Every day between now and 2030, 10,000 baby boomers are expected to turn age 65.[1] If that includes you, you have less than 10 years to map out your retirement plan. Let's get started.

RETIREMENT PLANNING IN THE NEW YEAR

Overview

At this point, near-term retirees tend to fall into one of three categories:

1. You already have all the savings you need; you're ready.
2. You're on track to have all the savings you need by the time you retire.
3. You're not on track and are worried about it.

Regardless of which track you're on, the steps are the same. However, if you believe your savings will be inadequate, use this time now to boost your nest egg.

That may include several actions. First, contribute regularly to your investments. If you've got a five- to 10-year investment timeframe before you retire, it may be appropriate to invest with a growth-oriented or balanced approach. This will depend on several variables, such as how much risk you're willing to take for the potential of higher returns, your health status, how reliable your job is until retirement and if you're willing to work longer than you'd planned.

Those are often the variables that help determine how much you can invest based on your projected future earnings. The second factor to consider is how much you can reduce your current expenses. Think about it. If you can cut $1,000 in expenses a month (perhaps all the fluff on your credit card bill), that adds up to $12,000 a year. If you don't retire until 2030, that's another $108,000 saved for your nest egg. Consider this hypothetical example of the impact of investing that $1,000 each month in a diversified equity portfolio for a 7% average annual return over the next nine years: The total yield would be more than $150,000.[2] *Hypothetical example is provided for illustrative purposes only and does not represent any product or investment and does not represent a real-life scenario.*

That household savings and investing added to your existing investment contributions to an employer-sponsored plan could help your future retirement look a lot brighter. Of course, finding ways to cut back spending can be quite challenging, but it's a matter of setting priorities and thinking about them every time you're about to spend money.

Retirement Income: What Will You Reasonably Spend in Retirement?

The key to figuring how much nest egg you'll need is anticipating how much you'll spend in retirement. Where you spend your money will change, but how much you spend overall may not — unless you make an effort. Start with your basic living expenses. For example, the general rule of thumb is to try to pay off your mortgage before you retire to alleviate that large monthly expense. Also consider that you will no longer be saving aggressively anymore.

Next, what do you plan to do with your leftover (discretionary) income? Do you have big travel plans, want to buy a second home — or are you planning to stay local and keep your expenses low? Those plans may depend on how much you've accumulated by the time you retire, so it's important to realistically match your spending goals with your accumulation potential.

According to AARP, the rule of thumb is that you'll need about 80% of your pre-retirement income to maintain your pre-retirement lifestyle. That's based on the fact that you won't have some of your pre-retirement expenses, such as costs associated with working (like commuting expenses), contributions to a 401(k) plan and so on.[3]

Bear in mind that there's a good chance you'll need long-term care (LTC) assistance at some point. The latest research shows that someone turning age 65 today has almost a 70% chance of needing long-term care services and supports during retirement. Moreover, women tend to outlive their husbands and need care assistance an average of 3.7 years longer.[4]

Inevitably, some expenses will be replaced with others. For example, at some point, retirees often have fewer transportation expenses, so those funds can be reallocated for LTC once gas, insurance and maintenance costs are eliminated. However, that may not be enough to cover all LTC expenses. According to the 2020 Genworth Cost of Care Survey, the median cost of an in-home caregiver is $24 per hour.[5] If you need someone for eight hours a day, that can run you about $5,400 a month. If you need 24-hour care, that cost can spiral into about $16,000 a month.

It's important to consider the options for a long-term care plan in case you and/or your spouse live beyond independent years. You'll want to consider them while you're still young and healthy enough to be eligible for potential insurance options.

Transition Assets: Develop a New Asset Allocation Strategy

Remember that generally, people invest for growth throughout their lifetime and then put those assets into conservative financial vehicles for use during retirement. However, there is a transition period — the three to five years before you retire — when you may want to re-position your portfolio from what is generally a more risk-oriented allocation to a more balanced allocation.

If you're planning on retiring in the near term, right now may be your transition period. There are a lot of variables to consider in order to establish an asset allocation strategy for this last chapter before retirement. Much may depend on whether you're behind the savings curve, and you'll also want to consider your personal situation and the economic outlook for the next few years. It's a good idea to consult with a financial advisor to help you determine the best way to allocate your assets for this pre-retirement investment timeframe.

Create a Withdrawal Plan: Consolidation and Tax Considerations

Next, establish your sources of retirement income and your spending plan. For example, how much of your income will come from Social Security, a pension or other guaranteed income sources? How much of your personal retirement portfolio will need to be tapped on a regular basis to supplement those income sources?

Before you retire, consider a withdrawal plan from your retirement portfolio. This means deciding whether you should maintain separate retirement accounts or consolidate them into one. If you have an employer-sponsored plan, find out what distribution options are available to help decide whether you should leave the money where it is and make regular or periodic withdrawals, or roll it over into an individual retirement account (IRA). Keep in mind withdrawals from retirement accounts could have tax consequences, so make sure you check with a tax professional regarding your personal situation prior to taking any actions.

Also consider — from a tax burden perspective — which accounts to draw from first. The order may vary based on your situation, so it's good to get advice from both a financial advisor and a tax professional, like a CPA or an attorney. The general rule of thumb typically follows this order:

1. **Start with taxable accounts to benefit from lower long-term capital gains rates**
2. **Then tax-deferred accounts (e.g., 401(k), traditional IRA) because distributions are taxed at ordinary income rates**
3. **Then tax-free accounts (e.g., Roth IRA) to give them the most time to continue growing**

Multi-Year Calendar: Schedule Important Due Dates

An important component of your retirement plan is Social Security. The longer you delay taking it, the higher your benefit. It's also important to consider when to start drawing Social Security with your spouse in mind. For example, if you start drawing early (you may begin at age 62) because you're in poor health, consider that the benefit will be locked in at that lower rate for your spouse for the rest of his or her life, should you die first. Depending on your personal circumstances, it may be wiser to draw from invested assets that have the opportunity to continue growing rather than lock in a lower Social Security benefit.

On the flip side, claiming Social Security early may allow you to receive benefits for a longer period over your lifetime, which, in the end, may net the same or more total Social Security benefits than delaying benefits and not living as long. Like all the other components of retirement income planning, the decision on when to take Social Security is unique to your personal situation.

Another consideration is Medicare. You must enroll within three months before or up to three months after the month in which you turn age 65 (or face penalties). Medicare currently offers a lot of options, and they can be confusing, so start investigating how it all works and what it costs long before this enrollment window.

Key Retirement Deadlines[6]

Age	Action
50	Begin making "catch-up" contributions to your retirement accounts, such as a 401(k), IRA and Health Savings Account (HSA).
55	You may make penalty-free withdrawals from your 401(k) if you will be at least age 55 in the year you stop working.
59 1/2	All withdrawals from retirement accounts become penalty-free.
65	Apply for Medicare.
70	If you haven't already, begin Social Security benefits because there is no advantage to delaying further.
72	Start taking required minimum distributions (RMDs) from most retirement accounts.

The Binder: A Tool For the Inevitable

Before you retire, or just after, make it easy for you and your family to find and understand your retirement and estate plans. The easiest way to do this is to use a large three-ring binder with dividers to file all of your financial and insurance papers. You don't need to keep all of your statements. Make sure there is at least one per account, and you may want to update it each year.

Also include your legal papers, such as wills and trusts; everything your loved ones would need to settle your affairs according to your wishes.

"If you've thoughtfully prepared and have a well-allocated portfolio and a conservative spending plan, there's every reason to think you can still retire as planned. But if your vision for retirement has changed, assessing the financial impact of your new priorities can help you adjust your timeline if necessary."[7]

Final Thoughts

The pandemic has put a wrench in many people's retirement plans. Some were forced to retire early, while others know that they will have to go back to work, or work longer, to make up for reduced income or investment losses.

Remember that the further you are from retirement, the more time you have to make adjustments to improve your long-term outlook. Working longer may enable you to save more, invest longer and postpone claiming your Social Security benefit.

Regardless of how well you are tracking toward retirement goals, consider how the pandemic and the recent economic decline may alter your previous plan. You may wish to reconsider travel plans, thoughts of moving to a retirement community and where you want to be cared for should you lose your independence in old age. Each of these factors can add or subtract expenses from the nest egg you need to plan for, and how long it lasts.

The new year is — as always — a great time to take a fresh look at your plans and set new goals to meet them. Never has this been more critical than after this difficult year. With a vaccine and the reopening of the economy on the horizon, make a plan for all the opportunities that may entail.

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7 T. Rowe Price. Fall 2020. "Can I Still Retire as Planned?" https://www.troweprice.com/content/dam/iinvestor/planning-and-research/Insights/investor-magazine-fall.pdf. Accessed Nov. 23, 2020.

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