Daily Herald
Suburban Chicago's Information Source

In retirement, there's no clear finish line

Financial and estate planning can get you there comfortably

Attorney Scott Burton, who specializes in estate planning, meets with clients in the clients' home. *(Courtesy of Burton Law Firm)*

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Posted 9/19/2021 6:00 AM

If there isn't a saying that goes, "Days may drag, but years fly," there should be.

Retirement can sneak up on you if you aren't careful. Even if you are someone who lives and breathes their career and would like to think that it will never end, it will eventually, so you must be prepared.

Most of that needed preparation falls into one of two categories: financial planning and legal preparation.

Financial planning

By the time you are 60 (if not sooner), you should be taking a careful look at your financial situation and spelling out for yourself and your spouse what your retirement goals are and how much progress you are making toward meeting those goals.

"We have experienced several years of double-digit equity returns and it's a great time to review your overall portfolio allocation," said Chris Knappstein, senior vice president and wealth adviser with First Midwest Bank of Chicago. "Retirees are faced with a transition in their financial life cycle from the accumulation phase to the preservation phase and it can be a daunting task."

And how do you envision an enjoyable retirement? Will you want to continue to work part time as a golf course starter or something similar or will your working days be totally behind you? How much vacationing will you want to do and how elaborate will those trips be? Would you like to buy a second house in Florida or Arizona or even in Wisconsin or Michigan?

Bottom line: Will you be able to live comfortably with no significant sacrifices or will you need to postpone your retirement?

"When determining the type of lifestyle you can live in retirement and how your assets can help you meet your retirement goals, you need to determine what your retirement income will be and what your monthly costs will be -- health care, debts, utilities, mortgage/rent -- and from there, determine how much you will have left for discretionary spending. It's an exercise in budgeting," Knappstein said. "I suggest my clients try living on the anticipated retirement income amount before they actually retire and determine if the monthly budget is in line with their expectations.

"While many dream of retiring 'early,' the cost of health care, when you don't have an employer paying the premium, can make it financially difficult. Health care costs are increasing every year."

Housing costs can also be a big part of the planning process and prior to the recent surge in housing prices, many people thought retirement would include downsizing their home. Since the COVID pandemic struck, interest rates are at historical lows and many people have either remodeled their home or have upsized their homes, so "the additional cost of a larger mortgage, maintenance and the increase in property taxes should be factored in," he continued.

It is important to take an inventory of your available financial resources, too.

"Many of us have several 401(k)s from past employers, rollover IRAs and other financial accounts with various institutions. A financial planner can help you understand your financial situation and develop a plan that will include an investment strategy based on your long-term goals. This will include planning for the tax implications of the various accounts and the order in which you should draw down the various accounts during retirement. The goal is to minimize tax liability when taking distributions in retirement, while preserving the value of the accounts," Knappstein said.

Once you have "inventoried" your current holdings and the asset allocation, you need to determine if the allocation is in line with your risk tolerance. This is a moving target, he explained, based on where an individual is in their financial life cycle. So you need to regularly review investment allocations to determine if you have the right mixture of stocks, bonds, money market accounts and other investments.

"In order to preserve your retirement assets, you need to outperform inflation, tax drag and the cost of investment management," Knappstein said.

"Keep in mind that you might not have to be taking unnecessary risk to meet your long-term retirement goals," he added.

Many planners also counsel their clients to settle major expenses before they retire. For instance, if you know you're overdue for a new car or your roof needs replacing, pay for them before you retire.

Legal preparation

Scott Burton of the Burton Law Firm of Lake Bluff specializes in estate planning. He keeps himself up-to-date on the whole gamut of estate planning instruments so he can tailor an estate plan to meet each client's unique situation.

"As a lawyer, I enjoy taking a set of circumstances, a list of goals and concerns, and working with my clients to develop the greatest results possible for them. But what always remains in the forefront of my mind during that process is that even though we may be talking about property, tax liability or granting agency through powers of attorney, ultimately, we are forming a strategy to provide for the most important people in their lives," he said.

"Everyone needs a will or a trust, period. It is also essential to have powers of attorney in place so that the person of your choosing can handle your finances/property and health care decisions in the event you cannot handle them on your own behalf," Burton said.

When making your decisions, keep in mind that estate planning is a continual process. There is no clear finish line. Complex plans should be reviewed at least annually, but even simpler ones should be revisited when you experience significant life changes (buying/selling a business, buying/selling real estate, retirement, medical issues, travel with a spouse). Reviewing an estate plan is particularly important if you've gone through a divorce or if you have a blended family, Burton advises.

Consider the use of a trust if you need to provide for a family member with special needs, he added, and keep changes to estate and death tax laws in mind. If exemption levels decrease and your estate is large enough, you may find yourself giving some of your money directly to the government. Working with an estate planner can help you preserve more of your assets for those you love, he said.

Speaking of assets, you need to safeguard them from potential creditors through the use of legal structures and strategies.

Liability insurance is your first line of defense, and for retirees that generally means homeowner's, automobile, long-term care and umbrella policies. For instance, should you be involved in an accident, liability insurance cannot only provide money damages, but it often includes at least partial payment of legal fees associated with a lawsuit.

Keep in mind that if part of your retirement plan includes being a landlord or real estate investor, then aside from having good liability insurance, moving your real estate into a limited liability company (LLC) can be a great way to help protect your assets from creditors, predators and lawsuits. An LLC may limit your real estate-related liability, such as a slip and fall accident or a fire caused by faulty wiring.

"If you have particular concerns about creditors targeting your estate for any number of reasons, there may be some more complex solutions to help safeguard your property," Burton said.

When you speak with an attorney about wills, trusts, powers of attorney and so forth, you are making advanced arrangements about who will receive the things you own once you are no longer able to enjoy them yourself, Burton explained.

Having an estate plan will give you peace of mind, knowing you are alleviating burdens on your loved ones and providing them a level of protection they would not otherwise enjoy.