WISBUSINESS.COM
Wisconsin's Business News Source

Experts caution that worst-case scenarios could hit even well-prepared retirees
8/1/2013

Wisconsin's longtime senator Herb Kohl, who owns the Milwaukee Bucks NBA team and whose family started the former Kohl's supermarkets and current department store chain, retired in December at age 77.

"I'll still be involved, in public interests and in my private interests," Kohl promised, following a luncheon in his honor hosted by the Wisconsin Coalition of Aging Groups.

Like Kohl, most retiring Wisconsinites envision years of productive life ahead.

But few share his wealth. So information on preparing to survive financially without a paycheck is crucial.

The Badger state prides itself on its Elder Benefits Program, administered in each county, which offers residents 60 and over free advice and legal help with accessing public benefits, such as Social Security, Medicare, food stamps and housing assistance. Whether or not a retiree qualifies for public assistance, financial experts say everybody should seek advice regarding the best time to begin claiming Social Security payments.

Certified financial planner Michael Jungen of Milwaukee has been finding that some of his clients "are very inclined to take it as soon as they can, for fear, whether it's misplaced or not, that the Social Security system is insolvent, so they want to take it as soon as they can so that they get it."

But Jungen says most people are better off if they don't take Social Security the first year they are eligible. "What they don't realize is that every year they wait, their benefits increase by a very significant amount," said Jungen. "So mathematically, it's not a good idea to take it early, unless there is no other income coming in."

Social Security benefits are only one piece of the puzzle, however, and one that for most people, barely covers basic living expenses during retirement, much less long-anticipated leisure activities or travel.

Workers approaching retirement need to think about other ways to increase income, along with cutting and prioritizing expenses.

"There are people in retirement now who never expected to live as long as they are and they truly are running out of money," said Barry Sattell, a Menomonee Falls CPA and certified personal financial specialist (PFS).

Some people don't think to change their lifestyle until money becomes an issue, said Sattell, whose clients have included a husband, age 92 and wife, 89, who still owned two cars and were paying for auto insurance and condo parking for both vehicles, even though they'd stopped driving.

Sattell said he advises retirement-age people "all the time" to downsize their homes and to reconsider expensive hobbies and trips.

"As financial planners and CPAs, we try to point out some of the folly that people are doing and try to help them save money," he said.

One way to possibly increase income is taking a fresh look at managing investments, such as 401(k) accounts and other savings. After the economic crash in 2009, some people got out of the stock market and never got back in, Sattell said. "They've missed out on the run-up in the past few years."

Others continue to keep their money in government bonds – no longer a reliable way to earn interest.

Jungen agrees that today's economy can seem unfair and confusing to seniors who have worked and saved all their lives, only to see the once-realistic plan to enjoy income from dividends and investment interest evaporate.

"The federal funds rate is essentially zero, and the typical CD rate is a half-percent," he said. "For a lot of people who are conservative and assumed they could live, at least in part, off the interest from their savings, that isn't an option anymore."

Michael Smith, president of CPS Horizon, a Hales Corners insurance brokerage firm, believes the complexity of planning for retirement in today's economy requires assembling an entire team of advisors.

Smith suggests a financial planner for advice on investment portfolios, an accountant for tax advice, a lawyer for power-of-attorney and other legal documents, and an insurance expert.

Yet even the best financial retirement planning can be ruined by catastrophic health costs, Smith warned. He wishes more people knew about "critical illness riders," which some life insurance plans began to offer within the past year or so. These plans allow people to tap into their life insurance to cover the cost of serious illnesses, such as heart attacks, cancer, multiple sclerosis or diabetes.

Similarly, long-term care riders, introduced four or five years ago, can pay for nursing care.

"A husband and wife might have saved for retirement; they might have $400,000 in assets, plus their home and there's a pension and Social Security and all that, but that $400,000 can be gone in a heartbeat if the husband, for example, needs health care at home or a nursing home and it's running $8,000 a month," said Smith. "That $400,000 was supposed to help make up for lost income, but if it's gone, and the husband dies, now the wife only gets one Social Security check whereas before, they might have each collected Social Security. What is the surviving spouse supposed to live on? It gets a lot more challenging."

Allan Haupert of AJH Wealth Management and Financial Services in Wauwatosa, advises taking a fresh look at investments as a possible source of cash flow when it comes to retirement planning.

"I anticipate that they will live to be at least 85," said Haupert, of clients seeking advice. "I look at their current financial situation. I'll take a look at what level of risk they're willing to take and I'll also look at their existing income sources, such as Social Security, pensions, annuity payment streams, etc., and then look at their investment portfolio and find areas where you can generate income from an existing portfolio."

"There's two ways of getting income," Haupert said. "There's dividends and interest, which today is pretty small, but there's also capital appreciation from growth on investments. You can sell that growth to provide a cash flow for the investor.

"For instance, let's say they had a $100,000 portfolio of mutual funds and the portfolio grew 10 percent during the year, that would be worth $110,000, you can sell $10,000 worth of those mutual funds during the year and give that to the client as cash if they needed it to live," said Haupert.

"The other significant source of income is going with an annuity. An annuity, depending if it fits for the particular client, can provide a cash flow of a certain amount guaranteed for the remainder of their life, and/or the remainder of the surviving spouse's," he said.

"Different things work for different people. It's not a cookie-cutter approach," said Haupert.

-- *By Kay Nolan*
For WisBusiness.com