How To Get SMART In Your Retirement Planning

Several years ago, my wife and I attended a "preparing for retirement" seminar. After the session, my wife turned to me and asked, "how do dumb people retire?" I was caught off-guard by what appeared to be an elitist comment. She quickly clarified that she was frustrated by the sheer complexity and agonizing decision-making process involved in retiring. All these questions, such as when should I file for Social Security; do I want Medigap or Medicare Advantage for my health coverage; and which is best for my 401(k) account: annuitize, lumpsum or rollover? She felt dumb. Options are nice, but they can also be intimidating.

In the last few years, I hadn't thought much about my wife's question, but then last week I ran across a paper from, of all places, the Society of Actuaries.

The paper was created by three eminent retirement researchers and proposes "a baseline strategy to be used by middle-income workers and retirees to generate retirement income." They call their approach the Spend Safely in Retirement Strategy (SSiRS), and it is particularly compelling because it suggests a strategy that doesn't require the services of a financial advisor. While I'd prefer to see prospective retirees use an advisor, the reality is that some want to at least start the process on their own. Recognizing this reality, this paper got me thinking about how to *get smart* in retirement planning.

A SMART approach to planning

Before getting into specifics, like the SSiRS method, it helps to come up with a philosophy about approaching retirement. We can use the term "SMART" as a handy acronym for how middle-income individuals can approach retirement planning in general. If a prospective retiree uses these steps, they will have a good start and can feel more confident about their decisions. These are the elements of a SMART approach.

Secure – Before addressing retirement income, one should first address the *risks* inherent in retiring. A prospective retiree may need to consider risk factors such as replacing an employer-provided health insurance plan with Medicare, handling a possible long-term care event caused by an accident or illness, or the financial consequences of a spouse dying prematurely. One must know how to be secure *financially* if bad things happen *physically.*

Manage – Ideally, an individual will secure the advice and on-going service of a financial advisor. If that's not to be, however, it's important to have a strategy for managing your retirement plan. How will you organize, simplify and monitor? This may entail consolidating bank, brokerage and retirement accounts, filing quarterly tax estimates and having Medicare premiums withdrawn from Social Security benefits.

Active – A frequently forgotten step in retirement is to address how the retiree will stay active. “Resting” is a euphemism that applies to what happens at death; not what one should do during retirement. Activities can include part-time employment, volunteer work, travel or hobbies.

Realistic – Retirement can’t be like a diet plan. Aspirational goals are great, but retirement is going to happen one way or another. So, the planning must reflect realistic steps that the retiree can take to make the process successful. This may mean delaying retirement or accepting part-time employment while retirement capital is building up. It may also entail delaying the sale of a house until all the retirement numbers are available and determined.

Transitional – At its core, retiring involves transitioning from working to not working. But this is also a time when the worker and their spouse are addressing their wealth, living arrangements, health issues, and a multitude of other life event topics. Because these weighty considerations are top-of-mind, this is a critical time to address estate planning. For example, while the retiree is moving retirement accounts from accumulation to decumulation, beneficiary designations should be reviewed. While signing up for Medicare, it makes sense to prepare an advanced directive and a will. The retirement transition is important, and it should factor in all the life and death phases of the retirement process.

A Smart Strategy – The SSiRS Process

The SMART approach provides a framework for addressing retirement planning, but it’s critical to have a tangible process to assure execution of the plan. The good news is there is no lack of retirement planning processes available. Financial advisors and insurance agents alike have their own respective methodologies. The DIY retiree may consider attending self-help classes, often offered at local colleges, and the internet is a great place to source ideas and information. The key is to do something.

The SSiRS strategy I referenced earlier is a good example of one such process. It takes the complicated topic of creating a retirement income plan and boils it down into some fundamental steps. As mentioned, the writers of this academic paper were focusing on older middle-income earners and retirees who aren’t likely to use a financial advisor. The specific demographic for the process is individuals who haven’t accrued a substantial benefit from a qualified defined benefit plan but who have built significant assets in either savings or defined contribution plans. Considering the decline in defined benefit plans offered by employers, this represents a large segment of older Americans.

The SSiRS process involves two basic steps:

1. Develop “retirement paychecks” that are guaranteed for life and not subject to investment risk. These amounts pay for such living expenses as housing, food and medical premiums.

2. Earmark a portion of savings the retiree controls, and plan for the retiree to take occasional “retirement bonuses.” This savings plan has the potential for growth, but it carries investment risk. The bonuses from this account would be used to pay for hobbies, travel and other discretionary expenses.

SSiRS accomplishes both of these steps through two primary processes:

1. Optimizing Social Security benefits; and

2. Investing savings in target-date mutual funds, using required minimum distributions (RMDs) to roughly calculate the amount the retiree can withdraw.

As with any retirement planning process, the devil is in the details. For example, with any particular retiree, maximizing Social Security may require additional considerations. A prospective retiree may have to continue working longer or accept part-time work to fill in the gap until Social Security kicks in. With the retirement bonuses from the discretionary account, the retiree should consider saving versus spending some of their RMD withdrawals. Spending needs and patterns change with time, and the SSiRS process is meant to provide a blueprint for spending, not a regiment.

https://www.forbes.com/sites/steveparrish/2019/08/05/how-to-get-smart-in-your-retirement-planning/#3248d9c72d91