

Adviser should provide detailed retirement plan

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This week Your Money begins a new column, The Journey, looking at retirement: preparing for it and living it. As seniors live longer and millions of Baby Boomers approach their 60s, retirement issues are taking on ever-greater importance.

We want to hear your questions, problems and successes. E-mail us at yourmoney@tribune.com or write to Andrew Countryman, Your Money editor, Room 400, 435 N. Michigan Ave., Chicago, IL 60611.

Once you've completed the task of selecting an adviser to help manage your retirement nest egg, what should you expect for the money? For a comprehensive plan with an independent adviser, which generally costs between \$1,000 and \$1,500, clients should receive written, detailed recommendations about five main areas of long-term investing: estate planning, taxes, spend-down strategies in retirement, asset allocation and insurance. Here's what to look for: -- Estate planning With most advisers, you likely won't get a lawyer to actually draw up wills and trusts for that fee, but you will receive direction about strategies for avoiding probate and some basic wealth-transfer tax issues, said Ty Bernicke, a certified financial planner in Eau Claire, Wis. "A significant percentage of people have at least one land mine in this area," Bernicke said. Some examples: not properly designating beneficiaries on individual retirement accounts, not considering long-term-care insurance, and failing to realize some states impose taxes on much

smaller estates than do federal authorities. (This year's federal exemption is \$2 million.) "A lot of people are also unaware of how to stretch inherited IRA distributions, so they end up taking out a lump sum, which pushes them into a higher tax bracket," Bernicke said. -- Taxes Bernicke said advisers should have a plan to coordinate retirement-account withdrawals with an eye toward taxes. Basically, this means planning to draw down taxable assets first, then move to retirement accounts to give them more time to grow tax free. Depending on your desire to bequeath assets, you might tap Roth IRAs last to let heirs receive tax-free money. A good adviser will tell you specifically about strategies to use immediately after retirement, he said. One example: For someone retiring before required minimum distributions kick in, consider using those years to convert traditional IRAs to Roth IRAs, which allows tax-free withdrawals, regardless of how much the portfolio grows. By converting, you'll pay taxes on the money from a lower tax bracket, and you can convert only enough so that it won't throw you into a higher one. -- Withdrawals You should receive a written plan that makes projections on how much you can withdraw from the nest egg each year. "The averages are misleading, and many make static assumptions about future tax, investment returns and inflation rates," Bernicke said. Especially if you're within five or 10 years of retiring, make sure your adviser has run your portfolio through computer models that simulate thousands of market scenarios, he said. While those projections may seem like play money because they're off in the future, the specificity of your plan is vital, said Carl Schopfer, a financial planner in Scottsdale, Ariz. "When you're getting close to retirement, you need to know very specifically what you'll be able to withdraw, as well as how volatile your capital will be," in order to maintain the withdrawal rate, he said. -- Asset allocation In addition to an overall asset-allocation strategy, make sure you discuss upfront if the financial plan will include recommendations for specific investments. Not all plans do. And if you have any complicating factors, such as significant stock options, make sure the plan has a strategy for handling them. -- Insurance Make sure your plan includes an analysis of your life-insurance needs. And if you're working with someone who is licensed to sell insurance products, consider a second opinion from an independent adviser. -- Other options A la carte services for things like second opinions or specific retirement-planning questions are becoming popular on sites such as www.myfinancialadvice.com. And if a comprehensive, four-figure plan sounds too pricey, you can obtain many of these services through mutual fund giants such as Fidelity, Vanguard Group and T. Rowe Price. T. Rowe Price, for example, officially launched an enhanced advisory service Oct. 4 that gives clients spend-down strategies, investment projections and management help for \$250, or free if they have more than \$500,000 already invested or move \$100,000 in new money to the firm. Kiplinger's Personal Finance magazine, meanwhile, just named Fidelity's Retirement Income Planner as the best place to manage retirement income. Fund-company services can be cheaper and comprehensive, but your investment recommendations most likely will contain that company's own funds, and you may not find an adviser with as much experience as you might find in an independent planner. *E-mail Janet Kidd Stewart at yourmoney@tribune.com. Have a retirement question? Write to yourmoney@tribune.com, or via mail at Your Money, Chicago Tribune, Room 400, 435 N. Michigan Ave., Chicago, IL 60611. If your letter is selected, we may include you and your question in a future column.*