

YOUR PRE-RETIREMENT CHECKLIST

WISER WEALTH MANAGEMENT




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I can only imagine what it is like to sit atop a rocket ship as the final countdown gets to 10.. 9.. 8.. 7.. the engine starts rumbling 6.. 5.. 4.. 3.. 2.. 1.. now **there is no looking back as the rocket lifts off** the pad. There must be some anxiety for the astronauts at this point despite thousands of hours of preparation for this moment.

While achieving retirement and financial independence may not be as explosive as liquid hydrogen and oxygen blasting a rocket ship to space, for many, it is a sense of **freedom to achieve life's dreams**. Although this is a great achievement, walking away from the solid ground of a steady paycheck can create some anxiety for some.

Just like an astronaut going through a final countdown, **we have created a checklist for those entering retirement.**





T-5 OPTIMIZE CASH FLOW

Not having a paycheck anymore can be scary, so you need to have a plan to replace that income. Determining how much income you need can be challenging, but one way to make it a lot simpler is to retire debt free, even mortgage free. Yes, you read that right. Astronauts only take into space what is needed for the mission. Your retirement rocket ship has no room for credit card debt, auto loans and mortgages. We write about this in our blogs and discuss it on our weekly podcasts as to why you should not have a mortgage in retirement. The bottom line - it is better for your cash flow to not carry any debt. Now that you are debt free, you should determine what you will be spending in retirement.

Once your expenses are determined, you need to figure out where your income will come from to replace your paycheck. Typical sources are IRAs, Roth IRAs, brokerage accounts, pensions, rental income, part-time work and social security. It is important to optimize your income for tax reasons and to maximize benefits. Ideally, you want to take out the maximum amount to meet your needs, while minimizing taxes and not running out of funds before you are 95 years old. Just like how astronauts use computers to track their trajectory into space, we use financial planning software to help optimize your income in retirement.

T-4 SOCIAL SECURITY

According to the Center for Retirement Research at Boston College, 90% of Americans take their Social Security prior to full retirement age. However, when doing the math, most Americans should be waiting until age 70 to take file for Social Security benefits. The few exceptions would be for certain individuals that are in poor health or have no other available income. Delaying social security does not mean that you have to delay retirement. There are different strategies you can take to delay Social Security like pulling more from other funds, like an IRA or brokerage account initially, then reduce the draw after Social Security begins. This smooths out your income stream so you can live comfortably now *and* later.

Age 62 is the earliest to sign up for Social Security benefits. Taking the income sooner than your Social Security deemed "full retirement age" can cost you 25% of your full retirement benefits amount for life. By waiting until age 70, you can increase your monthly benefit by 24%, not counting the annual increase adjusted for inflation. Inclement weather can change your course or delay a launch to ensure a smooth ride, which is similar to how delaying Social Security can set you up for a better future.



T-3 MEDICARE

Healthcare decisions can even make an Astronaut's head spin. If you are retiring prior to age 65, you will need to have private insurance. You might be able to use COBRA from the company you are leaving. While costly, you will most likely have good coverage. If you are under age 65 with low taxable income, you can also consider the Affordable Care Act's health subsidy. It's a game that many have to play until age 65.

Once you reach age 65, you will sign up for Medicare Part A and B. You have a 7 month window to sign up. Three months prior to the month you turn 65, the month of your 65th birthday and three months after you turn age 65. Part A covers hospital expenses and Part B covers other medically necessary services and preventative care like doctor's services, lab tests, and outpatient care. Part D is optional and covers prescription costs. This is where takeoff gets rough and we suggest professional help as in some cases you can only make these choices once.

Medicare Advantage or a Medigap plan will supplement Part A and B. You have to choose one, not both. Part A and B only cover about 80% of approved medical costs. Medigap policies will fill in the gaps of Part A and B. Medicare Advantage plans (called Part C) often include benefits beyond Part A & B and are issued by private companies. These plans are similar to corporate HMOs and PPOs and could be much cheaper than a Medigap policy, but be sure to check the details as each plan is very different.

T-2 INVESTMENT ASSET ALLOCATION

When a rocket ship goes into orbit, the mission is just getting started. The rocket ship has to sustain its orbit in a very hostile environment until it is time to come home. Your retirement portfolio is in a similar position. You have been working hard adding funds to your retirement accounts like adding rocket fuel for a journey to space, but just like the rocket, you also have to sustain your retirement orbit.

In a low interest rate and high inflation environment, you can't take the portfolio to cash and bonds like maybe your grandparents did decades ago. You need to keep your portfolio invested in stocks, live off the growth and income while using bonds simply to keep the ride stable during any turbulence, aka market volatility.

We like retirement portfolios to carry fund fees lower than 1/10th of a percent annually and have an allocation with around 60% stocks and 40% bonds. Aside from your holdings, your retirement portfolio should also have about 2 years of income in cash to protect the portfolio from withdrawals during market downturns. Your personal allocation for retirement depends on many factors including your family's net worth and financial plan objectives.



T-1 RETIRE WITH PURPOSE

Once in space, astronauts must adapt to environmental changes both physically and mentally. They adhere to strict exercise routines and mental health evaluations in order to keep their bodies in shape and their minds sound during their trip and when returning home. The same goes for adapting to lifestyle changes in retirement, where you have to keep your brain thinking and your body moving.

"An object in motion tends to stay in motion" according to Isaac Newton. The same goes for our bodies as we get older. Hanging up the 9-5 routine doesn't mean you have to become sedentary. You can slow your pace in retirement without coming to a full stop. Now is the time to find activities you enjoy that will also keep you healthy. "(A sense of purpose) is a very robust predictor of health and wellness in old age," — Patricia Boyle, a neuropsychologist at the Rush Alzheimer's Disease Center in Chicago.

Following almost 1,000 people (average age 80) for up to seven years, Dr. Boyle's team found that the ones with "high purpose" scores were 2.4x more likely to remain free of Alzheimer's than those with low scores. They were also less likely to develop mild cognitive impairment, often a precursor. "It slowed the rate of cognitive decline by about 30%, which is a lot," Dr. Boyle added. In addition, her study showed that purposeful people were less likely to develop disabilities or die. A sample of 1,238 people followed for up to five years (average age 78) by Rush researchers found that those with high purpose had roughly half the mortality rate of those with low purpose.

You can have a few weeks in the recliner, but after that, your feet need to hit the floor with a purpose. This purpose could be spending time with family, gardening, home improvements, traveling, volunteering, etc. But the bottom line is that you need a long term plan for your mind and body.

T-0 **BLASTOFF!**

You have finished the pre-retirement checklist and can now **blast off into retirement with confidence**. Wiser Wealth Management is available to be your mission control for your retirement planning.

If you have questions about this pre-retirement checklist, or if you'd like to schedule a complimentary consultation with one of our financial advisors, please contact us.



WWW.WISERINVESTOR.COM



EDUCATION@WISERINVESTOR.COM



[678-905-4450](tel:678-905-4450)



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MANAGEMENT**

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125 CHURCH STREET NE, SUITE 220 | MARIETTA, GEORGIA 30060