

# The 4 Phases of Retirement

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What do you think of when you hear the word ‘retirement’? Retirement can span decades, and it changes as you age. Everyone’s retirement will look different, but most people go through four distinct phases. Understanding and planning for these phases is key to living a happy retirement.

## Phase 1: Pre-retirement

The first phase of retirement actually starts about a decade before you stop working. While you should start saving for retirement on the first day of your first job, you’ll mostly be setting aside money and letting it grow. Once you are in your 50s, you enter the pre-retirement phase and should start actively planning for your retirement.

Start with your goals and determine what you want your golden years to look like. Talk it over with your spouse, if you’re married. By having an end goal in mind, you’ll have a better idea of how much you need to save in your nest egg. It sounds simple, but many people miss this step. In fact, a recent survey shows more than one-third of Americans say they have “no idea” how much they need to save for retirement.

Saving is important, but it isn’t enough to get you out of the pre-retirement phase. You need a plan that includes income strategies for when you enter retirement. Since you’ll no longer be receiving a paycheck, you’ll need to replace your income in other ways, such as investments, Social Security, pensions or annuities. It can be overwhelming to manage your finances on your own, especially when you are approaching retirement. Working with a financial adviser who understands the transition to retirement can put your mind at ease.

## Phase 2: The Early Years

Expenses are typically the highest in the early years of retirement, because your mind and body are feeling good. There’s excitement about trying new things and plenty of free time without a full-time job. Travel, entertainment and hobbies can eat up a big portion of your savings, so you’ll need to create a plan to make sure spending doesn’t get out of control.

The early years of retirement are a great time to consider a part-time job. Many people find it jarring to transition overnight from working full-time to not at all, and they enjoy doing something meaningful to pass the time. Financially, a part-time job can provide enough income that you may be able to delay claiming Social Security benefits or tapping into your retirement savings.

This is also the time to consider your living arrangements. About 40% of retirees move after they stop working. Some empty nesters downsize to a smaller home. Many retirees choose to move for other reasons, including being closer to family or enjoying a warmer climate.

## Phase 3: Middle Retirement

Middle retirement is often the least expensive phase. About 10 years into retirement, spending settles down as retirees travel less and stay home more. However, health care expenses start to rise during this time as you start

needing more medical appointments. You may also face additional medical expenses, including equipment and updates to your home to make it more accessible.

Estate planning is also an important step in the middle years of retirement. If you created a will when your children were younger, you'll want to revisit it to make sure it still reflects your wishes. It's likely that your family dynamics have changed, with births, deaths, marriages or divorces. Once you hit middle retirement, keeping your estate plan up to date becomes more important than ever.

#### **Phase 4: The Later Years**

Health care is a major expense in the later years of retirement. According to Fidelity, the average 65-year-old couple should plan to spend \$300,000 on health care throughout their retirement. The majority of those costs can occur in the later years. Consider long-term care insurance in your earlier years, which will cover expenses like nursing homes, assisted living and home care services.

Although each phase is different, at least one thing remains the same: the importance of monitoring and evaluating your finances. A financial plan cannot be created and forgotten. Retirees should assess their situation often, consult with their financial adviser and make adjustments from pre-retirement through their later years.