

# Planning Tips for Financial Life Stages:

## Retirees

As you reach certain milestones in life, you are reminded that you are constantly evolving and adapting to the changes that life brings. Over your working years, you may have remained single or married. You might have become divorced or widowed. You may have raised a family or assisted your aging parents. And throughout those years, you probably saved for one of the most profound milestones in your life, your retirement date.



The transition from a career to retirement (or semi-retirement in the case of those that choose to continue to work part-time) may be quite an emotional adjustment. However, it is also a big financial adjustment as you begin to rely on your portfolio to cover living expenses rather than adding to it through regular savings. When you finally reach that anticipated date, it's important to make sure that your personal finances are evolving with your life changes. This is also the time to make sure you have the right strategies and documents in place to make the transition into your golden years as smooth as possible. The following are some financial planning tips to consider during this stage of your life.

### Continue to Review and Revise Your Overall Financial Situation

Talk with your financial advisor about updating your financial analysis. If you don't have a formal analysis in place, have one prepared. It's important to

articulate your goals and then have a plan in place that will help you to meet those goals and keep you from getting derailed.

### Revise Your Retirement Cash Flow Projection at Least Once a Year

A cash flow projection will give you an idea of how you will meet your living expenses throughout your retirement years. It takes into consideration your current portfolio and applies an assumed growth rate to those assets. You will need to create a budget in order to determine your projected spending, as well as an expected annual cost of living increase for your retirement years to address issues like inflation or health care needs.

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, such as spending

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less or working a part-time job to supplement your retirement income.

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.

### Stick to Your Budget

While there will be some unexpected expenses during your retirement years, it's important to live within your means. Overspending — particularly in the early years of retirement — can erode your portfolio rapidly, possibly resulting in you outliving your portfolio.

### Consult with Your Financial Advisor and Tax Professional to Create a Tax-Efficient Retirement Income Strategy

It's important to have a plan in place for which portfolio assets to utilize for spending. For example, you may wish to minimize distributions from your tax-deferred accounts (such as IRAs) and draw from your taxable accounts instead in order to reduce your income tax liability. Distributions from tax-deferred accounts are taxed at ordinary income tax rates whereas distributions from taxable accounts may be eligible for taxation at lower, long-term capital gains rates. Because everyone's tax situation is different, it's important to tailor your retirement income strategy to your unique circumstances.

### Analyze Your Social Security Benefits Alternatives

You are eligible for Social Security retirement benefits at age 62, but if you wait to start drawing benefits, your annual benefit amount increases with every year that you wait until age 70. Take a look at your overall retirement income strategy to see when it makes the most sense to start taking your Social

Security benefits. You can find more information on Social Security benefits at [www.ssa.gov](http://www.ssa.gov).

### Consider Simplifying Your Finances

After a lifetime of job changes and/or moves, you may have accumulated a number of investments, retirement and checking accounts at various places. This can create confusion and extra work, especially as you get older. By consolidating and limiting the number of accounts, you will receive less correspondence and can more easily monitor your finances.

*Clutter and confusion are failures of design, not attributes of information.*

~Edward R. Tufte

Consider rolling over your old employer-sponsored retirement plan to an IRA. Depending on when you plan to start taking distributions from these funds, you may benefit from consolidating your retirement accounts into an IRA. Doing so will simplify the process of calculating required minimum distributions. The SECURE 2.0 Act eventually pushes the age for starting RMDs to 75 (2033) after moving it to 73 for 2023. Ask for a copy of our report titled "Choose the IRA That is Right for You."

### Review Your Investment Allocation

When you enter retirement, your investment allocation will probably need to be tweaked. While some equity exposure is usually recommended to allow your portfolio to keep pace with inflation, many people will reduce their equity exposure and increase their fixed income holdings in order to preserve principal throughout their retirement. Your investment allocation should match your risk tolerance and time frame for investing.

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### Update Your Estate Plan

Make sure that your estate plan reflects your current situation and wishes. Confirm that you have at least the basic estate documents in place to indicate your wishes at your death. During retirement, it's important to have a plan in place not only for your death, but also for incapacitation. As life expectancy grows, so does the likelihood that you might face a mental decline as you approach those later years.

One document that can assist in management of finances during times of mental incapacity is a durable power of attorney. A durable power of attorney is a document where you name another person or persons to act on your behalf in the event of certain circumstances, such as your incapacity. This document allows your agent to act on financial, legal and administrative matters if you are unable to make these decisions for yourself.

If you have a trust, make sure you have named a successor trustee who can continue to manage your investment and financial affairs for assets held in the trust in the event of your incapacity or death. It may also make sense to make your loved ones aware of who our tax, legal and financial advisors are and where to find important documents in case of an emergency. Planning for these potential situations can save your loved ones legal and emotional difficulties that can arise without proper planning.

### Review Your Life Insurance Policies

Work with your financial advisor to review in-force illustrations of 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 or legacy strategy. Your financial advisor and tax professional can explain the pros and cons of both strategies.

### Obtain Long-Term Care Insurance

Don't wait until it's too late to purchase long-term care coverage — apply early in retirement if you don't have a long-term care policy in place already. Long-term care insurance can help to reduce the risk of an expensive long-term care need depleting your assets during your retirement years. There are several types of policies available. Check with your financial advisor to determine what type is best suited to your situation.

### Consider Health Insurance Alternatives

Because Medicare coverage doesn't begin until age 65, make sure you have sufficient health insurance coverage if you've retired prior to age 65. When you reach age 65, explore all Medicare coverage options to determine the best one for your particular situation. You can find information on Medicare at [www.medicare.gov](http://www.medicare.gov).

### Review Other Insurance Protection

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

### Downsize Your Home

Moving to a smaller house, condominium or apartment can produce extra cash proceeds from the sale of your home that can be invested for the future

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or used to meet current spending needs. In addition, downsizing can help you to reduce living expenses such as utilities, insurance and maintenance costs. Keep in mind that the sale of a home can trigger capital gains taxes, if your profit exceeds certain amounts. The IRS provides an exclusion of \$250,000 for single filers and married couples filing separately, and \$500,000 for married couples filing jointly for the sale of a primary residence if you qualify.

### 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 the 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 during retirement. For more information on these or other financial strategies, please consult your financial advisor. ■

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