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# BUSINESS

# Like saving, retirement spending also requires a plan

**SPECIAL TO THE STAR TRIBUNE**
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Coming up with an effective plan for spending your hard-earned retirement savings is a complex task. Here are some tips to get started:

First, you must make some important assumptions about your retirement years — starting with how long your money needs to last.

According to Jack Chmielewski, a principal and actuary with Milliman, "While a 65-year old male has a 30% chance of living past 90 and a 65-year old female has a 42% chance of living that long, the odds at least one of them lives past 90 approach 60%."

In addition, consider your physical health, dietary and exercise habits, along with the life span of your parents and grandparents.

Then there's your desired lifestyle. Along with your everyday living expenses, for some, retirement means a lot of travel and doing things you were too busy to do while working. For others, it means a lot of time in a cabin in the woods.

Make sure your retirement budget includes a healthy allotment for health care expenses. Some experts said it is normal for a couple to spend around $300,000 on health care costs alone during retirement. Others suggest you should plan on spending approximately 15% of your annual retirement budget on health care needs.

To offset these expenses, calculate the amount you will receive from Social Security, a number that can vary widely depending on when you decide to begin receiving the benefit. You should also include any other pension benefit and/or inheritance. Offset by any amount you plan on bequeathing to family or the community.

Investment decisions are critical. If you are fortunate to enjoy a long retirement, adding just a couple percentage points to your annual rate of return on your savings can mean the difference between leaving your loved ones a nice inheritance, and moving in with them later in life.

Beginning in September, 401(k) plan sponsors must include an estimate of how much monthly income your account would produce if it purchased an immediate annuity at retirement. While a fixed monthly payment you cannot outlive is attractive conceptually, understand that by purchasing a fixed annuity, you are essentially converting your savings into a return stream backed by 30-year Treasury bonds. Today this means locking in some of the lowest rates in the last 80 years.

For the "I lose sleep at night" investor, or those with so much saved their in-retirement rate of return doesn't matter, a fixed annuity may make some sense. For everyone else, you are better off with a low-cost balanced fund.

Another important decision you may have to make is whether to leave your retirement assets invested within your employer's plan or roll them into your own IRA. Generally speaking, the primary advantage to leaving your savings invested in your former employer's plan is cost.

Conversely, by rolling your assets into an IRA, you expand your investment and distribution options significantly. In both cases, it's simple to establish a systematic withdrawal.

Most people benefit from walking through this analysis with a professional. Finding an adviser without a significant conflict of interest is key. While leaving your assets invested in a low cost environment, like your former employer's plan, may be the right decision for you, it may not benefit the adviser. When you seek advice, be keenly aware of this conflict.

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