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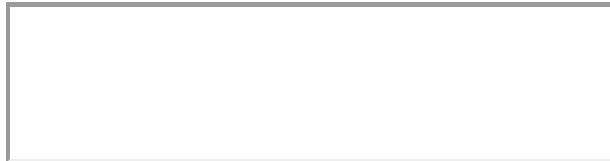
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Get splurging out of way before your retirement

By

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Dreaming of retiring and then sailing the world? You may want to try it the other way around.

Big-ticket purchases at or early into retirement can crush even well-funded portfolios, experts say, particularly if they're accompanied by a period of poor performance in the financial markets.

Some retirement advisers are beginning to urge clients to take the cruise, buy the new home or renovate the kitchen before retirement, not after.

Even if it means forgoing retirement account contributions in the final year or two of employment, getting those costly items out of the way while you still are earning paychecks can be worth it, said Christine Fahlund, senior financial planner for T. Rowe Price.

Ideally, this would be a strategy used by someone who has accumulated enough money to retire, except for maybe a few major expenses starting out. The idea would be to secure the retirement income stream but then continue working a few more years to cover basic expenses and the fancy extras, like trips.

This leaves out many people who are barely on track, or behind, on retirement savings. Still, the notion of getting people more enthused about the idea of working a few extra years is something that can help those who need to catch up.

The idea of preretirement spending may strike some as dangerous, given the low national savings rate, but it has some merit, both practically and psychologically. Practically, it delays the date at which workers ultimately drop out of the labor force and begin drawing down assets.

Psychologically, it helps preretirees to start thinking more seriously about how they really want to spend time in their older years, rather than focusing so intently on quitting and getting the new toy, experts said.

Instead, start sampling the new life with one foot still in the old, said Brent Neiser, a financial planner and director of collaborative programs at the National Endowment for Financial Education.

“It’s all about experimentation,” Neiser said. “If you want to retire to another city, take a two-week vacation there, rent a condo and do a dry run.”

You could buy the condo before retirement and rent it out until you need it, getting closing costs out of the way before leaving work, he said.

Considering a second career? If your employer offers education or career-transition assistance, take it while you still are on the payroll.

Realistically, however, this strategy can be difficult to accomplish, said Neiser, who is studying creative approaches to traditional retirement paths.

“More people actually walk away prematurely because of burnout,” he said. “If they had stayed even one more year, it would have made a significant difference,” because they would be that much closer to collecting Medicare insurance and full Social Security payments, for example, he said.

Some workers may find it impossible to disengage enough from their jobs to truly enjoy a big preretirement trip, said Ty Bernicke, a financial planner in Eau Claire, Wis.

“They feel guilty about leaving, and then when they get back to work they have to work twice as hard to catch up,” he said.

Likewise, being wrapped up in one job makes it difficult for some people to become excited about another.

Celebration trips and career planning aside, Bernicke sees clients who are starting to buy cars, fix the roof or renovate the kitchen in the years just before retirement.

So if you have been leasing a new car every few years, it might make sense to switch to a late-model used car as you begin to phase into a second career or retirement.

That’s an important point in this discussion. Don’t use those last few years as an excuse to acquire bigger luxuries than you would have if retired.

“Don’t splurge on a new car as if it will be your last, because you’ll probably still need to replace a car or two during retirement,” Neiser said.

Done right, he said, planning these expenses can help preretirees stay focused on their own retirement schedule, rather than others’ schedules. Delaying gratification can rush people into a retirement for which they really aren’t ready.

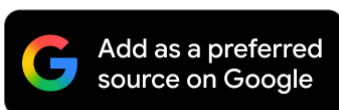
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“It can help people stay focused on their goals, rather than getting wrapped up in the rush to leave if others are retiring,” Neiser said.

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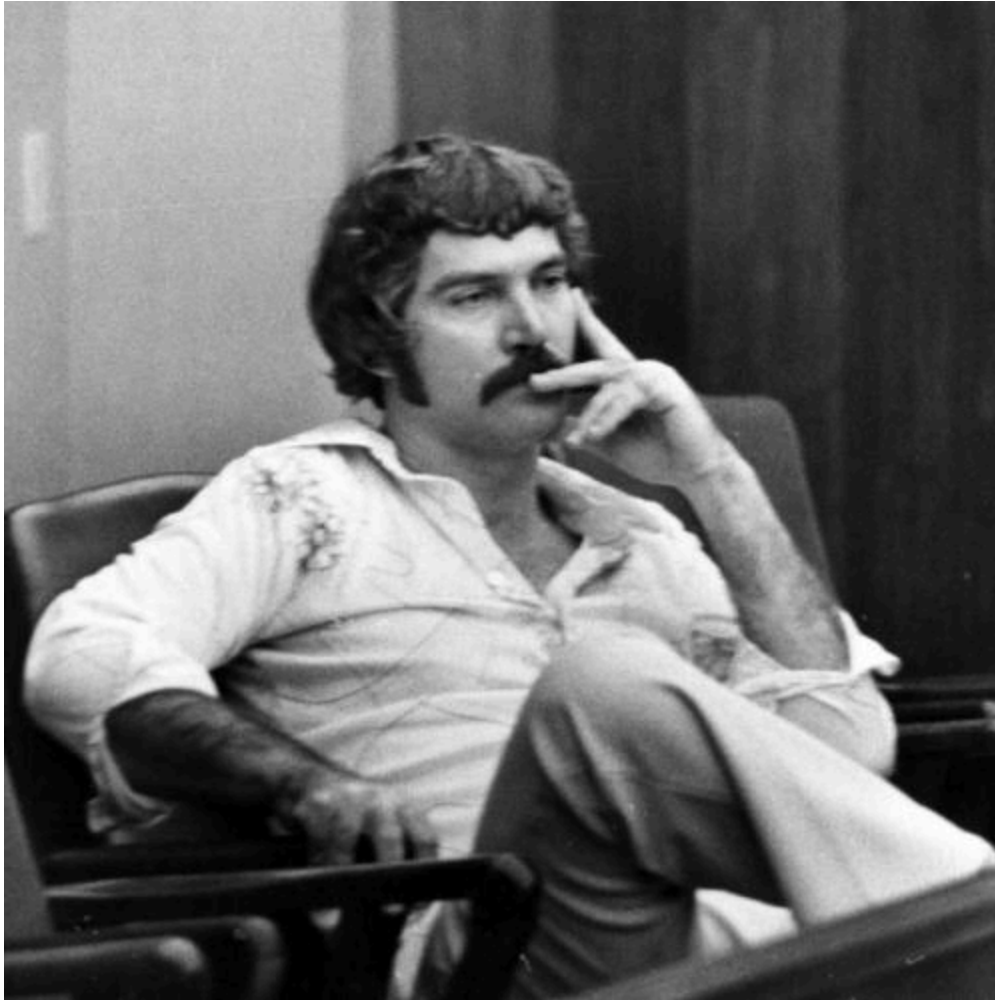
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