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SMART INSIGHTS FROM PROFESSIONAL ADVISERS

You're Just 5 Steps Away from Achieving Your Ideal Retirement

First off, do the math to find out if you have enough saved to actually retire.

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It's no mystery that building a successful retirement requires planning. What can be mysterious, however, is what the process actually looks like, leaving many aspiring retirees to guess, hope and essentially throw darts and pray a few land at least near the bull's-eye. This is a shame; you can do better.

What can happen when retirement planning isn't done well? What does it look like when you don't have a solid plan carefully crafted before the big day arrives when you shut the machine down for the last time?

Ironically, not much. At least not right away. The effects of a poorly structured retirement usually don't show themselves until years later, when it's too late to do much about it. That can be a tragedy; that's what we want to avoid.

When I have an opportunity to sit down with families to begin planning their retirement, I suggest we immediately get to work on solving their retirement math problem: How much monthly income do you need and want, and what kinds of assets and income sources do you have in place to support these goals? In other words, how much is enough, and do you have it?

If you're asking yourself, "How much is enough?" these five steps can help get you started in solving your retirement math problem:

1. Create an inventory of your expenses.

Picture what you want your ideal retirement to look like — and think about what that will cost. Separate all imaginable expenses into "essential" (food, housing, insurance, transportation, etc.) and "discretionary" (travel, hobbies, entertainment, etc.). Another way to define your expenses is "needs" and "wants."

2. Gather a list of your income sources.

Write down all of your guaranteed and predictable income streams, including Social Security, any employer pensions, annuities and other long-term incomes like rents from investment properties. Make another list of other financial and real assets (stocks, bonds, mutual funds, certificates of deposit, real estate, etc.) that could, if needed, add to your total after-tax income in retirement.

3. Do a comparison.

Compare your estimated essential expenses ("needs") with your predictable income sources from Step 2. This is where you'll find out if you have enough income to cover your costs, or if there's a gap you'll have to fill by other means.

4. Allocate your assets.

Having saved up assets for retirement is great; allocating and investing them in appropriate financial products can make an enormous difference in retirement success. Start by making sure your essential needs are paid for, then move on to those extras, the "wants." If you're coming up short, you may have to pare down your budget a bit, work longer, and/or purchase a guaranteed income product, such as an annuity, to help fill the income gap.

5. Protect against life's unknowns, and be ready to revise your plan when needed.

Think about risk-management tools, such as health insurance, life insurance and strategies for covering possible long-term care costs. Once the pieces are in place, plan to review your overall strategy annually to make adjustments based on how your assets are performing, as well as how the world — and your life — has changed.

These five steps may seem tedious or even daunting if you're not accustomed to regularly reviewing your long-term finances. That's OK, because a seasoned retirement planning specialist can help guide you through this process. Before final decisions are made, the planning options can and should be stress tested under different scenarios, which can help you decide the investments that best suit your needs so you'll arrive at your desired destination.

If you're looking to build a planning team around you for this process, it's important to note that people have many preconceived notions about what a relationship with a retirement adviser might look like. Too often, thoughts of hot stock tips and market predictions are considered "planning," while the truth is much different. Good retirement planning is not a financial product pitch but instead involves building an actual written plan that is detailed, customized and adjusted over time. It's a collaborative effort built around your needs, desires and concerns.

Begin your retirement planning process by deciding what you'd like your life to look like during retirement, and then get to work solving your retirement math problem. The steps are laid out for you here, but the truth is, the first step is yours.

Kim Franke-Folstad contributed to this article..

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