Why You Want a Retirement Plan in Writing

Setting a strategy down may help you define just what you need to do.

Provided by Elaine M. Shanley, CFP®

Many people save and invest vaguely for the future. They know they need to accumulate money for retirement, but when it comes to how much they will need or how they will do it, they are not quite sure. They will "wing it," hope for the best, and see how it goes. How do they know they are really contributing enough to their retirement accounts? Would they feel less anxious about the future if they had a written plan?

Make no mistake, a written retirement plan sharpens your focus. It can refine dreams into goals and express a strategy to pursue them. According to a Charles Schwab study, just 24% of Americans plan their financial futures according to a written strategy. Here is why you should join their ranks, if you are not yet among them.[1,2]

You can figure out the "when" of retirement planning. When do you think you will retire and start drawing income from your taxable and tax-advantaged accounts? At what age do you anticipate you will start to collect Social Security? How long do you think you will live? No, you cannot precisely know the answers to these questions at this point – but you can make reasonable assumptions. Your assumptions may be altered, it is true – but a good retirement plan is an evolving document, one that can be revised with changing times.

You can set a target monthly or annual savings rate. Once you have considered some of the "whens," you can move on to "how." Assuming a conservative rate of return on your invested assets, you can specify how much to defer into retirement accounts.

You can decide on a risk tolerance and an investment mix that agrees with it. Ultimately, you will invest in a way that a) makes sense for your objectives and b) makes you comfortable. The investment mix that you decide on today may not be the one you will favor ten years from now or even three years from now. Regular portfolio reviews should complement the stated investment approach.

You can think about ways to get more retirement income instead of less. Tax reduction should be part of your retirement strategy. Think about the possibility of part of your Social Security income being taxed. Think about tax on your Required Minimum Distributions (RMDs) from your IRAs and employee retirement plan. What could you do to manage, or even minimize, the income and capital gains taxes ahead of you?

You can tackle the medical expense question. That is, how will you fund the medical care that you will inevitably need to greater or lesser degree someday? Should you assign part of your savings to a special account or form of insurance for that purpose? Retiring before 65 may mean paying for some private health insurance in the years before Medicare eligibility.

You can think about your legacy. While a retirement plan should not be equated with an estate plan, the very fact of planning for your later years does make you think about some things: where you want your money to go when you are gone; your endgame for your company or professional practice; whether part of your accumulated wealth should go to causes or charities.

A written plan promotes confidence and a degree of control. A 2017 Wells Fargo/Gallup survey determined that those with written retirement plans were nearly twice as confident of having sufficient retirement income in the future, compared to those with no written plan.[3]

If you lack a written retirement plan, talk to the financial professional you know and trust about one. Writing it all down may make a difference in planning for your second act.

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Citations.

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