People's United Advisors

RETIREMENT

Transitioning Your Finances to Retirement

You've been working, saving, and investing for retirement over the course of your adult life. But when it finally arrives, what exactly should you do with your finances?

Here are some key steps to go through as you determine the right solutions for your retirement.

For many, 65 is no longer the magic retirement age. Some have the financial wherewithal and the desire to leave their jobs early; others retire later. Indeed, almost 20% of Americans today are still working past 65—and some much longer—either because they wish to or need to. And so with retirement more a customized process than a moment in time, what issues arise?

PLANNING:

UNDERSTAND YOUR REGULAR EXPENSES

The starting point is understanding your ongoing expenses. Take a close look at your regular monthly outlays to find the baseline number for the income you'll need.

This process will also give you some insight into where you have flexibility. You are in a better position to make lifestyle choices—downsize? travel more?—if you know what your current lifestyle costs.

PLAN FOR BUMPY OUTLAYS

Expenses are always bumpy. A big car repair, a celebration, finally replacing that outdated TV: Researchers say that the average person underestimates—and under-budgets for—these kinds of "exceptional" expenses.

Whatever your baseline monthly expense number is, add a hefty percentage for exceptional items. In fact, retirees often say that they encountered an extra batch of one-time costs early in retirement, as they finally made overdue home repairs or moved.[1]

DECISIONS:

PROJECT YOUR STEADY INCOME

With a robust sense of your typical and exceptional outlays, you can finally make some choices about your income, from deciding when to start taking Social Security benefits to setting up the right withdrawal strategy from retirement savings.

CHECK OUT AND DECIDE ON WITHDRAWAL STRATEGIES

Which account should you withdraw from first—a 401(k), an IRA, or a regular taxable brokerage account?

Deciding on withdrawals by account type is often a matter of income taxes. Withdrawals from 401(k)s and traditional IRAs trigger income taxes, while qualified withdrawals from Roth IRAs are income-tax-free. Withdrawals from a non-retirement brokerage account are free of income tax, but can trigger capital gains taxes if you sell investments.

One savvy method is to withdraw from your various accounts according to their percentages of your total savings. If your 401(k) represents 50% of your total retirement savings, plan to take 50% of needed income from there each year.[2] This method can spread income tax bills over time, potentially keeping you in lower tax brackets.

ACTION:

SHIFT YOUR INVESTMENTS TO INCOME

Once you're using your nest egg, you should be in a more conservative investment mix. Look for ways to move away from growth-oriented stocks toward income-generating investments. Diversified bond funds, municipal bonds, real-estate investment trusts (REITs), and dividend-focused strategies are worth considering.

Ultimately, retirement is not a single, one-time event. As with other dimensions of your retired life, expect to make some financial changes right away and adjust other things as the dust settles on your new lifestyle.

Sources:

1. Abigail B. Sussman and Adam Alter, "The Exception Is the Rule: Underestimating and Overspending on Exceptional Expenses," *Journal of Consumer Research 39* (2012).
2. https://www.fidelity.com/viewpoints/retirement/tax-savvy-withdrawals

People's United Advisors

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We are closely monitoring ongoing developments of the Coronavirus and we want you to know that our first concern is the safety and well-being of you and your family, and our colleagues and communities.

During this time of market uncertainty, taking a calm approach, and staying invested is often the most optimal strategy.

We are committed to keeping you safe and informed, continuing to exceed your exceptions, and are prepared for any scenario that may arise related to the virus.

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