



THINK YOU'RE READY TO RETIRE? TAKE A PRACTICE RUN FIRST

Test Your Retirement Plans While You Still Have Time to Tweak Them

ENGLEWOOD, COLORADO—The first wave of the nation's 78 million baby boomers¹ will start sticking their big toes into retirement waters soon. Before diving in, experts recommend taking a few practice runs.

“You might think that you want to play golf every day or cruise the country in an RV, but when reality sets in, you may find that too much of a good thing is just that—too much—or worse, that you simply can't afford your new lifestyle,” says Ted Beck, president and CEO of the Colorado-based National Endowment for Financial Education® (NEFE®). NEFE is an independent, nonprofit foundation committed to educating Americans about personal finance and empowering them to make positive and sound decisions to reach their financial goals. “Before you take the plunge, try out your retirement plans. Give yourself time to adjust before you commit.”

Based on NEFE's experience in educating Americans about money and retirement, Beck offers the following suggestions for getting the most out of your “practice” retirement.

Set Up a Trial Run

The idea is to “live” your retirement as realistically as possible, but in small doses—for example, on weekends, during vacations or even for a year, if possible. Think of the exercise as a simulation game.

- **Envision your retirement.** How does a day in retirement look? A week? A year? Do you see yourself wandering the country in your RV or staying home to care for the grandkids? Does your spouse share your vision?
- **Estimate the cost of your retirement dreams.** Track your current living expenses and use this information as a base. From the base, *subtract* expenses that you expect to disappear by retirement, such as a mortgage, car loan or work-related costs. *Add* expenditures that may increase when you retire, such as money for travel and hobbies, medical rates or the cost of caring for elderly parents.
- **Estimate your retirement income.** Start with your expected Social Security benefit. Call the Social Security Administration at 1-800-772-1213, or go to www.socialsecurity.gov. If you'll have a monthly pension or part-time job, add those dollar amounts. Next, estimate how much additional money you will have saved by retirement, an expected return on your investments and the amount you will withdraw each month. A financial advisor can help

you with such a calculation, but as a rough estimate, divide the total amount of your nest egg by the number of years (and then months) you expect to live in retirement. Or, check out NEFE's *Smart About Money* Web site, which has several retirement calculators. Go to www.smartaboutmoney.org; click on "Retirement" and then "Helpful Tools."

Run a Simulation

Use the resulting budget as you run a simulation of your retirement. Live on the budget while you take your RV on a month's vacation or baby-sit the grandkids for several weekends. Does the money hold up? Just as important, do you (and your spouse) *like* your retirement schedule?

"Whatever retirement you envision, try to simulate it first," Beck says. For example, if you want to relocate to a different part of the country after you retire, rent an apartment or exchange homes with someone from that area so you can experience what it's like to live there. Subscribe to the local paper. Ask the neighbors how they like living there year-round. Learn how much property taxes are, what city services are provided, and the cost of food, housing and medical care. Ask yourself how you feel being away from friends or family.

As part of your simulation, run some worst-case scenarios and think through the "what if's." What if you have a health crisis that lands you in a nursing home for several months? What if your investments don't pan out the way you planned? What if inflation spikes? How would you handle these situations? Would you take out a reverse mortgage on your home to weather the crisis? Tap into the kids' inheritance? Advertise for a roommate? Get a part-time job? "The more you can anticipate now, the better prepared you'll be when you retire," Beck says.

Tweak Your Plan

"The great thing about practicing retirement is that you can identify pitfalls and make adjustments before it's too late," Beck continues. For example, you might decide to stay at your job a few years longer or gradually step down into retirement by working part-time for a while. You might make it a priority to pay off all your debts before you retire or scale back your travel plans a bit.

Strategically planning when and how you'll retire from your current job can also make a big difference in your financial bottom line. If working a few more years will fully vest you in your employer's retirement benefits, carefully consider what you'll do without if you retire early. As you near retirement, seek advice on the timing and method of retirement distributions to avoid penalties and minimize taxes. A financial advisor can help you evaluate these decisions.

"As you practice retirement, you also may realize that what you really value does not cost a lot of money," Beck says. Learning to play the guitar, taking art lessons at a community center, mentoring children or volunteering for a favorite charity can keep you engaged and fulfilled without the need to sacrifice your finances.

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1 U.S. Census 2000

