Retirement Checklist: 10 Years From Retirement

You've entered the fourth quarter of your career, and it's time keep a very close eye on the score while managing the clock. Sports metaphors aside, this is the time to really start thinking about retirement in concrete detail rather than wishful abstraction. Here's what you need to do before the fat lady in your office sings.

- **Take advantage of a higher salary by saving even more.**

  Unless you're a former professional athlete, you're now likely entering your highest-earning years. Couple the higher income with lower kid-related costs, and you have more discretionary income to sock away for retirement or pay down long-term debt.

- **If you're age 50 or older, take advantage of higher contribution limits to retirement accounts.**

  The year you turn 50 you can contribute an extra $1,000 to your IRA (for a total of $6,500 in 2015) and an extra $6,000 to a 401(k), 403(b), or 457 (for a total of $24,000 in 2015).

- **Consider paying off your mortgage with extra savings.**

  If investment markets perform similarly to the way they have in the past, you're better off keeping your mortgage and investing as much as possible. But if you're already maxing out your retirement accounts, consider paying off your mortgage with extra resources. Going into retirement mortgage-free means you'll need less income -- plus you'll have extra peace of mind knowing that no matter what happens, at least you own your house.

- **Request an estimate of your Social Security benefits.**

  If you are age 60 or over you should receive a statement in the mail every year, three months before your birthday, otherwise or if you want a more recent estimate, visit SSA.gov or call 1-800-772-1213. Americans age 55 or older should expect to receive most if not all of their projected benefits.

- **If you will receive a check from a defined-benefit plan in retirement, ask for estimates of your benefit based on various retirement dates.**

  Determine which factors have the biggest impact on your future benefit so you know what to do to maximize your payout.

- **Consider a temporary retirement or sabbatical.**

  Many people find that they didn't really want to retire; they just needed a break or a new career. Now's the time to begin thinking about what else you've wanted to do with your life and take steps to make it happen.

Take drastic action -- as necessary

Many people reaching their 50s think they'll retire in the next 10 years, but a few dances with a solid retirement calculator or financial planner dashes their hopes. If you'd like to retire within a decade but are behind in your savings, take a magnifying glass to your budget to see where you could spend less. Consider selling things you no longer need and investing the proceeds (including your home, if you find yourself with spare square footage). Find work you'd enjoy doing part-time in retirement.

Three to Five Years From Retirement

- **Each year, set aside the cash you'll need for the first five years of your retirement to build your income cushion.**

  Four years from retirement, put your first year's worth of income in money markets or certificates of deposit. The next year, set aside another year's worth of retirement income. Do this every year until retirement so that you have your five-year income cushion ready by the time you stop working.

  Request an estimate of your Social Security benefits.

  If you are age 60 or over you should receive a statement in the mail every year, three months before your birthday. Otherwise; you will receive a statement each year that your age ends in 0 or 5. If you want a more recent estimate, visit SSA.gov or call 1-800-772-1213. Americans age 55 or older should expect to receive most if not all of their projected benefits.

- **If you will receive a check from a defined-benefit plan in retirement, ask for estimates of your benefit, based on various retirement dates.**

  Determine which factors have the biggest impact on your future benefit so you know what to do to maximize your payout. Also, inquire about, and evaluate, your benefit options (e.g., a monthly check or lump sum).

- **Begin building a stash of dividend-paying investments.**

  Higher-yielding stocks have historically outperformed lower-yielding stocks -- with approximately half the volatility. Plus, qualified dividends paid by stocks outside of retirement accounts are taxed at lower rates than ordinary income and interest from most fixed-income investments.

- **Investigate your options for a "phased" retirement from your employer.**

  Rather than go cold turkey on work, consider phasing into retirement by working part-time or part-year for a few years.

- **If you will not be eligible for Medicare or employer-provided retirement health care, begin to investigate health insurance options for early retirees.**

  Paying for your own health care is not cheap. Make sure you know the costs before quitting work and leaving your employer's health-care plan. Visit eHealthInsurance.com to get rough estimates.

- **If you will not receive retirement checks from a defined-benefit plan or other source of guaranteed lifelong income beyond Social Security, consider purchasing an income annuity.**

  Begin to evaluate the options by visiting Vanguard.com and ImmediateAnnuities.com.

- **Will you go back to school in retirement? Consider investing in a 529 savings plan.**

  A 529's tax-free growth isn't just for kids. You may get extra benefits if you participate in your state's plan. Just remember, the money must be used for qualified higher-education expenses or the earnings will be taxed and penalized (though the money can be transferred to relatives tax-free if you change your mind about going back to college).

- **Evaluate the value of aggressively paying down your mortgage before you retire.**

  Anyone getting ready to retire should be investing, at least partially, in more conservative investments, right? Instead of buying more bonds with your last few years of savings, consider putting that money toward your mortgage. Even if you don't pay it off completely before you retire, you'll lower your monthly payments and have more equity available to be tapped later, if necessary.

- **Begin to prepare a retirement budget.**

  Having a pretty good idea of how much annual income you'll need in retirement is key to determining exactly when you can retire.

- **If you have any intention of refinancing your mortgage, do it before you retire.**

  You're more likely to get a better deal on a mortgage if you apply while you're gainfully employed. It's not unusual for retirees to be turned down for a mortgage because of a lack of a steady paycheck.

- **Consider where you'll live when you retire.**

  Will you stay in the same house? Will you stay in the same country? Will you downsize to smaller accommodations, freeing up home equity for investment while also possibly lowering utility bills, maintenance costs, and property taxes?

If your place of employment allows for accumulated leave, factor that into your plan.

Talk to your personnel department about how to take advantage of unused sick or vacation leave. Just make sure it doesn't reduce your other benefits (especially a defined-benefit pension, if you have one).

- **If income from your own small business will play a big part in paying for your retirement, now's the time to get it up and running.**

  It usually takes a few years for a business to get off the ground, even a small side business. So begin the process while you're still earning a paycheck.

- **Find a long-lost pension.**

  If you're not sure whether you were covered by a pension at a job from many years ago, or you can't locate the plan of a former employer (perhaps because the company was acquired), contact the Pension Benefit Guaranty Corp. (http://www.pbgc.gov/) for help.

- **Have a long talk with your spouse.**

  Make sure you both agree on when you'll retire and how you'll spend your retirement. Remember, you don't have to both retire at the same time; wives, in particular, might consider working after the husband retires, since women tend to live longer and have careers interrupted by raising children.

- **Plan how you'll spend your time and your money.**

  Do you know how you'll spend your newfound free time without driving yourself (and your spouse) crazy? Consider a test retirement:Take off a month or two to see what retirement will feel like. No big trips; just do what you'd expect to do in your day-to-day retirement routine.

One Year From Retirement

- **Apply for Social Security benefits three months before you want to receive your first check.**

  The earliest you can begin receiving benefits is age 62 years and one month. Just remember: The earlier you begin, the lower the benefit. You don't have to begin receiving benefits when you quit work. Also, spouses don't have to take benefits at the same time.

- **If you will be eligible for Medicare, sign up and choose your supplemental coverage, if necessary.**

  If you've accumulated enough work credits (most Americans have), Medicare begins at age 65. If you don't enroll for Part B when you're first eligible, you'll pay a 10% penalty. Some Medicare policies will not cover pre-existing conditions if you don't enroll during certain periods. Also, keep in mind that basic Medicare doesn't cover dental care (including dentures), vision care (including glasses), long-term care, and prescription drugs. If you will not receive retiree health care from a former employer, you must investigate supplemental Medicare coverage. Finally, remember that Medicare won't cover services provided outside the United States.

- **Notify your employer of your plans to retire.**

  Your HR department will help you with the transition, and may inform you of new or alternate options.

- **If you are covered by a defined-benefit plan, arrange for payments to begin.**

  Evaluate your payout options (e.g., a lifetime annuity or lump sum) and decide how you want benefits to continue for a spouse if you have one. Sign up for direct deposit if available.

- **Prepare a detailed retirement budget.**

  Nail down how much you'll need in annual retirement income. Don't forget planned large expenditures (such as cruises and recreational vehicles) as well as unforeseen large expenditures (replacing a roof or car).

- **Choose a safe withdrawal rate.**

  How much can you take from your nest egg each year and expect it to last? Historically, 4%, though factors such as age, health, and other sources of retirement income could justify lower or higher rates. If you don't know about safe withdrawal rates, you're either a new subscriber or have been reading *RYR* with your eyes closed..

- **If you own company stock options, find out the rules for exercising.**

  In many cases, you must exercise your stock options within a specified number of days of severing employment with the company.

- **If you own company stock, find out the rules for selling.**

  Investigate the net unrealized appreciation (NUA) option, which might reduce your tax liability from company stock.

- **If you decide that you will purchase an income annuity, begin requesting quotes.**

  Purchase the annuity two to three months before retiring, depending on when the insurance company can send out the first check.

- **If you are retiring before age 59 1/2, consider substantially equal periodic payments (SEPPs, also known as rule 72(t)) as a way to withdraw money from retirement accounts penalty-free.**

  Just remember that you must continue those SEPPs for five years, or until your reach age 59 1/2, whichever is *later*.

- **Estimate the income or lump sum you'd receive from a reverse mortgage.**

  Converting your home equity into retirement income should be a last resort -- think of it as living in your emergency fund. But it's still good to know how much is available to you if you need it.

  Take advantage of employer benefits while you're still on job.

  Are there any office perks that you should load up on before you punch out for the last time? Perhaps your company offers help with paying for computers, gym memberships, or professional development. Plus, many benefits, such as flexible-spending and retirement accounts, are based on a calendar or fiscal year, but chances are you'll be retiring before that year is over. Ask your HR folks if you can "front-load" your contributions to such accounts to take full advantage of retirement plan matches and tax-free medical purchases. In fact, under many flexible-spending plans, once you make your contribution election for the year, you're free to spend every penny of it, even before you've actually made a single contribution. If you leave the company before you've paid it back through your payroll contributions, your employer has to eat the loss.

- **Consider keeping employer-sponsored group insurance.**

  Portable life insurance and supplemental long-term disability insurance without underwriting requirements may be available for a lower rate than individuals at this age can purchase for themselves (just be careful about reduced benefits as age increases). Then there's COBRA health-insurance coverage, which is available at group rates for up to 18 months after leaving your job (longer in certain circumstances, such as disability). Dental is available under COBRA, too.

Retirement!

- **Spend the first year's worth of cash in your income cushion.**

  If you exhaust the year's income before Dec. 31, it's time to re-evaluate your budget and, if necessary, reinstate some delayed gratification.

- **Replenish your cash cushion at the end of the year.**

  At the end of the year, your cash cushion has just four years' worth of income. Add another year, factoring in the previous year's inflation rate (which can be found at BLS.gov).

- **Decide on the best order of withdrawals for your assets.**

  The best strategy is to deplete the assets in taxable, non-retirement accounts first, then tax-deferred accounts (e.g., traditional IRAs), and Roth assets last. But there are several exceptions. Read our "Six Rules for Smart Withdrawals" special report on the *RYR* website.

- **Rather than reinvest dividends and mutual fund capital gains, arrange to have them automatically transferred to your checking or money market account.**

  This may not be the best move for assets in accounts that you won't touch for years. But it makes sense for accounts from which you're currently making withdrawals.

- **If your portfolio has grown over the years despite annual withdrawals, apply a new withdrawal rate to the higher balance.**

  If the markets have smiled up on your retirement, your portfolio will have grown even though you've been selling little bits of it every year. You can then begin anew with your safe withdrawal rate, which will increase your retirement income.

- **If falling markets or high withdrawals (perhaps due to unforeseen, expensive emergencies) have caused your net worth to drop by more than 10% over the past year, consider cutting back on expenses.**

  While the safe withdrawal rate of 4% has survived the worst markets of the past 130 years or so, if a steep drop in your portfolio gives you the jitters, consider tightening your belt until your accounts recover.

- **Estimate your tax bill, and pay quarterly.**

  Gone are the days when your employer would withhold a bit of every paycheck and send the money to Uncle Sam. You can, however, arrange to have taxes withheld from your Social Security (file Form W-4V) and pension. If you don't have enough withheld, pay quarterly taxes or you'll pay a penalty.

- **If you're age 70 1/2 or older, take your required minimum distribution (RMD) from traditional IRAs and employer-sponsored accounts.**

  You must take your first RMD by your required beginning date (RBD), which is April 1 of the year after you turn age 70 1/2. But if you wait until then, you'll have to take two distributions that year -- one by April 1 and another by Dec. 31. Every year thereafter, the RMD must be withdrawn by Dec. 31. Otherwise, you'll pay a 50% penalty. If you contributed money to a 403(b) before 1986, you may be able to postpone RMDs on that money until age 75.

- **Consider converting a portion of assets in tax-deferred accounts (e.g., a 401(k) or traditional IRA) into Roth IRA assets.**

  If RMDs will eventually lead to large, taxable distributions, convert some of those tax-deferred assets into Roth IRA assets. A Roth IRA is not subject to RMDs (though a Roth 401(k) is), and there are estate planning benefits, to boot.

- **If you have decided to purchase an income annuity later in retirement, evaluate your options every year, and invest when appropriate.**

  Visit Vanguard.com and ImmediateAnnuities.com to see what's available.

- **If you work in retirement, know how your benefits will be affected.**

  If you earn income while receiving Social Security before your full retirement age (65 to 67, depending on when you were born), your benefits may be reduced if you earn more than the exempted amount ($15,720 in 2015; $41,880 if you will attain full retirement age in 2015).

- **Automate your income.**

  Streamline your finances by arranging for direct deposit of your Social Security, pension, dividends, and interest into one account. Request that your broker sell portions of your investments every month, quarter, or year, and transfer the proceeds to your bank account.