



## Financial Issues as Retirement Draws Near



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After years of saving and planning for retirement, you may be relieved and excited to realize you can finally afford to stop working. Careful planning in the months leading up to retirement can help you ensure a smooth transition from employee to retiree.

### KEY POINTS

- At 59½ you can take distributions from an IRA without penalty.<sup>1</sup>
- 73 is the age at which you must begin to take distributions from a traditional IRA.<sup>2</sup>

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

If you have decided to retire, you have probably already addressed a host of financial questions with your financial advisor or investment professional. You have inventoried all your investments and your retirement plan and Social Security benefits to determine that you can actually afford to leave the work force. You have probably already decided on an initial annual withdrawal amount that you feel you can take from your investments every year without a substantial risk of depleting your accounts before you die. If you are under age 65 and ineligible for Medicare, you have undoubtedly determined how you will cover your health insurance needs.

Now your attention naturally has shifted to making lifestyle decisions. How will you occupy your time? Will you start volunteer work or embark on some new avocation? How frequently will you travel? Will you spend winters in a warmer climate?

### KEY POINTS

- Consider reducing or eliminating credit card debt before you retire.
- Make sure to determine which accounts you will withdraw from first.
- Remember to work with your financial advisor or investment professional to develop an appropriate asset allocation strategy.

<sup>1</sup> Source: irs.gov. Other exceptions to the penalty may apply.

<sup>2</sup> Under the "Setting Every Community Up for Retirement Enhancement Act" of 2019, as revised in 2022 ("the SECURE Act 2.0"), the required beginning date of RMDs was raised from age 72 to 73 for any person who attains age 72 after December 31, 2022. There is no change to RMDs for people who turned age 72 prior to January 1, 2023.



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### Get advice on how to take payouts from your pension plan

Today, defined contribution plans, such as 401(k) plans, have become more common than traditional pensions, known as defined benefit plans, which pay you a fixed amount every month. But if you work for a company that still offers an old-style pension plan, you may have a choice about how your monthly benefit will be calculated. For example, if you are married, the normal benefit will be based on the joint life expectancy of you and your spouse, but other options such as a monthly benefit based only on your life expectancy may be available if your spouse gives consent.

Generally, the option based on a single life expectancy will offer a higher monthly benefit, and the option based on joint life expectancy will provide lifetime income and more security for you and your spouse. You may want to consult your financial advisor or investment professional before making a decision. He or she can take a close look at your plan options and help you select the distribution method that best fits your overall financial program.

### Carefully weigh your options for handling your mortgage

If you are about to receive a large, lump-sum distribution from your retirement plan, you may be tempted to use a portion of that money to pay off your house. Doing so could reduce your monthly bills substantially. But again, it may be worth your while to consult with your financial advisor or investment professional before making such a big decision. If you still have a number of years remaining on your mortgage, a good portion of your monthly payment probably still goes to interest. If you itemize your deductions, the interest that you pay each year may provide you with tax benefits.

### Ease your way into your new lifestyle

When you are ready to embark on a new phase of life, you may feel it is time to leave all the vestiges of your old lifestyle behind. But when making a dramatic change, such as selling your house and putting down stakes in a new part of the country, you may want to take a gradual step. Renting for your first winter, for instance, may help you determine if you are ready to leave your old neighborhood completely behind. Trying on the new lifestyle before you commit could help reduce the odds you will later regret your decision.

### Develop an appropriate asset allocation strategy for your investments

A generation ago, retirees would shift most or all of their assets into conservative instruments such as bonds because these investments could provide the income and principal they needed. But with earlier retirement ages and longer life spans, today's retirees often need the potential of principal growth that stocks have historically provided.

As you prepare to transition into retirement, you will want to meet with your financial advisor or investment professional to discuss how you will allocate your investment holdings. MFS® believes investors of any age are best served by following a disciplined diversification® strategy that involves three basic principles:

- Allocate across the major asset classes — stocks, bonds and cash — taking into consideration the amount of time you have to invest before you retire.
- Diversify among the various classes to gain exposure to various investment styles, such as value and growth, and market sectors, such as government and corporate bonds.
- Rebalance your investments on a regular schedule to ensure that you maintain your desired allocation.

Keep in mind that no investment strategy, including asset allocation, can guarantee a profit or protect against loss. Also, all investments carry a certain amount of risk, including the possible loss of the principal amount invested.

### Select which accounts you will withdraw from first

As a general rule, if you are under age 73, it may make the most sense to withdraw money from your taxable accounts first. Taking money out of a stock fund that you have invested in on your own, for example, will allow you to keep deferring taxes on the annual earnings of any IRAs you own.

But again, you will want to consult with your financial advisor or investment professional to determine if this general rule applies to you. With your financial professional or tax advisor's help, you can work out an initial schedule of withdrawals from your various accounts that are appropriate for your situation.

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### Balance your income needs with your estate planning goals

Any dreams you have of leaving a financial legacy for your children also will affect the retirement planning decisions you make. Money left in an IRA, for example, could bring greater tax consequences for your children than money in taxable accounts would. Here again, the common wisdom of tapping taxable accounts first might not apply because, in the interest of reducing the tax burden on your children, you may prefer to take money out of your tax-advantaged IRA before touching your taxable accounts.

### Enjoy the ride

The job of planning for retirement never ends. Each year, you will want to check in with your financial advisor or investment professional to make sure your financial strategy is performing as expected and make any adjustments that may be needed to help you stay on track. Still, those decisions you make in the final months leading up to retirement will have a considerable impact. Get them right and you may be one of those retirees who can honestly proclaim that retirement is all they ever dreamed of and more.

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