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10 Critical Questions Near-Retirees Are Asking About Their Money

Learn from financial planners' insights into the real-life financial challenges confronting Americans on the verge of retirement.

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It is, quite literally, the million-dollar question facing soon-to-be retirees in their fifties and sixties: How should they manage their nest eggs to ensure adequate income through decades of retirement?

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Given the opportunity to mine financial planners' brains for free financial insights, near-retirees just like you asked many variations of the asset-allocation question in our Jump-Start Your Retirement Plan live chat on September 25. Fifteen planners from The National Association of Personal Finance Advisors answered nearly 300 questions throughout the day-long event. While each person's financial circumstances are different, you can learn plenty from the financial challenges (and potential solutions) confronting your fellow near-retirees.

Here are 10 critical money questions near-retirees are asking -- and the valuable advice they're getting back:

How to Double Your Savings in 10 Years

Q. *We are a 50-year-old couple and have about $1 million invested in individual stocks, stock and bond mutual funds, and cash through our 401(k)s, IRAs and pension accounts. Is it possible to double the money in 10 years when we plan to retire? If so, how would you invest it to ensure that we have $2 million by the time we retire? What asset allocation/diversification strategy should we follow today to reach our goal?*

A. To double your money in 10 years, you would need to earn approximately 7.2%. (Just search online for the "Rule of 72," which tells you approximately how long it takes money to double when years x interest rate = 72. For instance, 10 years x 7.2% = 72.) To earn this, you'll likely need around 70% of your portfolio invested in stocks. Your risk tolerance, other sources of income and ability to contribute more funds are also important and should be considered before deciding on an asset allocation. – *Mark Ziety, Shakespeare Wealth Management, Pewaukee, Wis.*

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A Tax-Smart Retirement Income Plan
Q. *When I retire at 51, where should I pull money from to supplement my pension and my wife's annuity to get the best tax benefit?*

A. I think you are on the right track, incorporating taxes into your withdrawal plan. Very, very generally, I often recommend maximizing the 15% tax bracket with withdrawals from pretax accounts [such as traditional IRAs or 401(k)s], then taxable accounts [such as a Roth IRA]. If you don't need the money, it may even make sense to convert some to a Roth account. I would recommend speaking to a holistic advisor and reviewing tax projections to determine the strategy. Keep in mind the taxes you'll have to pay on those withdrawals. – *Robert Schmansky, Clear Financial Advisors, Livonia, Mich.*

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Growing Your Social Security Benefits
Q. *I am 63, and I am a contract employee. My contract is scheduled to run out between now and the time I am 66. If I choose not to seek other employment, will my Social Security benefit continue to increase until full retirement age even though I [will be] making no [new] contribution to the program?*

A. Yes. Assuming you qualify for Social Security benefits, your benefit will increase 7% to 8% annually, depending on your year of birth, until a maximum of 132% of your [full retirement age] benefit at age 70. At that point, there's no advantage to continue waiting to claim Social Security. – *Tyler Gray, SageOak Financial, Tulsa, Okla.*

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Early Withdrawals From Your Nest Egg
Q. *I am 57 years old and have both an individual IRA and a company-sponsored 401(k) plan. I understand that withdrawals from the IRA cannot start until 59.5 years of age, but I read that I can start withdrawals as needed from the 401(k) once I turned 55. Is this true, and what tax implications can I expect?*

A. An early-withdrawal penalty of 10% is applied to withdrawals from IRAs before 59 1/2 and 401(k)s before age 55. After age 55 [and before you turn 59 ½] for the 401(k), you need to have terminated employment from the employer that sponsors the plan [in order to withdraw without penalty]. You'll still owe income tax on the [withdrawal]; it's simply the 10% penalty won't apply. Therefore, if you retire between 55 and 59 1/2, there's an advantage to leaving money in the 401(k) rather than roll it to the IRA, so you can avoid the 10% penalty [if you want to withdraw early]. – *Mark Ziety, Shakespeare Wealth Management, Pewaukee, Wis.*

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The Role of Pensions, Social Security Benefits in Asset Allocation
Q. *When an individual investor at time of retirement is deciding how much of his/her investment portfolio should be split between bonds and stocks, should one count one's pension income and Social Security income as part of the percentage on the bond side? For example, if one has 60% stocks and 40% bonds, does one count the pension and Social Security income as part of the 40%?*

A. Yes, your pension and Social Security are a major part of an asset allocation. If your pension and Social Security

cover all of your income needs, you have a lot of flexibility in your asset allocation. You can take much more risk and try to grow [your portfolio], or you don't have to take any risk at all since retirement is funded through other sources. You should calculate how much income you need from the portfolio and then allocate the portfolio based on the income need. A local NAPFA fee-only planner can help determine the income need and allocation. – *Mark Ziety, Shakespeare Wealth Management, Pewaukee, Wis.*

A. My personal belief is you should tie your assets to your needs. [For income you'll need in] one to three years: safe and short-term investments. Three to seven years: diversify a little more in various types of bonds and real estate. Seven or more years: money should be invested for growth. So, the question to my mind more is when do you need the income, not how much do you count the pension in terms of a present value. *–Robert Schmansky, Clear Financial Advisors, Livonia, Mich.*

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Should I Roll All IRAs Together?
Q. *My spouse and I have several small IRAs from previous employers, and each one is held with a different firm (Vanguard, Fidelity, etc). Is there a benefit to rolling all of these into one firm into a Roth IRA? Or, is it better to have our eggs in several baskets?*

A. I think there is an advantage to having everything in one place -- one statement, one online login, and a consistent look at the overall picture. If you're with an adviser, we have performance reports that show gains net of fees, your overall picture. The second page is the same, but shows each asset class, and next page shows each actual fund. It's very helpful and organized. I think there is real risk in having everything spread out, because it's a hassle to see the big picture, and, should it become a divorce or death situation, this is actually a pretty consistent headache. – *Bonnie Sewell, American Capital Planning, Leesburg, Va. and Miami, Fla.*

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Traditional vs. Roth IRAs
Q. *Everyone raves about Roth IRAs, but I love my traditional since I get the deductibility and deferred growth. If someone knows they will be in a lower tax bracket upon retirement, isn't the traditional the way to go?*

A. You are correct that if you [end up] in a lower tax bracket when you retire, it may work out just fine. I can't predict the future state of congressionally mandated tax codes, but I would venture a guess taxes won't be coming down anytime soon or in the future. You may want to consider a method of tax diversification with your retirement accounts whereby you have both a traditional IRA and a Roth. As you take money out during retirement, the money would first come from your traditional IRA account until you get pushed up into a higher income bracket, and if you need more money, take it out of the Roth. – *Phil Hogg, Hogg-Murnighan Financial Planning, Park Ridge, Ill.*

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Deferred Annuities
Q. *What do you think about deferred annuities? I have seen some that guarantee 7% per year credited on the balance that can be converted to an annuity in 5 years or 10 years. The 7% is not an amount that can be withdrawn; it's just to convert to an annuity. Seems like a good deal.*

A. Generally speaking, those that offer guaranteed rates such as 7% are increasing the withdrawal balance that is used to calculate the future annuity amount. In that case, you are correct that the "balance" cannot be withdrawn. One of my primary concerns is the possibility of future inflation. Once you annuitize the contract, your payment is most likely going to remain level forever, losing purchasing power. That may be okay in the context of a plan, but many people think that they will be earning 7%. If you or an advisor build a spreadsheet showing the projected values and income over time for several options, it will help visualize the product performance over a number of years. – *Adam Leone, Modera Wealth Management, Westwood, N.J.*

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Moving Out of a Target-Date Fund
Q. I have a Vanguard Target 2015 Retirement Account. I will be retiring in 2015. Should I move my money from the Target 2015 account to a less risky account for my retirement years? And, if so, will I have to pay taxes on the money when I move it?

A. You can move your Target 2015 account to another tax-deferred account if you would like, or, if it's possible to simply change your existing fund where you are, do that. The Target 2015 fund is geared to match your retirement in 2015. But if you have changed your risk tolerance, you can consider any other fund. It becomes taxable under two scenarios: 1) moving it out of a tax-deferred account, or 2) taking a distribution from the account. – *Bonnie Sewell, American Capital Planning, Leesburg, Va. and Miami, Fla.*

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Asset Allocation at Age 60
Q. I'm currently 60 years old, and I want to retire at either 66 or 70. If my risk tolerance is 60% stocks and 40% bonds, what asset class mix in my IRA should I be allocated in to ensure I'm properly diversified?

A. An appropriate allocation might include a decent portion of the stock percentage to domestic equities, with a tilt toward small/value mutual funds. You also might consider 1/4 or 1/3 of the stock allocation (15% to 20%) or so to international and emerging markets stock mutual funds. As for the bond portion, you have a lot of options, but the combination of a good domestic and international bond index fund should suffice for diversification purposes. – *Tyler Gray, SageOak Financial, Tulsa, Okla.*

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