# *The Phases of Retirement – Knowing Is Power*

## What to expect just before and right after you retire.

*"Most people do not resist change. What we resist is transition. Change is a situational shift. Transition, on the other hand, is the process of letting go of the way things used to be and then taking hold of the way they subsequently become. In between the letting go and the taking hold again, there is a chaotic but potentially creative "neutral zone" when things aren't the old way, but aren't really a new way yet either."*

– William Bridges, author of Transitions: Making Sense of Life's Change

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At a recent women's event, a woman mentioned to me that she felt anxious about her impending retirement. She said she had saved diligently, but she couldn't envision withdrawing money from her savings: Was her nest egg enough to sustain her for the long-haul?

Such fear is common: Is what I've saved enough?

According to a study by the Insured Retirement Institute, 76% of Baby Boomers are not confident they have saved enough for retirement. Doomsday headlines such as "half of American households have no retirement savings," or "32 percent of 65- to 75-year-olds return to the workforce" feed the fear.

The truth is, with life expectancy higher than ever, retirement looks different than it did 80 years ago when the retirement age was set at 65. Many factors determine when an individual will retire; it doesn't look the same for everyone.

And until you are well into the rhythm of retirement, you never know how much will be enough.

A retirement plan, as cliché as it might sound, can allow you to rest easier. Even if you think you don't need one (or won't use one), putting a plan together—and reviewing it and adjusting it regularly as retirement approaches—will minimize the anxiety created by this looming unknown.

Let's assume, though, that you're only a few years out from retirement. The past is the past. Whether you've saved enough is an irrelevant question. In this article, I help set expectations for the years just before and just after retirement:

## 5 YEARS BEFORE RETIREMENT

This is the phase at which investors begin to ask more deeply, "What do I expect from my retirement?"

I ask people to envision their top five "must-do" goals for when they retire. Then, I ask them to list their next five "would-like-to-do" goals for retirement. Maybe you want to fund the college savings accounts for your grandchildren, or treat the immediate family (children, spouses and grandchildren) to a 10-day trip to Europe, or buy a second home in a warmer climate within the first year of retirement.

Once you have defined the "must-dos" and "would-like-to-dos," look at the numbers to see if they match this vision. Gather every statement and make a list of what money is where and what kind of account it is.

What do the numbers say? You might have to whittle your "must-do" list to 3 or 4.

## 1 YEAR BEFORE RETIREMENT

At this phase, return to your list of goals and assess whether your ideas about retirement have changed. Dreams edge ever closer to reality at this phase and it is common for these goals to become less far-flung and more realistic.

One couple with whom I work has five grandchildren, and one of their top priorities is to help fund each grandchild's four-year college education. Initially, they wanted to give each child 25K per year over four years. However, once we ran this spending goal through the plan, the number placed too much stress on their retirement savings and their ability to meet their annual living expenses and modest vacation goals. They modified their plan to 10K per year per a child, with a plan to revisit the goal a few years down the road.

This is also the time to ask the hard questions: Are we really ready to retire? What if we are not? What are our options to save more money?

Sometimes the best option is to push out retirement and sock away more. And there is no shame in postponing full retirement to provide an extra cushion to your savings accounts. Increasingly, people are choosing this route. For some, it's financially necessary; for others, it is reassuring.

## 1 YEAR AFTER RETIREMENT

At this stage, you reflect, adjust, and reflect again. Easing into a new reality, you begin to see more clearly what is and isn't working financially. You begin to see how you fared on your retirement savings, and how your goals have changed. There are typically three categories people fall into:

- **Spending more than anticipated.** Sometimes, individuals see staying within a budget is much harder than originally thought. In fact, overspending often occurs at this phase as individuals and couples remodel their aging kitchen, go on that special European vacation, or buy a second home. At this point, individuals are eager to reassess their spending and adjust the plan accordingly. This may entail trimming the goals list, such as postponing the purchase of a second home or rethinking a college fund for the grandkids.

- **Afraid to buy anything.** People who fall into this category anticipate the unknowns (I might live to be 100!) and realize they have to make their money last. The trap is to not spend any of the money they diligently saved for the very purpose of enjoying retirement.

  A widow with whom I work is an excellent but nervous saver. As she approached retirement, she recognized her home, which she hoped to stay in as long as possible, needed new carpet and freshly painted walls. While we had woven this expense into her plan, she was concerned that if she actually spent the money she would be at high risk for running out of money over the long term. Clearly, the numbers showed that minor updates were affordable. It was important not to just remind her, but to show her the numbers.

- **We are (I am) going to die, so let's spend it now.** This carpe-diem mindset is about enjoying the moment. Individuals would rather do all the things on their goal list while still in good health. They buy the dream house, or they take the family on the big trip to Europe. They decide to worry about running out of money when they are actually running out of money.

  Typically, there are two reasons clients fall into this situation. First, some people feel they have deprived themselves their entire working lives and deserve to spend and enjoy life to the fullest in retirement. Second, some people believe what they don't know won't hurt them, so they refuse to look closely at the results of their poor spending habits and choices, chalking it up to "I figured this would happen eventually." Bottom line, these spenders are afraid to look at their spending habits but need to create a budget—and stick to it.

## 3-5 YEARS FOLLOWING RETIREMENT

By this point, many retirees have found their new financial rhythm. Lifestyle changes mean financial changes. By this time, retirees often have scratched their itch to travel—and don't need to go on another big European tour. Perhaps they have moved to a smaller home with lower property taxes. Maybe they eat out less frequently. And most often they spend less on "things" as they look to clear out clutter rather than accumulate. Most retirees find they need less to live on than they previously imagined, simply because their daily expenses are lower.

The majority of people, and rightly so, do not know how much they will need and or want to spend when the paycheck stops at the onset of retirement. There are multiple variables and few people believe that they have enough money to sustain them until the end of their plan. This is where on-going financial planning conversations continue to be critical. Over the years, most of my clients sigh with relief as they realize spending priorities change—often naturally. Once the transition has taken place and a new routine is established, most often the variables are known and manageable.

## SHIFTING REALITIES

While different in kind, the issues that individuals face at these varying phases all demand taking a realistic look at the numbers—and reassessing and tweaking on a regular basis. A retirement plan is never "one and done." It's important to find an advisor who understands the mathematical and emotional twists and turns of your retirement journey. With this deep understanding they can help define your new reality and what you need to thrive in the days ahead.

Regularly meeting with your financial advisor can help ease doubts and concerns as you settle into retirement living. They can help you feel more secure financially as you navigate life's financial changes and challenges ahead. Many times, people feel anxious when they begin to tap into their savings. Your advisor can help keep you on track and reassure you that it is okay to spend this money. It was, after all, saved specifically for these days in retirement. When you meet with your advisor, be prepared to ask and discuss these questions:

- How often should we revisit our financial plan and our spending goals?
- Are our investments aligned with our short- and long-term spending goals?
- What spending and or investment changes should be made to strengthen our plan's ability to withstand market downturns?
- How can we better manage our withdrawals so they are tax efficient?
- What if it looks like we are running out of money sooner than expected?

Financial planning is at the very heart of the quality of your life before, during and after retirement. Whether you have a lot of money or a little, having a sense of how good or bad things are as you define them will help you make better decisions today for what your future may hold. It will help you come to terms with options should you see a real struggle ahead. "Knowing" really is power. Of course, it is not all about the money. Yet it would be naïve to think that it is not a very important and necessary part of successfully creating and maintaining a lifestyle that will bring you joy and the financial support you need to navigate your future and life's many transitions.