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Why Finances Are More Complicated in Retirement

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JONATHAN GUYTON: What is the biggest financial surprise when people retire?

You might think it's your Gen Y (or even Gen X!) child moving back home or needing financial support for a while. But if you build adiscretionary fund into your retirement income plan for just such surprises, your plan will stay on track.

The biggest financial surprise is that you'll have more—not less—planning opportunities and pitfalls than before retirement. And for a while, sound financial management often becomes more involved and intricate, rather than simpler and easier. This happens for at least two reasons.

First, your financial shift into retirement isn't like flicking an on-off switch. Instead, it's a transition. In the years before retirement, managing your finances well primarily involved living off employment income, maxing-out 401(k) and deferred compensation plan(s), managing investments for growth, estimating your future spending needs and perhaps paying off a mortgage.

In retirement, however, you move from what is familiar to a life that is new in many ways. You've never done this before! Figuring out your new income sources is just one aspect. It takes time to really settle on the spending level for your core needs. Sound planning decisions to maximize certain income sources may delay their start by years. This requires planning your cash flow sources to bridge-the-gap until they do. It may be 5 to 10 years before all your new "paychecks" are finally coming in. And then there are those spending "extras"—both the fun and the unavoidable. Where does money for them come from? And how best to enjoy living your bucket list and still maintain your hard-earned retirement financial security?

In addition, handling your finances well involves addressing matters not previously on the table. For instance, how will you obtain health coverage, perhaps both before and after age 65? In what combination should you access your investment accounts to provide the continuing retirement income you need? How can you best take advantage of their various income-tax treatments? Should this cause them to be invested differently? What about Roth IRA conversions? For couples, what if one of you is widowed for an extended time? Should your portfolio's allocation change now that returns and a sustainable lifetime income both matter? (Interestingly, recent research showed that merely shifting to higher dividend-paying stocks often comes up short.) How should you think about possible long-term care or nursing-home needs? What about the inevitable: incapacity, health-care directives, best ways to leave inheritances, and your legacy?

Handling your financial affairs well in retirement usually isn't carefree, at least not for a while. But the effort to truly make it so is well worthwhile!

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