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Preparing for Retirement – Part 2

By Dominic Garcia

In our first article we addressed retirement contributions, Health Savings Accounts, social security, pension, and spending. This article will further our discussion on topics to consider when preparing for retirement.

Is charitable giving one of your goals? From a tax perspective, charitable contributions may be most beneficial while you are still working. A donor-advised fund can offer a large deduction today, but still provides you with the flexibility to donate to the causes you choose in retirement. Once the account is set up, you then have the discretion to give to whichever charity and in whatever amounts you choose throughout your lifetime.

Evaluate your rental properties. Should you maintain them throughout retirement, or simplify your life by consolidating? At the end of the day, this decision will come down to numbers. In today's environment, especially with home prices still high relative to rental income, a growing number of landlords are seeing the benefits of maintaining liquidity and freedom.

Insurance is potentially valuable to someone who is supporting others. However, if you can retire, this usually means that you and your spouse have enough assets to live off, and your children are no longer reliant on you. If this is the case, insurance may be less of a financial requirement. As such, it is best to determine whether it makes sense to terminate your policies or maintain them for years to come. For those who expect to have assets over the estate tax exemption, there may be benefits to maintaining the policies. In this scenario, evaluating estate plans and asset titling regularly will ensure the greatest benefit to your heirs.

Another key factor of financial planning is understanding the distribution of income in retirement. Knowing what sources are available, where to pull from, and when can go a long way to enhancing one's retirement. Quite often, people pull from an IRA when they should be pulling from a brokerage account or drawing social security when they could be living off the proceeds from the sale of a business. Outlining this on paper can provide you with confidence in knowing what type of lifestyle you can live and allow you to better define which advanced planning opportunities to take advantage of at which times.

Investments, investments, investments. We cannot stress enough the importance of aligning your investments to your financial plan. Understanding how much you need and when you will need it should define how your investments are allocated. People sometimes look at their investments and assume their strategy should remain the same just because they are doing well. You only have one shot at retirement; your investments should provide you with both the insulation against unpredicted market adjustments as well as the ability for calculated growth that supports inflation, longevity, spending goals, and wealth transfer.

Tax and estate planning are two topics that could lengthen this article by another twenty pages. Each stage of life and each person's situation requires a unique tax plan. For example, Roth conversions and qualified charitable distributions are common topics that tend to come into play after retirement. Business succession or capital gains planning may be more relevant to entrepreneurs and landlords. It is impossible to know everything; one must understand that they do not know what they do not know. Having a team in place to guide you through all these facets is key to a successful retirement.

The final article of our three-part series will address the psychological aspect of retirement.