Top 8 Retirement Planning Tips

Close to Retirement? Consider These 8 Steps By Jon Feld

Here are eight ways to get ahead in the retirement planning process.

1. Determine your retirement expenses - Your lifestyle will change throughout retirement, so it's important to consider your budget and expenses. You may find you actually spend more in retirement, especially on things like travel, hobbies, and entertainment. Health care costs may also increase significantly, and if you plan to move, a change in cost of living could affect your expenses. It's a good idea to review every expense, from charitable contributions and gifts to basic necessities, to get a clear understanding of what your retirement will actually cost.

2. Review your insurance policies - To ensure that your coverage is appropriate for your lifestyle in retirement, review your life, health, homeowners, and auto insurance policies. "You may find that now you have more life insurance than you need or that you don't need disability insurance any longer," Mann points out. "For health insurance, make sure you have prescription drug coverage and appropriate Medigap insurance, and keep in mind the impending changes in Medicare prescription coverage. You need to continue auto and homeowners insurance, but you may find you can spend less overall."

3. Note Medicare milestones - Medicare consists of two parts: Part A helps pay for hospital, hospice, and home health care, while Part B covers doctor visits, outpatient care, and other medical services. Depending on your age and whether you're receiving or planning to receive Social Security income, the Medicare application process, timelines, and premiums may vary. Applying late can result in delayed benefits and higher premiums. You should also consider long-term care or other additional insurance to supplement baseline Medicare coverage.

4. Apply for your Social Security benefits - You'll need to apply for Social Security three months prior to the month of your 65th birthday, or three months before you wish to start collecting benefits. You may apply as early as 62.8 years of age, but benefits are reduced, depending on your full retirement age (determined by your year of birth) and personal situation. Applying early can reduce your benefit by 20% or more, but the timing of taking the benefit depends on your circumstances. "If you're healthy and your relatives tend to live longer than average, consider taking the benefit at 65 or full retirement age, so you get the full benefit. If you're sick or have a questionable family health history, it may make sense to take

the benefit as soon as possible," notes Shashin Shah, CFP, RFC, principal at Financial Design Group, in Addison, Texas.

5. Develop a [retirement income plan](#) - A number of factors will affect your plan, including life expectancy, distribution rate (how much you withdraw each year), inflation, taxes, market volatility, rate of return, health care costs, and your estate goals. It's important to understand where your income is coming from and whether your sources are exhaustible or lifelong. "In this case, you want to consider income versus lifetime expenses, and make appropriate adjustments to your plans and lifestyle," Mann says. "You may have all sorts of great plans, but you need to be sure you have adequate funds."

Remember to reevaluate your portfolio when market conditions or your needs change, or if time and asset withdrawals change the makeup of your portfolio.

6. Know your distribution options - The decision about what to do with your retirement plan assets when you retire will have significant and lasting financial implications, so know your options. "In terms of pension benefits, make sure you're clear on the strength of the pension plan and what portion of it is guaranteed," Shah says. "For a workplace savings plan distribution, in most cases it's best to hold off as long as possible to take advantage of tax-deferred growth. If you are already retired, you must start taking the required minimum distribution at age 70 1/2, but it may be a good idea to let the remainder of your funds stay in your workplace savings plan or Rollover IRA to seek tax-deferred growth for as long as you can."

You may also want to consider consolidating assets as you near retirement. Leaving funds in a number of places or institutions can make it more difficult to manage your income and investments. In general, make sure you're aware of the process, timelines, and options for withdrawing retirement plan assets, and get appropriate documentation from your employer(s).

7. Plan your estate - Everyone should have a will, but a will alone may not be enough to protect your assets and help reduce estate taxes and other costs. Consider setting up a trust. Then have your lawyer or financial planner review your will, trust, powers of attorney, beneficiary designations, and investment plans to make sure that you and your beneficiaries are appropriately protected.

8. Set aside emergency funds - You never know what can come up - unexpected repair bills, an illness - so it's a good idea to have money set aside specifically for these possibilities. A good rule of thumb for an emergency fund is three to six months' worth of expenses. "Make sure your fund is liquid and easily accessible through a money management, money market, or checking account," Shah says. Remember, this is money that you will not touch unless it's absolutely necessary, so think of it as a dedicated fund. Be sure to immediately replenish any emergency funds used.

"If you take a realistic look at your finances and learn where you are and what you need to do to develop a very specific plan against your lifestyle goals, you can have a successful retirement," Shah concludes.