



## Ten Steps to Retirement Readiness

Whether retirement is fast approaching or a distant goal, careful planning is essential to a comfortable post-career lifestyle. Typically, the major concern for those still in the workforce is whether they can afford to pay ongoing expenses after paychecks stop flowing into their bank accounts. A recent Bankrate.com survey found that 56% of working Americans think they are behind where they should be in retirement savings<sup>1</sup>.

Many underestimate the time and effort required to build an ample retirement nest egg. Taking the right steps now may reduce stress and help set up your financial future. One way to kickstart your retirement income planning is to seek the

guidance of a financial professional specializing in this area.

Retirement represents a significant transition in your life, shifting from a structured work routine to a flexible phase characterized by increased leisure and personal freedom. A successful strategy goes beyond saving enough money. A holistic approach requires evaluating your current financial situation, estimating your future expenses, and setting clear goals for investing. This process will help you determine how much you need to save each month to achieve your happier ending. These ten steps may help put you on the right path for your retirement journey.



### Step 1: Assess your current financial situation

Evaluating where you are now is crucial for creating a retirement plan. Look closely at current and anticipated future income, expenses, and debts. Calculate your net worth by subtracting liabilities from assets. This will generate a clear picture of where you stand financially. If you have high-interest debt from credit cards or other loans, aim to pay down that amount first because those payments can deplete your retirement savings and limit your financial flexibility.

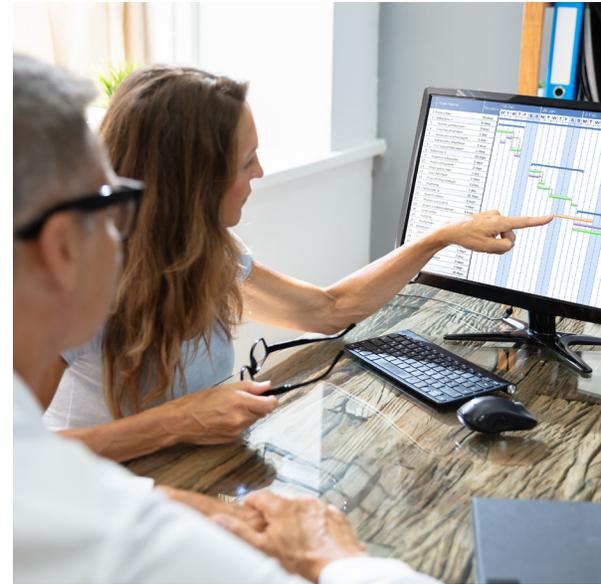
Consider how much you save for retirement now and whether it's enough to meet your future needs. If you're falling short, identify areas where you can cut expenses or increase income. Possibilities to consider could involve downsizing your home, reducing discretionary spending, or exploring additional sources of income.

## Step 2: Establish a realistic retirement timeline

Determine the age at which you intend to stop working. Identifying your anticipated retirement age will help you realize how many years you have left to save and invest for your future. The longer your timeline, the higher the potential for accumulating retirement funds.

When determining your retirement age, consider how you plan to spend your time in retirement. Be realistic in your expectations and factor in potential inflation. Your ideal hopes and dreams for retirement, whether traveling, engaging in hobbies, or pursuing a part-time job, will significantly impact how much you need to save.

Be specific about your goals and consider all the likely costs of meeting them. The clearer your objectives, the more accurate your retirement savings target will be.



## Step 3: Estimate future retirement expenses and income needs

Understanding your basic financial needs during retirement is critical in preparing for post-career contentment. With help from a knowledgeable financial professional, retirement income planning can be less stressful.

Start by considering your current expenses and how they may change in retirement. Many assume they'll spend less during retirement, but that's often a misconception. Potential expenses to consider

include housing, transportation, healthcare, travel, and expenditures associated with leisure activities.

Remember to include a cushion for unexpected expenses and emergencies. Healthcare costs are one of many retirees'

largest expenses, yet pre-retirees often fail to adequately prepare for these costs.

For instance, Fidelity Investments' 2023 Retiree Health Care Cost Estimate says that a single person age 65 may need to save approximately \$157,500 (after tax) to cover health care expenses in retirement, and a retired couple of the same age may need approximately \$315,000 saved after tax. It's important to note that these estimates do not include long-term care costs, which can considerably increase expenses because Medicare does not fully cover them<sup>2</sup>.

If you currently work and participate in an HSA-eligible health plan, consider establishing a Health Savings Account and contributing the maximum. In 2024, maximum HSA contributions are \$4,150 for self-only coverage and \$8,300 for family coverage. People 55 and older can contribute an additional \$1,000<sup>3</sup>.

HSA contributions are tax-deductible, and any internal account growth is untaxed. Moreover, withdrawals for qualified medical expenses are tax-free as well<sup>4</sup>. Therefore, maximizing HSA contributions while working and saving HSA dollars for future use is an excellent way to help with uncovered healthcare costs in retirement. Once you enroll in any part of Medicare, you can no longer contribute to an HSA<sup>5</sup>.





## Step 4: Identify expected retirement income sources

Determining likely streams of post-career cash flow is a key aspect of retirement planning. Foundational income may include government benefits from Social Security, Railroad Retirement, or other state or federal pensions. Other sources might include retirement savings plans such as IRAs or 401(k)s, an employer pension, investments, rental payments from tenants, and annuities. If you plan to continue working part-time during retirement, that income also should be included.

Once you project inflation-adjusted retirement income needs and anticipated income sources, you can identify any potential gaps. Understanding where you may fall short will help you better establish your savings goals before retiring.

## Step 5: Create a savings plan

Once you clearly understand your retirement goals and estimated expenses, it's time to create a savings plan. Determine how much you must invest each month to meet your retirement goals. Consider the power of compound interest and start saving as much as you can manage as early as possible.

If your employer offers a retirement savings plan, such as a 401(k) or a 403(b), take advantage of it. Be sure to contribute at least enough to receive the full employer match if one is offered. This is essentially free money that can significantly boost your retirement savings.

Review the options available within your employer-sponsored retirement account to choose the investments that align with your risk tolerance and long-term goals. Thoughtfully diversifying your investments may allow you to reduce risk and potentially increase your returns.

Explore other retirement savings opportunities in addition to employer-sponsored retirement accounts. IRAs have tax advantages, making them excellent vehicles for supplementing employer-sponsored accounts.

Traditional IRAs offer an upfront tax deduction for eligible taxpayers, tax-deferred growth, and taxes on income only when it is withdrawn<sup>6</sup>. Conversely, while Roth IRAs offer no upfront contribution deduction, they grow tax-deferred and may provide tax-free cash flow on qualified withdrawals in retirement<sup>7</sup>. Evaluate



the best option based on your current and future tax situation. Consult a tax professional to ensure you make informed decisions.

Other savings options include tax-deferred annuities, which may provide lifetime income in retirement, and taxation of gain only when it is distributed, providing flexibility in when to trigger a taxable event. Conversely, taxable accounts with brokerage or mutual fund companies may generate tax-favored dividend and interest income, and low-taxed potential long-term capital gains. Financial professionals can help retirees realize capital losses within taxable accounts to offset taxes on capital gains.

Drawing down home equity is another possibility for retirees. Untaxed cash flow might come from cash-out refinancing or tapping a home equity line of credit. If you execute a reverse mortgage, repayments may be deferred, provided you live in the home as your principal residence<sup>8</sup>.



## Step 6: Revisit life insurance needs

According to a 2023 LIMRA Report, just over half (52%) of all Americans hold some insurance on their lives<sup>9</sup>. What happens to that coverage after retirement?

Policies purchased directly from an insurer won't be affected. However, most employer-provided group life insurance expires at retirement. If ongoing coverage is desired, perhaps to support a surviving spouse, it's best to act as soon as possible before health issues arise.

Remember that there is a difference between time-limited term life insurance and permanent policies. The latter often contain cash value accounts that may offer untaxed policy loans and withdrawals useful in retirement as an additional source of tax-free cash flow. It is a good idea to review existing policies to see if they offer such loans and withdrawals or accelerated death benefits for long-term care needs.

## Step 7: Weigh Social Security options carefully

Social Security benefits are a fundamental component of many retirees' income. Understanding how your benefit is calculated and developing a strategy to maximize that benefit is crucial to enjoying desirable lifelong cash flow.

The age at which you claim Social Security benefits can significantly impact the amount you receive and sometimes the payouts to your surviving spouse. Waiting until you reach full retirement age, or even delaying beyond that, can result in higher monthly benefits for you and, in some cases, your surviving spouse if you are married.

Social Security rules are complex, and your decision on when to file should be made considering your overall retirement strategy. Factors such as your health, spouse's health, supplemental savings, tax bracket, continued work plans, and survivor income should be considered before deciding when to claim. Working with a financial professional knowledgeable about Social Security planning is critical.



## Step 8: Create an estate plan

Estate planning, which involves setting up a process for distributing your assets after death, is a key aspect of retirement planning. Knowing that your loved ones will receive specified holdings may reduce stress as you age.

For married couples, some estate planning may be straightforward. Assets such as brokerage accounts, bank accounts, and real estate may be held as joint tenants with rights of survivorship (JTWROS). If so, the surviving co-owner will get the

property automatically, without any need to go through probate<sup>10</sup>. Similarly, retirement accounts, life insurance policies, and annuities will pass directly to a designated beneficiary. It is wise to review your beneficiary designations if your life circumstances change.

That said, it's not likely that all your assets will be jointly held or passed to a beneficiary. Other documents are usually necessary, especially a will. If heirs have certain circumstances to consider (potential divorce, spendthrift habits, declining competency, and so on), it may be necessary to set up trusts to preserve assets in the future.

If there are children from a prior spouse, estate planning may be particularly crucial in case of a second (or third) marriage. Working with an experienced estate attorney is always a good idea, but it's virtually a necessity if blended families are involved.



## Step 9: Review your plan regularly

Your retirement plan should be reviewed and adjusted periodically to incorporate changes in your financial situation, goals, and investment results. Regular reviews with your financial professional can help ensure your plan stays on track.

Changes in life, such as marriage, childbirth, or employment, can impact your retirement plan. If they occur, it's important to act as soon as practical to reassess your retirement goals, anticipated expenses, and savings strategies. Adjust your plan to maximize your chances of a financially secure retirement.

## Step 10: Seek professional guidance

The ten steps covered here encourage you to take charge of your retirement years before you replace paychecks with well-earned time with family and leisure. The sooner you begin, the more time you will have to create a well-crafted retirement income strategy.

Retirement planning can be complex, so seeking credible assistance is often wise. A financial professional and a tax professional can work alongside you to help you navigate important decisions along your journey to retirement. Seek counsel from a reputable financial professional who is knowledgeable in the areas of Social Security and retirement income strategies. From there, you can create a plan with more confidence long before you hit the retirement finish line.



<sup>1</sup> <https://www.bankrate.com/retirement/retirement-savings-survey/>

<sup>2</sup> <https://www.fidelity.com/viewpoints/personal-finance/plan-for-rising-health-care-costs>

<sup>3</sup> <https://www.irs.gov/pub/irs-drop/rp-23-23.pdf>

<sup>4</sup> <https://www.irs.gov/pub/irs-pdf/p969.pdf> (2023) Health Savings Accounts (HSAs) p.4

<sup>5</sup> <https://www.medicareinteractive.org/get-answers/coordinating-medicare-with-other-types-of-insurance/job-based-insurance-and-medicare/health-savings-accounts-hsas-and-medicare>

<sup>6</sup> <https://www.irs.gov/pub/irs-pdf/p590a.pdf> (2023) Traditional IRAs Introduction p. 6

<sup>7</sup> <https://www.irs.gov/pub/irs-pdf/p590a.pdf> (2023) What is a Roth IRA? P. 38

<sup>8</sup> [https://www.hud.gov/program\\_offices/housing/sfh/hecm/hecmhome](https://www.hud.gov/program_offices/housing/sfh/hecm/hecmhome)

<sup>9</sup> [https://www.limra.com/siteassets/newsroom/liam/2023/0859-2023-liam-fact-sheet-2023\\_final.pdf](https://www.limra.com/siteassets/newsroom/liam/2023/0859-2023-liam-fact-sheet-2023_final.pdf)

<sup>10</sup> <https://www.justia.com/probate/transferring-property-outside-probate/joint-ownership-with-right-of-survivorship/>

**YOUR LOGO  
GOES HERE**