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Adjusting to Retirement

What people don't always realize about life after work.

Provided by Frank DeMaio*

If you have saved and invested consistently for retirement, you may find yourself ready to leave work on your terms – with abundant free time, new opportunities, and wonderful adventures ahead of you. The thing to keep in mind is that the reality of your retirement may not always correspond to your conception of retirement. There will inevitably be a degree of difference.

Some new retirees are better prepared for that difference than others. They learn things after leaving work that they wished they could have learned about years earlier. So with that in mind, here are a few of the little things people tend to realize *after* settling into retirement.

Your kids may see your retirement differently than you do. Some couples retire and figure on spending more time with kids and grandkids – they hang onto that five-bedroom home even though two people are living in it because they figure on regular family gatherings, or they move to another state to be closer to their kids. Then they find out that their children didn't really count on being such frequent company.

Financial considerations come into play here as well. Keeping up a big home in retirement can cost big dollars, and if you move to another area, there is always the chance that a promotion or the right job offer could make your son or daughter relocate just a few years later. The average American worker spends 4.6 years at a given job, and less than 10% of U.S. workers in their twenties and thirties stay at the same job for a decade.¹

Medicare falls short when it comes to dental, vision & hearing care. Original Medicare (Parts A & B) will pay for some things – cataract surgery and yearly glaucoma tests for people at risk for that disease, for example, as well as dental procedures that are deemed necessary prior to another medical procedure covered under Medicare. These are exceptions to the norm, however, and as people's sight, teeth and hearing become more problematic as they age, it can be frustrating to realize what Medicare won't cover.²

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You may lose the impulse to work a little. These days, most retirees at least think about working part-time. Actually doing that may not be as easy as it first seems. It is a lot harder to get hired at age 65 than it is at age 45 – no one is denying that – and part-time work tends toward the mundane and unfulfilling. If you are able to earn income as a consultant or through other types of self-employment, you may be truly satisfied by the work you do and be able to set your own schedule, too.

Retirement income comes with income taxes. While retirees anticipate (and certainly appreciate) distributions from an IRA or an employer-sponsored retirement plan, few retirees map out a sequence or strategy intended to let them take distributions from retirement and investment accounts with the least tax impact. Generally speaking, you want to draw down your taxable accounts first, then the tax-advantaged accounts, and lastly your tax-free accounts. This way, you are giving the retirement money that is taxed least more time to compound.

Under the typical model withdrawal scenario, this sequencing a) offers the potential to reduce the tax bite from all these distributions, b) promotes greater longevity for retirement savings. The wealthier the retiree is and the higher the projected rate of return for his or her portfolio, the more sense the strategy usually makes. If a retiree has very low taxable income or large unrealized gains on taxable assets, it may not be wise to follow this rule of thumb. Health and longevity factors also influence withdrawal strategies, of course.³

Retirees also need to know something about the IRS rules for retirement accounts – if the assets are withdrawn too soon or used for an inappropriate purpose, penalties can result and tax advantages can be lost.

Retirement is a transition, but it isn't a solution. There are people that are really eager to retire, people that come to believe that retirement will wipe away all that is dull and restrictive from their lives. Retiring often leads to a rewarding new phase of life, but it won't solve health issues, family dilemmas or business or money problems.

You may have plenty of time on your hands. If you and/or your spouse have routinely worked 50-60 hours a week, it can be tough to come down from that once you are retired. Your urge to be productive will persist, and sooner or later, you will find ways to stay busy, contribute and make a difference. Thinking about how you will spend your time in retirement *before* retirement is wise, as you don't want to risk staring at (or climbing) the walls.

Adjusting to retired life takes a bit of time for everyone. Adjustment can become easier with a candid recognition of certain retirement realities.

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Citations.

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