Mastering the Last Five Years

The economic upheaval that the coronavirus has caused both globally and here in the United States has given many of us moments of fear and even panic during the past few months regarding our retirement strategies. After all, the pandemic is a reminder that even the best plans can be pushed aside by forces out of our control. With that in mind, today's show is going to focus on some key things you can do to help shore up your retirement strategy during the last five years before you punch the timeclock for the final time.

My idea for today's show was a really interesting *Forbes* article, Mastering The Last Five Years Before Retirement.

The article really jumped out at me because of its hyper-focus on the last five years before retirement. Often, articles and news pieces focus on retirement as a whole with an emphasis on getting your retirement strategy rolling early in your working years. And, while that's obviously a great idea, the truth is the last five years before retirement may require a different strategy and adjustments to match. Those last five years are, to borrow a cliché, the home stretch and you certainly want to turn into that home stretch with confidence.

The article notes that if you're five years or less from retirement, you should be asking yourself a series of important questions: Have I socked enough money away? Have I worked with a financial services professional to discuss investments and allocations? Am I prepared to pay for long-term care costs? Should I consider a trust? Should I prioritize paying off my mortgage? Is my 401(k) going to provide me with enough retirement income?

Those are admittedly heavy questions, but they're heavy because they can be so critical. And those heavy questions can sometimes lead to additional anxiety as retirement nears and they potentially grow in importance.

If you create a five-year strategy for preparing for retirement, there are likely to be some challenges. Those challenges will be even bigger if your current strategy hasn't adequately prepared you for what's coming. First, you'll need to get a complete understanding of where you are financially right now.

Take some time to assess how your money is allocated in terms of retirement accounts and investments. This is also a good time to really crunch how much you're likely to receive once you file for Social Security. Additionally, what does your likely monthly Social Security payment mean for your overall financial strategy? Do you have a pension or any other potential income sources?

And then there's the important question: When you combine all of these potential income sources, will they create a pot big enough to allow you to maintain your current or preferred lifestyle?

After you've taken all the necessary steps five years before your retirement, it's time to start thinking more about how your life will look shortly after you retire.

With that in mind, you should start pondering where you may want to live when you retire and, if you have grandchildren, how important it is to you to be close to them. Babysitting your grandchildren and watching their games, recitals, and performances may certainly have a bearing on whether you want to relocate.

It's also becoming more common to retire outside the country, so if that's something you're considering, I'd strongly recommend you visit the countries you're considering multiple times before you make any final decisions. In fact, that same logic probably applies even if you're making a long-distance move here in the United States. If you live in Omaha and are thinking about retiring to Fort Lauderdale, you'll want to learn as much as you can before putting down any roots.

In the third year of your five-year strategy, you should more acutely focus on what you want your upcoming retirement to really look like. For example, does your imagination wander to relaxing afternoons reading a book on the beach, or are guided tours through the great European sites and museums more your cup of tea? Or, maybe your preferred retirement isn't so much grand adventures as it is time with your children and grandchildren without the worries and burdens of work.

For many people, retirement may also mean more time for pursuing interests and passions that have long been set aside for other responsibilities. Maybe it's learning to paint, getting those season tickets for the local sports team, or finally getting through the entire works of Charles Dickens.

Whatever it is, when you're no longer punching the literal or metaphorical time clock for 40 or more hours a week, you're going to have a lot of time to fill.

Year two of your five-year strategy should really be an exciting time. You're just two years away … you're so close and with just a little more work and discipline, retirement can be yours. As the article suggests, year two may be a good time to really think about your tax strategy.

Working with a financial services professional can help you create a blueprint for tax savings that may actually kick in before you retire. And don't forget that some people see their income drop far enough after retirement that in some years they enjoy zero percent capital gains.

If zero percent capital gains sounds good to you, just keep repeating one word to yourself: STRATEGY.

If you find yourself in the enviable position of winding up in a lower tax bracket, you may want to consider a Roth IRA conversion. Be aware though that this is a fairly convoluted process, so you should do it with the help of your financial services and tax professionals.

Before the end of year two, you should also shine a bright light on all of the numbers you've used to craft your retirement strategy.

So that brings us to year one, that magical last year of work. At this point, there are some key things that you should be focusing on.

Now you're so close to the end of the road that you may be feeling a little giddy. Your toes may be wiggling in your shoes as your mind flashes to images of pristine sandy beaches. While there's nothing wrong with those thoughts, it's also important to keep yourself on track during this last year of work.

With that in mind, you may really want to be vigilant about considering ways to cut your spending and expenses. Also, you may want to make a list of all the various upcoming critical dates.

The *Forbes* articles uses the following examples:

- Age 59 ½, which is when you can begin avoiding penalties on withdrawals from retirement plans

- Age 62, which is when you first become eligible for Social Security
- And age 65, which is when you become eligible for Medicare

Don’t forget that you may also have various other vesting dates for things like pensions and 401(k)s.

The article also emphasizes that if you retire before you turn 65, it’s essential to determine how you’ll get health insurance. This is no small consideration. In some cases, you may be able to continue the coverage that your employer provides. In other cases, you may have to utilize COBRA until you can enroll in Medicare. The Affordable Care Act may also be a solution for some people.

No matter the option you choose, it’s imperative to have adequate insurance when you retire.