

Are You Prepared for Retirement?

Confront the challenges

After years of working hard and careful planning, retirement may offer the opportunity to spend more time doing the things you enjoy, without the demands of a regular work schedule. However, transitioning from earning a paycheck to relying on savings, investments, retirement benefits, and other income sources requires thoughtful preparation. While it may not be possible to eliminate every financial concern, evaluating your financial situation before leaving the workforce can help you prepare for potential challenges and make the transition to retirement more manageable.

One of the most significant retirement concerns is ensuring that your savings will last through your lifetime. Individuals with pension benefits, Social Security income, and substantial retirement savings may have greater financial flexibility. However, those without pension may need to rely more heavily on personal savings and investments to generate sustainable income.

How to Make Sure You Are Prepared

If retirement is approaching, consider taking the following steps before your final day of employment.

Create a Realistic Retirement Budget

Review your current spending habits and estimate how your expenses may change after retirement. Begin with essential costs, including:

- Housing expenses, such as mortgage or rent payments
- Utilities and insurance premiums
- Groceries and household necessities
- Medical care and prescription costs
- Transportation expenses
- Outstanding debt, including auto loans and credit card balances.

Then consider discretionary expenses, such as dining out, entertainment, hobbies, travel, and other lifestyle activities. A detailed budget can help you determine how much income you may need during retirement and identify areas where spending could be adjusted if necessary.



Evaluate Your Mortgage and Other Debt

Reducing or eliminating debt before retirement may help lower your monthly financial obligations. If paying off your mortgage is financially practical, doing so could make your retirement budget easier to manage.

If your mortgage continues into retirement, you may want to explore options such as refinancing while you are still employed. Depending on interest rates, loan terms, and your financial circumstances, refinancing may reduce your monthly payment.

Understand Your Expected Retirement Income

Identify all potential sources of retirement income, including Social Security, pension benefits, retirement accounts, savings, investments, or any income you may earn through part-time work.

Your withdrawal strategy should account for factors such as investment performance, inflation, taxes, healthcare expenses, and the length of your retirement. While some retirement planning guidelines suggest an annual withdrawal rate of approximately 4% of retirement savings, there is no single approach that works for everyone.

If your projected income does not support your expected lifestyle, you may consider working longer, delaying retirement, reducing expenses, or exploring additional income opportunities.

Adjust Your Portfolio

Review your investment portfolio to determine whether it aligns with your retirement timeline, income needs, risk tolerance, and long-term goals. Tax considerations may also affect how and when you withdraw funds. For instance, you might be in a lower tax bracket after retirement, and that may mean you may get more after-tax income. Consulting with a qualified financial or tax professional may help you develop a more effective withdrawal strategy.

Consider if an Annuity is Worth Exploring

In exchange for a lump-sum payment, an insurance company may provide regular payments for a specified period or for the remainder of your life, depending on the contract terms.

Annuities can offer income stability, but they may also include fees, limited access to funds, and other restrictions. Some options provide lower payments while including features designed to protect a portion of the original investment or provide benefits to beneficiaries.

Before purchasing an annuity, carefully review the contract and understand how payment options, fees, guarantees, and beneficiary provisions may affect you.

Estimate Your Social Security Benefits

Social Security may be an important part of your retirement income. You can review your estimated benefits by creating or accessing a personal account through the Social Security Administration website.

Your benefit amount may vary depending on your earnings history and the age at which you begin receiving benefits. Claiming benefits before your full retirement age may result in a reduced monthly payment. Consider discussing your options with a qualified financial professional to determine how the timing of Social Security benefits may fit into your overall retirement strategy.

Plan for Healthcare Coverage

Healthcare expenses can represent a significant portion of retirement spending. If you retire before you become eligible for Medicare, you will need to arrange health insurance coverage for the period between retirement and Medicare eligibility.

Depending on your circumstances, options may include continuing employer-sponsored coverage through COBRA, enrolling in coverage through the Health Insurance Marketplace, joining a spouse's employer-sponsored plan, or purchasing private insurance.

Before leaving your job, ask your employer whether retiree health benefits are available and whether you qualify. You may also want to schedule eligible preventive care, elective medical procedures, or dental treatment while you are still covered by your employer-sponsored plan.

Prepare for Potential Long-Term Care Expenses

Long-term care is an important consideration when developing a comprehensive retirement plan. If you have not yet established a strategy for addressing potential long-term care costs, retirement may be a good time to evaluate your options.

Traditional long-term care insurance may help cover certain qualifying care expenses. Other approaches may include building savings specifically for future healthcare needs, contributing to a Health Savings Account (HSA), when eligible, or exploring life insurance policies that include long-term care benefits.

Plan for Unexpected Expenses

Even with a detailed retirement budget, unexpected costs may arise. Major home repairs, vehicle expenses, emergency medical costs, or other unplanned financial needs can affect your retirement savings.

Including an emergency fund or financial cushion in your retirement plan may help you manage unexpected expenses without having to rely on taking on additional debt.

Visualize Your Retirement

Financial preparation is only one part of planning for retirement. It is also important to consider how you will spend your time and what will bring purpose, fulfillment, and joy to this new stage of life.