



DEPARTMENTS

On Retirement

Five Retirement-Planning Essentials That Investors Often Overlook

Reaching your most important financial goals, such as accumulating the wealth you need to buy a house, educate your children, or finance a comfortable retirement, takes careful planning and investing.

If you are like most local government managers, funding long-term financial goals like retirement may not be on your everyday to-do list. That's why I've compiled a short list of frequently overlooked items to act on now, while retirement may still be years down the road. Taking action on even one of these items now can make a big difference in retirement.

1. You need a plan. A successful and financially secure retirement doesn't just happen. You need a plan. While you might have a pension and perhaps even a 457 deferred-compensation plan, you should have a plan for retirement that not only looks at your income sources but also entails an investment strategy and a retirement budget. (See item 2.)

To help you get started, ICMA-RC offers the Charting Your Course workbook, available online at www.icmarc.org or by calling Investor Services at 1-800/669-7400.

2. You need a thoughtful retirement budget. Your life changes at retirement, and your spending does, too. Not long ago, it was thought that 75 percent or so of preretirement income was necessary to enjoy an adequate retirement lifestyle. But this guideline doesn't apply to everyone. Nearly a quarter of retirees recently surveyed reported that they are spending more than they did before they retired, and undoubtedly many more would like to do so if they had the money.

A thoughtful retirement budget will help you understand spending flexibility by distinguishing between needs and wants, will focus your attention on debt reduction, and will offer you peace of mind that your retirement is affordable.

3. Your own savings mean success. Retirement security is not a gift; it is the result of smart choices, especially good savings habits. Even if you expect a generous pension, your own savings can mean the difference between just getting by and living the way you want. Few pensions, even when

supplemented by Social Security, provide enough income to live a long retirement life in the way you would like. Some of today's retirees are enjoying their "golden years" with security and freedom because they diligently saved. Others, not so comfortable, are disappointed and struggle to enjoy these years while trying to keep up with rising health care and other costs. The difference is savings.

4. Understand your pension formula. If you have a defined-benefit pension, it is not enough just to know how much your check will be when you retire. It is important to understand how this amount is calculated, how your check might be adjusted for inflation, and (for couples) what your survivor-benefit options are.

Understanding the benefit formula allows you to make informed decisions about when you should retire. For couples, most pensions have a "joint and survivor" provision, allowing a pension for the lifetimes both of yourself and of your surviving spouse by "buying" the survivor benefit with a reduced joint pension. There may be several survivor options to choose from, and usually the decision is irrevocable. If your pension involves a cost-of-living adjustment, you need to understand how it is calculated, when it may be paid, and what limits may apply.

5. You may live longer than you think. It is a common mistake to assume a short number of years in retirement. Life expectancy has increased dramatically in the past few decades. Today, an average American woman at age 65 can expect to live to age 86, the average man to 83. Half will outlive these ages.

Most demographers expect the trend toward even longer life spans to continue. Your own life span depends on many things, including inherited traits, your own health, and plain luck. A person in reasonably good health ought to plan to live beyond the average, probably into the 90s, to assure that resources will last that long.

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