CASH MANAGEMENT STRATEGIES FOR A SECURE RETIREMENT

For those of us looking forward to achieving a financially secure retirement, an overriding question is ñhow much will I need to live comfortably during retirement?ò Unfortunately, there is no one-size-fits-all answer; everyone has different goals and objectives. However, we have listed below some ideas to help build that retirement nest egg.

Budgeting. Develop a budget that minimizes nonessential current expenditures in the interest of saving for the desired standard of living during retirement. Developing a budget is also a good first step in accumulating some cash for emergencies.

Building a Cash Reserve. Develop and maintain a cash reserve to meet emergency needs. Building an adequate reserve can help avoid having to liquidate investments when the market is depressed or it is otherwise inadvisable to sell.

Forced Savings. Some people are less likely to spend money if they do not actually see the funds, and some need the discipline of having savings taken care of automatically. These individuals may find it easier to set funds aside if they arrange to have their bank automatically and systematically transfer funds from checking to savings or investment accounts. Also, they may have their employer take automatic payroll deductions to fund voluntary contributions to retirement [e.g., 401(k)], savings, or stock plans.

Allocating Less to Other Parts of Financial Plan. Consider allocating a lesser amount of funds to other parts of your financial plan. For example, education costs for children or grandchildren may need to be revised and less expensive institutions considered. Gifts to family members and pre-retirement travel and entertainment may need to be reduced.

Minimizing, Restructuring, or Eliminating Debt. Generally, debt should be minimized as retirement approaches. If borrowing is necessary, home equity loans or borrowing from a qualified retirement plan (if permitted) should be considered. Home equity loans are generally a relatively cheap source of financing (considering the after-tax borrowing rate), and the repayment terms often are more generous than those of unsecured loans. The interest on a home equity loan up to $100,000 is generally tax deductible on your federal return, regardless of how the loan proceeds are used. Loans from qualified plans generally carry relatively low interest rates, and the interest paid on the loan is an addition to your account balance.

Using a Reverse Mortgage. A *reverse mortgage* is a loan in the form of monthly payments or a lump-sum payment against the equity in your personal residence. If age 62 or above, you might consider a reverse mortgage for one or more of the following reasons: (a) paying off personal debts, (b) paying for medical care, (c) covering financial emergencies, (d) delaying withdrawals from a retirement plan, or (e) supplementing monthly income. The loan is not repaid until the homeowner permanently moves from the residence, the property is refinanced or sold, or the homeowner dies.

Delaying Retirement. Working for a longer period can make a significant difference in your retirement picture. For example, in addition to continuing earnings, working longer may provide continued fringe benefits and contributions to retirement plans. Extending the working period could also delay IRA or other retirement account withdrawals needed to cover living expenses, thus allowing them to grow longer on a tax-deferred basis. Delaying social security benefits can also result in a higher monthly benefit amount.