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NAVIGATE FINANCIAL
Charting Your Journey

Countdown to Retirement

Presented by Nancy J. LaPointe

There's a lot to consider as you prepare for retirement, so it's wise to begin planning well ahead of time. The checklists below are designed to help you stay on track for the retirement you envision.

Five Years to Retirement

- Set your target date.
- Envision your retirement.
- Calculate your number.
- Position yourself for a better retirement.
- Consider purchasing long-term care insurance if you haven't already.
- Pay off outstanding debt.

Three Years to Retirement

- Review your retirement benefits, including social security.
- Review your retirement health care benefits and costs.
- Review and adjust your retirement asset allocation.
- Review your life insurance coverage.
- Formulate a retirement lifestyle budget.

One Year to Retirement

- Record important dates and deadlines.
- Contact the Social Security Administration.
- Contact your employer.
- Contact prior employer retirement plans.
- Contact Medicare.
- Test-drive your retirement budget.

At Retirement

- Consolidate your retirement accounts.
- Transition your health care coverage.
- Calculate your retirement income paycheck.
- Determine your tax withholding or quarterly tax payment.
- Adjust your budget.

Five Years to Retirement

Set your target date. Before making any plan, it's important to have a clear goal in mind. Setting a target retirement date will help you create a timeline and guideposts you can measure your progress against. This doesn't mean the date is set in stone, however. In fact, many people prefer a phased retirement, which allows you to transition from full-time work to reduced hours. Before considering a phased approach, talk to your employer about how reduced hours will affect your pension, health insurance, and other employee benefits.

Envision your retirement. To determine when you can afford to retire, you need to consider what you want to do in your golden years. When envisioning your retirement lifestyle, be as realistic as possible. What interests do you want to explore that you may not have had time for while you were working? What additional expenses might you incur? Do you want to start a business, travel, relocate, or help fund your grandchildren's education? A clear retirement vision will help us understand where your accounts should be as you move through your pre- and postretirement years.

Calculate your number. Once you know when you want to retire and what your life will look like, you can better estimate the amount of retirement savings you'll need to support your lifestyle. When calculating your number, it's also important to consider the financial risks you may face in retirement. Here are a few factors to keep in mind:

- Expect to live longer than your parents. As life expectancy for many people stretches into the 90s and older, retirement assets must last longer.
- Inflation will reduce your spending power over time. Plus, some costs, such as medical care, have historically increased faster than the Consumer Price Index.
- An overly conservative portfolio can be just as risky as an overly aggressive one. If your portfolio grows at a rate slower than inflation, you could eventually have to dip into your principal.
- Keep your withdrawal rate under 5 percent of your retirement investments. Conservative withdrawal rates can decrease your risk of running out of money.
- Medicare won't cover all your health care expenses. A survey by Fidelity Investments found that a couple age 65 will need approximately $295,000 to cover medical expenses in retirement, excluding long-term care.

We may use sophisticated software to calculate the amount of retirement savings you'll need and to test that number against various hypothetical scenarios. Although it's impossible to predict the future, this analysis can provide a range of possible retirement account withdrawal options that your portfolio should be able to sustain over time.

Position yourself for a better retirement. Now is the time to eliminate the gap between your current retirement resources and your ideal amount of savings. Increase your retirement savings by taking advantage of the higher contribution limits for those age 50 and older. You can contribute an additional $6,500 per year to a 401(k) and an extra $1,000 per year to a traditional or Roth IRA. You may need to supplement your savings with other investments, such as brokerage accounts, annuities, and bank savings vehicles.

Consider purchasing long-term care insurance, if you haven't already. People today are living longer but not necessarily in the best of health. Many individuals will require long-term care at some point in their lives. Medicare, Medicare Supplement Insurance plans, and retiree medical insurance pay very little, if any, of the costs for this type of care. According to Genworth's latest Cost of Care Survey, the price tag for long-term care can range from $54,912 per year of at-home care to $105,850 per year for nursing home care. Given those costs, it makes sense to devise a strategy to help manage the long-term care risk.

Pay off outstanding debt. Interest payments can have a draining effect on your retirement income. If possible, consider paying off your long- and short-term debt, especially loans against your 401(k) account. Loans from your 401(k) that are not paid off shortly after you leave your employer will be taxed as a distribution from your retirement plan.

Three Years to Retirement

Review your retirement benefits, including social security. Determine your optimal age for taking pension payments. Under federal law, pension plans automatically pay out as an annuity over your lifetime, with a survivor benefit for your spouse. But you may have other options that better fit your financial needs. It may even make sense to defer your annuity to increase your benefits. The same is true for social security. Although you can begin taking social security benefits as early as age 62, the benefits are reduced if you apply before full retirement age (age 66 to 67, depending on the year you were born). You can substantially increase your benefits by delaying them until age 70.

Profit-sharing and 401(k) plans typically do not offer annuities. You can keep the account with your former employer, but the investment and distribution options may be limited. Compare your employer's plan with

IRAs, which usually offer a broader range of investment choices and allow you to consolidate all your prior employer plans into one.

Also, ask your employer about other benefits that may continue into retirement, such as life insurance, medical, vision, and dental benefits. Certain benefits are contingent upon the number of years you've worked for the company, so you may have to adjust your target retirement date to qualify.

Review your retirement health care benefits and costs. Many employees mistakenly believe that their employers will continue to provide health insurance after they retire. Even among employers that currently offer retiree coverage, many are reporting that it will not be available to new retirees or that the retirees' share of the premium cost will be increased. If your employer does provide retiree health insurance as a benefit available to you after age 65, your coverage may be secondary to Medicare. Retiree health plans may not be considered "creditable" coverage under Medicare rules to avoid a Part B penalty if you fail to enroll.

Medicare serves as the primary health insurance policy for most retirees, but it doesn't cover everything. A Medigap policy is designed to pay for Medicare copays, coinsurance, and deductibles. Also known as Medicare Supplement Insurance, it may be part of your employer-provided coverage. If not, individual Medigap policies are available. It pays to shop around, as you have a choice of several standardized benefit packages with varying prices and options. You should buy your Medigap policy when you enroll in Medicare Part B to avoid denial because of poor health. Also, be sure to take into account the cost of Medicare Part D prescription drug coverage.

Generally, you and your spouse are not eligible for Medicare until each of you has reached age 65 or qualifies as disabled. If you retire before age 65, you and your dependents may be eligible for continued employer benefits under COBRA at an unsubsidized cost. The number of months you can retain COBRA coverage depends on your state. Your employer will be able to provide you with more information about COBRA benefits.

Review and adjust your retirement asset allocation. Preservation of principal is important for the retirement portfolio, but if your returns don't keep up with inflation, you may lose purchasing power. Although it makes sense to take a more conservative approach as retirement nears, growth investments may still have a place in your portfolio. We will tailor an asset allocation plan for you that takes into account your specific income needs, lifetime goals, and existing investments.

Review your life insurance coverage. This is a good time to consider the resources that would be available to your spouse or partner if you died. Typically, your spouse would receive 50 percent of your social security or pension annuity, but even that amount may result in a drastic change in lifestyle. Do you have enough life insurance to fill the gap?

You may be able to maintain your employer-provided life insurance into retirement. Usually, a small portion of your group term insurance can be converted to an individual policy without a medical exam. If you are in good health, you may find more options at a lower cost by shopping in the marketplace. Before your group insurance conversion option expires, be sure to consult with us to determine if you can medically qualify for another policy.

Formulate a retirement lifestyle budget. The good news is that the average retiree can live comfortably on 70 percent to 80 percent of his or her preretirement income. But most retirees find that they tend to spend more in the years immediately after retirement. Now is the time to estimate your expenses based on your retirement vision. Identify your basic expenses, such as food, housing, health care, insurance, and other necessary costs. Then, estimate your discretionary or "lifestyle" expenses, such as travel, hobbies, and so on. If there is a gap between your retirement income resources and your budget estimates, you still have time to make adjustments.

One Year to Retirement

Record important dates and deadlines. Mark your calendar with any application or election deadlines. Remember, it often takes much longer than you think to prepare and process retirement-related paperwork. To streamline the process, gather all supporting documents, such as last year's W-2 forms, your birth certificate, social security card, marriage or divorce papers, citizenship or naturalization documents, and military discharge papers. Employers typically allow 30 days to make your pension payout election. Rollovers from employer retirement plans to an IRA can take as long as 90 days.

Contact the Social Security Administration. Apply for social security three months before you wish to receive your first check. The earliest you can apply is at age 61 and 9 months, but you may be better off waiting. Remember that applying for social security before your full retirement age will result in a permanent reduction in benefits. Each year you delay up to age 70 increases your benefit and, if you pass away, that of your widow or widower.

If you plan to work after retirement, be aware that any earnings can reduce or even eliminate your social security benefits before you reach your full retirement age.

Contact your employer. Be sure to understand the process and timeline for starting your retirement benefits; they do not start automatically. Discuss the details with your employer and learn about any decisions you will have to make, including your payout options. Many of these decisions are irrevocable, but we can discuss how the various options will fit into your financial plan.

Contact prior employer retirement plans. Determine how to apply for benefits from former employers. Verify the address and contact information for your past employers' benefits departments and request a pension estimate, if applicable.

Contact Medicare. When you apply for social security, you will be automatically enrolled in Medicare as soon as you are eligible. Medicare will contact you a few months before your 65th birthday and give you the information you need. If you plan to delay social security, you are still eligible for Medicare at age 65. To avoid a gap in coverage, apply for Medicare three months before your 65th birthday.

If you don't enroll in Medicare Part B when you are initially eligible, you will have another chance to sign up during the annual general enrollment period from January 1 through March 31. Your coverage will begin the following July. You may incur a 10 percent premium surcharge, however, for each 12-month period you fail to enroll.

If you are 65 or older and are covered under a group health plan, from either your own or your spouse's current employer, you will have a special enrollment period during which to sign up for Medicare Part B. If you sign up during this time, you will avoid the 10 percent premium surcharge for late enrollment.

Test-drive your retirement budget. New retirees typically find that they've underestimated their expenses. Before you retire, test-drive your retirement lifestyle by spending as you would during retirement. Then, determine whether you need to adjust your expectations. If you've underestimated your retirement needs, talk to us. Together, we can explore options to increase your retirement resources or reduce your expenses now or in the future.

As a final step, consider depositing enough money to cover two years of expenses into a money market or bank account in anticipation of your retirement.

At Retirement

Consolidate your retirement accounts. If you're like most people, you've saved for retirement in multiple ways, including employer plans and IRAs. Now, it may make sense to consolidate all your savings into one account, which offers several benefits:

- Less administrative hassle, especially when it comes to required minimum distributions
- Easier rebalancing
- No overlap when developing a diversified portfolio

We can help you decide on a consolidation plan that makes sense for you.

Transition your health care coverage. Activate your retirement health care coverage, whether it's an employer-provided plan, COBRA, Medicare, or a temporary policy to bridge the gap until age 65.

Calculate your retirement income paycheck. Take a final tally of your different sources of retirement income and determine how much will need to come from your investment portfolio and IRAs. In most cases, it makes sense to withdraw from your taxable accounts and allow your traditional and Roth IRAs to continue to grow tax deferred.

Unfortunately, some retirees don't pay enough attention to making their retirement resources last the rest of their lives. Although it may seem logical to spend all the income generated by your retirement portfolio and leave the principal untouched, it's wise to reinvest enough to offset the impact of inflation on your future spending power. This is particularly important in the early years of your retirement.

Eventually, you may need to dip into your principal. But remember: when you spend the principal, you reduce the amount of investments at work for you. A good rule of thumb is to limit your withdrawals from investments to between 4 percent and 5 percent per year. We can help you determine the appropriate amount for you.

This is also a good time to evaluate how much of your retirement income you want to guarantee. Through products like annuities, you can create a guaranteed income stream without giving up control of the account balance. **Please note:** Guarantees extend to the claims-paying ability of the issuer.

Determine your tax withholding or quarterly tax payment. In general, your retirement benefits and withdrawals will be taxable at the federal level. They may also be taxed by your state. Social security benefits can be taxed up to 85 percent of their value, depending on your other income.

For convenience, you can have taxes withheld from your retirement benefits and IRAs. Social security benefit recipients can use Form W-4V (Voluntary Withholding Request). Otherwise, you are required to file a quarterly tax estimate based on income from all sources. A quarterly tax payment is required if you owe more than $1,000 in taxes that are not prepaid through withholding. Use the vouchers provided with Form 1040-ES to make your quarterly tax payments, due on April 15, June 15, September 15, and January 15.

Adjust your budget. It's a good idea to keep track of your expenses over your first year of retirement and compare them with your preretirement estimates. Most people underestimate how much they will need and overestimate how much they will have to spend. By being aware of your discretionary expenses, you can plan to splurge in some years and cut back in others.

You may also wish to arrange for automatic deposit of your social security check and retirement account payments into your bank or money market accounts. And to make your retirement even more carefree, consider setting up automatic bill payment for predictable expenses.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

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