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Retirement around the corner? Five things to consider

By DAN WEEKS

Are you retiring within the next five years? If so, you'll want to get started with planning for your transition so you're ready when the day comes. It'll be here before you know it! Here are five things to consider before you ride off into the retirement sunset.

Boost cash reserves

As you approach retirement, it's a good idea to accumulate enough cash for at least 1-2 years worth of living expenses. Shop around for the best savings account or money market rates. You may consider using an online high-yield savings account in order to maintain liquidity while enjoying an interest rate up to 10-times higher than the national average.

Determine your capacity

If you haven't created a financial plan to determine your financial capacity for retirement, now's the time to start. You'll want to make sure that your income sources (like Social Security and pensions) and your accumulated retirement savings will be enough to sustain your lifestyle throughout retirement.

Don't bet on spending less money in retirement than you do in your working years. It's extremely difficult for most people to decrease the standard of living they've grown accustomed to.

Don't forget about healthcare

One area you're almost certain to spend more money on in retirement is healthcare costs. In May 2013, the Society of Actuaries released new data which estimates out-of-pocket healthcare costs at $146,400 for an individual retiring at age 65. If you plan to retire before age 65, you can expect to spend considerably more. An individual retiring at age 55 will spend an estimated $372,400 on out-of-pocket healthcare costs in retirement! Keep in mind that these estimates are for generally healthy individuals and don't include the cost of treating chronic illness or potential long-term care costs which could easily double or triple those figures.

The sobering reality of the cost of healthcare in retirement underscores the need for retirees to plan accordingly, as well as commit to a healthy and active lifestyle in order to reduce their healthcare spending as much as possible.

Evaluate your investments

One of the biggest financial challenges people face as they transition into retirement is successfully shifting their investment focus from accumulation to distribution. Because of market volatility, as you accumulate retirement assets, Dollar-Cost Averaging works for you to purchase investments on a regular basis at a lower average cost per share. As you enter the distribution phase, market volatility actually works against you.

This makes it all-the-more important to have an asset allocation which meets your long-term investing objectives and creates the income you need in order to support your retirement needs. You may want to consider deploying a "bucketing strategy" which helps alleviate timing risk by maintaining stable investments for your shorter-term (1-3 year) cash needs, low-risk, low-return investments for your intermediate term cash needs (3-7 years), and a balanced investment portfolio for your long-term investments.

Determine your best option for Social Security

There are many strategies you can utilize to maximize your Social Security benefits. Your challenge is to pick the strategy that best fits your situation and needs. If you desire to collect the highest monthly benefit you're entitled to, you’ll want to delay receiving Social Security until age 70. However, this may not be a viable option for you if you don’t have adequate retirement savings to support your lifestyle needs until Social Security kicks in.

Depending on your level of financial knowledge and willingness to do the required research and analysis, either go it alone or hire a finacial planning expert to help you analyze your situation and make appropriate recommendations. Either way, make sure to take the time to plan your retirement transition. You’ll be glad you did.

The Money Matters column is written by members of the Financial Planning Association of Greater Kansas City. This week: Dan Weeks, a Certified Financial PlannerTM professional with Sound Stewardship, LLC, Overland Park.
