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The Most Important Decade of Your (Financial) Life

Are you nearing, or have you recently entered retirement? Let's define retirement as the age when someone stops working without plans to work again. The 5 years before and after retirement are critical, and this 10-year period is known as the 'fragile decade.' Retirement presents a huge change, both mentally and financially. Financial and risk mitigation decisions in the last working years and the early retirement years have an outsized impact on how long assets last.

Fortunately, there's time before retirement to help set the stage for success. A long-term tax minimization plan is key. Tax planning comes in various forms, and the goal is to keep an eye on the long term. Minimizing taxes in any one year may not help reduce taxes in the long run. There may be enough time to make changes to how savings will be taxed and develop an improved retirement withdrawal strategy. After creating a plan, the next steps might include maxing out tax-deferred or tax-free retirement savings before leaving the workforce or performing a Roth conversion.

During retirement, the portfolio may be exposed to a sequence of poor market returns. If you retire when markets have consistently underperformed, either dramatically like in 2008 or over a series of years, there is cause for concern. Since retirees don't earn income, they might withdraw living expenses during market lows. Doing so has proven to negatively impact the long-term portfolio value, which is problematic when the funds typically need to last 30 years or more. Setting aside enough liquidity and access to a low-interest credit line can help retirees avoid withdrawing during downturns. If withdrawals are necessary in these times, a nimble strategy that adjusts for market performance can help.

In addition to portfolio sequence risk, there's also inflation sequence risk. If inflation starts off high at the beginning of retirement, it can accelerate the erosion of purchasing power and the value of the portfolio. There are few ways to combat inflation sequence risk other than having a deep understanding, control, and flexibility on spending. Creating a spending plan is the first step.

Spending generally increases in early retirement because there's more free time to travel and develop hobbies. Many clients are willing to delay retirement and work full- or part-time to afford higher spending. Toward the last 10 years of life, spending on travel and hobbies typically decreases. However, there's a 75% chance that at least one spouse will require long-term care. This is a significant expense that requires long-term planning to cover.

A rewarding, long, and financially successful retirement takes thorough planning and ongoing vigilance. The sooner you develop a plan, the more likely you will succeed. Please reach out to your Wealth Manager to help plan for retirement.

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