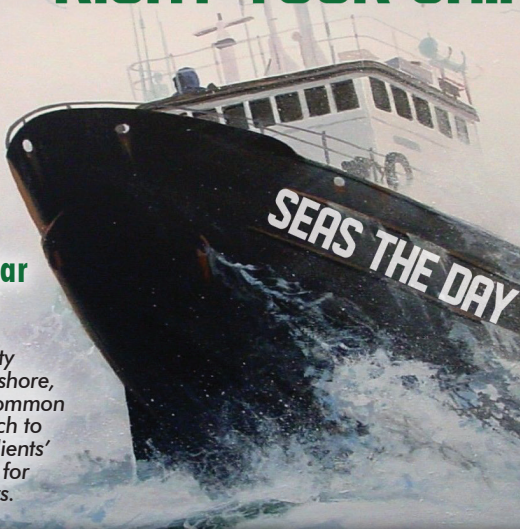


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TIME TO RETIRE?

By Fred Dunbar

What a difference a couple of years can make. Unlike in the classic 1985 film, “Back to the Future,” there are no second chances. What you do in life is what you get.

There have been many times over the years that we have sat down with clients who have said, “I wish I hadn’t retired when I did,” or “I wish I hadn’t elected Social Security when I first became eligible at age 62.” This brings to mind a couple, ages 60 and 62, who sat down with us to complete their financial plan two years ago. In particular, their focus was on retirement planning. For the sake of this article, we’ll call them the McFlys.

Financial planning is generally based on one’s goals and risk tolerance – how much risk you are comfortable with taking to meet your goals. Their goals included Lorraine retiring at 60, George retiring at 67, paying off the college debt for their five children, maintaining their standard of living, and traveling in their early retirement years.

Well, it isn’t always sunny (except in Philadelphia), so we are conservative planners. For financial-planning models, we use an inflation rate of 5% and an investment-returns rate of 5% or 6%. Basically, it is a real rate of return of 0% or 1%. I know what you are saying. Inflation has been super low, and in 2018 it came in at 1.9%. I get it; our inflation number is high. I grew up in the Carter/Reagan era and remember times that were much different. Perhaps you’re old enough to remember purchasing your first home when mortgage rates were double digits. In April 1971, the 30-year mortgage interest rate was 7.33% and increased steadily, peaking in October 1981 at 18.44% (Federal Reserve Bank of St. Louis). Ah, the good old days. As far as investment returns, I’m looking out over the next 30 years. We use 4% for fixed investments (money markets, CDs, etc.). Although interest rates have been historically low over the past decade, they will rise again.

Back to the McFlys. Some of the issues they faced are those that many of you might wrestle with as well while you contemplate retirement. What will be the additional cost of health care, when will they run out of money, and what happens if one of them becomes ill are just a few.

Although George would continue to work, they would have to switch over to his company’s health plan, as their benefits were through Lorraine’s employer. This would have increased their cost for medical insurance premiums until they qualify for Medicare at 65. Keep in mind, they still had the student loans they wanted to pay off for all of their children.

The good news was that the McFlys could meet their primary goal, which was having Lorraine retire at age 60. The bad news, based on their plan model, was that they would run out of money before George turned 87. This means they would have spent down all of their retirement and nonretirement investments. Of course, they would still have their Social Security income as well as their home. They could sell their home and rent, or possibly do a reverse mortgage.

I recommended that Lorraine wait two years to retire, so we could help them achieve their goals. We wanted them to focus on paying off the college loans, contributing the maximum allowed into their 401(k) plans (\$24,000 in 2017, including the catch-up provision), and basically living on George's income. Today, you can contribute \$25,000 into your 401(k) plans, including the catch-up provision if you are over age 50.

Well, almost two years to the day of completing their plan, I received an email from Lorraine letting me know she was ready to retire. I called, and the first thing Lorraine said was, "You told me that I could retire in two years ... Well, I'm ready." We decided to update their plan prior to Lorraine turning in her retirement notice. We determined that she could retire and that their plan was on solid footing. Her retirement date is July 31, 2019. Over the past two years, the McFlys had paid down most of their mortgage, paid off their children's college debt, maxed out their retirement plans, and saved the balance of Lorraine's salary. They realized they could live comfortably on one income. They will head into Lorraine's retirement confident they will have the retirement that they not only dreamed of but were able to make a reality.

Financially, they are now projected to have substantial assets at George's age 90. There are generally two things that can hurt their retirement: their adult children, and a long-term illness. Thankfully, their five adult children are all on solid ground with good careers. As far as an illness, statistics show that those over age 65 have almost a 70% chance of needing some type of long-term care (according to the Administration on Aging). We discussed long-term care insurance as a way to provide the additional funds that may be needed.

Now, we can always play the "What if?" game. Since the McFlys didn't actually have a DMC DeLorean to go "back to the future," it was a good thing they waited to solidify their retirement.

I'm amazed at the number of people I speak with who have never done a financial plan. I've been told many excuses over the years, such as: "I'm sure I have enough money since I have been saving for years" (Really, how is that working out?); "I'm going to retire now because I'm tired" (Go to bed earlier); "I'll live with my kids" (God forbid); or "I'm too busy to complete the questionnaire for a plan" (Must be too busy catching up on their favorite Netflix series). The reality is that they might be frightened by the answer. Financial planning is similar to investing. By this, I mean that you do not want to be an ostrich and bury your head in the sand. By the time you look up, it might be too late.

As we head into the summer season, make time for yourself and your future. Make completing a financial plan your priority, since your financial life might depend on it. In the next issue, I'll discuss how to choose a planner and what a financial plan entails.

Now that you have thought about your financial future, grab your book, chair and cooler, and head to the beach for a well-deserved rest. Don't forget the sunscreen.

The example used is for illustrative purposes only. Actual performance and results will vary. The example does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed, and a financial advisor should be consulted.

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