



Investment Services

Managing Cash Flow in Retirement

Except for the fortunate few who don't have to worry about money, the ultimate goal for most retirees is making sure their assets last as long as they live. Once a person or household no longer can rely on earned income to pay the bills and save for the future, balancing income and expenses becomes the primary focus of financial planning. And because of increasing longevity, managing cash flow is more critical than ever. A typical American electing to retire in his or her mid-60s may expect to live 20 or more years after retirement.

While many variables come into play depending on each person's mix of income, lifestyle, and health, there are a number of planning moves that can help retirees live within their means and make appropriate adjustments in response to changes in income and expenses.

Tools for the Task

If you are retired, or about to retire, you will need to gather and organize key information before you can tackle the ongoing tasks of monitoring and managing your cash flow in retirement. The purpose is to give you a clear and complete picture of your current financial situation, as well as of any significant changes you expect. Two sources will provide this information:

- An up-to-date net-worth statement, which provides a snapshot of your assets, debt, and cash reserves.
- Your monthly or annual budget, with itemized breakdowns of your income and expenses. If you haven't retired yet, it's a good idea to prepare a projected budget of your retirement income and expenses.

Be sure to account for all expenses, including those that occur infrequently, such as insurance bills, college tuition, membership fees, and investment management fees. They should be reflected in your monthly budget on a prorated basis. If you need assistance creating your net-worth statement and budget, you may want to consult a financial advisor, a book on the subject, or resources that are available online.

Analyzing this information will reveal any major problems that you need to overcome, such as insufficient cash reserves for an emergency or an income shortfall compared with current or projected expenses. It may also point up areas for improvement. For example, you may be able to free up cash by reducing debt or eliminating nonessential expenses.

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Regular Monitoring

Plans and projections are always subject to change. Even with reasonable assumptions about investment returns, inflation, and retirement living costs, it's likely you will encounter numerous changes to your cash flow over time. Frequent monitoring of your income and expenses will detect changes that you can address in a timely fashion to prevent significant problems down the road. Experts often recommend a monthly review of your budget, as well as a comprehensive annual review of your financial situation and goals. While you can keep track of your situation with paper and pen, specialized software may make the task easier, especially if your finances are relatively complex.

What to Look For

What should you look for as you monitor your finances? Following are potential developments that could affect your cash flow and require adjustments to your plan.

- Interest rate trends and market moves may result in an increase or decrease in income from your savings and investments. For example, if interest rates decline, you may have to reduce your expenses if you are periodically withdrawing a fixed percentage from your investment assets. Alternatively, you might consider altering your investment mix to pursue other sources of income, aside from traditional fixed-income investments -- equity dividend income investments, for instance.
- You may also encounter changes in federal, state, and local tax rates and regulations. This factor may come into play if you relocate after retiring. The state you move to may impose higher income or property taxes, for example. Other factors that could have a bearing on your retirement cash flow include changes in Social Security and Medicare benefits or eligibility, as well as those affecting employer-provided retiree benefits and private insurance coverage.
- Inflation and health care costs are two other variables that can have an impact on living costs and, hence, your retirement planning assumptions.
- Life events -- such as marriage, the death of a spouse, and the addition or loss of a dependent -- may also affect your cash flow. Cash flow is also a matter of personal preferences and decisions, and here you will be in control of the many small and large choices likely to be made over the course of retirement. How much you spend on travel, entertainment and recreation and whether you live in a lower or higher cost locale are examples of factors that can have a significant effect on cash flow -- and how long your retirement assets are likely to last.

That's why it's worth paying close attention to cash flow, making sure you budget carefully, monitor income and expenses frequently, and take action whenever you see significant changes in income and expenses.

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