

Your Financial Future in Academe: Questions and Answers

Think about what sort of lifestyle you want in retirement, then examine the feasibility of achieving your goals based on earnings, savings, and spending patterns.

How to Find a Financial Planner

Question: How can I find a financial planner who knows his or her stuff, is ethical, who will have my interests at heart, and who is economical?

Answer: Great question! I'd suggest you begin your search by asking friends, relatives, and co-workers for recommendations on who they trust and work with.

When you have a list of potential financial planners to choose from, check out their credentials by contacting the Financial Planning Association, a nonprofit organization for the financial-planning community. Consumers should look for a certified financial planner whose manner, style, area of expertise, and technical knowledge is right for them. They should choose a planner who always puts the client's interests first and who also offers a thorough explanation—or "full disclosure"—of how he or she will be compensated.

Financial planners are compensated in a variety of ways, including fee-only, commission, a fee/commission blend, and salary. Each method of compensation has its merits depending on your age, lifestyle, and financial situation. What's important is that you clearly understand how a planner is compensated and any real or potential conflict of interests that may exist. Armed with that information, you can focus on the planner's competence as the primary consideration in your selection process.

Many financial professionals are licensed on state and federal levels in specific areas such as insurance and securities. However, they are not specifically regulated for their financial-planning activities—with the exception of financial planners who are certified by the Certified Financial Planner Board of Standards. CFP professionals are held accountable to the board's code of ethics and must also meet its practice standards and requirements. The CFP Board has the power to suspend or revoke its certificate from someone who violates the board's standards.

You can obtain the names and phone numbers of CFP professionals in your area online (<http://www.plannersearch.org>). Ask potential planners about their experience and background. What college did they attend, and where have they worked? How long have they been in the financial-planning profession? What is their area of expertise? You should also ask for several client references.

I believe that everyone needs objective advice from a competent, ethical financial planner to make smart financial decisions. A reliable, ethical planner will have no qualms about providing information about his or her background to you. Remember, however, that just because some-

The Chronicle recently invited readers to submit questions about their financial future and retirement. For answers, we turned to Bill Losey, owner and managing director of Bill Losey Retirement Solutions, based in Wilton, N.Y. Mr. Losey, a certified financial planner, specializes in helping college professors and administrators.

one appears competent and has the right credentials does not mean he or she is ethical. Shop around, ask questions, and trust your gut.

Housing in Retirement

Question: My wife and I plan on moving to a less-expensive housing market when we retire in about four years. Would it be better financially to use equity to pay cash for a retirement house or to invest some of the equity and obtain a new loan for a house?

Answer: That depends on many factors, such as your total household income, tax bracket, the size of the mortgage, and your state of residence. I'm sure if you talked to 10 different tax advisers, they'd all give you different answers depending upon their own biases.

Most important, how this question gets answered depends on how you feel about carrying a mortgage in retirement. Note that I am asking how you feel, not how you think. Many people before retirement tell me how happy they feel to recently have paid off their mortgage. They think it makes sense to have no mortgage heading into their golden years. The following year, however, many come back complaining that they got hammered on taxes because they had no deductions. It's really a Catch-22 situation.

We make decisions emotionally, then we justify those decisions later on. Let me present some questions for you to ponder: Would you feel more comfortable owning your retirement home free and clear and potentially paying more in taxes? Would you feel more comfortable holding on to your cash from the sale of your home and obtaining the biggest mortgage you qualify for? Would you feel more comfortable with a hybrid approach? Only you know the answer.

Most retirees I have worked with will either pay cash and have no mortgage, or do some sort of a hybrid approach to minimize their taxes. In a few cases, retirees will get the biggest mortgage they qualify for and keep the cash working for them in their investment portfolio.

The good news is that you have plenty of time before this decision actually needs to be made, and you may find yourself changing your opinion along the way as retirement draws closer. Consider hiring a

professional to assist you with this decision-making process.

Retirement Lifestyle Issues

Question: I am a senior faculty member at a public university with plans to retire in 2007 at 62. As I look over my portfolio, I feel confident about the future, but I wonder about the best way to manage my funds in retirement.

I am single, own a home that is currently valued at about \$400,000, and expect to receive about \$50,000 dollars a year through my state retirement plan. I have a stock and bond portfolio worth about \$250,000 in a standard brokerage account, and three retirement-plan accounts that have accumulated about \$250,000. How should I plan to draw on these accounts in retirement if I want to limit my tax liability and maintain my overall standard of living? How might I modify my current holdings to achieve financial security, reduce my risk, and plan for the remaining years of my life?

Answer: Congratulations. It appears that you've done an excellent job at preparing for your retirement, though I can't be completely sure without more personal data.

Your questions are ones I am asked nearly every day. Remember that there are so many variables to consider when contemplating retirement. What will your income and expenses actually be? What investment returns will you receive? What will inflation be? Will Social Security last? Will the tax and estate laws change? Will you outlive your investments or will your investments outlive you? Will you remain healthy or become ill during your retirement? Should you handle your finances by yourself or hire a trusted adviser? Should you get more conservative or aggressive with your investments? Should you guarantee a portion of your retirement income by annuitizing?

As you can see, there are many questions to consider. I feel the biggest question you need to answer is this: If you were in good health and money weren't an issue, how would you spend your time? That question has positively affected more of my clients than any other in the 15 years I've been in practice—it gets to the core of how you want to spend your time. The answers you provide are the things that you are truly passionate about, give you purpose, and make you feel fulfilled. Take the time to dream, explore, and become introspective. Remember, your ultimate happiness is a currency more valuable than money.

Please note that retiring is probably the single biggest decision you will ever make and should not be left to generic advice. I strongly encourage readers to seek out specific advice from competent tax, legal,

and financial professionals who can review all the details related to your situation. If you fail to do that, you are making luck and guesswork the foundation of your retirement security.

Beginning a Retirement Plan at 40

Question: I don't have a clue how to prepare for retirement. I have worked for several colleges and one school system but have a very small amount in retirement savings. After one year at my new institution, I can use the 401(k) program. I don't think the 401(k) is the only retirement planning I should do. Where do I start? How do I make up for staying at home with a family, working part time, and not having retirement benefits? What is a great retirement plan beginning at 40?

Answer: I commend you for taking that first step toward building your financial security. Just so you know, it is fairly typical for someone your age not to have done any saving for retirement. So don't be overly concerned. I see many people in their 40s and 50s plowing money into their plans to make up for lost time. How you imagine your retirement dream and how you actually get there are totally up to you. There is no right way or wrong way. It just has to be a way that you feel comfortable with and understand. I use this step-by-step process as a guideline for clients regardless of age:

The first phase is one of discovery and design. Think about what sort of lifestyle you want in retirement, then take a complete financial inventory, examining the feasibility of achieving your goals based on earnings, savings, and spending patterns. Explore investment strategies for achieving your goals. Establish a target for retirement savings and timetables for reaching that target.

In the second phase, implement your investment-strategy decisions.

In the third phase, gather results at regular intervals, either quarterly or annually (at a minimum). Compare your actual results with your goals, make appropriate adjustments, and reimplement your strategy decisions. Repeat as necessary. Keep in mind that retirement planning is a dynamic process, and you need to compare where you are with where you want to be on a regular basis.

Let me finish by explaining the difference between a 401(k) plan and a 403(b) plan because you appear to be confused. A defined contribution plan, such as a 401(k) or a 403(b), is a retirement-planning vehicle where an employee elects to defer money into the plan. A 401(k) is offered by a for-profit business such as a corporation. A 403(b) is offered by non-profit organizations, such as universities and colleges. You will be eligible to invest through a 403(b) plan at your institution.

There are several advantages to defined-contribution plans. Contributions lower your taxable income because they are made on a pretax basis; large contributions can be made to your account; earnings grow tax-deferred until withdrawn;

and some plans allow loans. An individual can contribute \$15,000 to a defined-contribution plan in 2006, and employees who are older than 50 may contribute up to \$20,000. The employee bears the investment risk, and contributions to the plan may be made by the employee, the employer, or both. Check with your human-resources department about your plan and its investment options. If you have questions, meet with a representative from your plan sponsor or hire an adviser. The first step, getting started, is the hardest, but you're already on your way.

Asset-Protection Strategies

Question: I retire in eight to 10 years. How can I protect my modest retirement account, both now and at the time of retirement?

Answer: When you talk about "protection," I believe you mean protection of your principal. However, when I hear the word "protection," I believe what my clients really want to know is how to grow and manage their nest eggs so they can generate streams of income that are predictable, sustainable, and increasing.

Creating predictable streams of retirement income is the easy part. You can have dividends and interest on your investments paid to you on a predetermined schedule such as monthly or quarterly. Under this arrangement, the amount of money you receive will fluctuate slightly from month to month, but you will not be touching your principal. Other people opt to have their investment adviser send them the same amount of money every month. In the latter example, though, it is possible that you could liquidate a portion of your principal if the amount of the withdrawal exceeds the interest, dividends, and growth generated.

Creating sustainable income is harder since we don't know how long we will live. Will your retirement last 10, 20, or 30-plus years? It's anyone's guess. That's why it is so important to monitor your withdrawals at least annually. Remember, your spending is one area under your direct control. Obviously the less money you withdraw, the lower inflation is, and the higher rate of return you earn on your money, the longer your nest egg will last. Conversely, the more money you take out, the higher inflation is, and the lower your rate of return is, the shorter your nest egg will last. Most experts agree that withdrawing 4 percent of your nest egg per year beginning in Year 1 and then increasing the amount of the withdrawal every year to account for inflation is a prudent strategy. Unfortunately, since the future cannot be predicted with any certainty, this may not be the case for you. Find yourself a trusted adviser who can help you down the retirement road.

Creating increasing income is vital to your retirement success because the cost of goods and services always goes up. Even at a low inflation rate of 3 percent, you'd need to double your income in 20 years, or decrease your standard of living by 50 percent, just to maintain the same

standard of living you enjoy today. That is why it is so important for people to maintain at least a portion of their money in the stock markets. Past performance is no guarantee of future results, but as of now, only the stock markets have consistently delivered returns above inflation over long periods of time.

Realize that we make decisions about investments, Social Security, and retirement strategies based upon certain assumptions. Those assumptions may create expectations. Expectations may create guarantees in your mind. But in reality, there are no guarantees. The more you resist this fact, the more susceptible you are to disappointment.

When to Take Social Security

Question: With various early-retirement options being offered by institutions, how do you determine whether it's worth it financially to hold off taking Social Security until 65, or in some cases 66 or 67, rather than 62? Is there a rule of thumb about how to figure the value of continuing to work versus retiring early from a Social Security standpoint?

Answer: This is a question I hear often. Social Security retirement benefits usually begin at full retirement age (FRA), which is currently 65. For those born after 1937, FRA will be gradually increased until it reaches 67 for those born in 1960 or later. A worker can earn a larger benefit by continuing to work past FRA.

If a person is willing to accept a permanently reduced benefit, retirement benefits may begin as early as 62. If a worker's FRA is 65, retirement at 62 will reduce the benefit by approximately 20 percent. If a worker's FRA is 67, retirement at 62 will reduce the monthly benefit by approximately 30 percent.

Generally, if you're still working and you take Social Security, \$1 of benefits is lost for every \$2 or \$3 you earn over an exempt amount. Since I don't know your income, I can't give you an accurate picture. I suggest that you contact a tax adviser to see how taking Social Security at 62 while potentially still working would affect your tax bill. People in poor health or with a short life expectancy may benefit from early retirement.

Conversely, I've found that if you don't desperately need the money, are in good health, and have a history of longevity in your family, you should at least consider postponing benefits a year or two to have a permanently higher amount. More information is available by visiting the Social Security Administration Web site (<http://www.ssa.gov>).

