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Getting Ready to Retire

Four things to do in the decade leading up to your retirement.

KEY POINTS

- Determine whether you're on track with your retirement savings and catch up, if needed.
- Ensure your portfolio is properly constructed.
- Update your estate plan to reflect your current wishes.
- Review your insurance needs and coverage.

How do you prepare for a comfortable retirement? For many people, the answer can seem overly complex—but it doesn't have to be. The following steps can help you strengthen your long-term financial position while keeping your retirement plans on track.

1 Check your progress

Considering you may spend 30 years or more in retirement, it's important to save enough so that your money will last. "A quick way to check your progress is to assess how much you've saved by certain ages," says Judith Ward, CFP®, a senior financial planner with T. Rowe Price. "We refer to the target levels as savings benchmarks."

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Your savings benchmark

To find your retirement savings benchmark, look for your approximate age and consider how much you've saved so far. (See "Savings Benchmarks by Age" on page 3.) Compare that amount with your current gross income or salary.

These benchmarks assume you'll be dependent primarily on personal savings and Social Security benefits in retirement. However, if you have other income sources (e.g., pension), you may not have to rely as much on your personal savings, so your benchmark would be lower.

The midpoint benchmarks are a good starting point, but circumstances vary by person and over time. Key factors that affect the savings benchmarks include income and marital status. Depending on your situation, you may want to consider other benchmarks within the ranges. (See "Nearing Retirement: A More Detailed Look" on page 4.) As you're nearing retirement, think about analyzing your spending and income sources more carefully. Retirement planning resources like the T. Rowe Price Retirement Income Calculator can help. Visit **troweprice.com/ric**.

Prioritize saving for retirement

Generally speaking, most investors should save at least 15% of their income (including any company contributions) in order to achieve the savings benchmarks at various ages.[1] Even if you're on track, keep prioritizing your retirement. "If you aren't where you want to be with your savings, focus less on the shortfall and more on the incremental actions that you can take to secure your financial future," says Ward.

> **"A quick way to check your progress is to assess how much you've saved by certain ages."**
>
> –**JUDITH WARD**, CFP®, SENIOR FINANCIAL PLANNER WITH T. ROWE PRICE

Consider the following:

- Make sure that you're taking advantage of the full company match in your workplace retirement plan.
- Increase your savings rate right away and then continue to increase it gradually over time. Note that the 2019 contribution limits for an IRA and a 401(k) are $6,000 and $19,000, respectively ($7,000 and $25,000 if you're age 50 or older).
- Be open to part-time or consulting work in retirement to continue earning income.

2 Construct your portfolio

In addition to saving enough, it is important to hold the right mix of investments and types of accounts. Make sure your strategy addresses the following:

Asset allocation. The appropriate mix of stocks and bonds in your portfolio will depend on your tolerance for risk and your time horizon. For example, your portfolio should start out as mostly equities early in your career and should gradually increase its exposure to fixed income, creating a more balanced approach as you get closer to retirement. In your 60s, consider having equity exposure of around 50%–65%, decreasing that amount slowly as you move into and through retirement. This shift aims to reduce the market risk in your portfolio while still benefiting from the growth potential of equities. Visit **troweprice.com/allocationplanning** for more information.

[1] It may be possible to achieve your retirement goals with a lower savings rate than 15% if you get an early start on saving or if you have relatively low income. Additionally, people in some circumstances may not be able to meet their savings goals solely through tax-advantaged plans. However, we believe that 15% or more is an appropriate target for most people considering the wide range of potential financial changes over a lifetime.

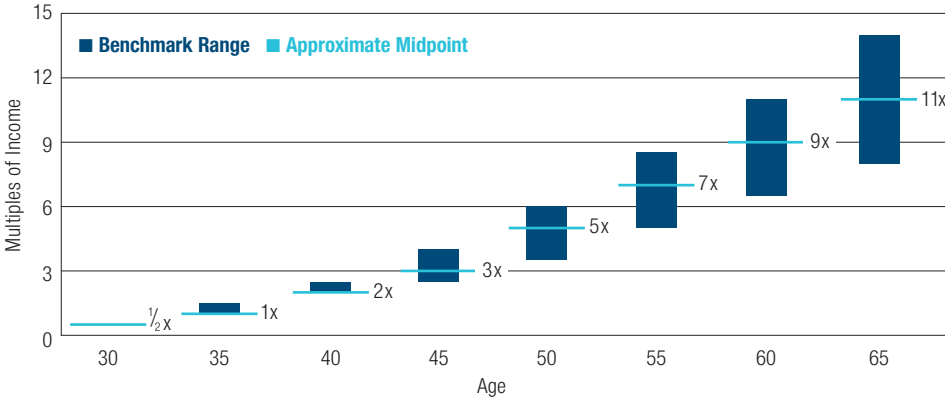
Portfolio diversification. Diversification involves investing in different types of stocks (e.g., small-cap, large-cap, and international) and bonds (e.g., international, high yield, and investment grade) so that your portfolio is never too dependent on any one asset type. Since no one investment consistently leads the pack, making sure your portfolio is well diversified provides you with exposure to sectors that are leading without being derailed by sectors that are lagging. Of course, diversification cannot assure a profit or protect against loss in a declining market.

Tax diversification. Most of your retirement assets likely are set aside in tax-deferred accounts, such as a Traditional IRA or traditional assets in a 401(k). As a result, you generally will owe income taxes on all your withdrawals. You may add tax diversification to your investment portfolio by shifting contributions to a Roth IRA or Roth option in your workplace plan. Withdrawals from Roth accounts after age 59½, and at least five years after your first contribution, generally are tax-free.

You also can convert assets already held in a traditional account to a Roth account as you near retirement. "Setting aside money in a Roth account makes sense for many savers of all ages," says Roger Young, CFP®, a senior financial planner with T. Rowe Price. "Moreover, a Roth conversion strategy is worth investigating before you retire. The decision to convert is most appropriate for individuals who won't need all of their required

Savings Benchmarks by Age

Find your retirement savings benchmark by looking for your approximate age.



Benchmarks are based on a target multiple at retirement age and a savings trajectory over time consistent with that target and the savings rate needed to achieve it. Household income grows at 5% until age 45 and at 3% (the assumed inflation rate) thereafter. Investment returns before retirement are 7% before taxes, and savings grow tax-deferred. The person retires at age 65 and begins withdrawing 4% of assets (a rate intended to support steady inflation-adjusted spending over a 30-year retirement). Savings benchmark ranges are based on individuals or couples with current household income between $75,000 and $250,000. Target multiples at retirement reflect estimated spending needs in retirement (including a 5% reduction from preretirement levels); Social Security benefits (using the SSA.gov Quick Calculator, assuming claiming at full retirement ages and the Social Security Administration's assumed earnings history pattern); state taxes (4% of income, excluding Social Security benefits); and federal taxes (based on rates as of January 1, 2018). While federal tax rates are scheduled to revert to pre-2018 levels after 2025, those rates are not reflected in these calculations. For the benchmarks, we assume the household starts saving 6% at age 25 and increases the savings rate by 1% annually until reaching the necessary savings rate.

minimum distributions (RMDs) for living expenses in retirement." The trade-off of the Roth conversion is that moving assets from a traditional account to a Roth account generally requires paying taxes at the time of the account conversion rather than later, when you start taking withdrawals.

3 Update your estate plan

Your estate plan is an important part of your long-term financial strategy. It's essential to have the necessary elements in place to manage your estate—regardless of its size.

Your plan should include:

- An advanced directive that covers:
  - A living will, outlining the type of care you want if you become incapacitated and unable to make your wishes known.
  - A health care proxy that names someone who can make medical decisions for you if you become incapacitated.
- A power of attorney, which grants an individual you choose the authority to make financial decisions on your behalf.
- A will, which directs how assets should be distributed upon your death, unless they have beneficiary designations or are specifically titled.
- The establishment of any trusts necessary to expedite distribution of your estate or that provide for more control of any assets.

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Nearing Retirement: A More Detailed Look

Depending on your personal circumstances and income, you may want to consider other benchmarks within the ranges.

	Married, Dual Income*			Married, Sole Earner			Single		
Current Household Income	Age 55	Age 60	Age 65	Age 55	Age 60	Age 65	Age 55	Age 60	Age 65
$75,000	5½ x	7½ x	9 x	5 x	6½ x	8 x	6½ x	8½ x	10½ x
$100,000	6½ x	8½ x	10½ x	5½ x	7 x	9 x	7 x	9 x	11½ x
$150,000	6½ x	9 x	11 x	6½ x	8½ x	10½ x	7½ x	10 x	12½ x
$200,000	7 x	9 x	11½ x	7 x	9½ x	12 x	8 x	11 x	13½ x
$250,000	7 x	9½ x	12 x	7½ x	10½ x	13 x	8½ x	11 x	14 x

*"Dual income" means that one spouse generates 75% of the income that the other spouse earns. These are rough estimates with a wide range of possibilities as determined by a variety of factors.

> **Protecting your assets is an important part of your long-term financial stability."**
>
> –**ROGER YOUNG**, CFP®, SENIOR FINANCIAL PLANNER WITH T. ROWE PRICE

Review these elements regularly and ensure that any directives in your will, asset titles, and beneficiary designations align with your goals. Moreover, be sure that the various components of your estate plan reflect the hierarchy by which your assets are distributed. For instance, assets are first distributed based on title and ownership, and then according to the beneficiary designations on your accounts and insurance policies. Only then do the directives in your will determine the distribution of your remaining assets. Learn more in Your Guide to Estate Planning. Visit **troweprice.com/estateplanningguide**.

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Evaluate your insurance

Protect your retirement assets from the costs associated with major health issues and catastrophic events through appropriate insurance coverage. "Find a balance between the premiums you can afford and the risks that could jeopardize your savings," Young says. Following are insurance considerations for people approaching retirement:

Health. Medicare offers many options, so take the time to understand your choices. If you retire before you become eligible at age 65, you need to plan for coverage until then. If you work past age 65, you may consider staying on your employer's plan.

Long-term care. Costs for custodial care, such as in-home assistance, assisted living environments, and full nursing home care, aren't covered by Medicare. Long-term care insurance is costly and should be evaluated carefully, but it could make sense for people who have assets to protect and aren't comfortable self-insuring.

Liability. An umbrella policy can increase the liability protection on your home and auto policies and provide overarching financial protection if you are sued. It's important to have enough liability coverage to protect your assets.

Life. Coverage may not be necessary if you are about to retire and have adequate assets in place. But if your family relies heavily on your ongoing income—such as pension or Social Security benefits—a policy might still be important.

Keep your plan up to date

Preparing for retirement is a dynamic process that requires frequent updates as your situation changes. Moreover, make sure to adjust your plan if your vision of retirement changes. ■

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