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YOUR MONEY

Final approach to retirement filled with turbulence

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You already may be well along the road to a fine retirement.

You started early, invested regularly, used tax-advantaged retirement accounts, didn't borrow from them, diversified your assets, monitored them and didn't overinvest in your employer's own stock.

But before you become cocky during that final approach to your retirement destination, realize the last stretch of road can have potholes, speed bumps and rough pavement. Maybe even a boulder or two.

Among the potential issues:

- Hazard No. 1: Divorce obliterates many retirement plans.

"Divorce is the most common cause of retirement failure and devastation that I regularly encounter," said Malcolm Greenhill, a certified financial planner and president of Sterling Futures in San Francisco. "Even if spouses weren't great at accumulating assets in the first place, they'd have done fine in retirement if they stayed together, but separately it becomes a much different story."

Money set aside often isn't enough to finance two separate retirement lives. In some cases, the spouse who entered the marriage with the greater financial assets is especially unprepared to retire with a reduced lifestyle after the divorce settlement. Panic sets in when retirement living expenses become evident.

- Hazard No. 2: Treating your house as your primary retirement vehicle isn't so shrewd.

"People have seen home values increase over the years and figure someday they'll be able to cash in to retire, but homes are not the financial panacea they seem," said Michael Boone, a certified financial plannerand owner of MWBoone and Associates of Bellevue, Wash. "You have to live somewhere in retirement, which takes a good chunk of that cash elsewhere, and in most cases people finally decide they don't want to move after they retire."

Retirees accustomed to a city with easy access to entertainment, transportation, family and friends often decide a more remote retirement location won't meet their needs. They often can't stand to sever their attachment to their home. Meanwhile, home values sometimes do decline.

- Hazard No. 3: Hucksters know you have socked away retirement money over many years, and they want a piece of it.

"I've seen so many investors nearing retirement get suckered at seminars into buying property or other investments sight unseen just at the absolute wrong time in their lives," said Greenhill, noting preretirees can be eager to swing for the fences. "They start to believe investment diversification means buying gold and condominiums."

Many clients coming to Greenhill suffered financial damage from "listening to all that noise," he said. All assets will go up and down in value, but most of the hard-sell marketing of assets is done to convince investors to buy something that already has gone up in price, he warned. Investors often lack a thorough understanding of relative risks.

- Hazard No. 4: Your withdrawal strategy may be nonsense.

"So many times, retirees see the big pile of money they amassed and begin in retirement to use a much higher withdrawal rate than is prudent," said Boone, who considers the safe annual withdrawal rate to be 5 percent. "They've run their own calculations in which their withdrawal rate is based specifically on what they determine their portfolio will be earning."

Projected returns often consider only the best years of the past, and the effects of inflation may be ignored. With 4 percent annual inflation, the cost of living doubles every 18 years, Boone said.

- Hazard No. 5: Making plans based on living to the same age as your parents or grandparents can mean extremely lean final days.

"The actuarial figures we have say that a husband and wife at age 65 have a 40 percent chance of one of them reaching 95," Boone said. "If your income and education are above average, longevity numbers can be pushed even further out, and you'll want to be eating if you reach 95."

Clients often must be told they should delay plans for retirement because they underestimated the money needed, he said.

- Hazard No. 6: Dumping all stocks and moving into bonds isn't all it's cracked up to be.

"People still have the old-fashioned notion that the day you retire you must go from owning stocks to owning bonds," said David Berman, principal with Berman McAleer Inc. in Timonium, Md. "Our clients make no changes the day they retire, because they've been gradually making changes for six years leading up to retirement."

Because too many investors do "barbell" investing with risky stocks on one end and Treasury securities on the other, Berman likes equity-income funds that combine high-income stocks with bonds. He also recommends hybrid securities, such as preferred stocks. ---------- Andrew Leckey is a Tribune Media Services columnist.