



SMART INSIGHTS FROM PROFESSIONAL ADVISERS

How to Know You're in the Retirement 'Red Zone'

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You're counting down to retirement and you feel like you've got to be almost there, but unless you've accounted for these factors, you may not be as close as you think.

Planning for retirement isn't necessarily based on what age you would like to retire. The primary consideration should be this: At what income can you retire comfortably?

This is no minor matter — you're replacing a paycheck you've received for many years. Even though that paycheck is no longer coming in, most people in retirement want to maintain a similar level of income.

Retirement was easier when many American workers received defined benefit pensions, but those days are mostly gone. That essentially leaves Social Security, savings and investment accounts to fund retirement. Will it all be enough to sustain you?

That's the question to ask yourself when trying to decide when you can realistically retire, opposed to targeting an ideal age. Weighing different financial factors will help determine if you're close to retirement, a few years away or further out. I liken it to a football analogy — the "red zone," or the area of the field between the 20-yard-line and the goal line. When a team has the football and moves into the red zone, it's getting close to scoring.

In retirement planning, being in the red zone means that, based on some key factors, you're within five to 10 years of retirement. Here are some ways to determine whether you're in the retirement red zone:

EVALUATE INCOME AND DEVISE A BUDGET.

Review the income sources you expect to have in retirement. How much will be coming in, and will that be enough to cover your expenses, along with any extras for enjoyment? To find that out, you need to create a budget. Ideally, during your working years, you're not spending every dollar that comes in each month, so you don't pay as much attention to how much you're spending exactly on certain monthly expenses, such as utilities and food.

However, in retirement with fewer income sources and fixed incomes, those expenses become even more important in the monthly equation. You must know where every dollar is going and whether that lifestyle is sustainable. In devising your budget, know your fixed costs — food, utilities, gas, taxes, mortgage — compared to discretionary costs. Discretionary spending is "fun

money," which is certainly a priority in retirement. Figure out how much you need per month — above that fixed-expense total — so you can travel, see the grandkids, eat out, etc.

STUDY HEALTH CARE.

In many cases, employers cover at least a portion of health care expenses. In retirement, however, a married couple's health care expenses can be \$1,200-1,300 a month if you retire before age 65, (Medicare-eligible age) and you are looking for health insurance on the open market. However, if you can't feasibly afford open-market health insurance, you're not in the red zone yet.

UNDERSTAND HOW YOUR INVESTMENTS ARE POSITIONED.

Going into the red zone, some people have already won the game. They have enough money saved where the cash flow stream should last throughout retirement. If you've done a good job saving, you have two choices:

- Keep throwing the ball downfield, taking on risk in the market and going for a higher return. You could lose money in the market, but with high risk/high reward, it could really pay off, leaving a bigger legacy to your family.
- Or, you could take a knee and get off the field, beginning to dial down your stock market exposure. If interest rates are competitive, you might consider fixed or fixed-index annuities to help reduce your risk in the bond market, as they can't lose principal. When you get closer to the red zone you have to be more careful, and once you are actually in retirement, reducing risk is just as important.

DEFINE A PURPOSE FOR RETIREMENT.

This tip isn't money-related but it's nonetheless important to retirement happiness. Do you have goals or a priority list for what you're going to do in retirement, possibly including volunteer work, more time with family, a new career path or hobbies? Fulfilling your passion for something you've always wanted to do can fill a void in retirement.

If you haven't thought about those things and you really have no idea what you'd like to do in retirement, then you might not be in the red zone. For 30 to 40 years, what you did for a living may have defined you, but it can't define you in retirement.

For some, going from all those hours working to suddenly having all those hours of free time can be intimidating.



Having a purpose in retirement should be just as important as having a plan in retirement.

Dan Dunkin contributed to this article.

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