

# Questions Retirees Must Answer

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After decades of punching the clock, retirement carries the promise of a life without the responsibilities of the workaday world. It also brings with it a host of new decisions to make.

For many people, retirement means living off savings with limited prospects of replenishing the nest egg should something go wrong. It involves paying greater attention to the ebbs and flows of the financial markets, interest rates and the details of your investments. And it requires confronting the hard choices and discussions about the final years of life.



Augusto Costanzo

Here are five questions or decisions just about every retiree needs to confront.

**1. When should I start taking Social Security benefits?** There's a natural inclination to start taking Social Security as soon as the rules allow, at age 62.

But taking Social Security before your full retirement age will result in a permanent reduction in benefits. In contrast, if you delay beyond full retirement age, you get a credit in the form of a larger payout.

The math, needless to say, is complicated. One resource that can help is a new calculator from AARP ([aarp.org/socialsecuritybenefits](http://aarp.org/socialsecuritybenefits)). With just a few pieces of information, this tool creates an easy-to-read chart on the best time to start taking Social Security. Two other sites to consider: [analyzenow.com](http://analyzenow.com), which offers a "Social Security Planner," and [schwab.com](http://schwab.com), which has a guide to "timing" benefits. Search for "Social Security."

**2. Should I get a part-time job?** For many retirees today, nest eggs aren't lasting as long as planned, thanks to a lousy stock market, low interest rates and falling home values. That's prompting retirees to look for work. But a difficult job market makes it hard to get in the door.

For some workers, going straight to a part-time job may be the answer. The longer you can defer tapping savings, the more time your nest egg -- hopefully -- has to grow. Plus, says Allan Roth, a financial planner in Colorado Springs, Colo., "When you're working, you have less time to spend money."

There also may be a psychological benefit for those who might find it hard to adjust to retiring. Part-time work "gets you to an unstructured lifestyle in an incremental manner rather than all at once," Mr. Roth says.

**3. Where should I keep my money?** And how should I take it out? For people with a 401(k) retirement-savings plan, inertia may result simply in leaving the money with the same money manager that runs their employer's plan. If that plan involves a low-cost fund company with a wide variety of investment options, such as Vanguard Group, it may not be a bad idea.

But for many people, especially those who worked at companies where 401(k) expenses are high, it could be a waste of money. An easy way to put money back in your pocket is to roll over your savings to an individual retirement account at a discount brokerage firm, with the aim of getting lower expenses and greater diversification.

Then, as part of a financial plan and budgeting process, you can save money on taxes depending on the order in which you tap your various investments. Always work with an accountant on tax questions, but the rule of thumb is to first withdraw money from taxable accounts, reducing future tax bills. Next come tax-deferred individual retirement accounts, where at age 70 $\frac{1}{2}$ , you'll start taking required minimum distributions.

Roth IRAs make a tempting spot to tap first since you don't pay taxes on withdrawals. "Some people automatically go to the Roth IRA but...that should be the last thing you touch because that money can grow tax-free," says Michael Sadoff, a financial adviser at Sadoff Investment Management in Milwaukee.

**4. Should I pay off the mortgage?** Paying off a mortgage used to be a major financial goal. Then came the 1990s bull market in stocks and last decade's real-estate boom. Financial advisers began telling clients they'd be better off using their money to invest in stocks and allow rising home prices to reduce the size of a mortgage relative to the equity in the house.

Now, many seniors are saddled with mortgages for more than their houses are worth thanks to the collapse of the real-estate market.

Still, there's a calculation to be made. How much of a nest egg will paying off the mortgage eat up? Houses aren't liquid investments that can serve as a source of emergency cash.

Also, how does the interest rate on the mortgage compare with what can be earned on a safe investment? Today, that balance tilts in favor of paying off a mortgage, says Mr. Roth. "If their mortgage is costing them 5% and they've got a Treasury bond paying 2.6%, then they ought to pay off the mortgage."

**5. Who will make decisions for me when I no longer can?** It's never pleasant to contemplate the final stages of life. But doing so is crucial to making a difficult time for loved ones easier.

Retirement is a good time to make sure a will is up to date. But there are other important questions, in the event you can no longer make decisions for yourself --

including giving someone power of attorney to handle business and financial questions and naming a health-care proxy.

It's important to give these questions a lot of thought, says Donald Vanarelli, an elder-law attorney in Westfield, N.J. For instance, does the person you grant power of attorney to live nearby so it's easy to sign documents? When it comes to a health-care proxy, he urges discussing your wishes with the person you name to be sure he or she will be emotionally able to carry them out.