How Do I Know if I Have Enough to Retire?

A retirement checklist to help you assess your financial readiness

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One of the first questions financial advisors get when meeting potential clients for the first time is, "How do I know if I have enough to retire?" The truth is, staying on track for retirement is sometimes easier said than done. Certain events can veer you off course, such as market volatility, economic uncertainty, and unexpected life events. Following a retirement checklist can help you assess your financial readiness.

Here's a list of steps to help evaluate if you have enough to retire:

- Review your lifestyle.
- Evaluate progress made toward goals.
- Perform a portfolio review.
- Inventory your resources.
- Assess your withdrawal strategy.
- Manage your tax burden.
- Review your estate plan.
- Insure against the unexpected.

Review Your Lifestyle

As you near retirement, you will be surprised at the impact your spending habits can have on your savings and readiness. Be diligent about increasing your savings where possible.

☐ Review your spending habits and consider saving more and spending less.
☐ Review your debt and be aware that while borrowing money to buy a house or auto may make sense if your budget is stretched, paying interest on credit cards can drain your resources.
☐ As you pay off debt, direct any "newly found" cash toward retirement.
☐ Consider ways to trim spending such as finding more affordable television or phone packages.
☐ Consider setting up automatic bill payment and if available, energy and water bill averaging for more predicable expenses.
☐ Consider how you will spend your time in retirement. What activities and hobbies will you engage in and what are their costs? Will your health and financial picture support your anticipated lifestyle?
☐ Create a budget and spending plan that considers anticipated expenses, discretionary spending on travel, entertainment, and hobbies.
☐ Dry run your budget for several months to ensure you can stick to it and that you will have enough to retire.

Evaluate Progress Made Toward Goals

Determine whether you have a savings gap. While it may mean making some tough decisions about when you retire, tweaking your retirement date can have an impact on your retirement readiness.

☐ Use tools on your plan's website or a retirement calculator such as the one found on [AARP's website] to monitor your savings progress.
☐ Consider increasing your contribution rate to boost your retirement savings. Take advantage of any employer matching and ensure you never leave money on the table.
☐ At age 50 or older, participate in additional catch-up contributions to your 401(k) or IRA. In 2022, individuals may contribute $20,500 to a 401(k) and $1,000 to your IRA.
☐ Consider working longer if you are in good health, to extend the building of your retirement savings.
☐ Set aside enough resources for an emergency fund to cover unexpected bills like household and auto repairs, medical bills, and other major expenses.

Perform a Portfolio Review
Your needs will likely change as you age, and your goalpost may need to be adjusted. A thorough portfolio review can help you determine if you have enough to retire.

☐ Review your portfolio at least twice a year when you are younger and more often as you near retirement age. Make any necessary changes to keep up with your retirement goals.
☐ Consider your tolerance for risk. You may find that you need to reduce your risk exposure.
☐ As markets rise and fall, asset allocations tend to shift. Evaluate your current positions and rebalance if necessary*.
☐ Consider your decision-making skills during uncertain economic times. Cognitive biases can derail your portfolio, often at key turning points such as market highs and lows.

Inventory Your Resources
For many, retirement represents a third of their life. Assessing your available resources can help you identify any disparities and assess your financial readiness.

☐ Get grand totals for each of your employer-sponsored retirement plans, IRAs, deferred annuities, other investment balances.
☐ Contact your current and former employers to find out about any decisions you must make regarding payout options or performing a rollover. Remember that many of these decisions are irrevocable so it is best to get professional advice prior to making decisions.
☐ Consider whether you would benefit by consolidating your past and present employer-sponsored retirement plans into one. Doing so can reduce the administrative burden and make rebalancing easier. Potentially, such changes may aid with diversifying your portfolio* and increasing your investment and distribution options.
☐ Determine your social security benefit and consider strategies to optimize your payments. Review your benefits by visiting the Social Security Administration (SSA) website where you can download a recent statement: www.socialsecurity.gov/myaccount.
☐ Consider how much of your retirement income stream you wish to guarantee through annuities and other similar instruments.
☐ Calculate all your sources of retirement income and compare with your budget to determine how much you may need from your investment portfolio.

Assess Your Withdrawal Strategy
To avoid outliving your assets you will want to create a defined withdrawal strategy. A financial advisor can help you stress test your withdrawal rate to see if any adjustments may be needed.

☐ The SSA considers the normal retirement age to be 66 or 67, depending on your date of birth. Although you can start taking benefits as early as age 62, payments will be permanently reduced for you and your survivor if you opt for early benefits. Additionally, if you continue to work, your benefits may be offset or suspended.
☐ Earned income from a part-time job may push you above the social security income threshold for taxes. If you are still working, you may want to delay taking social security.
☐ Employer pensions typically offer a couple payout options. Selecting the best option for you should consider your cash flow needs, general health and life expectancy, future financial obligations, and any other financial resources you have. Like social security, consider any reduction in benefits based upon when you take your pension.
☐ Take advantage of the compounding effect over the course of your retirement. Consider tapping your taxable investments first, and postponing withdrawals from workplace plans and traditional IRAs to help boost the long-term income power of these tax-advantaged accounts. Though there may be a risk of losing additional principal by delaying, for each year that you postpone withdrawals on your tax-advantaged accounts, you get the potential of another year of tax-deferred earnings.
☐ Identify your portfolio withdrawal rate, one which will sustain your financial resources over your anticipated lifetime. It’s a good idea to keep your withdrawal rate at between 4 percent and 5 percent of your retirement investments. A conservative withdrawal rate can help reduce your risk of running out of money.
☐ Contact the SSA three months before you expect to receive your first check. Consider setting up automatic deposit of your social security check and retirement account distributions to your bank or money market accounts.

Manage Your Tax Burden

Careful consideration should be given to the effects your retirement income, including social security, may have on your tax burden.

☐ To get a feel for your tax burden, calculate your withholding at the federal level, and if applicable, at the state level.
☐ Your social security benefits can be taxed up to 85 percent of their value depending upon your other income. Submit a Form W-4V with the SSA for voluntary withholding.
☐ Consider having taxes automatically withheld from all your retirement benefits.
☐ You may instead elect to file quarterly estimate payments to the IRS for income for all sources. In this instance, you can use the vouchers provided with your form 1040.

Review Your Estate Plan

It is a good idea to regularly review your estate plan to ensure choices made still reflect your goals.

☐ Remember to regularly look at your beneficiary designations to see if they still reflect your wishes for insurance, investment, and retirement accounts. Keep in mind that changing beneficiaries may move assets outside the terms of your will or trusts.
☐ Review your estate planning documents such as powers of attorney, particularly if you plan to relocate in retirement.

Insure Against the Unexpected

Before you leave work, get an insurance checkup with a professional to help determine if you have enough coverage to meet your future needs.

- ☐ Assess whether buying long-term care insurance is right for you. Many individuals will need long-term care at some point and Medicare and many other insurance policies will not cover most long-term care needs.
- ☐ Take advantage of your employer's health plan and any preventive care services offered. Before leaving your employer's coverage, keep in mind that Medicare does not cover preventive tests, eye and hearing exams, or dental services.
- ☐ Will you need to set aside additional resources for healthcare expenses in retirement? If you retire prior to age 65, you may need to consider employer-sponsored COBRA or a temporary policy to bridge the gap until you qualify for Medicare.
- ☐ Consider if your insurance selection will leave a gap in coverage for your dependents.
- ☐ Check with your employer to see if you can convert your group life insurance to individual coverage. If you are healthy, you may be able to obtain less costly protection if you shop for your own coverage. If you are not healthy, you may not be able to get life insurance unless you are able to convert your employer-provided policy.
- ☐ Contact Medicare three months before your 65th birthday if you have not already applied for social security benefits. If you do not enroll in Medicare part B when you are eligible, you will incur a ten percent premium for the rest of your life. Currently, if you have healthcare coverage under an employer, you will have a special enrollment period for Medicare Part B after your coverage ends and you will avoid the ten percent surcharge. It is important to note that Medicare does not consider any health insurance under COBRA as employer-provided coverage. Chat with your employer's human resources department to determine how your current healthcare plan coordinates with Medicare.

A financial advisor has the knowledge and experience to help you stay on track with your retirement goals, regardless of what is taking place in the markets. Obtaining coaching and support from an experienced professional can provide you with valuable perspective, help you make decisions with confidence, and assist in determining if you have enough to retire.

**Diversification does not ensure a profit or protect against a loss.*

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