

How to Handle a Retirement Shortfall

Saving for retirement in today's economy can be a monumental challenge. This is especially true if you've just finished paying for your children's college education. But, you can control your financial future by identifying your retirement needs, setting up a retirement savings goal, and making wise investment decisions now.

However, sometimes even the best plans meet with unexpected obstacles. If you are facing a shortfall, you can still achieve an enjoyable retirement if you are willing to make some compromises. Here are some strategies you may find useful:

1. Review your retirement budget. Estimate your future expenses by asking yourself key questions regarding anticipated medical expenses, housing costs, and, of course, travel and entertainment. While few of us want to cut back on our standard of living, we should be *prepared* to do so if necessary.

2. Make sure your assets are performing effectively. Identify your lowest performing assets by listing them in order of last year's rate of return. Consider improving the return on your portfolio by repositioning those at the bottom of the list. Conservative investments like CDs (certificates of deposit) and savings accounts provide safe, reliable sources of income, but may not keep up with inflation. Bear in mind, however, that with increased returns come greater risks. You will have to determine how much (if any) risk you can afford and are willing to take at this time in your life.

3. Move to a more affordable location. You might free up additional retirement capital by lowering your housing, utility, and insurance costs. You might also consider sharing a house or apartment with a friend or relative to help cut costs.

4. Do not overlook other resources on your balance sheet. Among these untapped sources could be:

- o Highly appreciated nonincome-producing assets such as stock or real estate. You may be able to convert these assets to be income-producing. A sale could result in a tax gain, although your tax advisor may assist in identifying possible approaches for reducing taxes.

- o Your valuable collectibles. Specialty items such as antiques, dolls, stamps or a coin collection could be converted to cash, if they don't provide as much enjoyment as they did before.

- o Your home equity. If you own your home free and clear, a reverse mortgage could provide you with access of up to 80% of your home value. If you have a gain from the sale of your main home, you may qualify to exclude up to \$250,000 of that gain from your income, or up to \$500,000 of that gain if you file a joint return with your spouse. The proceeds of the sale could be used to supplement your retirement resources.

5. Consider delaying retirement. Each year you wait reduces that shortfall and gives you the chance to increase savings.

6. Seek part-time employment to supplement your income. With many parts of the economy moving toward "out-sourcing" or "contract" work, you may find part-time opportunities available.

Few of us plan to fall short, but shortfalls can occur for a variety of reasons. Once you recognize that you might have to make some adjustments, you can take proactive steps to deal with a shortfall. Above all, keep a positive mental attitude. Any lifestyle changes you make may turn out to be less of a sacrifice than first imagined.

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