A Kiplinger SPECIAL REPORT

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Guide to Your Retirement Countdown

Key steps to take when retirement is 10 years, 5 years, or one year out

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Kelly Carter is the CEO of BRPG and has more than 20 years experience as a financial retirement advisor with emphasis on estate and tax planning, life insurance, annuity programs, and retirement strategies.

Kelly has worked directly with pre-retirees and retirees, business owners, and professionals, providing them with alternative, safe solutions for their retirement needs.Prior to BRPG, Kelly Carter was responsible for the formation of an estate planning team that focused on wealth transfers and tax saving strategies for high net worth clients.

This team, comprised of lawyers, CPAs, tax, insurance and investment specialists, provided the necessary strategies for ensuring the protection and efficiencies of each client's "wealth transfer" plan. Over the next several years, Kelly expanded this approach to offices in the Chicago and New York regions as he grew this segment of the business, nation-wide.

Kelly has headed up the forum for hundreds of wealth preservation seminars and has spoken to thousands of retirees. The result has been the development of an extensive network of clients throughout Southern California with individualized and customized retirement plans that provide peace of mind wealth preservation solutions.

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Advance Planning: Key Steps When Retirement is 10 Years Out

When you're only a decade away from retirement, it's time to start getting specific about what that will mean for you. For instance, will you travel, volunteer or work part-time? Will you move out of state, or will you stay in the same town but downsize to a smaller place? You'll also want to take stock of your financial plan, with an emphasis on the following five strategies.

Run the numbers

To maintain your lifestyle in retirement, your income from Social Security, investments, pensions and annuities will need to replace about 75% to 80% of your current gross income. (That's roughly what many live on now after 401(k) contributions and payroll taxes are deducted from their paychecks.)

If you work with a financial adviser, have him or her run projections to see if you are on course to meet your retirement target date—or what you need to do to get on track.

Or crunch your own numbers, starting with an estimate of what your annual expenses will likely be in retirement. They may decrease if, say, your mortgage will be paid off. But be realistic; spending on certain things, such as travel, may go up. And don't forget that inflation will take a toll. When running calculations for clients, Dana Anspach, a CFP with Sensible Money in Scottsdale, Ariz., uses a 5% annual inflation rate for health care and 3% for other expenses.

Next, add up your sources of guaranteed annual income in retirement, including Social Security and an annuity or pension. Subtract that income from your expenses. The result is how much you'll need to pull from your portfolio each year for living costs.

Your savings may need to last 30 years or more in retirement, so make sure your annual withdrawals don't deplete your portfolio too soon. One popular strategy for making your money last is the 4% rule. In the first year of retirement, you withdraw 4%

from your 401(k) and other tax-deferred accounts, then increase the dollar amount of annual withdrawals by the previous year's inflation rate.

Accelerate savings

You're likely entering your peak earning years, plus you may have recently become an empty-nester and now have more disposable income. Instead of spending the extra cash, save it. Once you hit age 50, Uncle Sam allows you to make catch-up contributions in tax-advantaged retirement accounts.

The annual contribution limits for traditional and Roth IRAs is $6,000 for 2019, plus an additional $1,000 if you're 50 or older. Workers this year will be able to salt away up to $19,000 in a 401(k), 403(b) or 457 plan, plus an extra $6,000 if you're 50 or older.

Try to spread your savings across accounts that are taxed differently—say, a pretax 401(k), a Roth IRA with tax-free withdrawals, and a taxable investment account—so you can better manage taxes in retirement based on which accounts you tap. Tax diversification, Beach says, "really helps with the distributions in retirement, controlling what goes on the tax return and controlling your tax bracket."

Open a health savings account

If you have a high-deductible health insurance plan, open a tax-friendly health savings account to go with it. Money goes into an HSA pretax (or it's tax deductible), it grows tax-deferred, and withdrawals to pay current medical bills or even those incurred well into retirement are tax-free. "That's the trifecta in terms of tax savings," Ward says.

The maximum annual contribution to an HSA for 2019 is $3,500 for singles and $7,000 for families, plus an extra $1,000 if you're 55 or older. To make the most of the tax advantages of an HSA, pay current medical bills out of pocket while you continue to invest in the HSA and allow the account to grow, says Melissa Sotudeh, a CFP with Halpern Financial, in Rockville, Md. "It is more valuable to have that growth for your future medical bills," she says. Once you enroll in Medicare, you can no longer make HSA contributions. (One caveat: You'll owe a 20% penalty and income taxes on withdrawals made for non-qualified purposes, although the penalty disappears once you turn 65.)

Pay down debt

Start chipping away at high-interest-rate debt, such as credit cards or personal loans.

Mortgage rates have been so low for so long that homeowners need to weigh whether they are better off accelerating house payments so they're mortgage-free at retirement or investing the money instead. Another factor to consider: Now that the standard deduction on federal tax returns has nearly doubled, you'll be less likely to deduct your mortgage interest.

"If wiping out all your debt helps you sleep better, then by all means pay it off, even if you have a 3.5% mortgage," Beach says. "But keeping that 3.5% in place is not going to hurt you because over the long term your portfolio should earn more than 3.5%."

To see how much extra you must pay each month to wipe out your mortgage by retirement, use the online prepayment calculator by HSH, the mortgage information site.

Consider long-term care

Long-term care isn't covered by Medicare—and it's not cheap. The median annual cost in 2018 was $48,000 for assisted living, $50,340 for a home health aide who works 44 hours a week and $100,380 for a private room in a nursing home, reports Genworth, a long-term-care insurer.

You could pay the bills out of pocket (in other words, self-insure) if you have the assets. Or consider long-term-care insurance. Consumers often worry that premiums will skyrocket over time or that they will buy the insurance and never use it, says John Ryan, a CFP with Ryan Insurance Strategy Consultants in Greenwood Village, Colo. People who bought policies decades ago were shocked to see steep increases later. But today's policies are more accurately priced—meaning premiums are higher—than those issued back then, and actuaries are not forecasting severe premium hikes in the future, says Ryan.

Shop for a long-term-care policy while you're still young and healthy enough that premiums are more affordable. On average, people need long-term care about three years. Look for a policy with a three-year benefit period with inflation protection. Or see how much long-term care your savings could cover and buy a policy that fills the gap—making sure that you can pay for three years of care.

You and your spouse may like the flexibility of a shared-benefit rider that allows you to pool long-term-care benefits for, say, a total of six years and split them as needed. Another option is a hybrid policy that combines long-term care and life insurance benefits. The policy will cover long-term-care bills, but if you don't need care—or not much of it—your heirs will receive a death benefit when you die. ■

By Eileen Ambrose and Sandra Block

Smooth Sailing: Key Steps When Retirement is 5 Years Out

At 5 years from retirement, you can see the light at the end of the tunnel. First thing? Check in with Social Security.

Estimate Social Security

Even if you've saved diligently, Social Security benefits will probably account for more than one-third of your retirement income. If you haven't already done so, sign up for an online account to get a projection of your benefit. It will be based on your highest 35 years of earnings. Review your earnings history to make sure you're receiving credit for every year you worked. Earnings could be missing from your record if an employer reported your earnings using the wrong name or Social Security number.

Getting your benefits estimate will also help you determine how much more you need to save—and how much longer you may need to work—to maintain your lifestyle once you retire. And if you're married, now is a good time to learn about claiming strategies to maximize the benefits for both of you over your lifetimes.

Consider relocation

If you're planning to move when you retire, target several destinations and spend some time there after the summer tourists have decamped. Get a short-term rental in the area for a couple of weeks at different times of the year and try to live like a local. Make an effort to meet other people in the community who share your interests. Finding the right place to live is about "more than nice weather," says Paul Irving, chairman of the Milken Institute Center for the Future of Aging. "It's about the opportunity to stay active and engaged." The Milken Institute's Best Cities for Successful Aging ranks 381 cities based on criteria that are important to retirees, from transportation options to employment opportunities.

Also, health care will become increasingly important as you age, so check out local hospitals and other medical services. The Centers for Medicare and Medicaid rate hospitals based on 57 measures, ranging from infection rates to patient satisfaction surveys.

Spending time in the community will also give you a better sense of the cost of living. If you're considering moving to another state, research state and local taxes, too. Some states exclude a significant portion of retirement income from state taxes, while others tax almost all of your income. Some have no income tax but may blindside you with high property or sales taxes. Check out Kiplinger's retiree tax map for the lowdown on how states tax retirees.

Get a reality check from a pro

Even if you've successfully managed your finances, this is a good time to sit down with a financial professional to make sure you're on track to meet your retirement goals. One of the most important things a financial planner can do is help you come up with a realistic estimate of your living expenses in retirement and whether you'll have enough income to cover them—an update to the numbers you crunched when you were 10 years away from retirement. That's particularly important if you plan to retire before you're eligible for Medicare, says Marianela Collado, a CFP in Plantation, Fla. Many people underestimate the cost of paying for health insurance, she says.

If your planner gives you bad news, you still have time to make some changes, says Milo Benningfield, a CFP in San Francisco. "If you'll need to work a couple of years longer [or reduce expenses], you need to know that now," he says.

Plan your second act

Many boomers don't really want to retire—they just want to get out from behind their desks and do something meaningful and different. If a second act is in your future, it's not too soon to start exploring your options, says Marci Alboher, author of *The Encore Career Handbook*.

If you want to volunteer in retirement, start learning more about organizations that interest you, she says. VolunteerMatch.org, which lets you search nonprofits in your community, is a good place to start.

If you'd like to earn a little extra income while following your passion, start developing the skills you'll need, Alboher says. For example, most states offer alternative certification programs for people who want to pursue a second career in teaching. For more information, check the website for your state's department of education, or go to alternativecertification.org.

> "Many companies will consider phased retirement on an individual basis."

Consider phased retirement

If your employer allows you to cut back on your hours—with a more flexible schedule, for example, or by switching to a part-time position—you can get a better handle on your post-retirement lifestyle, along with what it will be like to live on a budget.

Only about 9% of employers offer a formal phased-retirement program, according to a survey by human resources consultant Willis Towers Watson. But many companies will consider phased retirement on an individual basis, says Alan Glickstein, managing director for retirement. "If it's not listed as an official benefit, that doesn't mean it's not available." If your employer doesn't have a formal phased-retirement program, give your boss plenty of time to consider your request. You should also discuss whether you will be able to keep your health insurance and other employee benefits.

If phased retirement is off the table, another option is to leave your job and work as an independent contractor. This arrangement offers flexibility—you're typically not tied to a desk or a 40-hour workweek—and additional income. But you probably won't receive employee benefits, so when negotiating your rates, take into account the cost of buying your own health insurance if you won't be eligible for Medicare.

Review your life insurance

If you bought a policy years ago when your kids were younger, you may no longer have the need for coverage. With a term policy, once your kids are on their own, you can simply let the policy expire. If your grown children (or other family members) are still dependent on you and you're relatively healthy, you may be able to extend your term.

If you have a permanent life insurance policy and no longer need the death benefit, you have other options. You may be able to convert your policy to an immediate annuity through what's known as a 1035 exchange. You'll lose the death benefit but you'll lock in monthly income for life, or for a specific number of years.

Alternatively, you could hold on to the policy as a source of extra cash for emergencies. You can withdraw from the policy's cash-value account at any time, tax-free. You can also borrow against your policy, typically at interest rates ranging from 5% to 8%. If you don't repay the loan, or pay back only part of it, the balance will be deducted from the death benefit when you die. ■

By Eileen Ambrose and Sandra Block

Almost There: Key Steps When Retirement is 1 Year Out

You're now one year from retirement. First things first: Decide when you'll take Social Security. See our story on page 10 for help on determining when to make your claim. Next up: Take these four important steps.

Simplify your finances

Maybe you've collected multiple bank and brokerage accounts, IRAs, 401(k)s or other retirement accounts along the way. (If you lost sight of an account, search for it at missingmoney.com or unclaimed.org.)

Consolidate small accounts to make it easier to track assets, reduce paperwork and possibly save money. "You may be able to enjoy some economies of scale by doing some aggregation with a single provider," says Christine Benz, director of personal finance at Morningstar, an investment research company. "You might, for example, be able to hit the threshold for cheaper expense ratios." Simplifying finances will also make it easier for someone else to step in to manage your affairs, if needed.

Talk to human resources

Your HR department can help you avoid leaving money on the table when you walk out the door for the last time. For example, you may need to work until a specific date to qualify for your annual bonus, profit-sharing payout or 401(k) match. You should also ask whether you'll be paid for unused vacation days (if not, start planning that vacation now).

Get the lowdown on any retiree health benefits the company provides, particularly if you plan to retire before you're eligible for Medicare. If you'd like to leave your savings in your 401(k) instead of rolling the money into an IRA, find out whether you can take distributions when you need them. Some companies will allow withdrawals from a plan on a monthly, quarterly or as-needed basis but may charge a transaction fee. Others require you either to leave your money in the plan or to take it all out at once.

If you're eligible for a traditional pension, review your options for taking a monthly payout versus a lump-sum payment. "I can't tell you how many people come to me at retirement and say, 'I only have two weeks to decide how I am going to take my pension. What do I do?'" says Richard Kahler, a CFP in Rapid City, S.D. "The time to look at that is a year out so you don't have to be panicked."

You'll also be able to determine whether working another year or two will significantly increase your pension. That may not be the case if you'll receive it in a lump sum, says Glickstein, of Willis Towers Watson. Interest rates are used to calculate the value of lump-sum pensions, and when rates go up, the value of lump-sum pensions goes down. Now that rates are rising, working another year may not increase a lump sum, and could even cause the amount to decline, Glickstein says.

Do your Medicare homework

Navigating Medicare is difficult, and the barrage of insurance pitches you'll get as you approach 65 only adds to the confusion. Start educating yourself about Medicare and how it works to avoid coverage gaps when you leave your job. Social Security beneficiaries are automatically enrolled in Medicare parts A and B when they turn 65. But people who delay Social Security until full retirement age or later—which is a good idea if you're still working—are on their own.

> "Avoid coverage gaps when you leave your job."

Most individuals don't pay premiums for Medicare Part A, which covers hospital care. For that reason, it usually makes sense to sign up at age 65, at socialsecurity.gov, even if you're still working and covered by your employer's insurance. If you're covered by your employer's plan, you may want to opt out of Part B, which covers doctor visits and outpatient services and charges you a monthly premium. Likewise, you may want to wait to sign up for Part D, which covers prescription drugs, until you leave your job. Check with your employer to be sure its coverage is creditable—which means it's at least as good as Medicare's coverage. If not, you'll face penalties when you sign up for Part D.

Once you leave your job, you'll have up to eight months to sign up for Part B. But if you want coverage to start as soon as you retire, plan on filing at least six weeks before your last day to make sure you're covered.

You'll need to decide whether to sign up for Medicare Advantage or Medicare Part B plus Part D and a medigap plan—a supplemental policy that covers co-payments, deductibles and other costs that traditional Medicare doesn't pay for. Medicare Advantage plans provide medical and drug coverage from a private insurer that has its own network of doctors. Use Medicare's Plan Finder to search for plans in your area and find out whether your doctors are part of a plan's network. You can also use this tool to research Part D plans. Medicare also offers this tool you can use to research medigap plans.

Buy an immediate or deferred annuity (or not)

If your employer doesn't offer a traditional pension, you may want to go the DIY route and buy an immediate annuity. With an immediate annuity, you hand an insurance company a lump sum in exchange for a monthly paycheck for the rest of your life (and your spouse's life, in the case of a joint-and-survivor annuity) or for a specific number of years. One strategy is to calculate your fixed retirement expenses, such as utility bills, mortgage and car insurance, and buy an annuity that will cover those costs. You can get an idea of how much you'll need to spend to get a specific monthly payout at immediateannuities.com.

Or you could buy a deferred income annuity in your fifties or sixties. Deferred annuities provide regular income in your later years; the payments don't begin until at least 10 years after you buy them. They are significantly less expensive than immediate annuities, but unless you sign up for survivor or return-of-premium benefits, which will reduce your payout, your heirs will get nothing if you die before payments begin. ■

By Eileen Ambrose and Sandra Block

Lower Expectations for Returns Over the Next Decade

No one has a crystal ball, but you can make assumptions about potential returns based on current economic trends, corporate earnings projections and stock prices. That can give you an idea of how much to invest in stocks, bonds and cash over the next decade.

A lot to live up to

Standard & Poor's 500-stock index averaged a 14.0% annual gain, including dividends, over the past 10 years. Don't expect that for the next 10 years. Brian Singer, head of the Dynamic Asset Allocation Strategies team at institutional investment house William Blair, thinks large-company stocks—such as those in the S&P 500—will gain a below-average 6% annually over the next decade.

Blame the bull market. The run that began in 2009 is the longest bull market ever, and it has gained three times the amount an average bull market does. Typically, big bull markets are followed by big losses, says Sam Stovall, chief investment strategist of U.S. equity strategy at CFRA—say, 40% or more. A bear that big would tear a hunk out of the stock market's projected 10-year return.

You might increase your stock returns by investing abroad—especially in emerging markets, if you can tolerate the risk. It's a matter of playing catch-up. Foreign stocks have lagged their U.S. counterparts over the past decade, particularly lately. The MSCI Europe, Australasia and Far East index has fallen 9.0% over the past 12 months, and the MSCI Emerging Markets index has fallen 8.7%. The S&P 500 is up 1.8% over the same period.

Foreign currencies have fallen against the U.S. dollar as well, and if they rebound, they could put some extra octane into your portfolio as returns earned abroad translate into more dollars here. "The odds are 90 to 10 that emerging markets will beat U.S. stocks," says Rob Arnott, founder of Research Affiliates. He's forecasting a 9.7% annualized return for emerging markets over the next decade—about the same as their 30-year average. Foreign developed markets, where earnings growth is slower than in emerging markets, should return 7.5% annualized over the next decade, he says.

Bonds will disappoint

Government bonds have earned an annualized 5.0% since 1926. It's unlikely that interest rates will return to the long-term average, which includes the towering yields of the 1970s and early 1980s. In today's global and disinflationary economy, the 10-year yield is unlikely to rise above 4%, up from 2.9% recently. Mix in the likelihood of principal losses as yields drift higher (prices and yields move in opposite directions), and you get disappointing bond returns over the next 10 years. "We see a 2.5% to 4% annual return from bonds," says Roger Aliaga-Díaz, senior economist at Vanguard's Investment Strategy Group.

Cash is the third asset class in a balanced portfolio. Barring a surge in inflation, the Federal Reserve is unlikely to push up its benchmark short-term interest rate much past 3%, and savings rates follow that closely. A 3% return from cash over the next 10 years wouldn't be unusual: Treasury bills have returned an average 3.3% a year since 1926. What's unusual is how close cash returns could be to bond returns. Just don't give up on bonds. You'll want them in your portfolio if there's a recession and a bear market in stocks.

If the next decade produces lower-than-average returns on stocks and bonds, your best bet is to save more. If you increase your saving rate, and your investments provide more than the middling returns expected, you won't just reach your goals, you'll roar past them. ■

By John Waggoner

Staking Your Claim to Social Security: Now or Later?

Many financial planners recommend waiting until at least your full retirement age—or, even better, until you're 70—to claim Social Security. You're eligible to file for Social Security as early as age 62, but if you do, your benefits will be permanently reduced by at least 25%. Waiting until full retirement age—66 for most baby boomers—means you'll receive 100% of the benefits you've earned. And if you continue to postpone filing for benefits after you reach full retirement age, your payouts will grow by 8% a year until you reach age 70.

That payout, combined with cost-of-living adjustments in most years, is a return you're unlikely to get anywhere else. Yet retirees seem to be ignoring those numbers: Nearly 60% of retirees claim benefits before age 66, and about one-third of those retirees claim benefits at 62. Are they misguided or onto something?

Figuring out when to file for Social Security usually comes down to a question that's nearly impossible to answer: How long will you live? Retirees who wait until full retirement age or later will receive fewer checks over their lifetime, but the checks will be for larger amounts. The longer you live, the more delaying pays off.

Do the math

The age at which you come out ahead by postponing benefits is known as your break-even age. For example, a 62-year-old top wage earner would come out ahead by filing at 66 as long as he lives past age 77. If he delays filing for benefits until age 70, he would need to live past age 80 to break even. That's below the average life expectancy (84 for men and nearly 87 for women), but if you don't expect to live that long, there's no point in postponing your benefits.

However, if your grandmother celebrated her 100th birthday by playing a few rounds of golf, and you're fit and healthy, you're probably better off waiting until at least full retirement age—or, better yet, age 70—to file your claim.

If you're married—even if your own health or your family history suggests you won't reach your break-even age—there's another factor to consider: survivor benefits. For example, if you're the higher earner and you die first, your spouse will be able to take over your benefits. Delaying benefits will boost the monthly benefit your spouse will receive after you're gone.

Single retirees are usually better off waiting until full retirement age to file for Social Security. But because you don't have to worry about survivor benefits—your benefits will end when you do—you have a less-compelling reason to wait until age 70 to file. Your decision will come down to how badly you need the income and how long you think you'll live.

It's usually not a good idea to claim benefits before full retirement age if you're still working. In 2019, Social Security will temporarily withhold $1 of your benefits for every $2 you earn over $17,640 if you haven't reached full retirement age. If you'll reach the magic number in 2019, it will withhold $1 for every $3 over $46,920 in earnings in the months before you hit full retirement age. After that, you don't have to worry about the earnings test.

If you file for benefits early and later change your mind, you can withdraw your application within 12 months after signing up. You'll have to repay benefits, and you can only do it once. You also have the option of suspending benefits at full retirement age, which will allow you to accrue the 8% delayed retirement credit until age 70.

Invest your benefits?

Even with the payback option eliminated, some retirees remain convinced that they can come out ahead by filing at 62 and investing their benefits. That way, they argue, they won't leave money on the table if they die before their break-even age. This strategy also appeals to retirees who fear that a shortfall in the Social Security trust fund will force the government to cut future benefits.

But in order to beat the guaranteed return you would get by delaying benefits (plus cost-of-living increases), you'd need to invest most of your benefits in stocks, financial planners say. That could work out in your favor—but if the market turns bearish, you won't have years to recover your losses, says Gifford Lehman, a certified financial planner in Monterey, Calif. Even in the best of times, however, this game plan requires you to resist the temptation to spend your monthly Social Security check.

What about worries that Social Security won't be around if you wait? Barring congressional action, the trust fund is slated to run out of money in 2034. It's unlikely, though, that Congress will do nothing over the next 15 years to fix Social Security. And at that point, payroll taxes would still fund 79% of promised benefits.

> "Barring congressional action, the trust fund is slated to run out of money in 2034."

How to bridge the gap

Some retirees file for Social Security before full retirement age because they're reluctant to tap their retirement plans. Filing for Social Security benefits early may allow you to postpone taking money out of savings, but that strategy may cost you more in the long run.

Here's why: Once you turn 70½, you must withdraw required minimum distributions from all of your tax-deferred retirement plans, based on your life expectancy and the balance in those plans at year-end. Leaving those accounts untouched until you turn 70½ will increase the size of mandatory withdrawals, along with your tax bill. Depending on your other income, you could find yourself vaulted into a higher tax bracket. Large RMDs could also trigger taxes on up to 85% of your Social Security benefits, plus a surcharge on your Medicare Part B and Part D premiums.

By taking withdrawals from your retirement plans before you hit your seventies, you can reduce the size of those accounts, which will result in smaller taxable RMDs, says Cindi Hill, a certified financial planner with CUNA Mutual Group. You can take money from your tax-deferred accounts with a fairly high degree of confidence that your savings will last 30 years or more—through bear markets and bouts of inflation—if you follow the "4% rule" as a starting point. In your first year of retirement, you withdraw 4% from savings, and you increase the dollar amount of your subsequent annual withdrawals by the previous year's inflation rate. You may decide to dial back withdrawals once you start taking Social Security benefits, but the rule is a good starting point.

While this strategy is designed to ensure that you won't outlive your money, it's not bulletproof. During the 2008 economic downturn, some retirees were forced to withdraw money from depressed portfolios, inflicting permanent damage to their savings. In that scenario, filing for Social Security benefits before age 70 could enable you to postpone withdrawals until your investments have recovered. Cary Cates, a CFP in Denton, Texas, says he often advises clients to plan on filing for benefits at age 70 but to be prepared to file earlier if their investment portfolio suffers a significant decline. "This reduces the need to sell securities when the value is depressed," he says.

> "You may decide to dial back withdrawals once you start taking Social Security benefits."

Another way to protect yourself from market downturns is to use an immediate annuity to cover your expenses until you file for benefits. Suppose you're 65 but want to wait until you're 70 to claim benefits—and that claiming now would provide $2,093 a month in benefits. For about $120,650, you could buy an annuity that provides the same amount each month for five years, at which point you would file for Social Security.

Thanks to estimated cost-of-living adjustments and the 8% delayed retirement credit, your benefits would be worth more than $3,600 a month. If you live until at least age 83, you'll come out ahead.

Maximizing benefits for married couples

For married couples, claiming benefits "is a household decision, not an individual decision," says Paula McMillan, a certified financial planner in Greensboro, N.C. Under a couple of scenarios, it makes sense for one spouse (or widowed spouse) to claim benefits before full retirement age.

You're the lower-earning spouse. If you were born on or before January 1, 1954, you can still take advantage of a strategy known as restricting an application to increase the combined payout of your benefits as a couple. Here's an example of how it works: One spouse files for Social Security benefits before full retirement age, while the other—who must have already reached full retirement age—files a restricted application to collect spousal benefits only, which are equal to half of the first spouse's full benefits. The second spouse waits until 70 to collect his or her own benefit, thus taking advantage of delayed retirement credits.

Even if you're ineligible for that strategy, it may make sense for the lower-earning spouse to file as early as age 62, says Blankenship. While that spouse will see a 25% reduction in benefits, the couple can use income from the lower-earning spouse's benefits, along with other sources of income, to pay expenses, enabling them to delay the higher earner's benefits until age 70.

You're eligible for survivor benefits. You can file for Social Security based on your late spouse's earnings as early as age 60 (50 if you're totally disabled). Your benefits will be based on your deceased spouse's benefits when he or she died. If your spouse died before filing, your payout will be based on the amount your spouse would have earned at full retirement age.

To receive 100% of your late spouse's benefit, you must wait until your own full retirement age to file; otherwise, it will be reduced by a certain amount for every month you file your claim before your full retirement age. But whether you wait until full retirement age or file earlier, claiming survivor benefits won't affect your own payout. Claiming survivor benefits—even if they're smaller than your own—allows your own benefits to continue to grow. At age 70, you can switch to your own benefits, which will have been enhanced by the delayed retirement credit.

Survivor benefits are also available to divorced spouses (if you were married for at least 10 years) whose former spouses have passed away. ■

By Sandra Block

Retire in Sync with Your Spouse

Spending more time with a spouse or partner can be one of the high points of retirement. In a study by Age Wave and Bank of America Merrill Lynch, 48% of retirees said their marriage has become more fulfilling, compared with only 11% who said it is more contentious.

Still, each person has his or her own vision of retirement, and they're not always compatible. "Retirement is usually portrayed as a solo project, but it's not," says Ken Dychtwald, CEO of Age Wave, a think tank focused on aging.

Sources of conflict

Sometimes the source of friction is simply spending more time together—especially if one spouse, often the wife, has already established a busy at-home routine.

"My wife told me, 'I married you for better or worse, but not from 9 to 5,' " writes reader Paul Wallick, who joined a gym, volunteers at church and is a part-time consultant, among other activities. "Joining my wife of 41 years on a full-time basis was a bigger adjustment than expected, and I'm sure the same applies to her," says Greg Miles. "I still feel the need for structure and routine."

Some couples have come up with creative solutions. "Spouses don't have to do everything together, and my wife and I take separate trips," writes Thomas King. "But the three weeks I was gone on a trip to New Zealand was too long to be apart." To avoid being underfoot, Tom Morris adjusted his retirement activities to mimic his previous work schedule—leaving the house early in the morning, taking care of chores and projects, exercising, and returning home as if he were ending his workday.

The situation is trickier if you disagree about fundamental roles or goals. Ali Hutchinson, senior vice president of private wealth management at Brown Brothers Harriman, tells of a client who was a corporate CEO while his wife managed the household bills. When he retired and began taking more of an interest in household finances, she balked. "She told him, 'Just because you were CEO of a company doesn't mean you become CEO of the household,' " says Hutchinson. They're still negotiating their roles.

Get on the same page

It's critical to talk with your spouse before you retire to pinpoint and address any conflicts. "Each of you should visualize what a day in retirement might look like," says Judith Ward, senior financial planner at T. Rowe Price. "Ask yourself a series of questions: When, where, and why do you want to retire? What will you be doing, and with whom?" Write down your answers separately and then compare them.

Sometimes it makes sense to stagger retirement dates or shift roles. Reader Bill Smith's wife kept working after he retired, so he made her breakfast, packed her lunch, cleaned the house and made dinner. Another reader writes: "My wife became bored and went back to work at REI. As an avid hiker, I enjoy the spousal discount."

It also helps to stay flexible. Michael and Caranell Hagedorn have discovered that's the key to balancing his desire for financial breathing room with her desire to travel. "Caranell pushes me to do more, and I try to get her to consider more of the costs," writes Michael.

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Portfolio Checkup

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Ten years out. If you haven't changed your mix of stocks, bonds and cash for many years, your portfolio is likely overloaded with stocks. You'll still need stocks to keep up with inflation over time. But you'll also need to think about how much risk you can take with your portfolio without upending your retirement plans.

For a moderate-risk portfolio, consider holding up to 65% in diversified stock funds—about two-thirds of that in U.S. stocks and one-third in foreign stocks—with the rest of the portfolio made up of diversified short- and intermediate-term bond funds.

Besides stocks and bonds, you should have up to six months' worth of living expenses in an emergency fund in case, say, you lose your job or experience a health crisis and need money to pay the bills. Thanks to rising interest rates in recent years, savers can earn more on their cash, particularly at online banks and credit unions.

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Five years out. Take more risk off the table by lowering your exposure to stocks to 60% of your portfolio, with the rest in bonds. Also, increase the cash cushion in your emergency fund so you have enough to cover one year's worth of expenses in case a layoff or health issue forces you to retire early.

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One year out. With a year to go, the mix for a moderate-risk portfolio is 50% to 60% stocks, with the rest in bonds. Now is the time to develop a "bucket" system to protect against one of the biggest risks you could encounter as a new retiree: being forced to sell securities that have fallen in value after a stock market plunge to pay your bills. Basically, you divide your retirement nest egg into three buckets, based on when you'll need the money.

With the bucket system, if the stock market plunges, you will have enough in cash and bonds that you won't have to touch your stocks for more than a decade—plenty of time for them to recover (see Make Your Money Last Through Retirement). After you're retired, review your cash bucket annually to see if it needs to be replenished from the longer-term buckets.

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