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Three considerations if you're planning to retire this year

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Planning to retire in 2025? Here are a few things to consider, including how to make sure you have enough resources set aside to meet your near-term goals, why you should look into tax-smart strategies, and how to prepare for health care and long-term care expenses in retirement.

1. Right-size your Liquidity strategy. A Liquidity strategy can help you to maintain your lifestyle, even during pockets of market volatility. By helping you to fund your spending needs from resources that prioritize capital preservation, your Liquidity strategy can help you to avoid locking in otherwise-temporary losses in your core part of your portfolio.

As you approach and enter retirement, we recommend setting aside all the funds you'll need to pull from your portfolio over the next three to five years in a Liquidity strategy, funded with cash, bonds, and borrowing capacity. Historically, three to five years would have been enough time for your long-term portfolio to fully recover its losses—even after the worst bear markets.

Your Liquidity strategy should reflect the funds that you plan to withdraw from your portfolio. As you reflect on your spending plans, consider how your spending habits have changed in recent years and how they may change in the next few years.

Be sure to talk with your family and your financial advisor, and incorporate any large one-off expenses on the horizon.

For more information, please see "[Liquidity strategy: Refilling for 2025 and beyond](#)."

2. Spread taxable income over time. The income tax system is progressive (you pay an incrementally higher tax rate in years when your annual income is higher), so the key to funding your retirement spending on a tax-efficient basis is to implement a dynamic withdrawal strategy that accounts for your tax bracket and tax rate on a year-by-year basis; the spending waterfall illustrated in our report summarizes some key considerations.

The spending waterfall does a good job of helping you to minimize taxes in the current year, but this may defer too much of your taxable income into later years, resulting in larger required minimum distributions (RMDs) and a higher tax burden in the future.

The spending waterfall also implicitly assumes that you will need to spend your IRA distributions, but in many cases you may want to reinvest them for growth, either for your Longevity strategy (lifetime spending needs) or for your Legacy strategy (for inheritance and philanthropy).

To enhance the value of the spending waterfall, consider the impact that partial Roth conversions could have on the success of your financial plan.

The fair market value of the amount that you convert will count as taxable income, so Roth conversions in low-tax years are a great way to fund tax-exempt assets that will continue growing, won't be subject to lifetime RMDs, and will pass income tax free to your beneficiaries. For more information, please see "[Roth conversions to defuse your 'tax bomb'.](#)"

3. Review health care and potential long-term care costs. One common misconception about Medicare is that it is free. In reality, households have to pay a monthly premium for the program, and Medicare participants are responsible for co-pays, coverage gaps, long-term care (LTC) costs, and other out-of-pocket expenses.

The good news is that premiums make up the bulk of most retirees' health expenses, and these are relatively predictable (and therefore easy to plan for).

By contrast, out-of-pocket expenses—which make up about 30% of health care spending in retirement—can vary significantly from year to year. This is especially true during the later years of retirement, since health-related issues tend to become more common with age.

As you work with your financial advisor to incorporate health care costs into your retirement plan, it's important to make sure you account for the full range of health care costs.

In addition to health care costs, you'll also need to account for the possibility of long-term care at some point in the future. Since Medicare doesn't cover the vast majority of LTC expenses, we recommend that health care and long-term care be handled separately in the planning process. For more information, please see "[Long-term care costs and solutions.](#)"

For more, see [Modern retirement monthly: 2025 Retirement guide](#), published 6 January, 2025.

[Click here](#) to learn more about UBS Wealth Way: Your money beyond stocks and investing.

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