Nearing retirement? This checklist can help you make sure you’re financially prepared

For anyone getting close to joining the ranks of retirees, there are some key aspects of your impending new status you need to review.

Roughly 10,000 baby boomers turn 65 every day, the age most often associated with retirement. Of course, not everyone hangs up their working hat at exactly that age, which means your own situation could be very different from that of someone else on the edge of retiring.

And while some people may have been saving and planning for decades for retirement, others might have given little thought to their transition away from 40-hour (or more) work weeks.

Regardless of where you fall on that spectrum, here are some things to consider as you prepare to say farewell to your coworkers and embark on the next leg of life’s journey.

Know your expenses

You might have a general idea of what you spend, but you should have a clear picture of your expenses and how that might change in retirement.
For example, while you may not have to deal with the costs of commuting or office attire, you might plan to spend more on entertainment, travel or other pursuits when your days are no longer consumed by work.

“Track your spending for the next couple of months if you’re not sure,” said certified financial planner Linda Rogers, owner of Planning Within Reach in Memphis, Tennessee.

Many people also aim to have their debt (i.e., credit cards, mortgages) paid off before they make the leap to retirement. While that might not be realistic for everyone, the less debt you have, the better.

The often-overlooked cost: health care

Once you reach age 65, you're eligible for Medicare. So if you retire at or past that age, the government program generally is there for you. Yet it doesn't cover everything. For example, dental, vision and long-term care (e.g., help with daily living, such as bathing and dressing) are not included.

The amount you pay for Medicare depends on a number of factors, including your recent income (higher earners pay more), whether you pay any late-enrollment fees (if you didn't sign up when you were first eligible and don't meet an exclusion) and whether you opt for additional coverage and to what degree.

However, if you're younger than 65, you'll need to find coverage on your own.

"A lot of people forget that, or don't factor it in or find out the way underestimated the cost," Rogers said. "If you're 65 so you can get on Medicare, retiring is much more doable."

For people who face a gap in coverage, federal law known as COBRA requires employers with at least 20 workers to allow ex-employees (including retirees) to remain in an employer-sponsored health plan — if the ex-worker wants to pay the full cost of the premiums. Many employers pay a share of the premiums for current employees and typically won't do that for COBRA coverage.

There are potentially other options, including an Affordable Care Act plan (a.k.a., Obamacare). Depending on your income, you could receive a subsidy if you go that route. Other options also might be available, including short-term plans — which come with skimpier coverage and typically only are a viable option for healthy people with no pre-existing conditions.

Additionally, keep in mind that health-care expenses typically rise as you age. In fact, the average 65-year-old couple will spend $285,000 on health care over the remainder of their lives, according to Fidelity Investments' latest estimate.

Know your Social Security strategy

Although you can start taking Social Security at age 62, your monthly checks will be larger the longer you can delay. In fact, your benefit will increase by 6% to 8% yearly until you reach age 70 if you can hold off.

However, most people don't wait that long — more than 70% claim by age 64, according to a recent study from United Income.

At the same time, a growing number of 60-somethings are still working either full- or part-time. In the 60-to-64 crowd, about 55% are working at least part-time, according to the most recent data available from the Bureau of Labor Statistics. Among people ages 65 to 69, the share is about 31%.

Be aware: If you start taking Social Security before your government-determined full retirement age of about 66 or 67 — the exact number depends on your birth year — there's a limit to how much income from work you can have without it affecting your benefits.

For 2019, that cap is $17,640. Earn more than that and your benefits will be reduced by $1 for every $2 you earn over that threshold.

Then, when you reach your full retirement age, the money comes back to you in the form of a higher monthly check. (And, depending on your overall income, up to 85% of your Social Security benefits is subject to federal income tax).

At that point, you also can earn as much as you want from working without it affecting your Social Security benefits.

Also, if you are an early taker who is working and you reach full retirement age during 2019, then $1 gets deducted from your benefits for every $3 you earn above $46,920 during the months you were below that age.

Evaluate income and tax strategies

In retirement, sources of income can vary from person to person and might involve a pension, retirement savings such as a 401(k) or individual retirement account, Social Security, taxable savings and investment accounts, health savings accounts, or business and trust income.

“Many people have a few different types of assets, so they want to be smart about which they tap into,” Rogers said.

For instance, not all sources of income are taxed the same. Withdrawals from traditional IRAs or 401(k) plans are taxed as ordinary income, but for Roth IRAs or Roth 401(k) plans, the withdrawals are tax-free. If you have a taxable investment account, you could have to pay capital gains taxes on some of the withdrawals.

You also will face taking required minimum distributions — the annual amount that must be withdrawn — at age 70½ from your traditional IRA or 401(k). (The Secure Act, under consideration in Congress, would increase that RMD age to 72.) Roth IRAs do not have RMDs, although Roth 401(k) plans do. Depending on your income, those required withdrawals could push you into a higher tax bracket.

If that’s a possibility, it might make sense to roll the assets into a Roth IRA before you reach that point, or to tap those funds before the RMDs kick in so you don’t face a sudden jump in taxes.

Additionally, your annual income can affect what you pay for Medicare. With higher earners paying more, it’s important to know how your income could affect what you pay for coverage.

Check risk in your accounts

If you have a 401(k) or IRA, make sure your investment mix makes sense for your retirement income plan.

Exactly how much of your portfolio should be dedicated to stocks — which are more volatile but typically deliver the best returns over time — will depend on how much income you need to generate during retirement and how much risk you’re able to stomach.

“We’ve had people come in who have been in the same investments since they were 24,” Rogers said. “You want to evaluate the allocation of your entire portfolio to make sure the stock and bond composition is appropriate.”

Have a cushion

Financial advisors typically recommend that you keep several years' worth of income away from the stock market, in money markets, cash or other less risky investments.

"Don't risk the money you need in the next two or three years," said Terrence Herr, a CFP and managing partner at Herr Capital Management in Chicago. "You can stomach volatility in the market if you have three years of income that is safe and not subject to those ups and downs."

If the market is down, it would mean not having to sell investments at a lower price to generate the annual income you need to live.

Prepare emotionally

Many financial advisors caution that for people whose job was a big part of their self-identity, the transition to retirement can be trickier.

"Often, for the first couple of years they're happy, but then some people can get depressed," Rogers said.

Volunteering, having a strong social network and developing varied interests can help ward off feelings of loneliness or questions of self-worth. For some retirees, sharing their knowledge through teaching delivers satisfaction, Rogers said.

Also get used to the idea of watching your assets get smaller instead of grow.

"One of the hardest things that retirees face is the notion that their retirement account, which has been growing while they worked, will be going down in value over the course of retirement as they make withdrawals," Herr said. "People can get really uncomfortable with that."

https://www.cnbc.com/2019/07/05/how-to-be-sure-youre-financially-ready-if-youre-nearing-retirement.html