5 Critical Steps to Retirement

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Introduction

Most people start panicking about retirement about 5 years before they are ready to retire. It's the moves made before retirement that will substantially improve life in retirement.

Five years to go*…..you want to see where you are financially. Have you taken a full inventory to see what you've got?*

Four years to go*…..you really start looking at the tax-savings opportunities that can happen early in retirement. This is where you lay the groundwork because once you're retired sometimes it's way too late.*

Three years to go*…..you want to put aside some time to contemplate what retirement will actually mean. What will you do? And how will you pay for it?*

Two years to go*…..you want to look at ways to reduce spending and how you're going to draw your income*

One year to go*…..you want to review everything…..get a second, or even a third, opinion as you really only have one chance to get this right.*

So what 5 critical steps must you take now before you can retire?

Step #1: Control Your Taxes

Taxes play a critical role in planning for retirement. They're often overlooked, yet they can have a profound impact on your money, your investments and ultimately your lifestyle. Because the truth is….taxes generally are your biggest expense in retirement

So if you don't have a tax-efficient investment strategy, it could cost you tens of thousands of dollars. There's a big difference between tax preparation and tax planning. Your CPA prepares your taxes, which is essentially looking back and recording history. But if you want to pay fewer taxes in retirement, that happens with a forward-looking, tax-efficient strategy. It's not about how much money you saved. Contributing money to your retirement account is easy. But when you withdraw the money, it becomes a completely different ball game.

Many people think selling certain company stocks, or their favorite growth mutual fund is a good idea. But actually, this could be a horrible idea. If or when the market goes down, your shares will not only be worth less than they are today, but if you've been selling those shares to pay for your income, you'll have fewer shares. So it's a double whammy on losses.

After two 50% losses since the start of the new millennium, imagine what would a 50% loss on your money would do to your retirement? Many just don't want to have that happen. Retirement is a huge decision so you must take the necessary steps to get it right. You only have one chance.

In addition to market losses, there could be additional taxes and fees and penalties. So the money you were counting on to get you through retirement could be a fraction of what you thought it would be because these required minimum distributions that start at age 72 from your IRA can hijack your retirement accounts. You hate paying taxes now. But just wait until have to withdraw from your IRA or 401k. So you want to be able to control that. The key is to address this issue early so you can get in front of any potential tax problems today.

So what are the solutions? Depending on your situation, there are several possible solutions. So please be sure to speak to a financial professional to carefully consider the differences between your company retirement and investment in an RIA. These factors include, but are not limited to, changes to availability of funds, withdrawals, fund expenses and fees. Or, even start to save a portion of your retirement savings in a Roth going forward. Granted, a Roth IRA doesn't allow tax-free contributions. But you pay zero-track tax when you withdraw the money, and you don't have to deal with the RMDs. That means tax-free growth forever. You want to use tax diversification to your advantage, which means you don't want all your assets taxed the same way. Because there's always tax on things like your brokerage account, your checking, savings accounts. You even pay taxes on the dividends and interest through capital gains. You can pay tax later on things like a 401k, or traditional IRA, or 403b, your real estate, or hard assets. Roth IRAs, interest from municipal bonds, and certain types of life insurance are rarely taxed.

The IRS can't wait for you to retire because they're planning on taxing you at every turn. Taxing your IRA, your 401k, your pension, your other retirement accounts, your Social Security benefits, your investment income, your home, your estate when you pass away, etc. The money you were counting on could be a small fraction of what you thought it was going to be because you have to share with the government.

But there are creating forward-looking strategies that could legally help you save thousands of dollars in retirement. With some careful planning, you can learn how and when you should withdraw money from your IRA, your 401k, or your other retirement accounts.

Call us at 1-800-277-0025 to take advantage of our Retirement Planning Calculator Software to ensure you have a tax strategy for your investments.

Step #2: Strategize to Maximize Your Social Security Benefits

The very backbone of your income plan for retirement will be your Social Security benefits. You paid the money in, so you're just trying to get your money back out. This is steady and dependable income that you can't afford to miss.

But, unfortunately, most Americans leave tens of thousands of dollars in benefits on the table. Claiming your benefits is more complicated and confusing than ever before. There are almost 3000 rules about Social Security, and hundreds of thousands of more rules about those 3000 rules. How and when you claim your benefits cannot only impact how much you receive but could also trigger taxes, it could double your Medicare premiums, and cause you to wipe out spousal benefits. So, again, it could cost you tens of thousands, if not hundreds of thousands, of dollars.

You must realize that even if you earned a modest income, your Social Security benefits should add up to a six-figure income in retirement over time. If you earned an above average income, it could be several hundreds of thousands of dollars between you and your husband/wife. It could even be more than a million dollars. That's why this decision of when and how you claim your benefits should not be taken lightly. You could be taxed on up to 85% of your benefits.

You want to consider taking your IRA withdrawals before signing up for Social Security because you have some control over when to take your withdrawals from your retirement account during your 60's and you can begin anytime after age 59-1/2. But you're required to start withdrawing at 72, so you could possibly reduce your Social Security income tax bill by delaying that, letting that grow and living off your IRA for a few years.

It depends on your situation. But you need a strategy for maximizing your benefits because it's going to be different for everybody. Claiming your Social Security benefits is complicated and confusing. It can have all kinds of negative effects on you if not done properly.

Call us at 1-800-277-0025 to take advantage of our Social Security Analyzer Software to ensure you maximize your Social Security Benefits in retirement.

Step #3: Be consistently updating your investments to minimize risk

Asset allocation and diversification remains to be one of the more critical pillars of any financial game plan. A properly diversified portfolio, one that mirrors your appetite for risk, can help protect you in any kind of market downturn. Many people are taking on far more risk than they know, or they need to, at this stage of the game and they have no plan to protect themselves. Keep an updated or diversified plan for managing risk. You could potentially minimize your market losses by updating your portfolio with a risk management strategy. Here we are in the longest run-up in stock market history. Yet people believe there's less risk today with their money than they did five years ago.

This has been an historic year. Before the COVID-19 shutdown, we were experiencing the longest run-up in stock market history. After a drastic plunge in stocks, we started our recovery and are very close to where we were before the shutdown. But the election results looming, many of you may be wondering what to do. If we were to enter another bear market, the typical bear market lasts a year and a half, with an average cumulative loss of 41%. This could mean trouble right around the corner, but people aren't coming up with any plans to protect themselves. Do you have a stop, loss, or exit strategy for every investment you own?   Or should the market sore to new highs, do you have a plan to place to take advantage?

Retiring in a bad market could have significant consequences on your saving because you're withdrawing from your account as the value is dropping from poor market conditions. Those who retire in a bull market fair significantly better than those who don't. That's why having an exit strategy is important, so you're not losing money as you're withdrawing it. These RMDs or required minimum distributions pose a major threat to bear markets because you'll be forced to sell your investments in your retirement accounts when the markets are down whether you want to or not.

Do you know the investments you own? Do you know your asset allocation? Do you know your downside risk? You must know the answers to these questions. And the sooner you do, the better off you will be. You've worked hard. You've made sacrifices to save for retirement. It's a great start, but now what? It's what you do with that money that really matters.

Call us at 1-800-277-0025 to take advantage of our Risk Assessment Software to make sure your personal risk is properly matched with your portfolio risk so that you can invest your money appropriately.

Step #4: Consider the cost of healthcare in Retirement

According to the latest estimates from HealthView, the total out-of-pocket spending for the average 65-year-old couple retiring today could march past the $400,000 mark when you factor in Medicare premiums, supplemental insurance premiums, your deductibles, and your co-pays. Longevity plays a role year too. We all want to live longer…..and most of us are. But, the longer you live, the longer you will be paying for healthcare and your other expenses, and the higher the chances are something could go wrong later in life. Ultimately, longevity increases the cost of risk for healthcare and cost of life in general.

Most people think Medicare is going to cover the majority of their healthcare costs in retirement. It's just not true. According to Voya, Medicare is only going to cover 60% of all your retirement healthcare needs. It's not free. For most people, healthcare will be your largest expense outside of taxes. There's no out-of-pocket annual or lifetime limit. It's important to know that when it comes to Medicare, you will still have costs to cover. And you must sign up for Medicare within three months of turning age 65, whether it is three months before the month you turn 65 or three months after you turn 65, otherwise you will have to pay more. If you're already receiving Social Security benefits, you don't need to do anything to enroll in Medicare. They do it for you. But if you're not on Social Security before your 65th birthday, you must sign up through the Social Security office.

Call us at 1-800-277-0025 to take advantage of our Retirement Planning Calculator Software to ensure you have a plan for Healthcare costs in retirement.

Step #5: Consider the cost of Long Term Care

A lot of people don't know a lot about long term care. But chances are you will need it at some point in your life. According to *Forbes,* nearly 70% of all people who are age 65 will require some form of long-term care. And it's not cheap.

Here's one way it works. You buy a policy in your 50's and 60's when you're still healthy and you pay premiums very month. And then you depend on that policy for later in life, for your long-term care when you'll need it. It sounds simple, right? However, the cost of long-term care is rising faster, and faster, and faster every year. So are the premiums. According to CBS News, in the past few years the premiums for policy holders of long-term care have skyrocketed.

In some cases, the premiums policies have doubled over the last two years alone. So it's forced consumers to make some unpleasant choices. Some are now digging into their savings and cutting living expenses to hang on to the coverage because they fear they're going to run out. They know they're going to need it soon but it will get canceled if they don't pay the premiums

So others try to keep premiums affordable by cutting back on the amount of benefits, by lowering the insurance benefits, leaving them exposed to the risk of unaffordable out-of-pocket costs. Nothing strikes fear in the heart of retirees than these three letters….L-T-C, long-term care. The potential crushing costs of long-term care in a nursing home, or memory care unit, or even home care – most of which are not covered by Medicare – can easily destroy a retirement plan.

The cost of long-term care continues to grow and grow. A private room in a nursing home is $8000 per month or $97,000 per year and a semi-private room is $85,000.

Call us at 1-800-277-0025 to take advantage of our Retirement Planning Calculator Software to ensure you have taken a look at Long Term Care Costs

Conclusion

Successful retirements are not built on assets or the amount of money you save. It is built on your ability to generate income. So you must have diversified sources of income for retirement. Generating income today is tougher than ever because some of these go to options, like interest rates at the bank, are so low. A CD rate now on a half a million dollars in a one-year CD, you're only going to get about $700 a month and that's before taxes. Bond yields aren't much better. And people should fear the stock market because it's near an all time high.

When someone is in consistent fear of running out of money, they are someone who doesn't have a plan to generate income. Income sources must be diversified. You must use alternate sources right now. As you plan for retirement there's critical choices. You will be faced with critical decisions about taxes, Social Security, creating income, the risks associated with retirement and investing, healthcare costs, long-term care costs, supplementing Medicare, etc. Every one of these decisions will come with consequences. Good or bad. The specific strategies for every person are totally unique. Even a minor difference in your age, or your assets, or your risk dollars, or your longevity, could trigger a major shift in strategy. You can't rely on a One-size-fits-all strategy.

So call us at 1-800-277-0025 and we can help with your retirement planning.