4 Unexpected Truths About Retirement

1. **Finding purpose and filling time are more difficult than most realize—**In our work helping transition several clients into the retirement phase of their financial plan, we have observed that people tend to be more prepared and ready to discuss the financial part of retirement than they are to discuss the mental shock that retirement often is. For some, they simply spent such a great percentage of their waking hours working that they have no idea how to fill the time. At first it's like a two week vacation. Then, after two or three weeks, people realize that every day is Saturday and they don't know what to do with all the time. Or they have things they like to do with their time but worry it will be too expensive to do those things. We prepare our clients for this and encourage them to take a trail run at retirement, like using all their available vacation time and staying at home for a few weeks. Even though they know this will end, it often helps them feel what retirement will be like.

2. **Everyone worries they don't have enough money—**Every client we have met, in the back of their mind, worries they don't have enough. Or they think "are we taking out too much too soon? What if there is a market decline early in our retirement? Will we be able to recover?" Part of the mental shock regarding retirement that we mentioned in point one is that it is very odd to people to go from earning an income to turning their assets into income. Even though our income during our working years is finite and one day can be summed up by a single number, we don't think of it that way because the number--even if it were knowable--isn't something shown to us quarterly on our investment account statements. When people retire, they look at the balance in their accounts usually far too frequently. It can cause panic and make them wonder if they are going to run out of money. What we have found helpful to our clients is to stress test various scenarios to give them confidence. We also find that creating guaranteed income along with places to keep our client's safe dollars in a tax efficient environment helps us mitigate the impact of downturns. The volatility of equities gives us the long higher returns we need to exceed the rising cost of living we will face during retirement. Having guaranteed income and other safe pockets prevents us from locking in a loss by selling in a downturn if we needed money unexpectedly and they market was down.

3. **It is hard for savers to spend**—The opposite side of the coin from running out is not enjoying life the way we are capable of living. Most of our clients accumulate their wealth by living within their means and being great savers over a long period of time. The challenge is that mindset is one of sacrifice and delayed gratification. In our work with clients, we help them overcome this by empowering them to take the vacation they want, buy the expensive car, give more to their kids and donate more to charity. Helping our clients achieve this balance is one of the most valuable things we can provide to them. It involves creating a new paradigm. The paradigm that got them here is one based on setting aside money for the future. What often happens is that when they save and invest, they understand the part about having a long time horizon, but they forget that it is actually their money to enjoy at a future date. Helping clients create a new paradigm that allows them to responsibly enjoy all that they have accumulated is one our favorite parts of serving our clients.

4. **Tax is the largest expense—**Often, people assume health care is the largest expense for most people in retirement. It is certainly significant and can be the largest expense for some. Taxes often sneak up on people. They may not be aware that 85% of their social security benefit is taxed, or that every dollar in Traditional IRA and Traditional 401(k) accounts are taxed at ordinary income, at whatever rates are at the time they take the money out. Our retired clients dislike paying taxes more than any other group of clients because their plan is based on assumptions that are accurate at the time. If taxes go up, those assumptions aren't as accurate and it could be a disruptive force to all the great planning they have done. We encounter most of our clients when they have 10 to 15 years runway before retirement. This gives us the opportunity to create different buckets that are taxed in different ways to give us greater optionality in retirement. Our clients view this as "tax diversification." We diversify how our assets are taxed in the same way we diversify the kids of things we invest in.