Looking to Retire Within the Next 5 Years?
Here's 6 Financial Steps to Get Ready

Stepping out of the work force and into retirement can feel like quite a hurdle, but it doesn't have to be a leap of faith. Here are six steps to help make sure you are prepared to retire, both on a personal and financial level.

Retirement planning isn't just a game about having a certain dollar amount socked away by a specific future date. The transition is a major life event that often incorporates your family affairs, living arrangements, life aspirations (your chance to chase your personal bucket list!), individual comfort level, health and so much more. Therefore, your plan for retirement shouldn't only be about dollar signs; it should be a comprehensive plan that encompasses all aspects of your life.

1) Get all your info in one place

The first step – before any decisions can be made at all – should be to get all financial, legal and insurance information on one easy-to-read spreadsheet. This tool will prove essential to providing you with a better grasp on all your financial and estate affairs. Imagine being able to quickly glance over all the pertinent information about your assets, debts, insurance policies and legal documents. With all the pieces to the retirement puzzle finally in one place, it will become easier to spot when key elements might be missing. Do your total debts outweigh your assets? Would your life insurance policies not cover your mortgage if you were to pass way, leaving your loved ones to foot the remainder of the bill on their own? You might have a will in place, but do you have a Power of Attorney or Healthcare Directive? Do any of these legal documents need updating? Do you know how much you're entitled to through Social Security benefits? Part of the frustration many individuals have with retirement planning is that it all seems too complicated from the outset. Getting all the numbers on one page will serve as a huge motivation booster to tie up any loose ends and propel you into the next phase of planning.

What should be included on your Info Page?

- ✓ **Assets:** values for all bank accounts, CDs, IRAs, 401(k)s, property, annuities, etc.
- ✓ **Liabilities:** mortgage, credit card debt, loans, alimony, etc.
- ✓ **Estate documents:** the date of signature for all wills, POAs & healthcare directives
- ✓ **Life insurance:** company name, type, policy number & coverage limits
- ✓ **Anticipated income:** Social Security, pension, annuity payouts, rental income, etc.
- ✓ **Anticipated expenses:** mortgage payment, loan repayment, insurance, etc.

2) Visualize your retirement

The dream of someday reaching retirement keeps many hard working employees dedicated for years on end. However, once they pass the retirement threshold they realize they don't know what to do with all the free time. The joy they had been anticipating gets replaced by confusion and sometimes even boredom. Therefore it is very helpful to thoughtfully consider how you'd like to spend your time in retirement. First off, this is an excellent mental exercise to keep you dedicated to your savings goals. Secondly, it helps to create blueprint of what your retirement might look like so that you can better understand what your monthly income needs will be. Do you have grandchildren that you'll need to travel to see? Are there other countries you'd like to visit? Do you plan on restoring classic cars? It's important to visualize these retirement dreams before your retirement date so you have more time to plan and adjust for them.

3) Assess your monthly income needs

Now that you have a better idea of what life in retirement will be like – how you'll spend your time and energy – it's important to evaluate the monthly income required to support your desired retirement lifestyle. Would paying off your mortgage *now* help make sure you have a larger monthly income in retirement? Will your income in retirement cover your golf club membership fees? Do you anticipate needing extra cushion in your budget for restaurant or entertainment expenses? Another important thing to consider is that healthcare costs might increase for you in retirement, so medical bills should be a factor in roughing out your monthly income needs. Remember that Medicare doesn't kick in until age 65, and even then it doesn't cover all costs, such as vision or dental care.

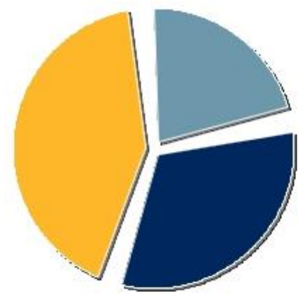
4) Determine your risk tolerance

By now, you have all your assets listed in one place – less any outstanding debts – and you have a rough idea of how much monthly income you'll need in retirement. These two factors will help you hone in on your investment goals for your current portfolio, and therefore, what allocation changes you'll want to make to ensure that you'll reach your desired retirement date feeling prepared. "Risk tolerance" refers to your inclination toward having your assets invested in a place that could provide great growth, but is volatile (such as the stock market), versus somewhere that won't provide much growth, but does provide security (such as bonds or a bank savings account). Put another way: Is your primary objective to grow your capital? Or is it to provide a secure source of income for many years? Where you fall on that spectrum would tell you how much risk you are willing to take. Determining your risk tolerance will then guide your decisions about whether your assets need to be reallocated to better reflect those objectives. If you are unsure about how your investments are currently allocated, this is good opportunity to ask your financial advisor or employer sponsored retirement plan representative for assistance.

5) Consider your options

Your retirement dreams and the reality of your financial portfolio should now be quite a bit clearer to you. This is the time to consider any major financial or life moves you need to make in order to get ready for retirement. Would downsizing to a smaller home make sense, from both a financial and practical standpoint? Have you considered converting your tax-deferred retirement accounts, such as 401(k)s, 403(b) and Traditional IRAs, to Roth accounts? A move such as this could give you more flexibility in retirement. Do you need to consolidate your accounts in retirement, both for simplicity's sake and to lower your annual fees? This is also a great time to consider Long Term Care as an option for covering healthcare costs. Another big option to consider: when to time your transition into retirement. Will your pension payout be considerably larger if you work an extra 6 or 12 months? Or are you financially prepared to retire right away? These are great questions to review in depth with your financial planner. Considering these complex decisions now ensures that you'll have the time to thoughtfully consider the pros and cons with enough time to carry out your plan of action.

6) Set a plan for systematic review



Without a firm and strategic plan about when to review your assets and consider reallocations, you might fall victim to "emotional investing," which is the unhealthy habit of reacting to the multitude of scary headlines and other media-driven information about how the market is behaving. Studies have shown that keeping your money invested, instead of pulling your money out during the ups and downs of the market, provides a greater return over the long term. However, not paying any attention as your investments ride out the market isn't the answer either. In step #4, you determined your own risk tolerance and the ratio of risk to security that you felt comfortable with. As time goes by, it is possible that some of your more aggressive investments may provide a decent return. Therefore, that stock to bond ratio would fall out of balance simply because the portfolio as a whole grew larger, and primarily in stock. Reviewing your portfolio every six months to rebalance back to the target ratio will help keep your investments working for you – and your specific investment objectives – while also taking the emotion out investing.

There is another big benefit of systematic reviews. Life is never stagnant, so major life changes are bound to occur. By building in a methodical way to assess your investments, you can rest easy knowing that if any big life event occurred (such as marriage, divorce, serious illness, grandchildren, etc.), you'll have the opportunity to make changes to your plan as needed. This regularly scheduled review will deter the impulse to make multiple and spontaneous changes that could eventually derail your plan and your overall goals.

By following these six steps, not only will you have more clarity about when you will be able to retire, but you'll also have peace of mind. Instead of worry and uncertainty, you'll have understanding, a financial plan to follow, and focus to reach your goals.