



## SMART INSIGHTS FROM FINANCIAL PROFESSIONALS

# A Financial Pro Breaks Retirement Planning Into 5 Manageable Pieces



This “IDEAL” retirement plan features five key areas to focus on — income generation, tax management, asset withdrawals, planning for big expenses and health care and establishing a legacy.

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Preparing for retirement isn’t just about accumulating money; it’s about helping make sure every aspect of your financial life is ready for that next chapter. Does your retirement plan cover all the bases?

The acronym IDEAL is a helpful way to remember the five key areas of retirement planning that, together, create a comprehensive plan:

- Income
- Distribution strategy
- Expenses
- Assets
- Legacy

Many people focus heavily on investments or assume that if they’ve saved enough, retirement will take care of itself.

In reality, an IDEAL plan addresses how you’ll **generate income**<sup>1</sup>, manage taxes and withdrawals, handle big expenses such as health care, **allocate your assets**<sup>2</sup> and **leave a legacy**<sup>3</sup>.

Here’s a closer look at why each of the five pillars of an IDEAL retirement plan is important for your golden years.

## INCOME

Income planning is the foundation of a comfortable retirement. After decades of receiving a regular paycheck, retirees must create a **paycheck**<sup>4</sup> from various sources.

If this is where you’re at, start by evaluating your guaranteed income streams, such as **Social Security**<sup>5</sup> benefits and any **pensions**<sup>6</sup> or **annuities**<sup>7</sup>.

When should you claim Social Security to help maximize your benefit? Many retirees benefit from delaying Social Security to increase their monthly checks, but claiming early might make sense in some situations.

If you’re lucky enough to have a pension, consider whether you’ll take it as a lump sum or an annuity and whether there are survivor benefits for your spouse.

Next, determine how much additional income you’ll need from your savings each month to cover expenses.

This is where your **401(k)s**<sup>8</sup>, **IRAs**<sup>9</sup> and other investments come into play. A popular guideline is the **4% rule**<sup>10</sup>, which suggests withdrawing about 4% of your portfolio in the first year of retirement and adjusting for inflation thereafter.

The key is to design a withdrawal strategy that provides enough cash flow to cover your needs and some wants without running your nest egg dry too soon.

This might involve setting up systematic withdrawals, building a **cash reserve**<sup>11</sup> for the first few years of retirement or using an annuity to cover essential expenses.

Clear income planning means you enter retirement with a clear answer to the question, “Where is my money going to come from each month?”

## DISTRIBUTION

Planning retirement income isn’t just about how much you withdraw. It’s also about the order and timing, and a **thoughtful distribution strategy**<sup>12</sup> can help **minimize taxes**<sup>13</sup> across your retirement years.

Many retirees start with taxable accounts to take advantage of lower capital gains rates, then move to tax-deferred accounts such as IRAs and 401(k)s before **required minimum distributions**<sup>14</sup> (RMDs) force larger withdrawals.

**Roth conversions**<sup>15</sup> can also play a role, in which you pay some tax now to help secure tax-free income later and potentially reduce future RMDs.

It’s also important to factor in state taxes, relocation plans and penalties for early withdrawals before the age of 59½. By coordinating withdrawals carefully, you can potentially save a substantial amount in taxes and keep more of your income working for you.

## EXPENSES

Retirement budgeting isn’t just about travel and hobbies; it must also account for big expenses, especially **health care**<sup>16</sup>. Medical costs typically increase with age and outpace inflation, so understanding **Medicare**<sup>17</sup> is key.

At 65, you’ll pay premiums for Part B, possibly Part D, and you might need a **Medigap**<sup>18</sup> or **Medicare Advantage**<sup>19</sup> plan.

Higher earners should also factor in **IRMAA**<sup>20</sup> surcharges. Beyond routine care, **nearly 70% of retirees**<sup>21</sup> will need long-term care, which **Medicare doesn’t cover**<sup>22</sup>.

Options include **long-term care insurance**<sup>23</sup>, **hybrid life insurance**<sup>24</sup> or earmarking savings. Don’t forget irregular costs, including home and car repairs and family support.

**Building a budget**<sup>25</sup> that separates essentials from discretionary spending helps ensure your retirement isn’t derailed by unexpected expenses.

## ASSETS

Managing your investments doesn’t end at retirement — it simply shifts focus. The goal is to balance growth with preservation, keeping pace with **inflation**<sup>26</sup> while helping protect against big losses that hurt when you’re withdrawing funds.

Some retirees might adjust to a more conservative allocation, such as 50% to 60% in stocks and the rest in bonds and cash, although the right mix depends on income sources, risk tolerance and life expectancy.

**Diversification**<sup>27</sup> across assets and sectors helps cushion volatility, and keeping a cash reserve for one to two years' worth of expenses can prevent selling at a loss during downturns.

Regular **rebalancing**<sup>28</sup> helps keep your portfolio aligned with goals, and income-producing assets such as dividends, bonds or REITs (**real estate investment trusts**<sup>29</sup>) can help provide steady cash flow — although it's wise to avoid chasing risky yields.

Don't forget to plan for RMDs, ensuring those funds are held in liquid, stable investments. With steady oversight, your portfolio can help support you through decades of retirement.

## LEGACY

An ideal retirement plan also contains your legacy, which includes what happens to your assets after you're gone. **Estate planning**<sup>30</sup> isn't just for the wealthy; it's essential for anyone who has family, property or savings.

At least have a **will**<sup>31</sup>, **power of attorney**<sup>32</sup>, and **health care directives**<sup>33</sup> in place, and keep beneficiary designations current on retirement accounts and insurance.

Depending on your situation, a **trust**<sup>34</sup> can help avoid probate and provide more control of asset distribution. Larger estates might require tax strategies, while some people might simply want to support their family or charities or pass on a business.

Communication is equally important: **Talking with heirs**<sup>35</sup> and ensuring your executor knows where to find key documents prevent confusion later.

**Legacy planning**<sup>36</sup> can help provide peace of mind by ensuring your wishes are carried out and you care for your loved ones

Retirement planning can seem overwhelming, but breaking it down into these five IDEAL categories can help make it more manageable.

By reviewing Income, Distribution Strategy, Expenses, Assets and Legacy, you can spot areas that need attention.

Perhaps you realize that you need to tweak your investment mix, start planning for long-term care or update an old will.

Addressing these now, rather than later, will help ensure your retirement truly lives up to your dreams and is as ideal as possible.

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