Formulating your retirement strategy

Six steps that will help you prepare for retirement

If you are within 15 years of retirement, it's time to think about your retirement strategy and zero in on your goals. This guide presents six action steps to help you organize and formulate a plan for the future.

STEP 1.

Estimate your retirement expenses

Depending on your retirement lifestyle choices, your monthly expenses (at least in the earlier years) may be about the same as they were before retirement. Then again, you may be able to cut back.

Estimate your expenses in retirement by considering factors such as:

- *When you expect to retire:* Will you retire early (which may require more retirement savings)? Or can you postpone the date (which will give you more time to prepare)?
- *Where you will live:* Will your mortgage be paid off, will you downsize your home, will you move to a less expensive area?
- *What you want to do:* Will you travel, volunteer, work part-time?
- *Your health:* If you're in good health, you may be able to hold down health care costs. Even so, health care expenses tend to rise as you get older.
- *Your family obligations*: Will you be caring for aging parents, or providing some financial help to adult children or grandchildren?
- *Taxes:* You may owe income taxes on much of your retirement income.
- Inflation: Historically, the cost of living has risen an average of about 3 percent a year.
- *Life expectancy:* The longer you live, the longer your income must cover your expenses.

STEP 2.

Understand your retirement income sources You will likely have retirement income from several sources, including:

- *Social Security:* For many, Social Security is the foundation of their retirement income. Your monthly benefit will be affected by when you choose to file for and claim your benefits. You can check your estimated benefit for different retirement ages online at ssa.gov.

- *Retirement accounts:* This source includes 401(k) /403(b) Savings Plans, pension plans, and traditional and Roth IRAs.
- *Other sources:* This bucket includes personal savings accounts, brokerage accounts, real estate, inheritances, annuities and earned income.

STEP 3.

Adjust your investment outlook

As you approach retirement age, you'll probably shift to more of an income strategy. Consider speaking with a financial advisor who can help you balance long-term growth objectives while protecting your savings against the effects of inflation and the need to provide a steady income stream.

STEP 4.

Develop a tax-smart withdrawal strategy

Much of your retirement income will be taxable, including:

- Pension benefits
- Withdrawals of pre-tax contributions and all investment earnings from 401(k) plans, traditional IRAs and other tax-deferred savings plans
- Up to 85% of Social Security benefits
- Interest earned on regular savings accounts and taxable brokerage accounts

To keep your income stream flowing throughout retirement, you'll want to take withdrawals in a way that minimizes taxes while helping your savings last. For instance, taking tax-free withdrawals from Roth accounts provides income without increasing your tax bill. Postponing withdrawals from your Solvay Savings Plan account gives your savings the opportunity to continue growing tax-deferred. The process can get complicated and there are no hard and fast rules. Consider financial professional service to find your balance.

STEP 5.

Plan for rising health care expenses

Health care may be one of your largest expenses in retirement, and costs tend to go up as you get older. A 2014 survey[3] found that only 17 percent of retirees are very confident in their ability to cover health care costs. Factor heath care expenses into your retirement planning and make staying healthy a priority.

Research all of your retirement health insurance options, including:

- *Medicare:* Part A hospitalization costs nothing for most workers, but for full coverage of medical services, prescription drugs and costs not covered by Medicare Part A, you'll need to buy supplemental insurance policies.
- *Long-term care insurance:* Medicare does not cover long-term and nursing home costs and these expenses can be a huge burden on families. The younger you are when you purchase long-term care coverage, the lower your lifetime premiums may be. It pays to plan ahead.
- *Life insurance:* If a spouse or family member depends on you for support, life insurance offers them a form of income protection should something happen to you.

STEP 6.

Get your estate in order.

Your estate is everything you own, including cash, investments, pensions, retirement accounts, life insurance policies, real estate and personal possessions. An estate plan helps you determine who will receive your assets, how you can create a legacy with charitable donations and who will make health care and financial decisions if you are incapacitated. Everyone should have an estate plan, but surveys show that less than half of Americans have one.

In addition to keeping beneficiaries on retirement accounts and life insurance policies up-to-date, consider meeting with an estate planning attorney and your tax professional to discuss setting up these basic estate documents:

- *Will:* The document in which you spell out your wishes. Elected beneficiary(ies) or Plan rules (payment to a surviving spouse or your estate if you do not have a beneficiary(ies) on file) of your retirement account, supersedes the Will.
- *Living Trust:* A more complex document that avoids the time and expense of probate.
- *Advance Healthcare Directive or Living Will:* Assigns a trusted person to make medical and end-of-life decisions on your behalf.
- *Durable Power of Attorney:* Assigns a trusted person to make financial decisions for you.

When retirement is a few years away... consider these additional steps

- *Reduce debt:* Entering retirement while still making interest payments on a mortgage, car loan or credit cards can drain fixed retirement income sources. Try to be debt-free, or as debt-free as possible, by your retirement age.
- *Build an emergency fund:* Unexpected expenses have a way of appearing, and they will do so in retirement. An emergency cash fund can help cover some of these expenses without you having to make additional withdrawals from retirement accounts.
- *Organize retirement paperwork:* Request pension and Social Security statements well in advance of retiring so you can plan your income. Research your Medicare and Medigap insurance options before you turn 65, which is the age you become Medicare eligible.
- *Discuss plans with your spouse or partner and family members:* Retirement lifestyle decisions affect your savings, income, expenses and insurance needs. Get your loved ones on the same page before finalizing your options.

3 Source: 2014 Employee Benefit Research Institute Retirement Confidence Survey.