

Quinn: Start Planning Now for Retirement

By Jane Bryant Quinn

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When you turn 50, it's more than an embarrassing birthday. It's the outer door to retirement, whether you know it or not. Some people save for years so they can retire early (55 is a favorite age). Others have retirement thrust upon them: they're fired, their health breaks down or they have to take care of an ailing spouse. Of those 60 to 65, a mere 33 percent still work at their primary jobs full time, according to the Employee Benefit Research Institute. Joanna Rotenberg of the consulting firm McKinsey & Co. says that 40 percent of retirees are forced to leave work earlier than they'd planned—ready or not. The average retirement age is currently 57.

That's what makes your 50th birthday so important. From then on, your employment options narrow. "If you're 20 years older than your boss, you can assume that your days are numbered," says Bedda D'Angelo of Fiduciary Solutions in Durham, N.C. You have to be ready if your boss, your knees or your spirit cries "halt."

To retire early—by choice and with enough money to last for life—takes planning that stretches back into your 40s and 30s. As a template, take Kamal Kardosh, 60, of Monmouth Junction, N.J., who accepted an early-retirement package from Unilever last July. Kardosh, a ferocious saver, asked planner Ken Weingarten of Lawrenceville, N.J., to manage his money and help prepare an escape route for himself and his wife, Pam, a nurse. They did it by the book: first, working out their likely retirement income from two pensions, Pam's current part-time job and their investments; then creating an estimated annual budget, covering basic expenses, future new-car purchases, college tuition for their son, travel and other costs. It appears that the Kardoshes won't have to cut their spending. They're keeping on track by following a written plan.

Then there's Avery Leavitt, 64, of Grants Pass, Ore. Once a top salesperson for K. Hovnanian Homes, he lost his job in 2005 when sales slowed. His wife, Felicia, 49, sells exotic mortgages to loan brokers, a business that's in trouble, too. Avery has emphysema and other ailments but says it never slowed his work. "I don't feel that I'm 60," he says. "When I look in the mirror I see someone 30"—and at 30, who thinks about retirement? They have two IRAs but didn't save enough in the years when they earned six-figure salaries. He filed an age- and disability-discrimination lawsuit, which is currently in arbitration, says his attorney Robert Ottinger of New York City. "It's been hard," Leavitt says. K. Hovnanian declined to comment.

If you jumped or were pushed, which of these two stories would mirror your own? To figure it out, run, do not walk, to a financial planner. Ideally, skip the planners who sell financial products. They lean toward putting you into high-commission investments whose costs will reduce your future gains. Instead, look for "fee only" planners who charge just for their services and advice. They'll help you set goals, forecast your income and expenses, decide whether to sell your house, plan for long-term care and choose suitable, low-cost investments. Two places to look for fee-only planners: garrettplanningnetwork.com and the National Association of Personal Financial Advisors at napfa.org. If you want to work up a budget yourself before seeing a planner, a good choice would be the retirement tools at troweprice.com.

When looking at whether you can afford to retire, start with your sources of income: pension (if you're lucky), savings, spouse's income, part-time work. Figure on using no more than 4 percent of your total savings in your first retirement year. In each following year, add just enough to cover the inflation rate. Next, shape a budget that matches your expected income. If you spend more by dipping further into savings, you risk running out of money. "Too many new retirees don't understand that they're different now," says Kurt Brouwer of Brouwer & Janachowski Investment Advisors. "You don't have a paycheck anymore. You're not as affluent as you were." Ouch.

A common mistake is to look at retirement in a five-year time frame without planning any further, says Dean Barber of Barber Financial Group in Lenexa, Kans. It's in your later years that the effects of inflation, rising medical costs or poor investment decisions kick in.

Early retirees generally seize on Social Security at 62, the earliest possible starting date. But that cuts your personal benefit by 25 to 30 percent for life. If your spouse collects on your account, it cuts his or her benefit, too. Once a year you get a Social Security projection in the mail, showing the likely size of your check at 62, 66 and 70, but that's only for people who work full time until reaching those ages. If you retire earlier, you'll get less.

The scariest thing about early retirement is probably health insurance. Will you lose your company coverage? If you can keep it, how much will your costs rise each year? If you have individual coverage, can you afford the premiums when your paycheck stops? Universal, single-payer health insurance doesn't start in this country until you reach 65. Up to then, your life may depend on finding a policy you can afford.

Don Warner, 64, of Poinciana, Fla., an expert on quality assurance, retired from Lockheed Martin in 1998. He returned to work, retired again, then in 2005 took a part-time job for Disney in Orlando. It helps cover the rising costs of gasoline, auto insurance and, particularly, health insurance. When Warner left Lockheed, his HMO cost \$56 a month for himself and his wife, Janice, 60. Now he pays \$580. When he goes on Medicare next year, his Part B coverage, plus a Medicare supplement plan, plus the HMO for Janice, will come to \$619—a cost that will increase every year. Luckily, he says, "Disney is fun."

If you buy individual coverage, be sure you're insurable before moving to another state, says Sherman Doll of Capital Performance Advisors in Walnut Creek, Calif. Most of these policies aren't portable. If you move, you'll have to apply for a new policy from scratch.

Usually, early retirees don't want to leave their homes. No problem—as long as the mortgage is paid up. If not, it's usually smarter to sell and buy something smaller for cash. Debt repayments—including credit-card debt and home-equity lines—will chomp through your savings fast when you don't have a salary anymore. At 50, make it a priority to become debt-free.

When it comes to investing retirement money, fee-only planners lean to simple solutions. For the Kardoshes, Weingarten allocated 60 percent to U.S. and international stocks and 40 percent to bonds, using low-cost mutual funds and exchange-traded funds. His fee: a retainer a bit under 1 percent a year (less for larger portfolios), for ongoing planning and tax services as well as investment management.

Planners who earn commissions use a costlier set of tools. For example, take the portfolio of the Zagarellas, who live in Sandy, Utah. Frank, 58, retired last year from the Farm Bureau, where he worked as a claims representative. Emily, 61, retired from teaching. They had about \$500,000 in assets, including an inheritance, plus Emily's pension. They're conservative, tilting toward income investments. Their planner, Thom Hall of Financial Strategies Institute in Midvale, Utah, advised the following: (1) A variable annuity with a guaranteed payout. Cost: 3.35 percent a year. They're hoping for higher payouts in the future, although the fees could get in the way. (2) Two real-estate investment trusts (REITs) that aren't traded on a public exchange. They carry costs of 9 to 14 percent, including a 7 percent sales commission. According to Barry Vinocur, editor of the online newsletter REIT Wrap, "soft data" suggest that nontraded REITs yield 2 to 3 percentage points less than traditional REITs, probably because of their higher expenses. (3) A unit investment trust (similar to some mutual funds) with a maximum upfront fee of 2.95 percent. (4) A trading strategy for high-yield bonds. The Zagarellas know about the fees but are satisfied with the returns that Hall projects.

I hate to say it, but if you start saving at 50, it's too late. You've been living on magical thinking, and now you're up against it. What might save you? Training, fast, for another type of job, including one you could do part time. If you don't have to retire, and your savings pot looks marginal, "think, think, think before you jump," says planner Elaine Scroggins of Merriman Berkman Next, in Seattle. An extra two or three years of work could save the day.

Reporter Associate: Temma Ehrenfeld

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