

Financial Planning **Update**

A lifetime approach to retirement planning



Unlike earlier generations, individuals planning to retire over the next two decades face a new set of challenges, including an uncertain Social Security system, longer and healthier life spans, and a new health care environment. Careful planning will be a key to retiring with confidence. To prepare, it may help to think of retirement planning in stages, starting decades in advance right up to the year you plan to retire.

Stage 1: Ongoing

In reality, retirement planning can start as early as the first day of your career. Shortly after you start working, you may be able to begin contributing to a 401(k), an IRA or another retirement plan. The sooner you start, the more savings you can potentially accumulate.

Of course, there may be competing demands for your money, especially if you have a growing family. Whether you can start saving early or not, there are important steps you can take on a regular basis to help keep your finances in order, such as carefully managing debt to protect your credit score, creating a household budget, and maintaining a cash reserve for emergencies.

TIPS

Stage 1 action steps

- Keep your finances in order.
- Contribute to a retirement plan.
- Set financial goals and revise them from time to time.

Throughout your working years, it is also important to:

- Set and revise short- and long-term financial goals for yourself and your family
- Explore the need for life insurance, a will, a health care proxy or other estate planning tools
- Keep up-to-date beneficiaries on your accounts, including your 401(k), IRA and life insurance policies

Stage 2: Well before retirement (six to ten years)

At the peak of your career, retiring may be the last thing on your mind. In reality, it's time to give serious consideration to your vision for the future. What do you want to be doing when you retire? It may help to realistically sketch out what you will do on a daily, monthly and annual basis. Here are some examples:

- I will/won't continue to work after I retire. (I will work "x" hours per week.)
- I will purchase a second home.
- I will make time to golf/garden/fish, etc. at least once a week.
- I will travel at least once a year.

Many retirees who were high achievers in their careers find that “relaxing” in retirement is less than satisfying. Others who planned multiple activities find they have too little time to rest. Success in retirement is not only having sufficient funds but also being able to engage in activities you choose.

Setting appropriate saving goals.

Set specific savings goals and write them down. Then, evaluate whether you’re saving enough to achieve those goals. Here’s where a financial advisor can help. If it appears you might fall short, consider opportunities to save more.

For example, take a look at the amount you’re contributing to your employer’s retirement plan. Are you maximizing those savings? Over the next several decades, the cost of Social Security will rise faster than tax income as the population over age 65 grows faster than the working-age population. This casts doubt over the future of Social Security, a once-reliable source of retirement income. At the same time, most corporations have shifted from guaranteed pension benefits to employee-directed 401(k)-type plans.

As a result, the money you contribute to your employer plan and IRA will likely be your most important source of retirement income. Keep in mind, at age 50 you can make larger tax-deferred contributions to your employer’s plan (if permitted by the plan) and to your IRA. Due to their tax advantages, these accounts are one of the best ways to accumulate wealth for your retirement.

Exploring the benefits of long-term care insurance.

It might also make sense to start investing in your future well-being by initiating a long-term care insurance plan. Long-term care insurance can eliminate the burden on your children or others who would otherwise need to take financial responsibility for your care. It can also help protect your estate by making sure you don’t need to tap into money you’ve earmarked as an inheritance for children and grandchildren.

Considerations for business owners.

If you’re a business owner and you haven’t already done so, you may want to start planning for the future of your company while you’re still actively involved. Are your children interested in and capable of taking over? What can they do now to prepare? If a sale is the best option, what changes can you make now to enhance the value of your business? A business succession plan can help address these questions.

TIPS

Stage 2 action steps

- Write down your retirement goals.
- Look for opportunities to set more aside for retirement.
- Determine if you need long-term care insurance.
- Explore succession options if you’re a business owner

Stage 3: Two to five years before retirement

With retirement on the horizon, it’s time to start forecasting your specific monthly expenses and income. Traditionally, retirees could count on needing 70% of their pre-retirement income throughout retirement. However, in general, people are living longer, and many retirees are spending well more than that in their early retirement years as they live busy, full lifestyles.

In fact, research suggests that many people spend as much as 25% more in the early stage of retirement than they spent while working. While you’re young and healthy—and have the time available—you may find you’re even more active than you were before you retired.

Projecting income and expenses.

Start by identifying your sources of retirement income and examining them side-by-side with your expected expenses. Carefully consider your goals for retirement as you project your expenses, especially if your plans include travel, purchasing a second home, or other large expenditures. If you listed out your retirement goals years ago, go back to that list and refine it.

If you’re still carrying debts (such as a mortgage) running an analysis of your after-tax cost of debt versus investment returns may provide guidance on whether you should pay them off now or later.

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Managing taxes.

It can be helpful to run income tax projections for the years immediately before retirement and the few years into it. By carefully planning the timing of income, deductions and retirement plan distributions, you may be able to enhance your lifetime disposable income.

Finally, although you won't make any decisions about taking Social Security now, it's a good time to learn about your choices. See more detail on this in Stage 4.

TIPS

Stage 3 action steps

- Refine your retirement goals.
- Lay out your expected income and expenses.
- Learn about your choices for taking Social Security.

Stage 4: One year before retirement

Your next stage of life is just around the corner. And thinking about living without your regular paycheck can easily create anxiety. Here are a couple of things you can do to help alleviate the stress:

- "Test-drive" your retirement plan by establishing a retirement budget and seeing how well you can live within it.
- Talk with your spouse and your family about your plans. Communication can help manage expectations and set your mind at ease.

Beyond getting mentally prepared for retirement, there are a couple of important items to take care of in the year before you retire.

Strategies for claiming Social Security.

Whether you're single or married, waiting a year or two to claim your benefits is likely to result in higher benefits for your lifetime. For example, if you were born between 1943 and 1954, your full retirement age is 66, and that's when you are eligible to collect your "primary insurance amount." You could start claiming at 62, but your benefit would be permanently reduced by a fraction of a percent for each month you claim before your full retirement age. In fact, if you claim at 62, your benefits will be cut 25% compared with what you would receive if you claim at 66. If you wait longer than your full retirement age, you get a delayed retirement credit of 8% for each year you wait to claim until age 70.

Consider this example. Assume a retiree is eligible for benefits of \$2,000 per month at the full retirement age of 66.

- Claim benefits at the full retirement age (66): \$2,000
- Claim early (62): \$1,500
- Wait until 70: \$2,640

In this example, the wait-to-claim monthly benefit is 76% more than the take-it-early benefit. (And that doesn't include the cost-of-living increases that add to the benefit while you wait.)¹

Keep in mind, the starting date is only part of the decision. You might also claim a spousal benefit from age 66 to age 70 to allow your own benefit to grow or "file and suspend" to allow your spouse to claim benefits while yours are deferred. When all possibilities are considered, for a married couple there can be more than 240 different options.

Making the health insurance decision.

At age 65 (or earlier for certain people who qualify), you can sign up for Medicare, which will cover many health-related expenses. However, you'll still have out-of-pocket costs and may need to purchase a supplemental health insurance policy. Annual health insurance premiums can total \$2,500 to \$7,000 per person for Medicare and Medigap policies, based on coverage choices. Those amounts include premiums for Medicare parts B and D, and for Medigap which covers copayments and deductibles, but do not include dental, vision, or long-term care costs.

Despite a changing retirement landscape, with careful planning, future retirees can aim for a confident and comfortable retirement. Thinking of planning in stages may help make the process more manageable and help you stay on track toward achieving your retirement goals.

TIPS

Stage 4 action steps

- Test your retirement budget by living within it for a period of time.
- Decide how you'll claim Social Security.
- Evaluate your health insurance coverage.

Continued



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¹Source: Strategies to Boost Your Social Security. Kiplinger.com (www.kiplinger.com/article/retirement/T051-C000-S004-strategies-to-boost-your-social-security.html).

²Cost roughly estimated monthly by using Weiss Ratings 2013 national median average annual cost of Medigap policies.

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Retirement planning checklist

Perpetual Review

<input type="checkbox"/>	Review credit reports annually.
<input type="checkbox"/>	Maintain cash reserves (at least 6 months of expenses) for emergencies.
<input type="checkbox"/>	Develop and revise short term, intermediate term and long term financial goals and monitor progress towards these goals.
<input type="checkbox"/>	Discuss how you might handle unexpected events.
<input type="checkbox"/>	Review insurance needs including life, disability and long term care protection.
<input type="checkbox"/>	Review overall asset allocation in light of your goals.
<input type="checkbox"/>	Review all your accounts and consider possible consolidation to simplify management.
<input type="checkbox"/>	Review and update beneficiary designations for 401(k) or similar retirement plans, Individual Retirement Accounts (IRAs), life insurance, and any accounts which may have a transfer on death (TOD) or payable on death (POD) designation.
<input type="checkbox"/>	Review your Will, Power of Attorney for Property, and Power of Attorney for Health Care. Consult with an attorney to review other estate planning needs including the use of living trusts.
<input type="checkbox"/>	Review ownership of properties and titling of accounts to make sure the ownership is consistent with your desired estate plan.
<input type="checkbox"/>	Locate, organize and document where all important records can be found. For identity protection, consider discarding or shredding old paper statements, bills and documents.

Well Before Retirement (6 to 10 years)

<input type="checkbox"/>	Create a vision of your retirement (discuss with family members what retirement looks like).
<input type="checkbox"/>	Review and revise your retirement goals.
<input type="checkbox"/>	Track your expenses for 1-2 months and evaluate where you can save more.
<input type="checkbox"/>	Maximize retirement savings plans to meet your goals such as taking advantage of the catch-up contributions for IRAs and most 401(k) plans if over age 50.
<input type="checkbox"/>	Contribute as much as you can to savings to increase the probability for a financially successful retirement.
<input type="checkbox"/>	Review your Social Security earnings record and your projected benefits (go to social security website to establish online access).
<input type="checkbox"/>	Review your Will, Power of Attorney for Property, and Power of Attorney for Health Care. Consult with an attorney to review other estate planning needs including the use of living trusts.
<input type="checkbox"/>	Review other deferred guaranteed income options to create a personal pension in retirement to cover basic needs.
<input type="checkbox"/>	Consider paying down any mortgages, vehicle loans, credit cards and other debts.
<input type="checkbox"/>	Review and update your estate plan.
<input type="checkbox"/>	Evaluate the need for Long Term Care Insurance.
<input type="checkbox"/>	If a business owner, develop your plan for the business for when you are no longer actively involved. Is a strong management team in place, will you sell the business or will your children take over?

☑ Two to Five Years Before Retirement

<input type="checkbox"/>	Begin to consider when you can officially retire.
<input type="checkbox"/>	Think about family obligations and how you may need to help support aging parents and adult children.
<input type="checkbox"/>	Consider what you will specifically be doing in retirement—travel, education, volunteer activities, second career—and how these goals will impact your spending.
<input type="checkbox"/>	Develop an expected retirement budget including the recurring day-to-day expenses as well as your expanded lifestyle goals.
<input type="checkbox"/>	Identify and budget for any large expenditures like home improvements, autos or a second home.
<input type="checkbox"/>	Identify sources of retirement income—pensions, defined benefit plans, IRAs and 401(k)s, deferred compensation, Social Security and other sources.
<input type="checkbox"/>	Get a comprehensive and thorough medical and dental examination. Start treatment for any problems that may exist or can be anticipated.
<input type="checkbox"/>	Consider purchasing long-term care insurance. Premiums are less expensive when applying at a younger age and before health issues arise.
<input type="checkbox"/>	Review tax strategies that may be implemented at or near retirement.
<input type="checkbox"/>	Consider establishing a line of credit as a back-up source for emergency funds.

☑ One Year Before Retirement

<input type="checkbox"/>	Begin seriously thinking and talking with your family about your retirement. Fill out a monthly calendar of activities.
<input type="checkbox"/>	Prepare an income and spending budget for retirement and try to live within that budget.
<input type="checkbox"/>	Contact your human resources department and obtain a benefits summary.
<input type="checkbox"/>	Review pension payment options
<input type="checkbox"/>	Complete any required documents for pension or other work-related benefits.
<input type="checkbox"/>	Review investments as you prepare to transition from accumulation to distribution stage.
<input type="checkbox"/>	Evaluate Social Security payment options if you are age 61 or older.
<input type="checkbox"/>	Review if you or your family are eligible for veteran's benefits.
<input type="checkbox"/>	Review your life insurance coverage needs.
<input type="checkbox"/>	Review retiree health insurance options.
<input type="checkbox"/>	Contact Medicare (if within 3 months of age 65). Also, consider a supplemental health care plan (Medigap insurance).

☑ Age Specific Dates

<input type="checkbox"/>	AGE 50	Larger permitted contributions to IRAs, most 401(k) plans and other retirement plans.
<input type="checkbox"/>	AGE 55	Penalty-free distributions from employer retirement plans if you leave employer after age 55 (401(k) plans, but not IRAs). Taxes would still apply.
<input type="checkbox"/>	AGE 59½	Penalty-free distributions from retirement plans and IRAs. Taxes would still apply.
<input type="checkbox"/>	AGE 61	Review options for claiming Social Security. Claiming before full retirement age results in reduced monthly benefits for life.
<input type="checkbox"/>	AGE 62	Earliest age to collect Social Security retirement benefits (except widow/widower could claim at age 60).
<input type="checkbox"/>	AGE 64 AND 9 MOS	Sign up for Medicare Parts A, B and D (you have a 7 month window including the month you turn age 65 and 3 months on either side of month you turn age 65).
<input type="checkbox"/>	AGE 65	Consider signing up for a supplemental health insurance policy (aka Medigap). There is a window within 6 months of being accepted into Medicare Part B in which you are guaranteed coverage regardless of pre-existing health conditions.
<input type="checkbox"/>	AGE 70½	You must begin taking Required Minimum Distributions (RMDs) from traditional IRAs and other qualified plans (but not Roth IRAs).



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