Retire on Your Terms: An Action Plan for Every Decade

Specialists with The Private Bank share their perspective on the actions to take in each decade to help you be in the driver's seat when it's time to retire.

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Craig Fairey, Wealth Advisor at Wells Fargo Private Bank, has a favorite story about a client who was well prepared for retirement and was able to retire early. As a longtime company executive, the client entered his 50s feeling more compelled to pursue his passions, including getting involved in charity work and spending more time traveling with his family while he ramped up to retirement.

"Thanks to careful planning at certain age milestones in the decades leading up to his retirement, he had the financial independence to pursue those dreams," Fairey says. "His preparations meant that he could retire on his terms."

Here, Fairey and his colleague, Jerrell "J." Deaver, Wealth Planner at Wells Fargo Private Bank share an action plan to help you retire on your terms as well. These planning milestones for your 40s, 50s, and 60s could help you create the retirement of your dreams, while also leaving the legacy you desire.

In your 40s

1. Make investing for retirement a priority

Your 40s are the decade you should take full advantage not only of any employer-sponsored retirement plan such as a 401(k) but also of other savings and investment opportunities. A Roth 401(k) and Roth IRA, for example, offer future tax savings because investments are taxed before they are contributed to the Roth – making qualified withdrawals tax-free in retirement. Talk to your wealth planner and tax advisor to help determine which type of account offers the most benefits as well as which other investment accounts you could explore to help your retirement savings grow.

2. Create estate-planning documents

An estate plan helps ensure that your wishes, including your plans for your family and your business, are carried out. The process includes naming a guardian for young children and determining appropriate insurance coverage, including life insurance and possibly long-term care insurance, says Deaver. It also involves creating a will or trust, assigning powers of attorney, and designating who will serve in roles such as executor or trustee. (Wells Fargo Private Bank's Wealth Transfer Essentials guide could provide more information to help you get started.)

In your 50s

1. Take advantage of increased retirement account contribution limits

After age 50, individuals are allowed to make additional contributions to tax-deferred accounts such as IRAs and 401(k)s. These annual catch-up contributions are limited to $6,500 for employer-sponsored plans and $1,000 for IRA's in 2020.

2. Consider a traditional or Roth conversion

You could also consider converting a traditional IRA to a Roth IRA, Fairey says. A traditional IRA may provide tax savings today in the form of income deductions in the year that you make contributions as long as you meet eligibility requirements. A Roth IRA, on the other hand, offers future tax savings because qualified withdrawals are tax-free in retirement. However, the IRS doesn't allow contributions directly into a Roth IRA if your income exceeds $206,000 if you're married and filing jointly.

"Although our clients generally generate more than $206,000 in income on an annual basis, the good news is that there is no income restriction when converting a traditional IRA into a Roth. Therefore, many of our clients should be able to take advantage of this strategy during several phases of their income-generating years, including their 50's. We recommend that anyone considering that strategy discuss it first with their wealth planner and tax advisor to confirm this is the right approach."

3. Transfer wealth

Your 50s are a good time to discuss wealth transfer options with your wealth planner. Planning or even taking action on wealth transfer could minimize taxes owed by the estate before settlement occurs. Some wealth transfer ideas include annual gifting to individuals, opening and contributing to 529 college savings plans annually or in a lump sum through a strategy called "superfunding", or transferring a minority interest in your company to a trust for the next generation, Fairey says.

Income planning is a key component of preparing for potentially longer life in retirement. After all, you do not want to be faced with drawing down assets when the market is low.

"Your 50s are a good time to review the liabilities side of your balance sheet," says Fairey. "This provides the opportunity to deleverage or retire debt, if need be, while you're still working."

Deaver agrees: "Once debt is paid off, your routine expenses are more predictable, and it gives you a better sense of what your expense might look like in retirement.

In your 60s

1. Create a succession plan for your business

If you own a business, your 60s are a key time to lock in a plan for who will eventually take over that business. Succession plans could include inviting a family member to take a more active leadership role, selling your company to your employees, or preparing the company for sale on the open market. Starting to plan early while you're still energetic and healthy, well in advance of your intended transfer, can lay the foundation for a smooth transition. (Learn more about creating a successful business transition plan.)

2. Analyze your asset allocation

When you're younger, assets are typically geared toward growth. In your 60s, it's time to consider a balance of growth and income. "In my experience, people tend to be too conservative in this age group," Deaver says. "But especially as people live longer, it's important to maintain a good mix to lay the foundation for your portfolio's longevity."

Often, the goal is to maintain a standard of living similar to the one you enjoyed when you were working. A rule of thumb is a replacement ratio of around 70% to 90% of preretirement income. To develop an asset allocation that aligns with your needs, talk to your investment strategist. (Learn more about generating income in retirement.)

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