Four Things to Do in the Decade Leading Up to Retirement

How to get ready for retirement.

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KEY INSIGHTS

- Determine whether you're on track with your retirement savings and catch up, if needed.
- Ensure that your portfolio is properly constructed.
- Update your estate plan to reflect your current wishes.
- Review your insurance needs and coverage.

How do you prepare for a comfortable retirement? For many people, the answer can seem overly complex—but it doesn't have to be. The following steps can help you strengthen your long-term financial position while keeping your retirement plans on track.

Step 1. Check your progress

Considering you may spend 30 years or more in retirement, it's important to save enough so that your money will last. A quick way to check your progress is to assess how much you've saved by certain ages. We refer to the target levels as savings benchmarks.

Your savings benchmark

To find your retirement savings benchmark, look for your approximate age and consider how much you've saved so far. (See "Savings Benchmarks by Age.") Compare that amount with your current gross income or salary.

These benchmarks assume you'll be dependent primarily on personal savings and Social Security benefits in retirement. However, if you have other income sources (e.g., a pension), you may not have to rely as much on your personal savings, so your benchmark may be lower.

The midpoint benchmarks are a good starting point, but circumstances vary by person and over time. Key factors that affect the savings benchmarks include income and marital status. Depending on your situation, you may want to consider other benchmarks within the ranges. (See "Nearing Retirement: A More Detailed Look.") As you're nearing retirement, think about analyzing your spending and income sources more carefully. Retirement planning resources, such as the T. Rowe Price Retirement Income Calculator, can help.

Prioritize saving for retirement

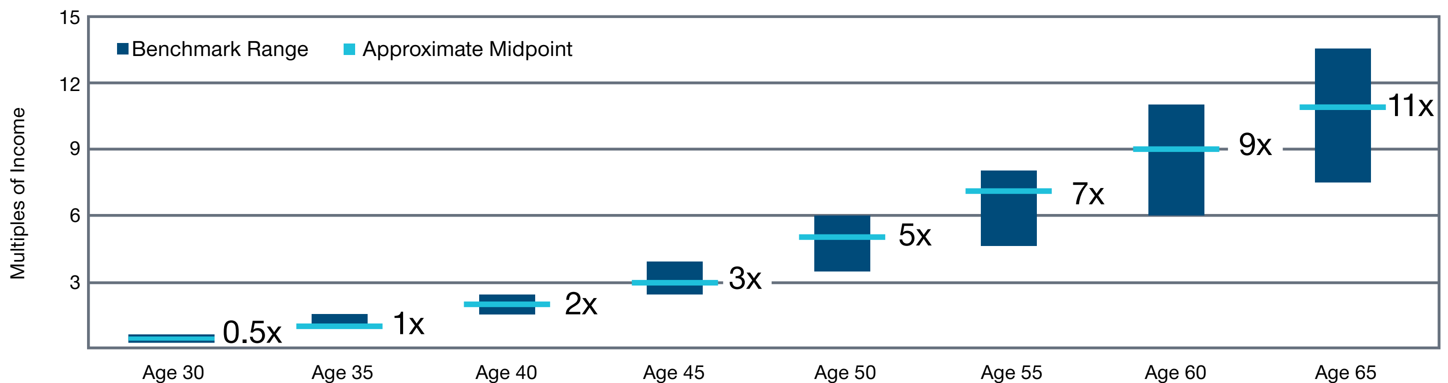
Generally speaking, most investors should save at least 15% of their income (including any company contributions) in order to achieve the savings benchmarks at various ages.[1] Even if you're on track, keep prioritizing your retirement. If you aren't where you want to be with your savings, focus less on the shortfall and more on the incremental actions that you can take to secure your financial future.

Consider the following:

- Make sure that you're taking advantage of the full company match in your workplace retirement plan.
- Increase your savings rate right away, and then continue to increase it gradually over time. Note that the 2024 contribution limits for an individual retirement account (IRA) and a 401(k) are $7,000 and $23,000, respectively ($8,000 and $30,500 if you're age 50 or older).
- Be open to part-time or consulting work in retirement to continue earning income.

SAVINGS BENCHMARKS BY AGE

Find your retirement savings benchmark by looking for your approximate age.



Benchmarks are based on a target multiple at retirement age and a savings trajectory over time consistent with that target and the savings rate needed to achieve it. Household income grows at 5% until age 45 and 3% (the assumed inflation rate) thereafter. Investment returns before retirement are 7% before taxes, and savings grow tax-deferred. The person retires at age 65 and begins withdrawing 4% of assets (a rate intended to support steady inflation-adjusted spending over a 30-year retirement). Savings benchmark ranges are based on individuals with current household income approximately between $75,000 and 300,000 and couples with income between $100,000 and $400,000. Target multiples at retirement reflect estimated spending needs in retirement (including a 5% reduction from preretirement levels), Social Security benefits (using the SSA.gov Quick Calculator, assuming claiming at full retirement ages, and the Social Security Administration's assumed earnings history pattern), state taxes (4% of income, excluding Social Security benefits), and federal taxes. We assume the household starts saving 6% at age 25 and increases the savings rate by 1% annually until reaching the necessary savings rate. Benchmark ranges reflect the higher amounts calculated using federal tax rates as of January 1, 2024, or the tax rates as scheduled to revert to pre-2018 levels after 2025. Approximate midpoints for age 35 and older are rounded up to a whole number within the range.

Step 2. Construct your portfolio

In addition to saving enough, it is important to hold the right mix of investments and types of accounts. Make sure your strategy addresses the following:

Asset allocation. The appropriate mix of stocks and bonds in your portfolio will depend on your tolerance for risk and your time horizon. For example, your portfolio should start out as mostly equities early in your career and should gradually increase its exposure to fixed income, creating a more balanced

[1] It may be possible to achieve your retirement goals with a lower savings rate than 15% if you get an early start on saving or if you have relatively low income. Additionally, people in some circumstances may not be able to meet their savings goals solely through tax-advantaged plans. However, we believe that 15% or more is an appropriate target for most people considering the wide range of potential financial changes over a lifetime.

approach as you get closer to retirement. In your 60s, consider having equity exposure of around 45% to 65%, decreasing that amount slowly as you move into and through retirement. This shift aims to reduce the market risk in your portfolio while still benefiting from the growth potential of equities.

Portfolio diversification. Diversification involves investing in different types of stocks (e.g., small-cap, large-cap, and international) and bonds (e.g., international, high yield, and investment grade) so that your portfolio is never too dependent on any one asset type. Since no one investment consistently leads the pack, making sure your portfolio is well diversified provides you with exposure to sectors that are leading without being derailed by sectors that are lagging. Of course, diversification cannot assure a profit or protect against loss in a declining market.

Tax diversification. Most of your retirement assets likely are set aside in tax-deferred accounts, such as a Traditional IRA or traditional assets in a 401(k). As a result, you generally will owe income taxes on all your withdrawals. You may add tax diversification to your investment portfolio by shifting contributions to a Roth IRA or Roth option in your workplace plan. Withdrawals from Roth accounts after age 59½ and at least five years after your first contribution generally are tax-free.

You also can convert assets already held in a traditional account to a Roth account as you near retirement. Setting aside money in a Roth account makes sense for many savers of all ages. Moreover, a Roth conversion strategy is worth investigating before you retire. The decision to convert is most appropriate for individuals who won't need all of their required minimum distributions for living expenses in retirement. The trade-off of the Roth conversion is that moving assets from a traditional account to a Roth account generally requires paying taxes at the time of the account conversion rather than later, when you start taking withdrawals.

NEARING RETIREMENT: A MORE DETAILED LOOK

Depending on your personal circumstances and income, you may want to consider other benchmarks within the ranges.

	Married, Dual Income			Married, Sole Earner			Single		
Current Household Income	Age 55	Age 60	Age 65	Age 55	Age 60	Age 65	Age 55	Age 60	Age 65
$100,000	5½x	7½x	9x	4½x	6x	7½x	6½x	8½x	10½x
150,000	6½x	8½x	10x	5½x	7½x	9x	7x	9x	11½x
200,000	6½x	8½x	10½x	6½x	8½x	10½x	7½x	10x	12½x
250,000	6½x	9x	11x	7x	9½x	11½x	8x	10½x	13x
300,000	7x	9x	11½x	7½x	10x	12½x	8x	11x	13½x

Assumptions: See "Savings Benchmarks by Age on page 2. "Dual income" means that one spouse generates 75% of the income that the other spouse earns.

Step 3. Update your estate plan

Your estate plan is an important part of your long-term financial strategy. It's essential to have the necessary elements in place to manage your estate—regardless of its size.

Your plan should include:

- An advance directive that covers:
  - A living will, outlining the type of care you want if you become incapacitated and unable to make your wishes known.
  - A health care proxy that names someone who can make medical decisions for you if you become incapacitated.
- A power of attorney, which grants an individual that you choose the authority to make financial decisions on your behalf.
- A will, which directs how assets should be distributed upon your death, unless they have beneficiary designations or are titled jointly with right of survivorship.
- The establishment of trusts, if desired, to achieve goals such as privacy, speed and control of asset distribution, and tax minimization.

Review these elements regularly and ensure that any directives in your will, asset titles, and beneficiary designations align with your goals. Moreover, be sure that the various components of your estate plan reflect the hierarchy by which your assets are distributed. For instance, assets are first distributed based on title (in some cases) and then according to the beneficiary designations on your accounts and insurance policies.

Only then do the directives in your will determine the distribution of your remaining assets. (See "Your Guide to Estate Planning.")

YOUR GUIDE TO ESTATE PLANNING

This guide outlines the basics of estate planning to help you envision what your plan should be. It is divided into three sections:

Getting Started

Learn the fundamentals of estate planning, including basic terms, tools, and considerations that may arise as you plan your estate.

Understanding the Mechanics

Explore basic estate planning tactics and tools to help ensure that your assets are divided as you intend after your death.

Customizing Your Plan

Apply your new estate planning knowledge to develop an approach that works best for you and addresses important personal goals.

Access **Your Guide to Estate Planning**.

Step 4. Evaluate your insurance

Protect your retirement assets from the costs associated with major health issues and catastrophic events through appropriate insurance coverage. Find a balance between the premiums you can afford and the risks that could jeopardize your savings. The following are insurance considerations for people approaching retirement:

Health. Medicare offers many options, so take the time to understand your choices. If you retire before you become eligible at age 65, you need to plan for coverage until then. If you work past age 65, you may consider staying on your employer's plan.

Long-term care. Costs for custodial care, such as in-home assistance, assisted living environments, and full nursing home care, aren't covered by Medicare. Long-term care insurance is costly and should be evaluated carefully, but it could make sense for people who have assets to protect and aren't comfortable self-funding.

Liability. An umbrella policy can increase the liability protection on your home and auto policies and provide overarching financial protection if you are sued. It's important to have enough liability coverage to protect your assets.

Life. Coverage may not be necessary if you are about to retire and have adequate assets in place. But if your family relies heavily on your ongoing income—such as pension or Social Security benefits—a policy might still be important.

Keep your plan up to date

Preparing for retirement is a dynamic process that requires frequent updates as your situation changes. Moreover, make sure to adjust your plan if your vision of retirement changes.

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