THE ROAD TO RETIREMENT

What you need to know and how to plan.

by Barbara Meyer

The concept of retirement as we know it has its beginning in the Industrial Revolution of the nineteenth century. At that time, work was much more dependent on manual labor, and without modern mandated safety standards and conditions, older workers had to retire simply because they couldn't physically perform the work at their former levels. Retirement once represented an ending, whereas now it's simply become the next phase in life, a phase that can be exciting and fulfilling—if planned for properly.

Today, people gradually transition into retirement, cycling between jobs and retirement activities, often continuing to work part time at existing jobs while traveling, taking classes, consulting, or even starting new small businesses. Sound good? It can be, but before you start thinking about retiring, you should be thinking about how you'll save for it, and you can begin right now.

DON'T RELY ON AN OUTDATED ROADMAP

A common, and dangerous mistake is to assume that since your parent or grandparent received a company-sponsored pension, a gold watch, and health insurance for life from a company that took care of everything upon retirement, you will too. Another misconception is that if you have worked all of your life, you can just rely on Social Security to cover your retirement needs, even if you have to live on a fixed income. "Today's retirement planning must be very specific, fluid, and flexible", says Bruce Hanks, president and CEO of Wealth Management of Kentucky, Inc. "Most people now have to rely on only what they can defer in their company's 401K, IRA, or investments/savings." Changing economic times and employment trends have eliminated the pensions of previous generations, and those that can still get healthcare must pay the biggest portion of those premiums. The increasing rate of inflation

Bruce Hanks, CDFA, of Wealth Management of Kentucky, is a graduate of Pacific Western University and the Kensington University College of Law, and spent most of his 15 years in the financial services industry with Merrill Lynch. He is also a member of the Institute for Divorce Financial Analysts. Learn more at wealthmanagementofky.com and 859-268-4425.

has drastically affected the purchasing power of long-term, low-yield savings and Social Security allocations, a trend that will only continue.

Thus, preparing for retirement has also changed drastically, requiring a more proactive, thought-out approach. "Today workers have to rely upon themselves to a much greater degree" says Dr. Greg Kasten, founder and CEO of Unified Trust. "This has the advantage of many potential opportunities, and thoughtful investors have started early. But with those opportunities also come potential risks, and investors must proceed wisely and carefully."

PLAN YOUR ROUTE CAREFULLY, AND BE READY FOR DETOURS

Retirement planning is a careful balancing act in which people often underestimate how long they will live, increasing the possibility of outliving their savings. Proper management is the key, including a solid asset allocation foundation, plus carefully monitoring, and responding to, changing market conditions. Retirement planning isn't a one-time event. You can't just decide on a retirement strategy, and simply forget about it until you're ready to collect your funds at the end. "Investing is a marathon, not a sprint," Hanks observes. Being too conservative can cause you to prematurely run out of money, but being too aggressive can lead to big losses caused by market volatility. "Investors must be careful of returns risk," says Lawrence York, founder and president of Pro-Active Advisors, "Many retirees final investment results have been undermined by poor market performance in the beginning years of retirement. It's crucial to harness the power of compounding your assets and make them grow for you."

Beginning your career is an excellent time to begin retirement planning, too. Quint Tatro, president and owner of Tatro Capitol, has excellent advice for new wage-earners, saying "Young people forget to pay themselves first by saving for the future, by building assets in their budget as an expense. They get caught up in buying the things they need starting out—homes, cars, and paying off school loans. Instead of saving 10% of their revenue and letting it grow, they use it to pay for things they need in the present. Then after they've succeeded in life, in their families, they have an "oh c**p" moment—a wakeup call where they realize that they haven't provided for their future, a future which is now that much closer. Then they have the stress and struggle of trying to catch up."

EVERY JOURNEY AND TRAVELER IS UNIQUE

Retirement plans should be unique to every person's needs, assets, values and goals. One thing all investors can benefit from is diversification; spreading money among a wide range of investments. Diversification helps you minimize risks and guard against inflation.

Politicians may make promises about "beating inflation", but what does inflation mean in regards to your investments? Simply stated, inflation means that dollar for dollar, your money will not buy as much next year as it does this year. For example, in 1970, a loaf of bread was 24 cents and a gallon of gas was 36 cents. Today they can cost up to ten times that much, or more. If your money is not earning more than the rate of inflation, your retirement nest's buying power goes down. You can't control the rate of inflation, but you are in control of how you save to cover its impact.

"It's never too early…or too late to financially address your retirement," York says. "Markets change but the principles of investing don't. Work to compound your money. This goal necessarily requires 3 things: first, begin investing early and get professional help. Second, pay for advice but keep your costs low as costs are 100% certain risk. Third, cut your losses to avoid debilitating loss."

Quint Tatro
of Tatro Capital, a regional, fee-only advising firm located in Central Kentucky, is a contributor for CNBC, and Fox Business as well as a regular guest on the Jack Pattie show in Lexington. He has contributed to such publications as Forbes.com and published Trade the Trader through FT Press, the business subsidiary of Prentice Hall. Reach him at tatrocapitol.com and 859-881-0777.

"Don't try to time the markets," warns Hanks. "Staying in the markets is what matters, with guidance."

DON'T LET MEDICAL MISHAPS SIDELINE YOUR TRIP

Just as you keep a first-aid kit in the trunk of your car, your retirement should also include provisions for medical needs as you go through the journey. Inflation rates can vary, but the cost of medical care; which has risen faster than inflation over the last twenty years, is expected to continue increasing. With a longer life expectancy comes an increased need for medical care combined with the soaring cost of paying for it. If you or your spouse has a serious condition like heart disease or cancer, the greatest portion of your retirement income could be spent on health care. Without careful attention, it could decimate your income.

A health savings account (HSA) can also help, and are becoming increasingly popular. With some restrictions, a HSA allows you to save for future qualified medical and retiree health expenses on a tax-free basis. HSAs are usually offered through an employer, but they are also available through certain banks, insurance companies, and other approved providers.

ASK FOR DIRECTIONS ALONG THE WAY

Calculating the cost of retirement and how to save what's necessary can involve complex financial calculations that are beyond most people's capabilities. You had the skill and ability to earn your money—now it's time to turn it over to someone with the skill and ability to help you save and invest it wisely—a trusted and qualified financial advisor.

When it comes to our money, we often experience emotions that can be harmful, including fear and choice overload. Choice overload happens when we have too many options to pick from and we make the simplest choice—which is often no choice at all. A knowledgeable financial professional has the insight and experience to see the whole picture and can help people avoid making emotional choices based on market ups and downs. It's easy and natural to be impacted by bad news in the media like the recession and forget to look at changes in regards to long-term interests. "The two biggest misconceptions about retirement planning are that it's too hard, and that delaying won't cause any problems," says Dr. Kasten. "It's actually not that hard and the best results will come from starting today."

LET'S GET STARTED!

When it comes to your financial retirement voyage, whether you are just beginning to gain ground or seeing journey's end, it's never too late to take stock of your situation and if necessary, take action. Young people may be earning less early in their careers, but they have the advantage of time. Any investments made will have longer to yield benefits if they don't miss their chances by thinking that they'll start saving later. Middle-aged investors don't save enough, and when they finally do they don't formalize their goals in measurable terms. Older people think it's too late to make a difference so they don't re-evaluate what they're doing and take corrective action. In every case, a qualified financial advisor can utilize sophisticated tools that can help you look at your best options to save more or maximize what you have, meet your goals and long-term healthcare and living costs, and improve your rate of return to make your money last longer. They'll provide guidance, education, and discipline to help you follow through and not get derailed along the way.

"Unfortunately, many retirees investment results are probably undermined by how they invest," says York. "Individuals have the resources and responsibility to take charge of their financial futures.

Lawrence York,
of Proactive Advisors, has over 25 years of investment experience including Dean Witter Reynolds and E. F. Hutton. & Co. York is a Morningstar recognized Five Star Fund manager who earned his B.A. from Berea College and an MBA from the Gatton School of Business & Economics at the University of Kentucky. Get more information by visiting proactiveadvisors.com and 859-263-1117.

Those who don't step up to the challenge will either have to be lucky and win a lottery, be born with a silver spoon in their mouths, or become a ward of the state. Planning and saving early is a mater of taking advantage of the rules so that they benefit you, like utilizing tax law opportunities."

"Many people think there's some "magic investment" that will make up for their lack of saving and planning," says Kasten. "It's sort of like thinking there's a magic pill that will prevent you from gaining weight while allowing you to eat all you want. There's no such pill and no such investment. Investors need to save 10-15% of their income to have enough money at retirement. You can think of retirement as the purchase of income or replacement of your paycheck. The purchase of retirement income is the largest financial transaction most people will ever make in their life—typically 2 to 3 times larger than the value of their home. Yet they put very little thought or effort into it."

When is it too early or too late to start planning your retirement? Never. What is the best time to begin planning? Right now. The tools are within your hands to make both your journey and the final destination happy and worthwhile.

Dr. Greg Kasten, founder and CEO of Unified Trust, began his career as an anesthesiologist, with his internship and residency at U. K. Medical Center and an MBA from U.K. When his medical success necessitated smart financial planning, he began learning the business himself. In 1985 he began his own advisory company, which now helps investors manage over $4.2 billion in total assets. In 2011 Dr. Kasten was inducted into the Advisor Hall of Fame by Research Magazine and named the 2013 Retirement Plan Adviser of the Year by Employee Benefit Adviser Magazine. Learn more at unifiedtrust.com and 859-296-4407.