

## Mom's Worry-Free Retirement

**A**s a financial advisor serving the middle class millionaires of Montgomery County, I am seeing an increasing number of people age 70 to 80 years old walking into my office with \$500,000 to \$1,000,000 in investable assets and homes valued between \$300,000 and \$700,000.

More and more of these folks are worried about running out of money during retirement and having to declare bankruptcy. The last thing you want for mom and dad in retirement is for them to be bankrupt and living hand to mouth.

Statistically, there is an 8 to 1 chance that a husband will die before his wife. That is why this article is going to focus on the retirement planning needs of your aging mom.

There are many "what ifs" related to retirement planning. What if mom has existing health concerns? What if she lives past 80, 85 or even 90?

For an aging parent, perhaps the biggest "what if" is: what if I have to go into a nursing home? The likelihood of spending some time in a nursing home is relatively high, according to Health Services Research journal published by the U.S. National Library of Medicine. Once a person reaches age 65, there is a 40 percent chance he will spend time in a nursing home prior to death. Once a person enters a nursing home, government statistics show that there is a 90 percent chance that he will stay five years or less.

In the Washington, D.C. metro area, most nursing homes cost between \$8,000 and \$12,000 per month – a total annual expense of almost \$120,000. If mom is going to spend up to five years in a nursing home at \$120,000 per year, the worst case scenario is that she will need \$600,000 to meet that expense.

How is mom going to come up with the \$120,000 annual cost of the nursing home? Most middle class millionaires can expect between \$2,000 and \$3,500 per month in Social Security benefits or

about \$40,000 per year. So mom will need about \$80,000 a year in additional income to meet the cost of her nursing home stay – a total of \$400,000 over five years.

One of the most common ways to come up with additional nursing home money is by selling mom's primary residence. Doing this not only eliminates the costs of owning the home, which include real estate taxes, utility bills, lawn care and other upkeep expenses, but the principal from the sale can be used to fund the cost of staying in the nursing home.

Here is a quick primer on the fundamental rules of financial planning for retirement.

### **FINANCIAL PLANNING HELPS DEFINE MOM'S RETIREMENT GOALS.**

Whether your mom wants to lie on the beach during retirement or spend her time antiquing and playing golf, she needs to define her goal. Once it is defined, then the cost of reaching that goal can be quantified.

### **FINANCIAL PLANNING HELPS MOM FIGURE OUT THE RIGHT WAY TO SPEND HER RETIREMENT MONEY.**

How mom spends money in retirement is just as important as how she saves money for retirement. A spending plan will enable her to meet day-to-day expenses, while retaining enough asset liquidity to meet emergency needs.

### **FINANCIAL PLANNING HELPS ADDRESS THE "BUCKET" ISSUE – PUTTING MOM'S RETIREMENT SAVINGS INTO THE RIGHT BUCKETS AND SPENDING MONEY OUT OF THE RIGHT BUCKETS.**

Let's say mom needs to save \$25,000 a year to meet her retirement goals. Financial planning helps put her savings in the right "bucket" from an income tax standpoint. These include:

- Traditional pre-tax IRA or 401(k) accounts (in which taxes are deferred on retirement savings until



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they are distributed).

- Roth retirement accounts (in which savings are allowed to grow tax-free and are also tax-free when distributions are taken in retirement).

- Taxable accounts.


But financial planning is also needed in retirement to make sure mom is spending money out of the right bucket or buckets. As a general rule, she should spend taxable money first, pre-tax (traditional 401(k) or IRA money) second and Roth money last.

**FINANCIAL PLANNING HELPS  
CALIBRATE THE RIGHT ASSET  
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TERM LIQUIDITY, INTERMEDIATE CASH  
FLOW AND LONG-TERM PURCHASING  
POWER.**

In the short term, one to three years out, mom needs highly secure investments with predictable return on principal. Four to 10 years out, in the intermediate term, she needs to be looking for higher yield. Ten years and beyond, her number one priority should be maintaining long term purchasing power.

The value of financial planning for mom's retirement is indisputable. It opens the door to retirement happiness and satisfaction by helping mom define her goals, save enough money and save it in the right accounts. Once she retires, financial planning also determines the right amount of money to spend each year and how to spend it.

Final action tip: If you're worried about mom potentially running out of funds during retirement, you should have an honest discussion with her. Dad may have controlled the family finances and she may

have no concept of what assets are owned or how the family money has been spent. Find out what assets she does have, how much (if any) pension income she has, and do what you can to make sure she lives within her means. The sooner you do this, the better. 

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