The Final 5 Years Before Retirement

Retirement is one of life's most significant transitions. It is also one of the few major financial transitions that usually gives you at least some warning. Work may not end tomorrow, but the decisions that will shape your first years of retirement are already beginning to matter.

The years leading up to retirement often raise questions about income, investing, healthcare, taxes, family, and the future. Those questions are easier to answer before the first retirement paycheck is needed, while there is still time to adjust, compare options, and make thoughtful decisions instead of rushed ones.

THE PLANNING WINDOW MOST PEOPLE DO NOT REALIZE THEY STILL HAVE

At 60, a couple may look financially comfortable on paper. Their retirement accounts have grown, the mortgage is manageable, and retirement feels close enough to imagine but far enough away to postpone the harder questions. Then the details begin to surface. When should Social Security begin? How much of the portfolio can safely be spent? What happens if healthcare costs rise, one spouse needs care, or the market declines in the first year of retirement?

That is often when retirement becomes real. Not on the final day of work, but at the moment a household realizes that saving money and turning money into a life plan are not the same task.

It may happen while reviewing a Social Security statement, comparing Medicare options, or looking at a calendar and realizing that the paycheck relied on for decades will eventually stop arriving. The question then changes. It is no longer only, "Have I saved enough?" It becomes, "Can my savings, income sources, healthcare assumptions, tax strategy, and personal goals work together to support the life I want?"

That is a different question, and it deserves a more complete answer.

KEY TAKEAWAYS

Use the final five years intentionally.
Strengthen savings, reduce avoidable risks, and make key decisions before retirement begins.

Plan beyond the portfolio.
Income, spending, healthcare, taxes, debt, and lifestyle goals all shape retirement readiness.

Create a retirement paycheck.
Coordinate Social Security, pensions, investments, savings, and cash reserves.

Review risk before withdrawals begin.
Your portfolio may need to shift from accumulation to income, flexibility, and resilience.

Address healthcare, taxes, and legacy.
Medicare, long-term care, withdrawal strategy, estate documents, and beneficiaries deserve early attention.

Prepare for life after work.
Purpose, family, housing, travel, community, and legacy are part of the retirement plan.

The final five years before retirement matter because they sit in a useful middle ground. Retirement is close enough that expenses, income sources, and lifestyle choices are no longer abstract. At the same time, it is early enough that many decisions can still be improved. Contributions can be increased. Debt can be reviewed. Risk can be adjusted. Healthcare and tax choices can be anticipated. Family expectations can be discussed before they become pressure points.

Crossing the bridge from saving for retirement to living in retirement requires a different kind of planning. During the working years, the task is often accumulation: save consistently, invest for growth, and try not to let short-term market noise derail long-term progress. Retirement asks the portfolio to do more. It may need to provide income, preserve flexibility, help manage taxes, absorb market volatility, and support spending that changes over time.

The closer retirement gets, the more important coordination becomes. Income, taxes, healthcare, investments, cash reserves, and family priorities rarely operate in separate lanes. A decision in one area often affects the others. Claiming Social Security can change withdrawal needs. Withdrawals can affect taxes. Taxes can affect Medicare premiums. Healthcare costs can affect cash flow. A family commitment can affect housing, travel, or the amount of risk a household can comfortably take.

The goal is not to predict retirement perfectly. No plan can do that. The goal is preparedness. Used well, this planning window can turn uncertainty into decisions, decisions into strategy, and strategy into a retirement that feels less like a leap and more like a thoughtfully prepared transition.

Before You Go Further

- What would a normal month in retirement cost?
- Which expenses are fixed, and which are flexible?
- Which income sources are predictable?
- How much would need to come from savings and investments?
- What decisions must be made before the first retirement paycheck is needed?

KNOW WHERE YOU STAND

Retirement readiness is not measured by account balances alone. It is measured by what your savings, income sources, and planning decisions can support over time.

A $2 million portfolio may feel secure for one household and inadequate for another. The difference often comes down to spending, debt, healthcare, taxes, family commitments, longevity, and lifestyle expectations. One couple may own their home outright, travel modestly, and have a pension. Another may still carry a mortgage, help adult children, expect higher healthcare costs, and want to travel often in the early years of retirement. The same account balance can support very different lives.

That is why this stage should begin with a clear financial inventory. The purpose is not to create a perfect spreadsheet. It is to understand how money moves through your life today and how that picture may change once work ends.

Retirement Is a Cash-Flow Exercise

During your working years, income arrives, expenses are paid, and savings are directed into retirement accounts. Retirement changes that rhythm. When the paycheck stops, the plan must generate the cash flow.

That shift can be harder than it sounds. Many people spend decades building assets without having to decide which account should provide monthly income, how much should be kept in cash, or how taxes will change when withdrawals begin. A retirement plan has to answer those questions in practical terms. The mortgage, electric bill, groceries, property taxes, insurance premiums, car repairs, prescriptions, birthday gifts, charitable commitments, and travel plans still arrive in dollars and dates.

One common mistake is assuming retirement spending will automatically be lower. Some expenses may fall. Payroll taxes may decline, commuting costs may disappear, and retirement contributions may stop. But other costs may remain steady or rise. Core living expenses often continue. Lifestyle spending may increase in the early years, when retirees finally have time to travel, visit family, or take on long-postponed projects. Healthcare may become less predictable. Irregular costs, such as home repairs, vehicle replacement, dental work, or family emergencies, do not disappear simply because employment ends.

A Spending Reality Check

A useful spending estimate separates expenses into categories: core living costs, lifestyle expenses, healthcare, taxes, and irregular needs. Treating all spending as one annual number can make projections look cleaner than real life. Retirement is rarely that tidy.

Retirement Spending Inventory

- Core living costs: housing, utilities, food, insurance, transportation, property taxes, and basic medical costs.
- Lifestyle expenses: travel, hobbies, dining, entertainment, gifts, and personal priorities.
- Healthcare: premiums, prescriptions, deductibles, dental, vision, hearing, and out-of-pocket expenses.
- Taxes: income taxes, capital gains, required distributions, and other tax-sensitive decisions.
- Irregular needs: home repairs, vehicle replacement, family support, and large one-time expenses.

Core expenses include the costs that keep the household running. Lifestyle expenses include the choices that make retirement feel personal. Healthcare deserves its own category because premiums, prescriptions, deductibles, dental care, vision care, and out-of-pocket costs can vary from year to year. Taxes should be estimated separately because retirement income may come from several sources with different tax treatment. Irregular expenses should be planned for because a roof, furnace, vehicle, or major family need can create a large withdrawal at the wrong time.

Inflation also matters because retirement may last 25, 30, or even 35 years. The point is not to forecast future price increases perfectly. The point is to avoid building a retirement plan around today's prices as if they will remain frozen. A plan that works only when every expense behaves exactly as expected is not much of a plan.

Income Sources and Stress Testing

Most retirees rely on several sources of income, including Social Security, pensions if available, investment accounts, savings, part-time work, or other resources. The key question is how much of your spending is covered by predictable income and how much must come from your portfolio.

That distinction matters. A household with Social Security and pension income covering most essential expenses may be able to use investment assets with more flexibility. A household that depends heavily on portfolio withdrawals for basic costs may need a different approach to cash reserves, investment risk, and withdrawal timing.

The plan should also be tested under less favorable conditions. What happens if inflation remains elevated, markets decline early in retirement, healthcare costs rise, one spouse lives much longer than expected, or retirement arrives earlier than planned? What if a paid-off car needs to be replaced during a market downturn? What if a parent, child, or grandchild needs financial help? What if the first few years of retirement cost more than expected because travel, home projects, and family events all arrive at once?

Stress testing does not eliminate uncertainty. It reveals where a plan may be vulnerable and where adjustments may still be possible. That is the value of doing the work before retirement begins.

The answers may not be perfect. They do not need to be. They simply need to be honest enough to show where you stand.

Retirement readiness starts with clarity. Before evaluating investment strategies or claiming decisions, it helps to understand what retirement is likely to cost and how those costs will be funded. The more realistic your assumptions, the more useful every other planning decision becomes.

MAKING SMART DECISIONS WHILE YOU STILL HAVE TIME

Once you know where you stand, the next step is to use the remaining working years wisely. The final stretch of a career is not usually the time for dramatic reinvention. It is the time to reduce avoidable weaknesses: save more where possible, lower fixed obligations, recalibrate investment risk, and build liquidity.

For many professionals, these are peak earning years. Children may be financially independent, mortgages may be smaller, and compensation may be stronger. That combination can create one of the best remaining opportunities to strengthen retirement savings. It can also create a false sense of comfort if today's income hides tomorrow's spending problem.

Catch-Up Contributions and Debt Decisions

The IRS allows individuals age 50 or older to make additional catch-up contributions to many retirement plans. For 2026, eligible participants may contribute up to $8,000 in catch-up contributions to many employer-sponsored retirement plans, and individuals who turn ages 60 through 63 may be eligible for a higher catch-up limit of $11,250.

For households with sufficient cash flow, those contributions can increase assets, potentially reduce current taxable income depending on the account type, and create additional flexibility for the years ahead. Five years of higher contributions will not repair every shortfall, but it can make a meaningful difference, especially when paired with disciplined spending and a clear income plan.

Debt deserves the same level of attention. A mortgage, auto loan, home equity balance, or credit card obligation may be manageable during working years, when income is still arriving every two weeks. Retirement changes the source of repayment. Every recurring obligation should be understood in the context of the future retirement paycheck.

Mortgage debt requires more nuance. Paying off a mortgage before retirement may provide peace of mind and reduce fixed expenses. In other cases, keeping a low-rate mortgage may be reasonable when liquidity, taxes, investment opportunities, or other goals are considered. The right answer depends on the household, not on a rule of thumb repeated at dinner parties.

The point is not that all debt must be eliminated. The point is that lower fixed expenses can make a retirement plan more adaptable when markets decline, healthcare costs rise, or family needs change. Flexibility is easier to preserve when fewer dollars are already spoken for.

Questions Before Paying Off a Mortgage

- Would eliminating the payment materially lower required monthly withdrawals?
- Is the mortgage rate low enough that keeping liquidity may be more valuable?
- Would payoff reduce financial stress or create too much cash pressure?
- How would the decision affect taxes, emergency reserves, and other goals?
- Would the same dollar be better used to strengthen savings, reserves, or debt reduction elsewhere?

Investment Risk and Cash Reserves

As retirement approaches, investment allocation should be evaluated for the job it is about to perform. In retirement, assets may need to provide income, offset inflation, maintain growth potential, and withstand withdrawals through market cycles. A portfolio built only for growth may not be suited for the first years of retirement, when withdrawals begin and the margin for error narrows.

Sequence of returns risk makes timing especially important. Two retirees can earn the same average return over time but experience very different outcomes if one faces market losses while withdrawals are beginning. Selling investments after a decline can lock in losses and leave fewer shares available to participate in a recovery. That is why the years just before and just after retirement deserve special attention.

Cash reserves can help create breathing room by reducing the need to sell long-term investments during market declines. The appropriate amount varies by household, but the purpose is consistent: flexibility.

Think of cash as a shock absorber. It does not make the road smoother, but it can make the ride less damaging.

A dedicated cash reserve can help cover spending during periods of market volatility. It may also provide funds for home repairs, medical expenses, family emergencies, or other needs that would otherwise force portfolio withdrawals under pressure. Cash will not provide the growth potential of long-term investments, and too much cash can create its own inflation risk. But too little can leave a retiree exposed when markets and life deliver bad timing at the same time.

Many retirement challenges can be traced back to issues that were visible years earlier. Higher savings, lower debt, appropriate investment risk, and adequate liquidity may not feel dramatic today, but they can significantly improve flexibility later.

CREATING YOUR RETIREMENT PAYCHECK

After years of saving and accumulating wealth, retirement requires a different skill: creating dependable cash flow from Social Security, pensions, investment accounts, savings, and other resources.

A retirement paycheck is not created from one account. It is built in layers. Some layers provide stability. Others provide flexibility. Each may have different tax treatment. The work is to make those pieces fit together in a way that supports spending without placing unnecessary strain on the portfolio.

Retirement Paycheck Building Blocks

- Social Security may provide a base layer of income.
- Pensions, when available, may add stability.
- Portfolio withdrawals may fill the gap between predictable income and actual spending.
- Cash reserves may reduce pressure during market declines.
- Tax planning helps determine which dollars should be used and when.

When the pieces are coordinated well, the retirement paycheck becomes more durable. When they are treated separately, one decision can unintentionally weaken another.

Social Security, Pensions, and Portfolio Withdrawals

The Social Security Administration states that Social Security replaces about 40% of annual pre-retirement earnings for the average worker, making it important but rarely sufficient by itself.

Claiming decisions deserve careful thought. Claiming early generally reduces monthly benefits, while delaying may increase income. The right choice depends on health, life expectancy, marital status, cash-flow needs, employment plans, survivor considerations, and other assets.

For married couples, the decision can be especially important because one spouse's claiming strategy may affect the survivor benefit available later. Social Security is often the closest thing many retirees have to a personal pension. Treating it casually can be costly.

The Role of Pension Income

Pension decisions may also require analysis. Some plans offer single-life or joint-and-survivor options. Some offer lump sums. Some include cost-of-living adjustments; others do not. Each option can affect income, survivor protection, taxes, and investment risk.

A single-life option may provide a higher monthly payment during the retiree's lifetime, but it may stop when that retiree dies. A joint-and-survivor option may provide a lower monthly benefit, but it can protect the surviving spouse. A lump sum may offer control and flexibility, but it also shifts investment and longevity risk to the retiree. None of these choices should be made by looking at the monthly number alone.

Taxes and Withdrawal Sequencing

For many retirees, predictable income covers only part of the desired lifestyle. The remaining amount must come from savings and investments. The order in which those assets are used can affect taxes, portfolio longevity, Medicare premiums, and future flexibility.

A dollar from a traditional IRA, taxable brokerage account, or Roth IRA may all land in the same checking account, but each can have different tax consequences. Traditional retirement account withdrawals are generally taxable as ordinary income. Taxable brokerage accounts may generate capital gains or losses. Roth IRA withdrawals may be tax-free when requirements are met. Those differences matter when a household is trying to manage tax brackets, required distributions, charitable giving, healthcare costs, and legacy goals.

Taxes Are Part of the Paycheck

There is no universal sequence. The right approach depends on tax brackets, account balances, investment allocation, Social Security timing, pension income, charitable goals, estate objectives, and spending needs.

The important point is intentionality. Retirement income planning should ask not only, “How much can I withdraw?” but also, “How should all of my income sources work together?”

The transition from receiving a paycheck to creating one can feel unfamiliar at first. But once the pieces are organized, retirement income becomes less mysterious. It becomes a system designed to support spending, manage taxes, preserve flexibility, and help retirees make decisions with greater confidence.

PREPARING FOR HEALTHCARE, TAXES, AND LEGACY

Once the retirement paycheck begins to take shape, the next question is what it must be prepared to handle. For many retirees, Medicare becomes the foundation of health coverage. But Medicare is not a complete healthcare budget. It is the starting point for building one.

Healthcare, taxes, long-term care, and estate planning are often discussed separately. In retirement, they are deeply connected. Healthcare expenses affect cash flow. Cash flow affects withdrawal decisions. Withdrawal decisions affect taxes. Taxes influence what remains for a surviving spouse, heirs, charitable goals, or future care needs.

Medicare becomes the foundation of health coverage for many retirees, but it is not a complete healthcare budget. Premiums, deductibles, copayments, prescription coverage, provider networks, travel needs, and out-of-pocket exposure all matter. So do dental, vision, hearing, and long-term care expenses, which can surprise retirees who assumed Medicare would cover more than it does.

Fidelity’s 2025 Retiree Health Care Cost Estimate found that a 65-year-old retiring in 2025 could expect to spend an average of $172,500 on healthcare and medical expenses throughout retirement, excluding long-term care.

That figure reinforces the need to give healthcare its own place in the retirement plan rather than treating it as a minor line item. A household does not need to know the exact medical bills it will face 20 years from now. It does need to recognize that healthcare is large enough, variable enough, and personal enough to deserve separate planning.

Healthcare Review Checklist

- Understand Medicare enrollment timing before coverage decisions become urgent.
- Estimate premiums, deductibles, prescriptions, and out-of-pocket exposure separately from general spending.
- Review dental, vision, hearing, and travel-related coverage needs.
- Discuss how healthcare costs would be paid during a market downturn.
- Make long-term care part of the family and housing conversation, not only the insurance conversation.

Long-Term Care and Family Impact

Long-term care is not merely a medical issue. It is a family, financial, and housing issue. The U.S. Department of Health and Human Services states that approximately 70% of people turning age 65 can expect to use some form of long-term care during their lives.

The planning question should not be limited to, “Will we need care?” A better question is, “If care is needed, what would we want to happen, who would be affected, and how would we pay for it?”

That question can lead to difficult but useful conversations. Would care be provided at home if possible? Would one spouse be expected to provide most of it? Are adult children nearby, willing, and able to help? Would housing need to change? Are there insurance options, dedicated assets, or family resources that could be part of the plan? If no decision is made in advance, the decision may be forced later during a crisis.

Tax Diversification and Roth Conversion Opportunities

Tax diversification can create flexibility. Having assets in taxable, tax-deferred, and potentially tax-free accounts may give retirees more control over where income comes from in a given year.

The years after retirement but before required minimum distributions begin may create a temporary planning window. The IRS states that account owners generally must begin taking required minimum distributions from traditional IRAs and many retirement plan accounts when they reach age 73, while Roth IRA owners are not required to take withdrawals during the owner's lifetime.

That gap can create an opportunity to evaluate partial Roth conversions. Partial Roth conversions may help reduce future taxable distributions and improve tax flexibility, but they require analysis of current tax rates, future tax expectations, Medicare considerations, spending needs, estate goals, and available cash to pay the tax.

The word "partial" matters. A Roth conversion does not have to be all or nothing. Converting too much in one year can increase current taxes and may affect other parts of the plan. Converting too little may leave future tax exposure unchanged. The decision should be measured, year by year, against the household's broader income plan.

Estate Documents and Beneficiaries

Good estate planning does more than transfer wealth. It reduces confusion. It helps family members know who is responsible for what. It can prevent outdated beneficiary designations from overriding current intentions. It can help ensure that financial and medical decisions are made by the people chosen in advance, not by default processes during a stressful period.

Estate planning should include more than a will. Beneficiary designations, powers of attorney, healthcare directives, account titling, trusted contacts, digital access, charitable intentions, and instructions for important documents can all matter. A retirement plan that looks strong on paper can still create unnecessary stress if family members do not know where things are, who has authority, or what the retiree intended.

For many families, that clarity is one of the most meaningful gifts a retirement plan can provide.

Healthcare, taxes, and estate planning often appear separate. In practice, they influence one another continuously. Decisions made in one area frequently affect outcomes in the others. A strong retirement plan does not treat them as afterthoughts. It brings them into the conversation early, while choices are still available.

LIFE AFTER WORK

Retirement is not lived in a spreadsheet. It is lived in ordinary weeks, and work has often provided more than income. It has provided structure, social contact, goals, routine, identity, and a sense of progress.

The retirees who often make the transition most smoothly are not necessarily the busiest. They are the ones who have thought ahead about where they want to direct their time and energy.

That may include consulting, mentoring, volunteering, serving on a board, developing hobbies, helping family, traveling, or learning something new. The activity itself matters less than the intention behind it. A full calendar is not the same as a meaningful life. The goal is not to replace work with obligations. It is to decide what deserves space.

Estate Planning Documents to Review

- Will and any trust documents.
- Beneficiary designations on retirement accounts, insurance policies, and transfer-on-death accounts.
- Financial power of attorney.
- Healthcare power of attorney and advance directives.
- Account titling, trusted contacts, digital access, and instructions for important documents.

Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to its own five-year holding period. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.

Family, Travel, Housing, and Legacy

Retirement often changes family rhythms. More availability can be a gift, but it can also create expectations around childcare, caregiving, financial help, or time commitments. Flexibility works best when paired with boundaries. A retired grandparent may be happy to help, but “available” should not automatically mean “on call.”

Travel also has a timing component. Many retirees are most active during the early years of retirement, when health, energy, and mobility may make certain experiences easier. If travel matters, it should be planned intentionally rather than postponed indefinitely.

This does not mean retirees should overspend early or treat retirement as one long vacation. It means the timing of travel matters. Some planners describe retirement in phases: more active early years, somewhat slower middle years, and later years that may involve more healthcare, family, or local routines. The phases are not exact, but the idea is useful. Certain experiences are easier during certain seasons of retirement.

Housing is equally practical. The right question is not simply, “Can we afford to stay here?” A better question is, “Does this home support the life we want over the next 20 or 30 years?”

For some retirees, the answer is yes. Remaining in a familiar home and community may provide comfort, connection, and continuity. For others, downsizing, relocating, or moving closer to family may improve quality of life and reduce future stress. Housing is financial. But in retirement, it is also logistical, emotional, and deeply practical.

Legacy extends beyond estate documents. It may include family support, charitable giving, education funding, preserving family stories, organizing important information, or simply communicating intentions clearly. Legacy planning often begins with a question that is both financial and personal: Do your resources reflect what matters most to you?

Legacy is not only what is left behind. It is also how thoughtfully priorities are expressed while there is still time to express them.

What This Means for Your Plan

Financial security creates options. How those options are used through family, service, travel, housing decisions, and personal priorities often shapes the retirement experience far more than any portfolio statement.

Life After Work Conversation Starters

- What would make an ordinary week feel satisfying?
- Which family commitments are welcome, and which need boundaries?
- What travel, service, learning, or community goals are easiest to pursue earlier in retirement?
- Does the current home support the next 20 or 30 years?
- What stories, values, resources, or instructions should be shared while there is still time?

Retirees often bring valuable experience to nonprofit boards, community organizations, schools, libraries, hospitals, religious institutions, mentoring programs, and local charities. A few hours a week can create a sense of connection and usefulness while preserving personal freedom. The benefit is not only to the organization. Volunteering can provide routine, relationships, learning, and a reason to remain connected to the community.

The financial decisions discussed throughout this guide, including saving more, reducing risk, creating income, preparing for healthcare, managing taxes, and updating estate plans, exist to support a larger purpose. They help create the freedom to use time in ways that are meaningful, productive, generous, restorative, and personal.

The strongest retirement plans are not built around one number, one account, or one perfect strategy. They are built around a clear understanding of the life retirement is meant to support.

TURNING THE FINAL FIVE YEARS INTO A PLAN

The years before retirement are more than a countdown. They are a planning window: a chance to strengthen the pieces of your financial life before they need to work together every day.

There is still time to strengthen savings, reconsider debt, evaluate investment risk, create an income strategy, review healthcare assumptions, assess tax exposure, update estate documents, and clarify family priorities. None of those steps has to be dramatic to matter. Often, the most valuable retirement planning decisions are practical, specific, and made before urgency takes over.

If retirement is beginning to feel less distant and more real, this may be the right time to begin a thoughtful planning conversation. Reviewing your income, taxes, healthcare assumptions, investment strategy, estate documents, and personal priorities can help clarify not only whether you are prepared to retire, but how you want the next chapter to take shape.

The strongest retirement plans are often built through a series of thoughtful decisions made while choices are still available.

The final years before retirement may be among the most important planning years of your financial life. They deserve to be used well.

The Five Decisions to Make Before Your Retirement Date

- What will retirement realistically cost, including taxes, healthcare, and irregular expenses?
- Which income sources will cover essential spending, and which expenses will depend on portfolio withdrawals?
- How should investment risk, cash reserves, and withdrawal strategy be coordinated before retirement begins?
- How will healthcare, long-term care, taxes, and estate documents be addressed before decisions become urgent?
- What kind of life should the plan support after work ends?

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