Helping Clients Choose The Right Time To Retire

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Retirement planning involves many factors, but one that's often overlooked is selecting the right time to retire—if clients even have a choice. Advisors can help, but it takes a certain finesse. Nonetheless, advisors' clients often work in highly skilled professions and are far more likely than most Americans to have a say in selecting their retirement date.

"Financial advisors play a crucial role in helping clients navigate the decision to exit the full-time labor force," said James Warner of the Warner Group in Shelton, Conn. "[But] each client's situation is unique."

Taylor Papiernik of Fairway Wealth Management in Akron, Ohio, put it this way: "As convenient as it would be to have a one-size-fits-all formula, the reality is that some people genuinely enjoy their work and never plan to retire, while others are counting down the days."

Determining exactly when to stop working may be tricky, but there are measures that advisors can take to help clients gauge this often difficult transition.

No Longer About Age
Retirement used to be a matter of age, and in some professions it still is. But Papiernik insists that isn't ideal. "Benchmarking ourselves to outside objective measures can limit our ability to live fully today, as those measures don't account for your personal net worth, goals, and dreams," he said.

Andy Smith at Edelman Financial Engines in Indianapolis shared that when clients talk to him about leaving the workforce, he has them consider six questions: Why retire now? Who will you be spending time with in retirement? What activities will you pursue? Where will you live? How soon do you need or want to leave work? And perhaps most importantly, how will you pay for retirement?

"If they can't answer these questions, they may not be ready," he said.

Just because a client *can* retire doesn't necessarily mean they should, observed Gina Bolvin of Bolvin Wealth Management in Boston. "It amazes me when I see some taking early retirement based on emotional decisions, rather than spending time to analyze their expenses and develop a plan," she said.

Some advisors recommend taking baby steps. "Practice retirement," said J.J. Burns of J.J. Burns and Co., an RIA firm in Melville, N.Y. Perhaps partial retirement will do the trick, he added. "Many people make the mistake of thinking their only options are a full-time job or no job at all," he said. "Explore the benefits of part-time work, which can extend the longevity of [financial] resources."

Chiquita Rice, president of Monarch Investment Advisors in West Roxbury, Mass., agreed. "Some clients begin to slow down and teach, work part-time or consult," she said. "They exchange income for leisure time and start the retirement adjustment."

Financial Considerations
Studies show that the average retirement age in the U.S. has been rising. Steve Parrish, professor of practice and scholar in residence at The American College of Financial Services, observed that many people have sedentary jobs that allow them to work into their 70s or beyond. Some can even work from home, he pointed out. At the same time, he said, "age-discrimination laws make it difficult for most employers to require a hard-stop age for retirement."

For a lot of clients, the decision rests on whether they can even afford to retire. "You need to understand your spending, your assets, and your goals within retirement," said Spencer Betts of Bickling Financial Services in Lexington, Mass. Typically, he said, "you need 10 to 12 times your spending goal in retirement savings."

If you plan to spend $40,000 a year in retirement, say, you need $400,000 to $480,000 in assets, he clarified.

Health is another key consideration, advisors say. Some people simply cannot continue working because of medical problems. "Physical health and wellness are much more important than age when it comes to deciding when to put down their personal responsibilities," said Elizabeth Wolleben Yoder of Dependent Financial Planning in Edgewater, Md. "If the family knows that there is dementia or a physically disabling condition that will limit their options to live the retirement they want, we may have discussions about retiring earlier."

Sarah George at Perigon Wealth Management in San Francisco expressed similar concerns. "Are there health conditions or perhaps longevity in the family that should be planned for?" she said. "Is there enough flexibility in the portfolio to absorb expenses that cannot be predicted or quantified?"

Many clients don't want to lose their employment-based health insurance, said John Fisher at Alera Group's Retirement Plan Services division in Downers Grove, Ill. "As you get older, you will likely need and want access to the best healthcare you can, so this is an important part of planning," he said.

The costs of healthcare and long-term care are rising at a faster clip than inflation, warned Mike Kurz of the Greenwood Village, Colo.-based Investments & Wealth Institute. “Both expenses can be enormous shocks to a household that could cause a landslide-like shift in assets available to fund retirement,” he said.

Such concerns can change a person’s priorities, noted Jesse Kurrasch at The AmeriFlex Group in Las Vegas. “In the wake of COVID, we have seen many people experience health events that prompt them to explore retirement,” he said.

Achieving The Right Balance
To be sure, there are many crucial aspects to the decision. “Finding the perfect moment to retire is a thrilling blend of crunching numbers and chasing dreams,” said Anthony Williams at Galene Financial in Houston. The first involves “ensuring your nest egg can weather any storm, and perhaps delaying retirement to boost your wealth,” he said. “[But] retirement isn't just about dollars and cents. It's about those heart-pounding aspirations, the globetrotting adventures you've been dreaming of.”

Financial planning tools can help evaluate whether a client can afford to exit the workforce, said Ashley Weeks at T.D. Wealth in Greenville, S.C. But, he added, “far too often the planning conversation stops well short of the important non-financial considerations.”

For instance, advisors often use a Monte Carlo simulation, a probability analysis tool that “can project the percentage of outcomes for which a client is likely to have their desired amount of income at some age in the future,” said John Deglow of American Trust Wealth in Lexington, Ky. This, he said, “can help clients better choose a retirement time frame that matches their unique financial circumstances.”

Such tools “can help give you the confidence to know that you *can* retire,” said Chris Briscoe at Girard, a Univest Wealth division in King of Prussia, Pa. They do not, however, address deeply personal considerations, he said, which may leave retirees “unprepared for the hours of free time, potential lack of structure and purpose, and reduced social interaction.”

On the other hand, working too long can be taxing, too, said David Boniface of Legacy Capital in Forest Lake, Minn. “Inertia is a powerful force, [and] it can feel easier to just keep working, even if it is not financially necessary or enjoyable,” he said.

Ultimately, the retirement decision comes down to a combination of rational and emotional imperatives, advisors say. “This push and pull of head and heart can be a tricky balance,” acknowledged Jeanie Alessandrini at Edward Jones in Los Angeles.

“Prioritizing happiness and life fulfillment is most often the goal,” stressed Dustin Wolk at Crescent Grove Advisors in Milwaukee, Wisc. “Still, if the financial realities do not align with that goal, a client can be left stressed in retirement and unable to fulfill the happiness they sought.”

Delvin Joyce at Prosperity Wealth Group, part of Prudential Advisors, in Charlotte, N.C., knows this all too well. ”As a former NFL player, I personally went through this transition as my NFL career ended and I had to recreate my identity,” he said. “When someone is unfulfilled in retirement, they will typically spend more money trying to fill the void.”

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That means taking the following steps to determine how much to save for retirement:

1. Estimate guaranteed retirement income from sources such as Social Security and pensions.
2. Calculate expected expenses based on debt and lifestyle choices.
3. Determine any shortfall that will need to be covered by retirement savings.

"Most people cannot tell me what they actually spend," Burns says. "They don't know the life they're living and how much it costs."
They may total their monthly bills but ignore all the smaller items – such as gifts, vacations, travel and home décor – which can quickly add up. All that spending needs to be considered to calculate an accurate retirement savings goal.

How much people plan to withdraw from retirement funds each year should also factor into setting retirement savings goals. One common rule of thumb is to withdraw 4% from retirement funds each year. Four percent of $1 million provides $40,000 each year for retirement spending. If you can't imagine living off $40,000 a year plus Social Security, it's time to reconsider your savings goal.

"For younger generations, if they can get all their funds in nonqualified accounts, that's like a huge bonus," Coffman says. Nonqualified retirement plans can defer compensation for later payment and may have tax advantages. Using Roth accounts, rather than traditional retirement accounts, can also reduce taxes in retirement.

If all this feels overwhelming and confusing, find a financial professional who specializes in retirement planning. They have both the experience and software to make calculations on behalf of clients.

[**READ:** 8 Ways to Achieve a Happy Retirement]

How to Get to $1 Million in Savings

While $1 million may seem like a lot of money, compounding gains from investments means this number is within reach even for those with relatively modest incomes.

A 25-year-old would need to save approximately $400 a month to achieve a $1 million balance by age 65, assuming a 7% annualized return on the investment. While that may seem like a lot, workers with a 401(k) may receive automatic contributions to their retirement plan from their employer. Many companies also match employee contributions. Both can quickly add to retirement savings.

"I think it's doable if people start early," Ozanne says. But even compounding gains has its limits. "It's probably not as doable if they have waited until their 50s to start saving."

Young workers with relatively few expenses should make retirement savings a priority before life events such as marriage, children or homeownership chip away at their extra cash. Some employees may also have the option of a professionally managed 401(k) account. Although there are no guarantees, a properly managed account could result in better returns balanced with an appropriate level of investment risk.

"It really boils down to discipline in doing it," Barberis says.

Other strategies to boost savings include minimizing taxes, cutting expenses and looking for low-fee investment options. However you reach your goal, with careful planning and expert guidance, you may be able to stretch your $1 million or more across a retirement that is decades long.

Updated on July 28, 2022: This story was published at an earlier date and has been updated with new information.

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