Are you ready to transition to retirement?

If you have just a few years until you retire, it's wise to double-check

Retirement comes into sharper focus as it gets nearer, amplifying the urgency of questions about longevity, health and healthcare, downsizing, relocating, more leisure time, when to take Social Security, and the Big One – will I have enough money? We may have had a rose-hued fantasy that sustained us during long hours at work, or we simply may not have thought about what our retirement could look like. At some point, however – probably in our late to mid-50s – the reality that a new stage of life is just over the horizon starts to sink in. Like marriage or parenthood, it's a stage we can't fully understand until we're in it. But, it's also a stage we should do our very best to prepare for.

Meanwhile, while we've been working, retirement has been changing, and pretty radically. For example, improvements in healthcare have extended life spans and enabled people to remain active and involved far longer than in our parents' day. While that's great, longer life spans also mean that our nest egg had better be robust, with a plan for generating reliable ongoing income firmly in place. Modern retirement has a lot of parts, and yes, they are moving. But with proper planning, a hearty dose of realism, and a willingness to make course corrections if need be, retirement can be a time of freedom, new beginnings and shortening that bucket list – all underpinned by a solid financial foundation. With that objective in mind, let's look at what's needed to attempt to construct a secure and enjoyable retirement, creating a checklist of questions we need to ask – and answer – to ensure that we're heading in the right direction.

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We are indebted to baseball great Yogi Berra for the insight "If you don't know where you're going, you'll end up someplace else," and that's true with retirement. You can't put in place – or fund – something you haven't defined, so our first step on the road to a satisfying retirement is to get an idea of what that looks like. While everyone's picture – including a spouse's – will have different details, we need to at least be able to create an overall framework, understanding that we can fill in the specifics as R-day gets closer. At a minimum, you need to have an idea of where you want to live, how you plan to spend your time, and what new goals you want to pursue. One way to start is to imagine an ideal day, week and month. Your retirement is going to involve and affect others, so they need to be part of your dreams and discussions as well.

Once you have a vision, you can begin to make it a reality by addressing a few questions.

DO I UNDERSTAND MY EXPENSES?

The biggest anxiety most people have is that they will outlive their money in retirement, so let's tackle that one first. What can cause you to run out of money? Well, not knowing what you're spending and where is obviously asking for trouble, so you need to have a realistic budget that separates needs (housing, food, healthcare) from wants (travel, entertainment, charitable giving). While things will change, you need that budget well before retirement arrives so you can make any necessary changes to your spending patterns, as well as any other course corrections (saving more, retiring later, changing your investment strategy) to how you're going to fund the next stage of your life.

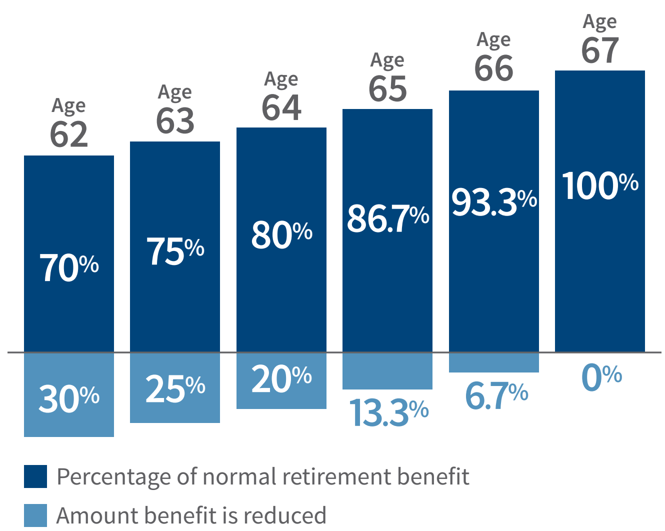
> Being too conservative with your investments can be as dangerous as being too aggressive

DO I UNDERSTAND MY SOURCES OF INCOME?

Broadly speaking, retirement income can be divided into reliable and assumed sources. Defined benefit pensions – if you're fortunate enough to have one – and Social Security are examples of reliable income. With regard to Social Security, it's critical to understand that the choice you make about when to start taking your benefits determines that income for the rest of your life. Although many people file for their benefits at the earliest eligibility age of 62, those who figure out how to defer taking benefits until age 70 will be eligible for much higher monthly payouts. You also need to weigh the pros and cons of your start date because that will affect survivor benefits for your spouse. Spouses also should investigate strategies to maximize their combined lifetime Social Security benefits – we can help you think through all the implications.

OF BIRTHDAYS AND BENEFITS

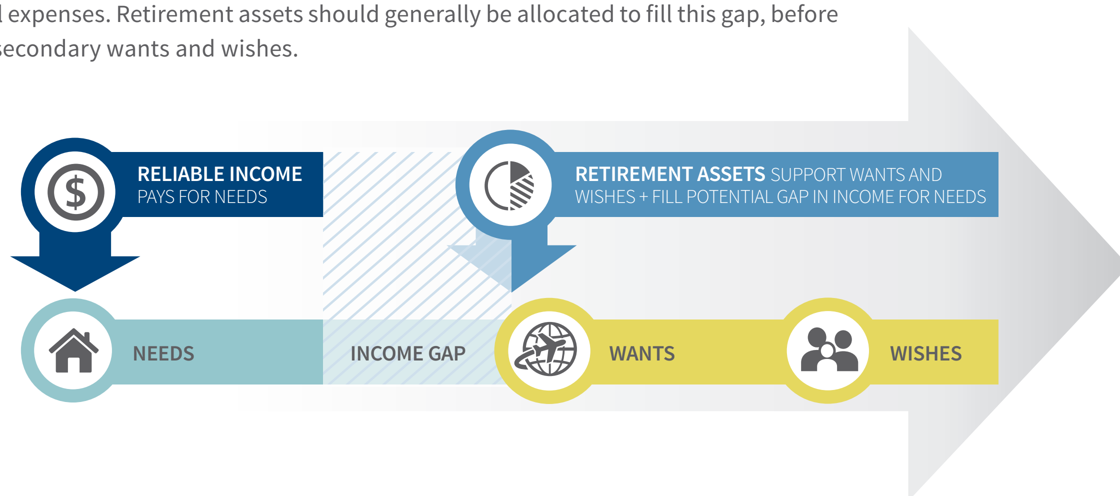
As mentioned, the age you start Social Security can have a long-term impact on your benefits. If your full retirement age is 67, filing early yields a permanently reduced Social Security benefit.



Since they will fluctuate, income from investment assets such as 401(k) plans, IRAs, Roth IRAs, brokerage accounts and CDs generally fall into the category of assumed sources. Developing, implementing and monitoring an investment strategy to generate retirement income, while also recognizing your individual tolerance for risk, is best done in collaboration with a financial advisor. The days of "set it and forget it" are long gone. Bear in mind that when it comes to retirement, being too conservative with your investments can be as dangerous as being too aggressive. Selecting an asset allocation strategy that seeks to reduce the risk to your principal, generates income

NEEDS, WANTS AND WISHES

At times, reliable income is not enough to cover essential expenses. This leaves a gap between income and vital expenses. Retirement assets should generally be allocated to fill this gap, before being spent on secondary wants and wishes.



and takes inflation into account is a complex process that requires trust and ongoing communication between you and your advisor. Please remember that asset allocation does not guarantee a profit nor protect against loss.

HAVE I PLANNED FOR LONGEVITY?

As mentioned, modern retirement lasts longer, so your assets and income stream have to last longer, too. For example, the Social Security Administration estimates that a man retiring at age 65 today can expect to live to 84, and a 65-year-old woman can expect to make it to 86. During those roughly 20-plus years, inflation is going to drive expenses higher. While you can't quantify factors such as life span and inflation precisely, you need to be aware of them and incorporate them in your planning. Setting realistic goals can help deal with worries that can take a lot of the pleasure out of retirement.

HOW WILL I HANDLE HEALTHCARE COSTS?

While the healthcare environment is changing, few people believe that their medical expenses in retirement are going to decline. Medicare provides healthcare insurance to most Americans age 65 and over, but it does not provide complete coverage and it won't cover you if you retire abroad. According to the Employee Benefit Research Institute, Medicare pays only about 62% of current retirees' medical costs. You will be responsible for copays,

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premiums and deductibles, and Medicare doesn't cover hearing, dental or vision expenses at all. While it's impossible to precisely predict out-of-pocket expenses, a retired couple can easily spend $10,000 a year above and beyond what's covered by traditional Medicare, which has no yearly limit on out-of-pocket expenses, unless you have a Medigap policy. Multiply that by 20-plus years, and it's easy to see why this area demands attention. What's more, Medicare itself is complex and requires ongoing decisions not only about the plan's components but also any supplemental healthcare insurance you may want to purchase.

Healthcare costs can derail your retirement in a hurry, so you're not ready until you understand Medicare, have thought about your uncovered costs in the context of your medical history, and put in place a personal plan to address healthcare costs that anticipates the effects of inflation. While this may sound daunting, we know the landscape and have helped many people navigate it – turn to us for some expert help.

HAVE I THOUGHT ABOUT LONG-TERM CARE?

This is another area where planning ahead really matters. The U.S. Department of Health & Human Services estimates that about

70% of those turning 65 today will require some type of long-term care during their lifetime. In other words, you're probably going to need long-term care and it's likely to be expensive. Coverage for long-term care is patchwork – Medicare will pay for some home healthcare services but not others, and the government won't help with nursing home costs unless you have depleted your assets. Long-term care insurance is one way of addressing this issue, but you need to shop around because premiums and benefits vary widely – and can change after you purchase a policy. It's easy to put this off, but as a general rule, the earlier you buy, the lower your premiums. Again, we have been down this road with others and can help.

HAVE I CONSIDERED MY LEGACY?

Thinking about retirement inevitably leads to thinking about mortality and what we want to leave behind. While this part of the retirement picture will be highly personal, most people want to take care of their loved ones and also want to contribute to organizations whose work they value. Many retirees find meaning in volunteering, and this can be extended by developing an estate plan that benefits groups close to your heart. Of course, estate planning also has tax implications – both for you during retirement and for your beneficiaries later on – so it's another area where expert advice is required.

> Retirement isn't static – it changes as you move through it – so your planning should reflect that

DO YOU THINK YOU'RE READY?

One thing to understand is that while retirement is a stage, it also has its own stages. For example, many people want to travel more when they retire, and this is something that usually occurs early on when we can get around better. On the cost side, we're probably going to see our healthcare expenses increase as the years go by. In other words, retirement isn't static – it changes as you move through it – so your planning should reflect that.

Your checklist will have additional questions – these are meant as a starting point – and everyone's answers will be different. The key takeaway is that you don't want retirement to "happen to you," you want to think ahead and make it happen.

Sources: aon.com; medicare.gov; longtermcare.acl.gov

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