The Law Office of
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Estate, Trust, Tax and Long Term Care Planning

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SPECIAL REPORT

When Can I Retire? What are common mistakes to avoid?

Q: When can I retire? I am tired!

A: That is a question we are often asked and there is not really a good answer. First, you must take control of your expenses. Make a list of what you will need to spend on a monthly basis. We would recommend dividing the expenses into fixed/mandatory expenses (such as health insurance, home mortgage, taxes, insurance, car payments, utility bills, etc.) and variable/optional expenses (such as entertainment, travel, gifts to grandchildren, eating out, etc.).

Next, you must evaluate your income sources. Most of us will have Social Security or some other form of pension. If you don't know how much you might receive, go to the Social Security Administration office or the office that pays your pension and discuss with them the amount of income you are likely to receive. Once you have a handle on your expenses and potential sources of income, you can then begin to work on your nest egg and calculate how big it must be.

Let's assume your yearly income is $20,000, but that you believe your annual expenses will be $35,000 in 2013 dollars. This leaves you a shortfall of $15,000. Let's also assume you are a 60 year-old female in good health and therefore will have a life expectancy of 23.97 years. If you lived out your life expectancy precisely and were able earn 5% after tax for the remainder of your life, you would need to have $192,969.58 in your investment account. This calculation will assume that at age 83.97 years, you have spent your last investment dollar!

Many individuals don't wish to cut it quite so close and spend their last dollar. So, you must either:

- live on less
- retire later
- work part time to fill in the shortfall, or
- build your nest egg larger before retiring.

There are some great retirement calculators which you can access on the internet. One we like in particular is the T. Rowe Price calculator which can be found at www.TRowePrice.com. To access the calculator, click on Planning and Research, then Retirement Planning, and at the lower left side of the screen you can click on the "Retirement Income Calculator." Based on your assets, it will help you determine investment mix, age and life expectancy, and what the likelihood will be that your investments will last long enough.

From our experience, many clients don't really want to retire. They factor into the above equation a part time job to supplement their income. It reduces the amount of income they need and also keeps them socially interactive. Many of our clients are coming out of retirement and wanting to involve themselves in part-time employment or perhaps community service. You can only play so many rounds of golf, bridge or tennis. So, when to retire is a very personal decision and does not hinge on financial resources alone. Prospective retirees beware!

SPECIAL REPORT

- When Can I Retire? -

Q: What legal mistakes are most commonly made by retirees?

A: Although not in any particular order, we suggest the following five are the most common mistakes:

1. Not communicating their wishes to heirs regarding the distribution of their estate. If your plan is likely to cause your heirs to fight after you are gone, don't leave it to the cold hard document to tell them of your wishes. Tell them while you are alive, document your desires in writing (through a will, trust or however), and include a clause in your estate plan that if anyone contests the plan they will forfeit their inheritance.
2. Waiting too long to get their affairs in order is a very common mistake. If you are incapacitated mentally, you cannot formulate and execute an estate plan. Many retirees are living beyond the time when they have well documented legal capacity and the options available to them to plan are greatly reduced.
3. Non-probate assets will often cause problems with your estate plan. Make sure they are coordinated with your estate plan to insure you don't defeat your estate plan. For instance, don't leave your estate to three children, but place the majority of your estate in joint tenancy with one of the children. The joint tenancy assets don't have to be divided amongst all three children, and that can cause problems if it is your intent that it be shared.
4. Most retirees don't think much about the possibility they might end up in a nursing home. Nursing homes in Colorado currently cost about $7,854 per month in 2017. Make sure you have a plan to pay the cost of such care, whether that be private pay, long-term care insurance, Medicaid, or an inheritance from your rich uncle. You and your family don't want any surprises.
5. Not working long enough can be a big mistake. We are living longer. That is good and bad. The longer we live, the more money we may need in the later years of our lives. Make sure you have enough resources to retire. "Enough" depends upon many factors including your lifestyle, the size of your nest egg, and your ability to earn through part time employment. Be careful not to sell yourself short on how much you might need.