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5 Questions to Ask Clients 5 Years Before They Retire

By Elaine Floyd, CFP®

Horsesmouth Essential: **Retirement planning takes on added urgency in the period just before clients stop working. Help your clients get realistic about their golden years by looking at the major factors: health, housing, expenses, income, and hobbies.**

Those who are not yet retired can only imagine what life will be like after work. The vision of carefree days, with no boss or alarm clock, is very clear for some clients—they see themselves traveling around the world, writing the great American novel, or relaxing with family. Many others just hold a vague notion that life will somehow be better than it is now. Yet it seems that however clear or cloudy their notions about retirement are, folks universally hope that the money will take care of itself. That's what "retirement" is, after all—shifting to a phase of life when something other than daily work becomes the primary source of income.

But of course, for that shift to go smoothly, a lot of planning has to happen. And a big part of the planning is figuring out what life in retirement will actually be like. You can have this "life planning" conversation at any time with clients, but those within five years of collecting their proverbial gold watches should really start nailing down the specifics of how they expect retirement to play out. These decisions will help clients determine how much income they'll need.

Here are the key questions to ask—and some resources to help clients find the answers.

Where will you live?

The answer to this question affects not only housing costs but other living costs as well. Consider:

Proximity to children and grandchildren. If clients live far away, they'll need to build travel costs into their budgets and/or have extra space in their homes for when the family comes to visit. Far from downsizing into condos, some retirees actually move into larger homes to accommodate family gatherings.

Travel plans. Clients who don't expect to be home much won't need lavish housing, but they will need to consider maintenance costs while they're gone. If travel is expected to play a big part in their retirement plans, clients might opt for an inexpensive condo near the airport (with no plants or pets), at least until the wanderlust subsides. If and when it does, they'll need to reconsider the housing question again.

Affordability. The ideal way to plan for retirement is to envision the perfect life and work toward it. But many clients—especially those in their 50s and 60s—don't have that option. For clients who would rather retire sooner on less income than work extra years, the where-will-you-live question might better be phrased "Where can you afford to live?" In this case, clients will want to consider towns with low living costs (but still taking into consideration those visits to grandchildren, which could cancel out any savings in living costs if they're too far away).

Key factors in assessing a location's living costs are the price of housing; the cost of food, utilities, and transportation; and taxes (state income tax, property tax, and sales tax). Use this cool cost-of-living calculator to compare cities. For example, a move from Los Angeles to Bellingham, Washington, three years ago would have saved over 18% a year in overall living costs. Moving to Great Falls, Montana, would save 6% more.

Employment and business opportunities. Clients who plan to work during retirement should consider the job market for the type of work they want to do, or the business climate if they plan on starting a new business. They can begin researching employment and business opportunities by gathering information from local chambers of commerce and reading local business journals. This factor goes hand in hand with affordability: often the towns with the lowest cost of living have the most limited employment and business opportunities; clients who want work that pays well or an active market for their product or service may have to pick a less affordable city.

General preferences. Some retirees choose their retirement location based on climate, cultural and recreational opportunities, access to medical care, and other lifestyle issues. Here's a fun tool clients can use to select their perfect city based on their individual preferences.

What will you do?

You'll be touching on this question during the where-will-you-live conversation, but take the time to look at it thoroughly, because how clients plan to spend their time in retirement will largely determine how much income they'll need. One way to look at this is to ask if their anticipated activities will add to the income side or the expense side of their retirement budget.

Income-generating activities. Obviously, working during retirement generates income—unless the client's entire paycheck is absorbed by working costs, taxes, or employee-discount purchases. But at the very least, working—even volunteer work—keeps retirees occupied so they are less inclined to fill their days with activities that impact the expense side of the income statement.

Expense-generating activities. Clients who don't plan to work will have to fill their days doing something. Even classic low-cost activities such as gardening require trips to the nursery. This is not to say clients shouldn't indulge themselves with favorite hobbies during retirement—just that these expenses will have to be factored in to the budget. Clients who plan to start a business may need to prepare for several years of start-up expenses before the business becomes profitable.

How will you live?

This question relates to discretionary spending. It overlaps with the previous two questions and basically asks how simple or extravagant a lifestyle the client expects to lead:

The simple life. Most meals at home. Inexpensive vacations like road trips and camping excursions. Mid-priced car. No lavish spending on entertainment, clothes, or other discretionary items. Inexpensive hobbies such as reading, gardening, or woodworking. Modest home.

The high life. Lots of meals out at fancy restaurants. Luxurious vacations like cruises or travel with long stays at fine hotels. Luxury car. Social life requiring an elegant wardrobe. Expensive cultural activities like theater, concerts, or season tickets to sporting events. Expensive hobbies like golf, wine, or photography. One or more well-appointed homes.

The rule of thumb that says clients will need 80% of their pre-retirement income in retirement does not take into account the fact that most retired people these days have not only the time, but also the energy, to live it up. At some point clients will need to draft a retirement budget that takes into account these discretionary expenses. But for now, just imagining their life in retirement—and how lavish a lifestyle they expect to have—will help them get a handle on how much retirement income they'll need and when they might be able to retire.

How will your health hold up?

Health status impacts the retirement budget in two ways: it determines whether or not the client will be able to work (and for how long) and how much the client might have to pay out in medical expenses. It also impacts life expectancy (see next question), which ultimately determines how long the retirement nest egg will need to last. Ironically, the healthier the client is, the more attention he or she needs to pay to long-term care: it's often the oldest of the old who need the support of nursing homes for custodial care at the end of life.

To answer the health question, clients can look to their family history to see what health issues they may likely face later on, also taking into account lifestyle factors such as exercise, smoking, and nutrition. Physical checkups will also help them keep tabs on their health status throughout retirement. The U.S. Preventive Services Task Force has compiled screening guidelines for women and variety of conditions.

How long do you expect to live?

This is the million-dollar question that, if answerable, would make retirement planning so much easier. Unfortunately, clients are often misled by tables that show the median life expectancy—that is, the age at which half the population is already dead and the other half is alive and kicking (and requiring ongoing income to stay that way). It has virtually no bearing on any individual's true life expectancy. The safe route is to plan for retirement income to last to age 95 or 100. If clients are afraid that will cause them to leave too much on the table, they can visit the life expectancy calculator at Living to 100 to get a more accurate idea of how long they might live.

Clients who have already thought through their vision for retirement may find these questions obvious and easy to answer. Others may need serious help getting a fix on what life in retirement will bring. While it's never too soon to begin talking about the factors that will influence the need for retirement income, don't let any client get into the five-year stretch without first facing these five simple—but not so simple to answer—questions.

As director of retirement and life planning for Horsesmouth, Elaine Floyd helps advisors better serve their clients by understanding the practical and technical aspects of retirement income planning. A former wirehouse broker, she earned her CFP designation in 1986.