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P&G Retirement Checklist – Legal & Financial

Below you will find a list of tasks that you need to accomplish as you approach retirement. These items allow you to get your financial and legal house in order to increase the chances of a successful retirement. The time frames are a guide. If you are closer to retirement or in retirement, this checklist can still be used to make sure you have considered all of the legal and financial issues.

Up to Five Years Prior to Retirement

Interview and selection of financial team

This is one of the most neglected preretirement planning items. Many people wait until retirement is on their doorstep to select a financial planning team. The team should include three skill sets: income tax; estate and legal; and financial planning/money management. Some service providers offer more than one skill set on their team. Make sure you have all three available.

Financial planning decisions start as early as five years prior to retirement. The sooner you get good advice, the better.

If you think you will manage your own retirement, interview several to at least analyze the cost and benefits of having an advisor help you with retirement and financial planning. You should hire a professional on an hourly basis as needed if you manage your own money.

Diversification within the plan

At age 50, you can diversify within the Profit Sharing Plan. Consider whether this is best from your perspective. If you have a financial advisor, he or she will assist you with diversification.

Debt pay down plan

Create a plan to eliminate small debts and loans. Eliminate consumer debt and children’s college loans. Because your retirement income may be lower, it is time to reduce your overhead and fixed monthly payments. If you are going to stay in your current home for the long term, focus on paying down the mortgage. If you are going to move, do not pay the mortgage down any faster than the current payment.

Lifestyle assessment

I recommend getting Alan Spector and Keith Lawrence's book ***The Retirement Quest***. Alan and Keith do a great job of analyzing the ten principals of a successful retirement. The book focuses on the social, psychological, emotional, and family aspects of retirement.
By making some of these decisions now, you can start building networks, joining groups, practicing retirement, taking classes, and setting up consulting opportunities.

Life insurance planning

Your group term life insurance will cease at retirement. Do you have insurance policies outside of your group term? Do you need life insurance after retirement? Your financial advisor should help you with this question. Life insurance is used to provide income replacement, debt satisfaction, and the payment of funeral bills and estate taxes. Assess your need for life insurance. Cancel policies if unnecessary and convert older policies if appropriate.

Stock option strategy

Develop a strategy to exercise stock options. Create a target for exercising the stock options. Stock options represent significant assets as a part of the overall plan. If the options represent surplus and add to your retirement money, you can be more aggressive in waiting. If the options represent a core part of the retirement plan, you should consider exercising early to protect against the downside risk. You can then purchase call options to capture the upside potential. Your financial advisor should help with these strategies.

Children's college plan

If you have college expenses to deal with, develop a plan for these costs. Will these funds come from stock options, your current income, savings, loans, or your child? Because these costs represent a significant cost in the years just prior to retirement, you should set these funds aside or if debt exists, pay it off. Consider these costs from the perspective of an early and normal retirement date.

Update estate plan

Many people have not looked at their estate plan since they did simple wills to name guardians for minor children. Use your flex-compensation to purchase ARAG Legal Plan benefits to update your estate plan. Now that you are facing retirement, you need to update your plan for your current wealth and life circumstances. Consider disability documents, living trust, and probate avoidance. You need to review beneficiary designations on your life insurance and profit sharing plans. Consider whether you need life insurance, asset protection, and long term care insurance.

Track spending

To get a handle on your spending, track spending for six months to a year. What expenses are fixed and will continue in retirement? What debts can be paid off to reduce your outgoing cash flow as you approach retirement? What items will you spend money on during retirement? Your budget is a fundamental linchpin to the retirement plan. Thus, you need to know what you are spending now to plan for retirement spending.

Preliminary retirement plan and projection

Prepare a written financial and retirement plan. Do you have enough money to retire? What is your number? Are you below your goal, on target or ahead of schedule? This analysis will cause you to focus on reducing your budget, paying off debts, reallocating assets, and increasing cash flow.

Cash build up plan

Cash is king. In retirement, you need a rainy day fund equal to six months of expenses in short term cash savings. Additionally, you should have three to five years of ready cash available in a bond ladder, so you do not have to sell stocks in the first three to five years of retirement. Start building within your retirement plan or outside of your plan a pool of cash equal to three years of cash flow needs.

Review income tax

Income tax planning is critical in building and preserving your retirement capital. Federal income taxes range from 0% to 44%. State income taxes range from 0% to 9.5%. Even if you prepare your own tax returns, consider meeting with a tax professional for income tax planning. If your retirement assets and financial plan can be structure to delay, reduce or eliminate income taxes, you can increase the chances of financial success.

Six Months to Two Years Prior to Retirement

Make final selections of financial team

If you have not already established your financial planning or advisory team, do so. The decision that you make several years before and after retirement are critically important. If you plan to manage your own money, hire hourly based tax advisors, financial advisors, and attorneys for support as needed.

Completion of retirement plan

Rerun your retirement and financial plan with your current data and assumptions. Verify that you are still on track for your retirement date. Make adjustments as needed.

Budget

Create a specific retirement budget including all of the fixed monthly expenses. These are identified as your needs. Create a list of additional and variable expenses. These are identified as your wants and wishes. The importance of identifying cost this way is that the needs should be guaranteed within your cash flow plan. Wants and wishes can be turned on and off as the economy ebbs and flows.

Identify additions, deletions, and other sources

Identify cost to cut from your budget. Identify additional needs that may be incurred during retirement for recreation and travel. Plug into the budget sources of new employment income or consulting fees. Update retirement income and stock option values. Is the market up or down? Were the assumptions made two or three years ago in the first plan still relevant?

Cash flow analysis

From your retirement plan, financial plan, and budget create a five year cash flow analysis.

Life goals

Update non-financial retirement goals. Create a bucket list of things to accomplish in retirement. Take the retirement assessment at www.yourretirmentquest.com.

Exit strategy

Develop your exit strategy. This may include timing for retirement. Are there packages available? Do you have an assignment coming to an end? Are there significant life events like the last child graduating from college? Do you have to train replacements or finish projects? Do you want to stay past a certain date to get benefits for another year? Are changes in income tax rates suggesting you should delay or accelerate your retirement date?

Retirement distribution plan

This is one of the **most important decisions** you make with respect to your Profit Sharing Plan. You have four main options which have significant short term and long term affects on your income tax planning, estate planning, financial planning, and investment planning. I encourage you to seek professional help on this decision. You can read more in my retirement planning guide at www.cmrklaw.com/pg-retirement.

Asset protection plan

Part of the financial plan is to insulate your assets from loss to creditor’s claims. If you will be employed after retirement, consider professional liability or business liability insurance. If you are consulting or buying a business, set up a limited liability company or corporation to provide creditor protection. Review your liability policy with your insurance agent. Purchase a liability umbrella policy if necessary. Also, as a part of the estate planning, assets can be titled in a manner to provide asset protection.

Review estate plan

Review and update your estate plan. Consider how your retirement plan distribution affects your retirement goals. How you take your money away from P&G can change your estate plan.

Living choices

Decide where you are going to live. Will you have one home or two? Will you stay in your current house, downsize or upsize? Depending on this decision, pay off your mortgage or refinance your mortgage if appropriate. Generally, if you will stay in your current home, then paying off the mortgage will reduce your retirement budget. If, however, you are going to sell, do not pay off your mortgage. It is easier to refinance when you have a job and wages. Thus, refinance before you retire. Consider refinancing the remaining 18 years on your mortgage into a 10 year loan consistent with your stock option income. Establish a line of credit against the equity of your home. You may never use it, but it is good to have a line of credit in place and readily available for short term cash needs and purchases.

Health insurance

Analyze the source and cost of health insurance benefits. Consider when Medicare is available. Determine retiree benefit plans and COBRA benefits. If you have a spouse, will you both be on P&G's plan, your separate plans or your spouse's plan? What are the cost and benefits of each? What are the cost and benefits if you or your spouse dies?

Long term care

One of the biggest cost and risk to your retirement plan and estate plan is the cost of long term care and nursing homes. Current cost for skilled care exceeds $7,000 per month. Consider whether you are self insured against these costs or whether long term care insurance is needed. Your insurance agent or financial advisor can recommend policies. There are new plans and programs available, so if you have dismissed them in the past, look again.

Social Security

How much is your social security benefit? When is social security available? Should you take the discounted benefit early or wait for the full benefit? This decision needs to be built into your budget and cash flow plan.

At Retirement

Execution and implementation

At this point, all of the planning has been done and you simply need to implement the plans in place on the time table that has been established. Retirement is a journey not a destination. Your health may change. The market goes up and down. Family members may need help. Laws and tax rates change. The process to be repeated over the rest of your life:

- Establish goals
- Develop strategies
- Decide among alternatives
- Implement
- Review and adjust

I hope this helps you with your retirement journey. Let me know if I can be of assistance. I welcome the opportunity to be a part of your team.

Very truly yours,

John B. Cornetet