ON THE FENCE ABOUT RETIRING NOW?

How do you invest when the stock market is at an all-time high, you have a lump sum to invest, and you're getting ready to retire? Obviously, no one's net worth, lifestyle goals, and risk tolerance are exactly the same.

In consideration of all that, here's how one couple put a plan together. Let's call them Jack and Jill.

Jack is 67 and Jill is 66. They have three adult children and four grandkids (ages 7, 6, 4 and 3). Jack was a sales executive in the steel industry and Jill worked for an engineering company in Pittsburgh. Their combined income was about $200,000 annually.

J&J own their home and paid off their mortgage several years ago. With three kids, they lived in the moment most of the time but were able to accumulate about $1.7 million ($1.2 million in 401(k) plans and $500,000 from inheritance).

Their income objective in retirement is $144,000 annually after tax (or about $12,000 per month). They are concerned about inflation in the future.

Their retirement goal is two-fold:

Withdraw an amount to support their lifestyle each year and maintain their principal balance for some time.

Social Security will pay them about $4,000 per month (starting at full retirement age) leaving a balance of $8,000 per month to come from investments.

That said, their annual withdrawal rate out of necessity will be around 6.7% before tax. Many advisors recommend a withdrawal rate of only 4-5% annually in order to preserve principal so it might be said J&J are "living on the edge" with a 6.7% annual withdrawal rate.

Also, they are faced with investing their lump sum when the market is at an all-time high. They can't invest in CDs and money markets and be forced to draw down their principal.

They do not have the luxury of investing everything in U.S. Treasury bonds (super-low risk) yielding only around 1.50% right now. They are faced with the reality of having to assume some market risk in order to accomplish their financial goals.

So how should they go about it? One solution is to invest and retire in stages:

- Keep about one year's income in cash as a hedge against market volatility. Draw from cash if the market turns down.
- Allocate about five to eight years in high-quality intermediate-term bonds (about $700,000 fixed income). Their fallback position, if cash, is depleted during a recessionary period.
- Invest the balance in equities/stocks – mutual funds and/or ETFs. Historically, stocks are positive about 70% of the time. Those are pretty good odds, and J&J have cash and fixed income as a safety net.

A 7% to 8% average annual return should cover withdrawals but doesn't leave much room for market unpredictability or inflation. And there is absolutely no assurance these levels of investment returns can be attained in the future.

J&J understand many of the risks they are taking by retiring at this time. To obviate some of their concerns, they decided to work parttime for a few years – and hedge their bet.

Jack loves to play golf so he took a part-time job at a local golf course with some perks (he can play golf for free on off days), and Jill plans to continue working a few days per week at the engineering firm where she had been employed for over 20 years.

This extra income will help J&J grow their assets and take less from investments for a few years. This should make their retirement years more enjoyable and less worrisome. Working parttime also helps with the psychological transition from working full time to retirement.

J&J are looking forward to the next phase in their lives. They have a trusted financial advisor who is a fiduciary and someone they can trust. By collaborating with their advisor, they have a plan, and with the support of their advisor, they can track and monitor results and make changes when necessary.

Hopefully, they will enjoy many years of worry-free retirement. Odds are in their favor with a well-thought-out plan.

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