3 Ways to Shape Up Your Finances Before Retirement

Here’s how to review the financial health of your retirement plan.

A few small changes can get your finances into shape before you retire.

Most people save for retirement over several decades. Your goals and priorities when you began to save for retirement are not necessarily the same ones you have now. Here's how to make sure your financial life is up to date and in great shape:

Investment portfolio. As retirement approaches, your investment portfolio should be more conservative than it was during your accumulation years. But this doesn't mean you should move from a well-diversified portfolio of assets to a portfolio made up of completely riskless or low-risk assets such as cash, bonds or certificates of deposit.

While your situation will likely warrant increasing your exposure to more conservative types of assets, your portfolio still needs to serve a number of functions. Modern medicine allows us to live longer, and your retirement could last for decades. A portfolio built over 30 or 40 working years may need to provide for a retirement that could last just as long. Considering that, it may be beneficial to think of your portfolio as containing three distinct "time buckets."

- **Short term** (0 - 3 years). This is where your low-risk, liquid assets should be. These are the assets that will help you sleep at night when the financial markets decide to act up.
- **Medium term** (3 - 10 years). These investments will eventually replenish your short-term bucket. They will likely be more aggressive than the assets considered short-term, but will probably not experience the same volatility as the broad markets. Assets that typically keep up with inflation may fall into this bucket
- **Long term** (10 plus years). These are your growth assets. They will most likely be heavy on the equity side and diversified across a number of regions, countries and market capitalizations.

Financial plan. Just like you had a plan to get to retirement, you need a plan to get through retirement. This may include a strategy of reviewing the following:

- **Withdrawal rate**. Decide if a 4 percent annual withdrawal rate will be appropriate for your situation. You also need an understanding of how and where to pull your retirement income from, perhaps including pensions, Social Security, tax-deferred accounts, tax-free accounts and taxable accounts. Your draw down strategy can help make sure your portfolio will last for the long haul.
- **Insurance**. As you head toward retirement age, there are a number of considerations that should be made with regard to your insurance needs. You are going to need to switch to Medicare and perhaps supplement it with an additional insurance policy. It's also a good time to decide if long-term care insurance makes sense and to review whether it is worth keeping

your current life insurance policies. Some people find they no longer need life insurance after their children are grown up and independent.
- **Estate planning**. It's likely that your estate plan will look very different as a retiree with grown children and even grandchildren than it did when you were an accumulator with no or young children. Make sure your documents are updated to reflect new marriages, births, deaths, charitable planning, specific bequests and legal and regulatory changes.

Lifestyle. This is the best area to exercise the "mind over matter" mindset of aging. Obviously, diet and exercise are a huge way to stay young at heart as you age. There are also a number of things you can do to make sure your mind stays sharp and alert.

- **Keep a positive attitude**. A Women's Health Initiative study found that women who maintained an optimistic outlook were 30 percent less likely to die as a result of heart disease than those who maintained a pessimistic outlook. Similar studies found that individuals with a positive outlook while experiencing health problems had a lower risk of dying than those with more pessimistic attitudes.
- **Use aging to your advantage**. As you enter or are in the retirement phase of life, there are now roughly 40 more hours available per week to pursue the things you never had time for. That could include travelling, volunteering, becoming more involved in your community or taking up a new hobby.
- **Set new goals**. Retirement, or financial independence, was probably a huge goal as you moved through your working career. But it's not really the finish line, but rather a checkpoint between that journey and the next. Setting and achieving goals is a fantastic way to keep your mind sharp and alert. These can be small goals like finishing your first 5K and large goals such as starting a new business. Either way, set a goal, write it down and begin putting together the plan for how you will achieve it.

Your financial goals may evolve over time and need to be updated as your circumstances change. You may need to make additional adjustments to your finances as you progress through retirement.

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