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Keep your retirement dream from going up in smoke

Learn the tricks financial advisers use to help clients achieve their retirement dreams

By Marine Cole
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Retiring in style means something different for everyone but usually shares one common goal: People want to live out their dreams.

"People want to make sure they can do what they want, when they want and the way they want without worrying about money," said John Gajkowski, co-founder of Money Managers Financial Group.

For some, retiring in style may mean traveling, owning a second home or spending quality time with grandchildren. For others, that may be more about starting a new business or volunteering.

And just one of those goals — such as traveling — can range from those who prefer cruises to those who would rather take their grandchildren on an African safari. "Everybody has a different definition" when it comes to their goals, Mr. Gajkowski said.

Step one: defining a retirement dream

Thirteen years ago, a 53-year-old woman came to see Mr. Gajkowski to talk about retirement. At the time, she worked for a big company in Chicago, a job she didn't like.

"I told her she could retire that day," Mr. Gajkowski said. "She had a good pension and she was a saver, although her 401(k) was a bit too conservative."

To prepare for her retirement, which she began at 58, Mr. Gajkowski changed the allocations in her 401(k) and then rolled the 401(k) to an individual retirement account. He also advised her to delay her Social Security until 66 to take advantage of the full benefits.

Her monthly income now allows her to spend six months out of the year traveling the country, often going to Florida, with her boyfriend and her trailer. "She seems very happy," he said.

For another financial adviser's client, a former attorney in the Las Vegas area, retiring in style meant being involved in baseball. Now 71, he volunteers as an assistant baseball coach at his local high school.

"It's his hobby," said Brad Zucker, a registered financial consultant at Safe Money Advisors Inc., who helped him fund his dream. "This client had personal savings and Social Security, but he didn't have a pension, so we created his own family pension check," Mr. Zucker said.

He split his 401(k) into three IRAs: one to provide income for the first five years of retirement, the second for income for the following five years, and a third intended to provide income for the rest of his life. The result? "He's fulfilling his dream," Mr. Zucker said.

Step two: creating a budget game plan

Imagining a dream retirement takes focus and creativity, but knowing how much will be needed to fund that retirement is even more challenging considering the infinite variables.

Financial advisers typically start with a thorough examination of the client's annual budget. Then they check which parts of the budget will change or remain the same once the client retires. Finally, they look at clients' existing retirement plan, and current assets and liabilities.

"We look at creating a game plan," said Stephanie Ackler, managing director and head of Ackler Wealth Management of Wells Fargo Advisors.

Depending on a retiree's goals, funding his or her lifestyle may cost between $85,000 and $100,000 a year, while the more affluent may need closer to $250,000.

For someone retiring in style, a food budget might include going out more to restaurants, a transportation budget might include car services and yellow cabs, while a health care budget may include luxury line services such as a personal trainer, massages and yoga classes.

To support such budgets on a monthly basis, it's important to rely on several sources of retirement income, including personal savings.

For an investor wanting to retire on $100,000 a year, for example, about $15,000 may come from Social Security and roughly $45,000 may come from retirement investment cash flow, according to advisers. A retiree may need to supplement these sources of income with personal savings, as well, which would need to amount to $1.5 million considering a 25-year retirement.

Financial advisers typically run economic models to see whether their clients need to save more or continue on the plan they already have. It's also important to watch for inefficiencies.

“A lot of money falls through the cracks,” including unnecessary expenditures such as holding the wrong type of life insurance, not having a proper allocation in a 401(k) or having several IRAs that haven't been consolidated Mr. Gajkowski said.

“People need to allocate their money properly,” he said. By creating guaranteed income through Social Security or annuities for essential necessities, the rest can be funded by a diversified managed portfolio. “The main thing to focus on is to give predictability to people,” Mr. Gajkowski said.

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