

FINANCIALLY PLANNING FOR RETIREMENT

By Kevin Alerding



According to a study conducted by the Exit Planning Institute,¹ an astounding number of former business owners suffer from sellers' remorse. In fact, while there is no direct correlation between a business' sales price and the seller's level of satisfaction, there is compelling evidence suggesting many former business owners regret the sale within two years. When analyzing the research further, another interesting correlation was discovered: Sellers who failed to plan their post-retirement lives suffered the greatest levels of remorse.

I have seen a parallel with retired lawyers. In society, lawyers are viewed with a certain prestige. A more senior lawyer once confessed to me he often preferred being at the firm where his colleagues viewed him as witty, smart, gentlemanly, gracious, and, most importantly, brilliant! However, at home, he was ordinary and, perhaps worse, equal to everyone else. He was expected to help with the dishes, fold the laundry, and, to his horror, clean the bathroom. For him, like many former lawyers and business owners who were once seen as the *Big Man on Campus* (as my father would say), the transition to being just an average guy was a tough pill to swallow as his former life, career, and colleagues moved on without him. This is why it is particularly important to ensure you have a post-retirement plan. You can only play so many rounds of golf and watch Peppa Pig with your grandchildren so many times before you find yourself longing for the days when everyone saw you as that witty, smart, and gracious head honcho!

At my former firm, I made a habit of sitting next to someone I did not know well at the annual Christmas party and asking what they intended to do in retirement. Some had adventurous ideas, like sailing the Great Loop, climbing mountains, metal working, substitute teaching, etc. It was obvious these ideas were more than ideas: They were passions which had long percolated, well before retirement. By contrast, others were pitifully boring. One told me he wanted to continue practicing law pro bono. Another swore he would die at his desk.

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It was not difficult to predict which of these individuals would regret retirement and which ones would thrive.

Beyond this practical aspect of how to spend your time in retirement, there is an essential question everyone must ask themselves: *Do I have enough money to retire?* I implore you to IGNORE the gurus on social media and ask yourself seven honest questions:

1. How old am I?
2. How much do I have?
3. How many people do I support?
4. Where do I intend to live?
5. How much do I spend?
6. How will my spending change after retirement?
7. How much risk am I willing to take with my investments?

The last three of these questions are the most difficult to answer. Most people are unaware of how much they spend, much less what they spend it on. However, there's a cheat code to figure this out. Look at how much you made in each of the last several years (this can be derived from your income tax returns), subtract the amount you added to your retirement plan, savings, and investment accounts, and the difference is the amount you spent. While this formula is merely a rough

estimate and does not supply clarity on what the money was spent on, it is enough to get you started and help your financial advisor project your future cash flow and how long your money should theoretically last. If the analysis reflects a shortage of cash flow earlier than expected, it is important to consider altering your plans, whether it be delaying retirement, curbing spending, considering part-time work, etc.

For a more precise calculation, there are a multitude of software programs available to supply greater clarity. Consider asking your advisor to run your retirement projections through two or three different programs to see how closely the results align. At least one of those programs should be a Monte Carlo analysis, which runs 1,000 or 10,000 scenarios involving market crashes, rampant inflation, bull and bear


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"If you are a young lawyer, do yourself a favor and stuff as much as you can into your 401(k) or other qualified retirement plan account every year."

markets, and everything in between. If your financial needs are met in 90% or more of those assessments, you can retire with high confidence in your personal finances. Following retirement, you should rerun these calculations annually to determine whether any adjustments in your spending are necessary.

If you are a young lawyer, do yourself a favor and stuff as much as you can into your 401(k) or other qualified retirement plan account every year. Even new lawyers tend

to earn more than the average Hoosier, so there should be room in your budget to save for your future and still enjoy a better-than-average lifestyle today. It may be a struggle to set money aside in the early years, as you also try to buy a house and start a family. But doing so has two great benefits. First, through the magic of tax-deferred compounding, a little money can turn into a lot of money after four decades of growth. Second, setting money aside is habit forming. If you do it from the start, it will become a way of life.

Finally, it is important to address an anxiety-producing concern for many. Long-term care can be extraordinarily expensive, especially for those with illnesses and/or disabilities requiring skilled care, especially when the care is provided in a personal residence. Fortunately, long-term care exists on a spectrum, with the not-so-great but affordable Medicaid facilities on the far left, and the comfortable but extremely expensive at-home skilled care on the far right, with many practical options in between. My best advice to those considering long-term care is not to overthink the matter, as there are solutions which can fit any budget. However, the earlier you start looking for the right solution for you and your family, the easier it will be to make the decision when the time comes, even if your research begins a decade early! ☺

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ENDNOTE

1. Edwin Mysogland, "Emotional Considerations for Transitions," *Exit Planning Institute*, April 1, 2019, <https://blog.exit-planning-institute.org/emotional-considerations-transitions>.