

## Financial issues as retirement draws near

After years of saving and planning for retirement, you may be relieved and excited to realize that you can finally afford to stop working. Careful planning in the months leading up to retirement can ensure a smooth transition from employee to retiree.

### By the numbers

- With **longer life expectancies**, retirees could live through as many as five or six market cycles.<sup>1</sup>
- **59½** is the age at which you can generally take distributions from an IRA without penalty.<sup>2</sup>
- **70½** is the age at which you must begin to take distributions from a traditional IRA.<sup>3</sup>

1 www.nber.org

2 aicpa.org

3 partners.financial.com

If you've decided to retire, you've probably already addressed a host of financial questions with your investment professional. You've inventoried all your investments and retirement plan and Social Security benefits to determine that you can actually afford to leave the work force. You've probably already decided on a withdrawal amount that you can take from your investments every year without being at risk of depleting your accounts before you die. If you're under age 65 and ineligible for Medicaid, you've undoubtedly determined how you'll cover your health insurance needs.

Now your attention naturally has shifted to making lifestyle decisions. How will you occupy your time? Will you start volunteer work or embark on some new avocation? How frequently will you travel? Will you spend winters in a warmer climate?

While it's easy to become preoccupied with all these exciting possibilities, you can't overlook the fact that not all your financial preparations have been made. The period of transitioning from the work force to retirement will itself present a whole series of financial issues to address. Following are some guidelines you'll want to bear in mind as you work with your investment professional to make the transition run as smoothly as possible.

### Reduce or eliminate your credit card debt.

A high balance on a credit card can translate to a monthly bill of several hundred dollars. Paying that bill will require you to withdraw more from your investments each year — and potentially deplete your nest egg faster. You'll probably never regret eliminating the burden of a high credit card balance — even if doing so requires you to stay in the work force a few extra months.

*(continued on page 2)*

### Key points

- You should try to reduce or eliminate credit card debt before you retire.
- Make sure to determine which accounts you will withdraw from first.
- Remember to work with your investment professional to develop an appropriate asset allocation strategy.

(continued from page 1)

### Get advice on how to take payouts from your pension plan.

Today, defined contribution plans, such as 401(k) plans, have become more popular than traditional pensions, known as defined benefit plans, which pay you a fixed amount every month. But if you work for a company that still offers an old-style pension plan, you may have a choice about how your monthly benefit will be calculated. For example, if you are married, the normal benefit will be based on the joint life expectancy of you and your spouse, but other options such as a monthly benefit based on only your life expectancy may be available if your spouse gives consent.

Generally, the option based on a single life expectancy will offer a higher monthly benefit, and the option that will provide lifetime income for you and your spouse will provide more security. While you and your spouse may be tempted to make this choice between larger payments and greater safety yourselves, you still may want to consult your investment professional before making any decision. He or she can take a close look at your plan options, examine how benefits are calculated, and help you select the calculation method that is best suited to your overall needs.

### Carefully weigh your options for handling your mortgage.

If you're about to receive a large, lump-sum distribution from your retirement plan, you may be tempted to use a portion of that money to pay off your house. Doing so could reduce

your monthly bills substantially. But again, it will be worth your while to consult with your financial advisers before making such a big decision. If you still have a number of years remaining on your mortgage, a good portion of monthly payment probably still goes to interest. The interest deductions you can claim each year may provide you with considerable tax benefits.

### Ease your way into your new lifestyle.

When you're ready to embark on a new phase of life, you may feel it's time to leave all the vestiges of your old lifestyle behind. But when making a dramatic change, such as selling your house and putting in stakes in a new part of the country, take a gradual step. Renting for your first winter, for instance, may help you determine if you're ready to leave your old neighborhood completely behind. Trying on the new lifestyle before you commit can help reduce the odds you'll later regret your decision.

### Develop an appropriate asset allocation strategy for your investments.

A generation ago retirees would shift most or all of their assets into conservative instruments such as bonds because these investments could provide the current income and principal stability they needed. But with earlier retirement ages and longer life spans, today's retirees often need the principal growth that stocks historically have provided.

As you prepare to transition your investments into retirement, you'll want to meet with your investment professional to discuss how you'll allocate your holdings. MFS® believes investors of any age are best served by following a disciplined diversification strategy that involves three basic principles:

- **Allocate** across the major asset classes — stocks, bonds, and cash.
- **Diversify** among the various classes to gain exposure to various investment styles, such as value and growth, and market sectors, such as government and corporate bonds.
- **Rebalance** your investments on a regular schedule to ensure that you maintain your desired allocation.

### Select which accounts you'll withdraw from first.

As a general rule, if you're under age 70½, you'll want to withdraw money from your taxable accounts first. Taking money out of a stock fund that you've invested in on your own, for example, will allow you to keep deferring taxes on the annual earnings in any IRAs you own.

But again, you'll want to check in with your investment professional to determine if this general rule applies to you. If you're in the lower tax brackets, the income taxes you'd owe on withdrawals from a traditional IRA may actually be lower than the capital gains you would have to pay for selling long-held stock fund shares.

(continued on last page)

(continued from page 2)

With your investment professional's help, you can set up the appropriate schedule of withdrawals from your various accounts.

### Balance your income needs with your estate-planning goals.

Any dreams you have of leaving a financial legacy for your children will also affect the retirement planning decisions you make. Money left in an IRA, for example, could bring greater tax consequences for your children than money in taxable accounts would. Here again, the common wisdom of tapping taxable accounts first might not apply because, in the interest of reducing the tax burden on your children, you may prefer to take money out of your tax-advantaged IRA before touching your taxable accounts.

In yet another scenario, some retirees may find they could use their IRAs to create a legacy spanning several generations of their family, using a technique called the "Stretch IRA." If you have substantial assets in an IRA and don't need to tap the entire amount to meet your living expenses, you may be a candidate for this technique. Your investment professional can provide the details on how to put it into action.

### Enjoy the ride

The job of planning for retirement of course never ends. Each year, you'll want to check in with your investment professional to make sure your financial plan is performing as expected. Still, those decisions you make in the final months leading up to retirement will have a considerable impact. Get them right and you're far more likely to be one of those retirees who can honestly proclaim that retirement is all they ever dreamed of and more.

### Resources

Mazonas, Peter, *Double your Retirement Income: These Strategies for a Successful Retirement*. John Wiley & Sons, 2005, 227 pages., \$16.47.

McFadden, Elizabeth, *Ready or Not: Your Retirement Planning Guide*. Manpower Education Institute, 2005, 122 pages, \$10.95.

This material is not intended to replace the advice of a qualified attorney, tax adviser, investment professional, or insurance agent. Before making any financial commitment regarding the issues discussed here, consult with the appropriate professional.

© 2005 MFS Investment Management®.  
MFS® investment products are offered through MFS Fund Distributors, Inc., 500 Boylston Street, Boston, MA 02116.

Contact your investment professional  
for more information or visit [mfs.com](http://mfs.com).

