Financial Planning

Planning Tips for Financial Life Stages:

Pre-Retirees

As you reach certain milestones in life, you are reminded that you are constantly evolving and adapting to the changes that life brings. In the final years leading up to retirement, you may be single, married, divorced or widowed. You might be an empty-nester, or you could have adult children who are still financially dependent on you. You might also be dealing with aging parents. However, your retirement date is still one of the most profound milestones in your life, and planning for it involves many moving parts.

As you approach that anticipated date, it's important to make sure that your personal finances are evolving with your life changes. The following are some financial planning tips to consider during this stage of your life.

Review Your Overall Financial Situation

Talk with your financial advisor about updating your financial plan. If you don't have a formal analysis in place, it's still not too late to create one. The sooner you articulate your financial goals, the more time you have to identify solutions that will help you to attain them.

Revise Your Retirement Cash Flow Projection At least Once a Year

A cash flow projection for retirement will give you an idea of how you will meet your living expenses once you are retired. It takes into consideration your current portfolio and anticipated additional savings prior to retirement and applies an assumed growth rate to those assets. You will need to determine your projected spending during retirement, as well as an expected cost of living increase for your retirement years so your income need takes into account the rate of inflation or the rate of rising health care costs. Once these amounts are determined, the calculation can be made to see if you are on track to maintain your desired lifestyle in retirement or if you will need to make adjustments to your plan to retire comfortably. Keep in mind that the cash flow projection is just an estimate and will not guarantee any particular results in retirement. Nonetheless, it is a handy tool that helps you plan ahead.

Increase Your Savings

As your children grow up and move out or your earnings increase, you might find yourself with more disposable income. While you may wish to splurge a little after becoming an empty nester or after a pay increase, these are also good opportunities to increase your savings. Consider maximizing employer retirement plan contributions, including catch-up contributions if you are age 50 or older. In addition, consider traditional or Roth IRA contributions (and catch-up contributions) as well as adding more to your taxable investment account. Ask your financial advisor and/or tax professional for assistance with determining which type of investment account is most advantageous for your situation.

Review Your Investment Allocation

As you move closer to retirement, your investment allocation will probably need to be tweaked. Most people reduce equity exposure and increase their fixed income holdings in order to preserve principal as they approach their retirement date. Your investment allocation should match your risk tolerance and time frame for investing.

Create or Update Your Estate Plan

As you accumulate wealth, your estate needs and goals will probably change. You could have exposure to estate taxes. You might be more interested in planning for leaving a legacy for your family. Planning for death and incapacity also become more important. Meet with your professional team to review your goals. Your estate attorney can then draft the appropriate documents or revise old documents accordingly. For more information, ask your financial advisor for the report titled *Essential Estate Planning Documents*.

Review Your Life Insurance Policies

Work with your financial advisor to review your current statement for any life insurance policies you have to make sure that the policies are still providing the protection they were intended to provide. Life insurance is a great way to create liquidity after death without having to sell assets. If you need additional life insurance for estate tax or legacy purposes, apply for coverage sooner rather than later, as insurability becomes an issue with age and increasing health concerns.

Review Annuities

If you own any annuities, review them to determine how they will fit into your overall retirement income strategy.

Obtain Long-Term Care Insurance

Healthcare costs are inflating at a much higher rate than most other living expenses. Planning ahead for long-term care may allow you to lock in a lower premium for coverage when you need it down the road. Talk to your financial advisor to determine when is the best time to consider adding long-term care coverage to your protection plan.

Consider Health Insurance Alternatives

Because Medicare coverage doesn't begin until age 65, you will need to plan ahead for private health insurance coverage if you wish to retire prior to age 65. This should be factored in when determining your target retirement date.

Review Other Insurance Protection

Make sure your auto, homeowner's and disability insurance policies provide sufficient coverage. Consider an umbrella policy for additional liability protection.

Consider a 529 Savings Plan or Coverdell Education Savings Account

If you're looking to save for your grandchildren's education expenses, consider contributing to one of these tax-advantaged accounts. Your contributions can grow tax-deferred and distributions will be tax-free if used for qualified education expenses. In addition, your state may offer an income tax deduction for contributions to its in-state 529 savings plan.

Again, as you reach milestones in your life, it's also a good time to review and update your financial plans to make sure they appropriately address your current needs and goals. The strategies in this article are some of the more common ones that you might find helpful as you approach retirement. For more information on these or other financial strategies, please consult your financial advisor. ■