risk levels and portfolio returns, which were the reasons she wanted to meet. We covered when and why one might delay Social Security benefits to age 70, and her situation.

Then I checked her 2019 tax return which showed her salary and other taxable income — the resources she used in the past.

I automatically compared that "spending level" against what she was likely to get during retirement: the Social Security payments and the recommended annual withdrawal from the portfolio. The withdrawal guideline is usually 4% to 6% of the portfolio (401(k) plus brokerage accounts.) I assumed she would decide in favor of the higher age-70 Social Security benefit, rather than the age-66 amount.

If we assumed she was spending all income, the spending level indicated from the tax return was materially higher than what she would get during retirement. We segued to this new topic.

How can you gauge if retiring now is a viable option or needs more analysis?

A reliable website calculator can be better than my quick rudimentary approach above. But buyer beware.

I consider some websites too optimistic with results, too optimistic with assumptions, or too scarce on important inputs. Some websites use a blackbox that doesn't square with results from other sources I know to be reliable.

Vanguard's Retirement Income Calculator tool is easy to use for simple situations. I have used "Retirement Planner" on the American Institute of CPAs' 360 website, which is accessible by the public.

Be careful with assumptions: Use reliable sources when you plug in data on longevity, rates of return on investments and inflation. You might ask your planner to review the inputs and results of your calculator tool.

Don't be misled by the balance remaining at the end of your projection. A large future value is usually a very small amount

SEE WEAVER, 12JO

FROM PAGE 8JO

WEAVER

in today's dollars. You will need more if you live longer or have unexpected expenses.

If retiring now is not clearly feasible, you may need a comprehensive retirement projection from your financial planner, which costs money.

You may finally decide to work longer.

Getting back in the labor pool now, while skills are fresh, is easier than delaying. A part-time position can give you a new adventure. Full-time employment in a lower-stress, lower-pay job can be fun since it's just a couple of years.

You reap two benefits: (1) you won't withdraw as much, if any, from your retirement portfolio in the early phase, and (2) the bulk of your portfolio grows over a longer time period.

Look carefully before you leap.

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