How to Retire from a Large Corporation

By David T. Larson, CLU, CFP®

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Are you actively planning your retirement from a large corporation?

Do you look at the company you currently work for and realize it's nothing like the company you started with decades ago?

If so, you are not alone. You have seen mergers, acquisitions, maybe a class-action lawsuit or two, and a complete culture change. Red tape and regulations have become more and more complex, adding stress to your everyday workload. Because of these changes, many people find that they no longer enjoy going to work and need to plan their exit strategy.

Are you ready to retire and move on to your next adventure - the sooner, the better? Here's where to begin.

Part 1: Determine Your Comfort Level

You have faithfully worked hard over so many years. When you make the leap into retirement, you want to make sure that you land safely. You want to plan wisely so that you do not have to go back to work, or cut back your lifestyle.

The first question is: Are you a **Right Now Robin** or a **Take Your Time Terry**?

Maybe you have seen some of your older coworkers retire, only to come back or seek other employment because of poor planning. This does not have to be your story.

Where do you begin?

Let's define the optimal retirement date for you. Imagine for a moment that money is not a factor. In other words, if somebody dropped $10 million on you right now, what would you do? Would you retire right away? Do you have job-related projects that you would like to see through before you retire?

If you are married, does your spouse enjoy their job, and you feel like you want to continue working as long as they work?
Do you see yourself working part-time in retirement to stay engaged in the workforce? Does the idea of finding a job that provides more of a sense of purpose excite you? Maybe you want to work but you would love some flexibility so you can travel or enjoy a sunny day out on the lake?

Based on the answers to those questions, does an ideal retirement date come to mind? If so, pause for a moment and write down that date on a piece of paper. Write down a specific date you want to retire, and then write down your age when that date rolls around.

If that date is in the next five years (or yesterday!), then we will call you **Right Now Robin** for the remainder of this article. If you are **Right Now Robin***,* you cannot procrastinate any longer and should get down to business. Life is too short to spend much more time in a job that you do not enjoy, so if you haven’t run all of the numbers, get started on them right now. It may not be easy, but it is very much worth it.

We find that many people simply put their heads down and throw money in their 401(k)s while having no idea of how much they are actually spending, but you can’t afford to ignore the numbers any longer and procrastinating is not an option. Get proactive and begin planning with real numbers, exploring real options.

There are, however, many people we know who still enjoy their jobs and plan to continue working for several more years. Is this you? If so, we will call you **Take Your Time Terry** for the remainder of this blog series. You can still begin working on the numbers, but you have the luxury of time.

Even if you are 10-15 years away from stepping down, it’s a good idea to have a ballpark idea of how much you are spending and to run some basic retirement calculators.

You should have a pretty good sense of:

- When you will draw Social Security
- How much you will spend in retirement
- Roughly how much you may have in retirement assets when you do retire
- The optimal way to draw your company pension

So who are you? ***Are you Right Now Robin or are you Take Your Time Terry?*** Once you have made this decision, circle your selection in the LWM Retirement Worksheet and continue to part 2 - Determine Your Numbers!

Part 2: Know Your Numbers!

Do you feel intimidated by digging deep into your specific numbers? If so, don't worry. Lots of people feel just like you do, but we are going to walk you through it. Planning your retirement means focusing on **three key numbers**. This article dives deep into each of these areas to help you firm up your specific numbers. **Those three key numbers are:**

1. Your sources or monthly income (Social Security, pension, etc.)
2. Your liquid assets
3. Your *actual* expenses per year

We'll begin with your sources of monthly income. Note: Each section will address the **Right Now Robins** first and the **Take Your Time Terrys** second.

Social Security

Right Now Robin: First, go to www.socialsecurity.gov and create an account in just a few minutes. From there, you can see your earnings history and generate a PDF that shows you how much your benefit will be at age 62, at "full retirement age" (67 for many people), and at age 70. Print out this document and save it in a Retirement folder on your computer. Do the same with your spouse, if you are married.

As you may have read, Social Security benefits will likely be cut back at some point for many Americans. Most "Robins" who are currently in their 60s will likely receive the full amount that Social Security says you will receive. Younger retirees should expect their benefits to be chopped down before they receive them. The younger you are, the more likely your benefits will be cut. When estimating the numbers, consider cutting back the estimates by 20% or more to be safe.

These Social Security numbers are "present value," meaning they will adjust for inflation as you get closer to your retirement.

Key points to consider when looking at your Social Security benefits:

- You will receive a 6.25% bump in benefits for each year you wait from age 62 until full retirement age
- You will receive an 8% bump for each year you wait from full retirement age to age 70
- A non-working spouse (or a spouse with limited income history) may be able to draw spousal benefits that are approximately half of the higher-earning spouse. This is in addition to the benefits received from the higher-earning spouse.
- Should one spouse pass away, the survivor receives the higher of the two benefits.

Also, here's a link to the Social Security website that describes how spousal benefits work, and here's a link that describes how survivor benefits work.

All **Robins** should know when they plan to draw benefits, when their spouses plan to draw benefits, and how these decisions affect survivors. They should also know the 'break-even date." For instance, "If I live until _____, then I am better off waiting until age ____ to draw my benefits." **Don't make the mistake that countless other Americans have made and draw your benefit at age 62 without running the numbers,** buying into the "I may as well get it while I can" logic. While this statement makes for a good soundbite, it is not logical for the vast majority of people when you explore how Social Security actually works.

For people who have saved well into their retirement accounts, we often advise that you wait until age 70 before drawing the benefits of the higher-earning spouse. This strategy ensures the highest amount of income to life expectancy for most, protects the survivor, and opens up tax-planning opportunities from the time you retire until the time you draw your benefits.

Take Your Time Terry: If you are a **Terry**, retirement is still several years away. A lot can change with Social Security between now and the time you draw it. Even so, you should still run your estimates on www.socialsecurity.gov like the **Right Now Robins**. However, after you run your estimates, reduce the monthly payment by 25-30%. You should plan on cuts in Social Security. They are not imminent, but they are necessary to continue the viability of the program.

Once you have your Social Security Numbers, write them down on the [LWM Retirement Worksheet.]

Company Pension

A plan participant leaving an employer typically has four options (and may engage in a combination of these options), each choice offering advantages and disadvantages.:

• Leave the money in his/her former employer's plan, if permitted;
• Roll over the assets to his/her new employer's plan, if one is available and rollovers are permitted;
• Roll over to an IRA; or
• Cash out the account value.

Right Now Robin: Your pension may be one of your largest retirement assets. If you are like most folks we know in Harrisonburg, VA, and around the Shenandoah Valley, the pension decision can be the most difficult to plan around. Options abound, opinions are abundant, and you do not want to make a mistake with a decision this important.

Your pension can probably be taken as either a life annuity or as a lump sum. If you take the life annuity and you are married, there are many survivor options to consider. **Don't make the mistake that so many other people make by taking a lump sum without running the numbers, and definitely do not let an annuity salesperson masquerading as a financial planner convince you to roll your money into an expensive annuity that is difficult to understand.**

The lump-sum may be the best option if you are comfortable with market risk, you have saved well over the years, and you prefer flexibility. Take your time before you make the decision to roll over the money. There is also a benefit to receiving a monthly check from your employer for the rest of your life. **So what numbers do you need to make your decision?**

First, go onto the pension site and type in your projected retirement date and pull down the values for:

- Lump-sum
- Life annuity with no survivor benefits

- Life annuity with 50% survivor benefits
- Life annuity with 100% survivor benefits

Write down these numbers on your LWM Retirement Worksheet

Some plans offer other “leveling option” strategies that allow you to receive a higher benefit early, which reduces when you transition to your Social Security benefit. **When you look closely at the math, these are generally a bad idea.** If you know a state employee, they may be offered the “PLOP” option, which is also generally a bad idea but can occasionally make sense for some people.

Next, determine the internal rate of return (IRR) you would need to earn on a hypothetical investment based on various life expectancies. This math can help you understand the rate of return you would need to earn on invested assets to assure the same amount of income the life annuity provides. To solve for IRR, talk to your financial advisor. Or if you feel comfortable with running the numbers yourself, use our Pension Analysis worksheet here and follow the instructions on the form. Once you have the numbers, write them down on the LWM Retirement Worksheet.

This is a simple way to compare the lump sum to the life annuity and shows you the rate of return a hypothetical investment would need to earn to provide the same amount of income to your life expectancy. If you are risk-averse and feel you will live a long life, you may be a good candidate to take one of the life payout options from your company.

**Important note: For simplicity, the LWM Pension analysis worksheet is for the life only annuity. With this option, payments cease when you die. Talk with your advisor to discuss your specific needs.*

Here’s an example: If you assume a life expectancy of 85, the IRR calculation may show that you need to earn 3% on a hypothetical lump sum investment to generate the same amount of income a life annuity pension would provide over your lifetime. If you live past age 85, an investment would need to generate a return greater than 3% for the lump sum to be a better option for you.

But read closely here. **Don’t make the same mistake many people make.** Often, when you run the numbers, an advisor may say something like, “The IRR on your pension is 3% to your life expectancy. We expect your investments to earn 7%, so you should definitely roll it over.”

For most retirees, this logic is an “apples to oranges” comparison and is faulty. Let me explain:

Many people in retirement who are taking income invest in a balanced portfolio with, say 60-70% in stocks and the rest in bonds. The pension is a fixed asset, so you really cannot accurately compare a balanced portfolio to a fixed asset.

A more accurate comparison would be to compare the portion of your portfolio invested in bonds to the IRR of the pension. Do you expect the bond portion of your portfolio to earn more than 3% over your lifetime? With interest rates near historic lows, a 3% return on an all-bond portfolio may be difficult to achieve.

Since the pension is a fixed asset, many retirees could benefit by taking the life annuity from their employer and then investing their IRA more aggressively. For instance, if you have $600,000 in your 401(k) and the lump sum pension is worth $400,000, you could invest all $600,000 of your 401(k) in stocks, take the lifetime pension, and still be considered a 60/40 balanced investor. **Please consult your financial advisor before acting on any of the information presented here.**

If you choose the pension option and you are married, make sure you also look at the survivor benefits to protect your spouse. You do not want to leave your spouse high-and-dry, should you meet an early demise. The 100% survivor option provides your spouse with the entire monthly benefit, should you pass away. The 50% option gives the spouse half of your pension after you are gone. In both scenarios, your children receive nothing from the pension after the second spouse's death.

Sometimes people opt for the life-only annuity and then purchase a supplemental life insurance policy to protect the other spouse. This strategy can be wise, or it can be foolish. This decision varies greatly from person to person and is beyond the scope of this article. We guide clients through these discussions all the time.

There are significant benefits to taking the lump sum rollover. Here are a few:

- By rolling the funds to an IRA, you have more control over when you claim the income, which opens up many tax planning strategies. For instance, many folks we meet who retire early can live off their savings and dividends in the early years of retirement, meaning their total tax bill can be very low for the first few retired years. This window can be a great time to convert traditional IRA money to Roth IRAs during this season where income is low. As of 2022, anyone can convert to a Roth, regardless of income, and the Roth money can grow tax-free for the remainder of your life. Tax rates may go up in the future, so you may want to elect to pay a little tax now instead of a potentially much larger tax bill later.

- Once you roll the funds to an IRA, you have the flexibility to invest them aggressively or conservatively, as is appropriate for your situation. This flexibility can allow for more growth long-term, or fund high-dollar short-term needs.
- You can leave the money to your kids. With the pension, there is generally no benefit after the death of the second spouse. If you roll the money to an IRA and invest the money wisely, there may still be funds for your kids after you are gone.

Take Your Time Terry: If you are **Terry** and retirement is still several years away, you can relax. Be glad that you have a pension and be aware that the plan could terminate before you retire. If this does happen, don't fret. Terminated pensions typically result in lump sum values that are still yours, but you must cash them out or roll them to an IRA. A life annuity may not be an option for you when you reach your retirement date.

If you are a **Terry**, simply go onto your pension website and punch in a few possible retirement dates to estimate the lump-sum and life annuity values at each of these dates. Write these numbers on your worksheet.

Liquid Assets

- How much do you have in your 401(k)?
- How much do you have in the bank?
- Do you have stocks or funds that are not in retirement accounts?
- How about Roth?

Right Now Robin: If you have not done so already, now is the time to begin thinking about these accounts in terms of not only how they are invested, but also how they are taxed. You should organize them accordingly. On your worksheet, make four columns:

- Pre-Tax IRAs and 401(k)s
- Roth IRAs and 401(k)s
- After-Tax Accounts
- Checking and Savings

Write down the total sum of all of the accounts at the bottom, and then calculate potential income you could take from the accounts based on 2%, 3%, 4%, and 5% withdrawal rates. For example, if the total value for all accounts is $2,000,000, then write the following values:

$2,000,000 x 2% = $40,000 per year

$2,000,000 x 3% = $60,000 per year
$2,000,000 x 4% = $80,000 per year
$2,000,000 x 5% = $100,000 per year

These numbers are rough estimates to assist in determining how much you may be able to draw down from your accounts. Keep in mind the taxation of these accounts, so to be conservative you may want to assume these withdrawal amounts are gross before-tax. Check out this chart to get a sense of how much you may safely be able to draw from your accounts annually.

Now that your accounts are organized based on the taxation of each, you can begin to make smart retirement decisions by pulling from them in such a way as to minimize your taxes in retirement. This picture may also help you decide if you need to shift around your savings strategy to invest more money in some of the other buckets in order to benefit from “tax diversification.”

If you are **Take Your Time Terry** and have many years until retirement, you have the benefit of time and structure your savings strategy to set yourself up nicely for retirement.

Many folks we meet invest all of their money into pre-tax buckets, getting hammered in taxes as they go to draw down their funds in retirement. Consider setting money aside in your Roth 401(k) or Roth IRAs, which can save you in taxes down the road giving you more flexibility when you go to pull your funds out to spend.

Many large corporations offer retirement tools on their 401(k) website. Some may even offer complimentary consultations with licensed advisors. These “cookie-cutter” tools can be helpful when you are **Take Your Time Terry**, although can be too simplistic and inadequate for **Right Now Robin** whose retirement is right around the corner. Still, they can be valuable. When using these tools, consider what actions you can take now that will improve your outcome in retirement. Will the output encourage you to save more? Spend less? Pay down debt faster? **Unless you are using the tools to inspire action, then don’t waste your time with them.**

Your Spending

Your spending habits are the single most important factor that determines when you can retire, so you should know how much you’re spending. Simply ignoring the numbers will only add stress to your life.

Wait! Don't skip this section because we're talking about spending, so please stick with me for a minute. Imagine your car did not have a speedometer. You may get to your destination safely, but you are also more likely to drive too slowly or get a speeding ticket. You are also definitely more likely to do something potentially dangerous, like drive too fast through a neighborhood. In the same way, knowing your expenses will decrease your chances of wrecking your retirement and allow you to enjoy the ride.

Now, it's time to say the "b" word: Budget. Almost everyone hates the word budget, and I get that. Nobody likes the idea of living within a budget or being told what to do or how much to spend. I'd like to encourage you to shift your thinking here. In reality, when you actually know how much you spend, you have *more* freedom, not less.

For instance, let's look at two couples. Lucy and Ricky think they have a general idea about how much they spend and does not think it is necessary to detail out their expenses. Fred and Ethel run the actual numbers and determines that they spend an average of $7,000 per month, of which $300 is spent on dining out. They know the plan they created with their advisor is solid and they can retire based on these numbers they put together. Shortly after retirement, the market goes lower. Here is how two couples may respond:

Lucy and Rickey have no idea how much they spend going out to eat. When the market turns south, they go out to eat anyway, but they do not enjoy the meal as much. Maybe they go to the cheap place instead of where they really want to go. Or, more likely, they go where they want anyway, but then say something like, *"We really shouldn't be spending this money."* Food that is eaten while feeling guilty does not taste as good.

Fred and Ethel know how much they spend on average going out to eat each month. Typically, it is about $300. When the market turns south, they still go out to eat and still enjoy the meal just the same, because they know that their plan is built around spending about $300 per month dining out. They enjoy their evening together more because they are confident in the plan they created with their advisor.

When you know the numbers you have more freedom instead of less.

Right Now Robin: You want to retire as soon as possible, so you should have a detailed accounting of your budget and retirement expenses. There are several great tools that help you estimate your expenses. [Our downloadable budget worksheet] assists you in putting all the numbers on one piece of paper.

As you complete this budget, remember some of the more common oversights:

- Budget Oversight #1 **Underestimating healthcare expenses** Your health insurance is probably deducted from your paycheck now. If so, when you look at the monthly expenses from your checking account, you will not see health insurance or some other health-related expenses, such as flexible spending accounts. Make sure you include these numbers and round up since they will likely go up in retirement.

- Budget Oversight #2 **Underestimating travel expenses** Do you think you will travel more after you retire, or less? If you are like most people, your retirement plans do not involve staying home and watching daytime television. You may want to go visit the grandkids more, take the cross-country trip that you have been dreaming about, and maybe even enjoy some international travel. If you think you will spend the same amount on travel after you retire, you may be fooling yourself, so make sure to increase this expense.

- Budget Oversight #3 **Vehicle-related expenses** Many of our clients pay cash for cars and do not have a car payment, which is great for many reasons. You will still likely need a car every 5 or 10 years, however, and this money will need to come from somewhere. Even though this will not be part of your monthly spending budget, you still need a plan for it.

- Budget Oversight #4 **Semiannual or annual expenses** Many expenses, such as home and auto insurance premiums, are paid on an infrequent basis. If you are just looking at how much you spend each month, you may miss them. Make an inventory of any annual or semiannual payments and convert them to a monthly expense, even if you decide to continue paying for them annually.

- Budget Oversight #5 **Home maintenance** You may need a new refrigerator every 5 or 10 years. They don't make them like they used to! You also may need a new roof at some point during the life of your house, or a new HVAC system before too long. Even though these expenses don't come every year, they will still need to be paid. You would be wise to account for them in your budget projections.

Take Your Time Terry: If you are still several years away from retirement, you may not want to go through the trouble of refining a detailed budget. If taking the time to detail out all of your expenses like Right Now Robin excites you, then go for it! In reality, most people we meet who are a long way from retirement simply do not want to go through the process of creating a line-by-line budget. If this is the case, here is a simple exercise to help you save more now and estimate what your expenses will be in retirement. To aid you in this exercise, we have created this Effortless Budget Worksheet.

Step 1: *Determine your Net Take-Home Pay*. Pull out a recent pay stub and write down your net take-home pay. Multiply that number by the number of times you are paid during the year to determine the net amount that shows up in your bank account annually.

Step 2: *Determine your Baseline Income Need While Working*. Simply compare the amount of cash you have in your checking and savings accounts on January 1 of one year to January 1 of the following year. If the amount you have in checking and savings is roughly the same year-to-year, then it sounds like you may be spending everything that comes into your cash accounts.

If your cash accounts increase over the course of the year, then you have a surplus and you should start saving more into your retirement funds. If your cash accounts decrease, you have a shortfall. For instance, let's pretend that your net take-home pay is $5000 every two weeks, and over the course of the year your savings increases by $20,000. Here is how we determine your *Baseline Income Need While Working* number:

$5000 x 26 pay periods =	$130,000
Reduce by *increase* in cash accounts:	-$ 20,000
Baseline Income Need While Working	$110,000

Note that if you have a surplus in cash accounts, you will decrease your take-home pay to determine your *Baseline Income Need*. If your cash accounts fall, then you will increase your *Baseline Income Need While Working* number.

Step 3. Determine your Baseline Income Need When Retired. Once you determine your *Baseline Income Need While Working* number, simply add or subtract any items that will change in retirement. For instance, health insurance that is currently deducted from your paycheck will need to be added to your *Baseline Income Need While Working* number. If you plan on paying off your mortgage before you retire, then you will reduce your Baseline Income Need While Working number. Please go back to the Effortless Budget for assistance with this calculation.

Many people find themselves in a lower tax bracket once they retire, but you still should build a cushion on tax projections because all of our taxes could go up before long. Our government likes to spend money, and sooner or later we will all most likely pay more.

Who knows what the tax rate will be by the time you retire, so for now just assume 25%-30%. Take the *Baseline Income Need When Retired number* above and multiply it by 1.3 to estimate your gross retirement income need, and then also adjust for inflation using this calculator.

Great work! Now you know how to estimate your expenses in retirement, whether retirement is years away, or right around the corner. Go back to the **Your Spending** section of the LWM Retirement Worksheet and fill in your numbers.

We still need to tackle health insurance and also to structure your cash flow well. We will cover these two areas next. In the meantime, consider completing the **Putting It All Together** section of our worksheet.

Next up, we will dive deep into the abyss of health insurance!

Part 3: Health Insurance

Now, we will dive deep into health insurance options. Your greatest expense in retirement will probably be healthcare, so please do not underestimate this expense.

Right Now Robin: If you would like to retire soon, you want to correctly estimate your actual healthcare expenses in retirement. Realistically, your estimate will be off because no one knows what the future of healthcare will look like. But don't be naive in thinking that your costs will stay the same as they are now. Here is how you can get close to the actual number.

First, project your Medicare expenses. Part A of Medicare is provided to you at no charge. Part B is a sliding scale based on your income. For full details about Part B premiums, please click here to go to the Medicare site.

Also, contact the human resources officer at your firm to ask for the retiree packet that outlines the current cost of retiree health insurance. If your spouse also has health care benefits and retirement, make sure to contact their company as well.

If you are over age 65 when you retire, you may want to purchase a Medicare supplement policy or take out a Medicare Advantage plan instead of using your company health insurance. Contact a local health insurance broker who represents several companies and ask them to run some estimates for you.

If you are under age 65, then compare the benefits available as a retiree from your company to the *net* premium you would receive by enrolling in the Health Insurance Marketplace. **Don't assume that your company plan will always be the best choice.**

While Marketplace coverage can be extremely expensive, you may be eligible for credits, depending on your income. To further explain this, let's take a second just to give you the big picture summary of the Affordable Care Act, passed in 2010.

Now that the ACA is law, many healthcare services that were previously not covered are required to be included in your plan. The act also mandated that all insurance cover pre-existing conditions, meaning that you are guaranteed to qualify for health insurance regardless of your health status. With Marketplace coverage, all non-smokers will pay the same premium as other non-smokers of the same age.

These two big changes pushed the cost of healthcare up significantly. To help offset this cost, the government began issuing subsidies to bring down the cost of insurance for many Americans. Here is where it gets interesting… the amount of subsidy you are entitled to receive depends on your *income* for the year, **not** your level of *assets*.

Many people close to retirement have stashed away a significant amount of money in the bank, large IRAs, real estate, and other accounts. Some of these assets may generate annual income, but other assets may not generate current-year income.

Wise people in this position may use the money they have in the bank or take small IRA withdrawals prior to age 65, so their income will remain low and they can benefit from Affordable Care Act credits. You may need $100,000 per year to pay your bills, but you do not need to necessarily claim $100,000 per year of income. Your adjusted gross income can be much higher or lower depending on your individual situation. We meet with many clients in December of each year to determine where we want their income to be for the following year.

You can estimate the cost of marketplace coverage by going to this calculator on the Kaiser Family Foundation website.

After you estimate the cost of your insurance, go ahead and add 20% to be safe. You should plan on higher healthcare expenses going forward. This trend will likely not slow down anytime soon.

Take Your Time Terry: Estimating your healthcare expenses in retirement can be extremely difficult, especially if you are 10-15 years away from retiring. Since you have a long way to go, here’s my advice for projecting your healthcare expenses down the road: Simply assume that your healthcare expenses will be the same in retirement as your mortgage payment is now.

For instance, let’s say that you are currently paying $1,500 per month for your mortgage. Simply assume that your healthcare will cost you $1,500 per month after you are retired, and set up a payment plan to pay off your house by the time you retire. You are merely replacing your mortgage expense with your healthcare expense.

This method is a very simple and effective strategy. It is not perfect, but it is actionable and simple. If you want more accurate numbers, follow the steps we outlined above for Right Now Robin.

You will be much more comfortable in retirement if your house is paid off anyway, so why not just go ahead and plan on approaching retirement debt-free, while recognizing the fact that healthcare will only get more expensive?

Congratulations! Now you have a better sense of what all of your retirement numbers may look like. Now that you understand your health insurance options better, go back to your budget worksheet and determine if you should make adjustments.

Part 4: Cash Flow Plan

In this section, we offer a simple strategy to overcome the biggest mental hurdle most people have as they approach retirement: **How to transition your cash flow plan.**

If you will no longer have a regular paycheck, you need to have a solid plan for meeting your ongoing cash flow needs.

Whether you are **Take Your Time Terry** or **Right Now Robin**, the strategy outlined below should work well and will give you confidence as you approach retirement.

As mentioned earlier, you need to know what your expenses are going to be in retirement. If you do not have this number yet, then go back and read part 2 of this series. Now, if you have the number, you are further along than most Americans who do not take the time to do the math. You know with relative certainty how much you will actually spend in retirement.

Let me ask you a question: Do you want to change your lifestyle in retirement? In other words, do you want to take a pay cut when you stop working? Pause for a second and say one of the following two statements o*ut loud:*

"I do want to take a pay cut in retirement" or
"I do not want to take a pay cut in retirement."

Of course, you said the second statement. Does anyone want to take a pay cut? Absolutely not! I am recommending a simple cash flow strategy to prepare yourself for retirement, which you can implement well before your last day on the job.
If you know how much you will spend in retirement, then why not start living off this level of income now? Why wait? You should live on this amount now and structure your cash flow accordingly. **Think of how easy the retirement transition will be if your monthly cash flow for the first 12 months of retirement is identical to the 12 months leading up to retirement.**

Here's how you do it:

Let's say that you've run the numbers and you project you will need $8,000 per month to pay all the bills in retirement. This includes taxes, insurance, travel, home maintenance, and everything else mentioned previously.

Let's assume the net amount that comes into your bank account from your employer after all of your withholdings, such as health insurance and 401(k), is $9,000 per month. Most likely, your paycheck is deposited each month into your checking account at your bank. You're paying all of your monthly expenses from this checking account.

If your math is right, you should be able to save an additional $1,000 per month over and above what you are saving now. How can you easily test this?

First, contact your payroll department and let them know that you would prefer to deposit the entire amount you receive each month into your savings account instead of your checking account. If you're married, do the same with your spouse's paycheck.

Then determine the base level of money that you wish to keep in your checking account. For the purposes of this discussion, let's say that amount is $10,000. Transfer everything above $10,000 from your checking account into your savings account.

Once you do this, set up an automatic monthly transfer from your savings account into your checking account for $8,000 on the first of each month. Now, you will know for certain that exactly $8,000 per month is coming into your checking account. You will also know that the base level of cash in this account is $10,000.

When the balance in your checking account exceeds $10,000, then you will know that you are actually spending less than $8,000 per month. If the balance in your checking account falls below $10,000, then you will know that you were spending more than $8,000 per month. Check your balances once or twice a month to see how everything flows and to make adjustments as needed.

Be careful not to lie to yourself about your actual expenses. Commonly, we hear people say things like, *"Well, I had ________ expense this month, but that will end soon"* or *"I know I spent $_____ on ________, but I don't expect that expense in the future."* If you are spending money on something now, then you will have a similar expense when you are retired, so **be real with yourself and don't hide from the numbers**.

By setting up your cash flow automatically, you will easily be able to determine how accurate your projections are so you can adjust accordingly.

If you make this change a couple of years before you retire, then you'll have the confidence in knowing exactly what your retirement expenses will be. Then, when you go to make the decision about drawing your Social Security benefits, taking your pension, and taking money from your retirement accounts, you will approach the decision with clarity and confidence.

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Now is the time to put all of the numbers together. If you have not already done so, complete the **Putting it All Together** section of our worksheet**.** This section will allow you to see many of the important numbers in one place. Complete one column for the monthly pension option, and the other column for the rollover option.

Part 5: Structure, Community, Purpose

So far in this article, we have explored:

Part 1: How to determine "who you are" and the right age to retire
Part 2: How to determine your numbers
Part 3: How to understand your health insurance options and cost
Part 4: How to transition your cash flow plan

All of these prior topics are important, but you could get them all right and still have a miserable retirement if your retirement does not have three key elements.
Your retirement needs:

- **Structure**
- **Community**
- **Purpose.**

Yes, it is true! Many people have excess money in retirement and are still unfulfilled, but that doesn't have to be you! You did not work this hard to have a boring retirement. Structure your calendar and your relationships in a way to ensure that your retirement has all three of these elements.

Here's how to begin designing your retirement so that you set yourself up for success:

Structure: First, take no more than 10 minutes to write down your optimal **day**, your optimal **week**, and your optimal **year**.

What are some things that you want to do every single day? Maybe you may want to get outside and exercise, or maybe you want to simply grab a coffee on your front porch with your spouse.

Weekly? Should you block off one day a week to grab a meal with different family members or longtime friends? Should one day a week be set aside for pursuing a new hobby or activity? Do you want to volunteer a day or two a week for an organization you care about?

How about each year? Are family vacations important to you? When do you want to take these and how are you going to make sure that you line up everyone's calendars so that everyone is able to join you on these memorable trips? What essential events do you want to prioritize each year?

If your retirement does not have structure, you can find yourself floundering and unfocused. Retirement is not meant to be boring and is certainly not to be spent watching Judge Judy.

Stop reading now, take 10 minutes, and write down your ideal daily, weekly, and yearly activities.

Community: Community means something different to everyone. For some people, their family is their community. Others may find community in their neighborhood or by volunteering at a local non-profit.

Retirement is not meant to be spent in isolation, so take a few minutes to write down the names of people with whom you'd like to spend time, and also what groups might be a good match for you. Maybe there is a group of retirees from your company who meet once a month for a meal or you've been thinking about getting involved in the local Rotary club but have never made it a priority. Spend a few minutes to detail out exactly how you can find community and retirement. Go ahead and do it now. Why wait?

Purpose: All retirements need purpose. You need a reason to get up every day. If you want your retirement to be fulfilling, consider how you can invest in others or into a larger cause.

Have you ever tried to make yourself happy? It is pretty difficult, if not impossible to do.

Don't make the mistake that so many others make and think that you can have a fulfilling retirement by simply seeking your own happiness and satisfaction. When you seek to only make yourself happy, you'll rarely achieve it. When you seek to create happiness for others, quite likely you will find it yourself as well.

For you to live out the kind of retirement you can be proud of, ensure that you hit all of these areas. To read a story about my friend Maynard and the perfect retirement for him, check out this story:

Some final thoughts: Many people consider working part-time after retiring from their careers. If part-time work is part of your retirement plan, know the best retirement jobs have:

- Flexibility. If you don't have the flexibility to take vacations and make your own schedule, why not just keep working in your current job?
- Good pay. People who make six figures during their working years and then go to work at a hardware or convenience store usually get frustrated and do not stay there long.
- Flexibility: This fact cannot be overstated
- Even More Flexibility: You have worked too hard for too long to be bound by a set schedule in your retirement job.

Thank you for reading the series on retiring from a large company. If you would like to discuss any of these topics in more detail, we would be honored to have a conversation with you. To schedule an appointment, please click here.

Larson Wealth Management
124 Newman Ave., Suite 101
Harrisonburg, VA 22801
phone: (540) 574-4391
email: clientservices@larsonwealthmgt.com
website: www.larsonwealthmgt.com

A Roth IRA offers tax deferral on any earnings in the account. Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Limitations and restrictions may apply.

Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA