Retirement – Philosophically Speaking – Active Years

We don't tend to see retirement as one of the primary inevitabilities of life—it isn't as sure as death and taxes. However, if we live long enough, there will come a time when we either no longer desire or are no longer able to engage in our business or recreational pursuits. When that time comes, we will need the money we worked hard to save to work hard in preserving our standard of living.

If there are three main phases in life, retirement is unique among them. The early phase could be called the "learning" period constituted with education and preparation. The next phase may be called the "earning" period where we apply ourselves in our chosen professions. When that phase is done, we tend to think of the final stage as retirement. The difference between this final stage and the ones before is that there isn't a following stage… retirement is an end of life period.

Within retirement, there more phases to consider: Active, Slowing, and Convalescent periods. I'm going to deal with each of them in successive columns. Let's look at the first one here.

The Active Period. This is the time of retirement most of us dream about. We see the rounds of golf, sailing, travel, and playing with grandchildren. We are done with business obligations and able to focus on personal goals, though we may work as a choice or for additional benefits. We are generally young enough to participate in our favorite activities and travel is a pleasure. How long we can expect to remain active depends largely on family history, lifestyle and overall health.

One of the challenges of this period is balancing the "here and now" against the future. Our investments have a long time-horizon as this stage begins with a lot of life left to live. We have important decisions to make, though, that will have a lasting impact on the rest of retirement… when should we start taking Social Security income? If we have a pension, do we go with the single-life option or ensure income continues for the life of both spouses? Do we focus our retirement assets in income-producing securities or keep some growing for future needs? These are personal decisions as unique as individuals.

Outliving retirement assets is a great tragedy. When we focus too much on enjoying the active phase of retirement, we run the risk of dependency later. Remaining independent requires a critical and honest approach to income that addresses anticipated needs from beginning to end for all involved.

Since retirement is an end of life phase, estate planning is essential. If we have the assets we need to live life on our own terms, we should have a plan for the disbursement of those assets at our passing. Dying without these preparations doesn't mean there isn't a plan for disbursement—it just isn't our plan. Those we might want to benefit may be disinherited by the laws of intestate.

Married couples have more on their minds. One of them is likely to precede the other in death. Will the surviving spouse be able to continue in the same standard of living? They should look at their sources of income to see what happens to that income at the passing of each of them. For example, while they live, they may be entitled to Social Security income. A non-working spouse may receive as much as half of the earning spouse's amount. At the death of either one of them, the lower amount goes away and only the higher amount remains. When making choices on retirement income (pensions, timing of Social Security, annuity income, et al), ensure the needs of both spouses are met for their lifetimes. Consider life insurance to account for anticipated shortfalls.

Along with concerns about income are the issues of control. This is where the other areas of estate planning become important. We should carefully choose attorneys-in-fact and successor trustees to help manage our assets and our lives when we become unable to do it ourselves. Many will want to have a family member assume these roles but not all will know people up to the challenge. However, many successors are chosen, I recommend most people consider a corporate entity as a final successor to make certain someone of their choosing is managing their affairs.

We may have a picture of retirement in our minds that seems carefree and relaxing. The reality is that we will only realize it when we have prepared for the eventualities of life. Having a sound plan is the path to peace of mind and a comfortable retirement.

Patrick Yanke is a Raleigh-based financial advisor. Opinions expressed here are mine and not necessarily those of RJFS. The information is not a complete summary or statement of all data necessary for making an investment decision and does not constitute a recommendation. Past performance does not guarantee future results. Long-term Investing does not ensure a profit or protect against a loss. www.yankefinancial.com.