

# Safe Money Advisory

## *Financial Literacy and Retirement*

**For Immediate Release  
Houston, Texas**

The economic crisis of the past few years has punctuated the importance of financial literacy, i.e., knowing what options are available, the risks and rewards of each and how to adjust financial positioning in response to life changes like retirement. Many retirees entrusting their money to the market witnessed significant losses while others utilizing the safety of bank CDs suffered massive income reductions as interest rates plummeted to new lows. These folks now know, sadly too late, that financial literacy and the need to take control of key aspects of retirement planning cannot be left to chance. Nonetheless, many facing retirement continue to believe education in financial planning is unimportant and allowing a qualified professional to help them is unneeded. You are encouraged to take responsibility for your financial literacy because retirement success hangs in the balance. The major financial issues faced by retirees are reviewed below.



The greatest fear of most retirees is not having an income for the remainder of their life. This means as you near retirement you need a plan to convert assets into income. No doubt you'll have some Social Security but chances are it will not be enough; consequently, the challenge will be converting 401(k), IRA and investments into a guaranteed lifetime income you cannot outlive. If your income planning includes blue chip stocks that pay dividends bear in mind that companies have and will change dividends in response to economic times. Additionally, blue chip stocks sometimes lose their luster; thus, this strategy involves market risks. You might opt for fixed-income places like bonds but all bonds, even U.S. Treasury, have interest rate risks and many, including municipal and corporate bonds, also have default risks. Many retirees are advised to use a structured withdrawal plan whereby they will use a given percent of their retirement money each year by converting assets to income. The risk here is that market losses mean disproportionately more assets must be converted to maintain the needed retirement income and this leads to running out of assets to convert. An emerging strategy is to shift the risk of living too long to an insurance company by using some of your retirement money to "lock in" a guaranteed lifetime income that's received regardless of what happens to markets, interest rates or the economy. Such a lifetime income is possible with an annuity that has a feature called a Guaranteed Lifetime Withdrawal Benefit.

No doubt inflation and taxes will have a bearing on the quality of your retirement. There is little you can do about the former except possibly keep some of your late-in-retirement money in places that historically has kept pace with inflation. The danger is that risk is associated with places like real estate, stocks, mutual funds, etc. Accordingly, you could again end up with no income late in retirement, so be extremely careful when using the traditional assets that keep up with inflation. Taxes can be managed by diversifying your tax exposure, something that most people do not do. For example, if you can defer taxes on money you will not need until later you can smooth out the tax bite and even lower the taxes you will pay on Social Security benefits. Also, you can carefully convert qualified retirement money to Roth IRAs and lower your lifetime tax bill. If you want to defer taxes or convert to a Roth you'll either need financial literacy or a good advisor – do not attempt without either.

Retirement is the time to minimize your risk of loss because you have no way to replace lost money. The immutable law of investing is that risk and reward travel together; thus, if the rate of return is above market so is the risk: there are no exceptions. The amount of risk you can afford is intertwined with your personal situation; therefore, what is appropriate for your neighbor may not be suitable for you. There is no easy path to financial literacy; however, you should commit to learn as much as you can, never put your money into something you do not understand and always make sure you evaluate the risk. The best way to do these is learn as much as you can on your own and then find a good financial advisor to provide the expertise you do not possess.

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