

5 Ways to Test Your Retirement Readiness

Here's how to make sure your retirement plans are good to go.

Today, moving toward retiring is more complicated than it was in prior years, and comes with a thousand decisions. "Retirement looks very different for people today than it did 50 years ago. People are living longer, and their families sometimes live across the country or even across the globe," said Aaron Hatch, CFP and co-founder of Woven Capital, a fee-only financial planning and investment management firm.

Some people want to travel the world when they retire, whereas others are content to plant a garden or work on their golf game. No matter how grand or modest your retirement plans are, you'll want to make sure that your finances, your significant other, and your emotional state are ready for the transition into your golden years. Here are five ways to test if your retirement plans match your retirement dreams.

1. Take your retirement budget for a test drive

Before you stop working, you should determine the income you can live on. One of the best ways to know if you have planned well financially for retirement is to actually live it, said Ed Gjertsen II, vice president of Mack Investment Securities and chairman of the Financial Planning Association. Gjertsen recommended creating a retirement spending plan and taking a retirement test drive by trying to live on those projected expenses for a couple of months.

Steve Repak, certified financial planner and author of *6-Week Money Challenge for Your Personal Finances*, said that you shouldn't wait too long to take your retirement for a trial run. A year or two before you plan to retire, test drive your retirement for a set amount of months.

Calculate your Social Security benefits and take into account any pension income or retirement savings you expect to receive during retirement, and see if that money will last for the entire year. If you find that you'll be cutting it close each month or that you can't live on your planned income, you have two choices:

- Lower your retirement standard of living.
- Plan on getting a part-time job.

2. Adjust your spending plan

After your test drive, you might find that you have to adjust your retirement spending plan. "We can create a terrific financial plan -- then life happens," said Gjertsen. "What most don't realize is that we are not being nicked and dimed to our financial detriment, but fived and tenned instead. Cell phones, internet, cable, and a myriad of other monthly expenses all create a drain on pocketbooks and portfolios."

Be brutally honest with yourself about what is a want and what is a need, and focus on how much you are spending. "Retirees, like anyone else, need to decide what is

important to them and sometimes that means compromising or altering their plan," said Hatch.

3. Check your emergency fund and medical coverage

Gjetsen said that the most challenging element for retirees is healthcare costs, because they are very difficult to fully and adequately plan for. To better figure out your financial plan for this, first understand what is covered by your Medicare Parts A and B, and Medigap policies. "This is a complicated area but is critical in making sure you carry proper health insurance," Gjetsen said.

Even when you know your health insurance coverage, you should have a plan for the unexpected. If your mortgage is paid off, one suggestion is to get a home equity line of credit before retiring. "This is for emergency purposes only as a potentially cheaper cost of funds when compared to a credit card," said Gjetsen.

Repak suggested having 18 to 24 months' worth of your non-discretionary spending to be in emergency funds savings. "For example, if your monthly non-discretionary spending is \$1,000, you should have at least \$18,000 to \$24,000 in savings separate from the money you have in your retirement accounts," Repak said. The emergency fund money should be in a bank account which is FDIC insured and readily available with no penalties if you need to make a withdrawal.

4. Make sure your spouse is on board

One of the major questions Gjetsen asks in pre-retirement discussions is whether both spouses are ready to retire. "The retiring spouse usually answers 'yes' emphatically -- when in fact, I was asking the question of the other spouse," Gjetsen said.

Retirement can be a difficult transition; for couples with just one person getting ready to retire soon, both the retiree and the non-retiring spouse have to make adjustments. "It's difficult when one spouse wants to retire and we show that it may create financial challenges down the road," said Gjetsen.

Couples in which both or one of the parties are preparing for retirement should avoid the all-or-none kind of thinking that retirement can trigger. Instead, they should work toward a third solution that's a compromise and acceptable to both individuals.

"The key here is communication and expectations management prior to and during the first few years in retirement for the first spouse," said Gjetsen.

5. Be sure you'll enjoy retirement

"I don't know many retired people who just sit inside all day watching television," said Repak. Instead, they're traveling, volunteering, pursuing hobbies, or even working part time. The problem for retirees isn't finding something to do; rather, the problem is that retirees often overcommit themselves.

"I find that a lot of people have a hard time retiring," said Hatch. "In our culture, many people self-identify with the work that they do and that becomes their identity. So when people retire, they have to recalibrate who they are. No longer is the person Dan the Teacher or Jennifer the Doctor, so they have to redefine who they want to be."

Hatch suggested that you do another kind of retirement test drive if you are worried that you'll be bored during retirement. "I suggest that they don't plan a vacation, but rather, just stay home and pretend that they are retired," Hatch said. "If they can't wait to get back to work at the end of the two weeks, I suggest that they think about alternatives, like moving to a part-time schedule."

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