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# Reassessing Retirement Assumptions

*What makes financial sense for some baby boomers may not make sense for you.*

**There is no "typical" retirement.** Many baby boomers want one and believe that they will have one, and their futures may indeed unfold as planned. For others, the story will be different. Just as there is no routine retirement, there are no rote financial moves that should be made before or during this phase of life, and no universal truths about the retirement experience.

Here are some commonly held assumptions – suppositions that may or may not prove true for you, depending on your financial and lifestyle circumstances.

**#1. You should take Social Security as late as possible.** Generally speaking, this is a smart move. If you were born in the years from 1943-1954, your monthly benefit will be 25% smaller if you claim Social Security at 62 instead of your "full" retirement age of 66. If you wait until 70 to take Social Security, your monthly benefit will be 32% larger than if you had taken it at 66.[1]

So why would anyone apply for Social Security benefits in their early 60s? The fact is, some seniors really need the income *now*. Some have health issues or the prospect of hereditary diseases influencing their choice. Single retirees don't have a second, spousal income to count on, and that is another factor in the decision. For most people, waiting longer implies a larger lifetime payout from America's retirement trust. Not everyone can bank on longevity or relative affluence, however.

**#2. You'll probably live 15-20 years after you retire.** You may live much longer, especially if you are a woman. According to the Census Bureau, the population of Americans 100 or older grew 65.8% between 1980 and 2010, and 82.8% of centenarians were women in 2010. The real eye-opener: in 2010, slightly more than a third of America's centenarians lived alone in their own homes. Had their retirement expenses lessened with time? Doubtful to say the least.[2]

**#3. You should step back from growth investing as you get older.** As many investors age, they shift portfolio assets into investment vehicles that offer less risk than stocks and stock funds. This is a well-regarded, long-established tenet of asset allocation. Does it apply for everyone? No. Some retirees may need to invest for growth well into their 60s or 70s because their retirement savings are meager. There are retirement planners who actually favor aggressive growth investing for life, arguing that the rewards outweigh the risks at any age.

**#4. The way most people invest is the way you should invest.** Again, just as there is no typical retirement, there is no typical asset allocation strategy or investment that works for everyone. Your time horizon, your risk tolerance, and your current retirement nest egg represent just three of the variables to consider when you evaluate whether you should or should not enter into a particular investment.

**#5. Going Roth is a no-brainer.** Not necessarily. If you are mulling a Roth IRA or Roth 401(k) conversion, the big question is whether the tax savings in the end will be worth the tax you will pay on the conversion today. The younger you are – roughly speaking – the greater the possibility the answer will be "yes", as your highest-earning years are likely in the future. If you are older and at or near your peak earning potential, the conversion may not be worth it at all.

**#6. A lump sum payout represents a good deal.** Some corporations are offering current and/or former workers a choice of receiving pension plan assets in a lump sum payout instead of periodic payments. They aren't doing this out of generosity; they are doing it because actuaries have advised them to lessen their retirement obligations to loyal employees. For many pension plan participants, electing not to take the lump sum and sticking with the lifelong periodic payments may make more sense in the long run. The question is, can the retiree invest the lump sum in such a way that might produce more money over the long run, or not? The lump sum payout does offer liquidity and flexibility that the periodic payments don't, but there are few things as economically reassuring as predictable, recurring retirement income. Longevity is another factor in this decision.

**#7. Living it up in your 60s won't hurt you in your 80s.** Some couples withdraw much more than they should from their savings in the early years of retirement. After a few years, they notice a drawdown happening – their portfolio isn't returning enough to replenish their retirement nest egg, and so the fear of outliving their money grows. This is a good argument for living beneath your means while still carefully planning and budgeting some "epic adventures" along the way.

Your retirement plan should be created and periodically revised with an understanding of the unique circumstances of your life and your unique financial objectives. There is no such thing as generic retirement planning, and that is because none of us will have generic retirements.

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### Citations.

1 - www.forbes.com/sites/janetnovack/2011/02/15/the-big-decision-when-to-take-social-security/ [2/15/11]
2 - money.usnews.com/money/retirement/articles/2013/01/07/what-people-who-live-to-100-have-in-common [1/7/13]