THE ASRS MEMBER'S PRE-RETIREMENT CHECKLIST

15 CRITICAL DECISIONS EVERY ASRS MEMBER SHOULD MAKE IN THEIR FINAL WORKING YEARS



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Delivering Financial Clarity

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YEARS 5-10 BEFORE RETIREMENT



1. CALCULATE YOUR RETIREMENT EXPENSES



WHAT TO DO:

Create a detailed projection of your retirement expenses, accounting for both lifestyle changes of things that might cost less (like transportation, work clothes, etc) and things that might cost more (like extra travel and hobbies).

WHY IT MATTERS:

This is the most important thing to do before you retire. You can't determine if you'll have enough retirement income until you know what you'll actually need to spend. Your expenses may be higher in early retirement (travel, activities) and lower in later years, but healthcare costs typically increase over time.

ACTION STEP:

List all current expenses and estimate what will be lower and higher at retirement. Don't forget to include health care costs if you're retiring before 65, as well as the cost of Medicare at 65. Determine an approximate monthly amount you'll need in retirement.



2. CALCULATE YOUR PROJECTED RETIREMENT INCOME AND IDENTIFY THE GAP

WHAT TO DO:

Project your retirement income from all sources and compare it to your estimated retirement expenses from step 1. Most financial experts recommend 70-80% income replacement, but I have found that my retired clients' actual needs may be quite different from that. So don't follow that rule of thumb, run the numbers yourself.

For ASRS Pension members: Use ASRS online tools to project your pension benefits

For ORP (Optional Retirement Plan) members: Calculate projected income from your investment account balance using withdrawal rate strategies (typically a 3.5-5% annual distribution)

For both: Add Social Security benefits and income from retirement and investment accounts

WHY IT MATTERS:

Whether you have an ASRS pension or ORP investments, you'll likely need additional income sources. The gap between your projected expenses (step 1) and projected income determines how much more you need to save before you retire, or make adjustments to your expenses.

ACTION STEP:

If your projected retirement income doesn't cover your projected expenses, calculate the monthly shortfall and work backward to determine how much additional savings you need in supplemental accounts (403b, 457b, IRAs).



3. MAXIMIZE YOUR AVERAGE MONTHLY COMPENSATION (AMC)

WHAT TO DO:

Understand how your averaging period is calculated based on your ASRS membership date, then strategically time salary increases and retirement to maximize this calculation.

Your averaging period depends on when you joined ASRS:

- **Membership before January 1, 1984**: Highest 36 consecutive months OR highest 60 consecutive months (whichever is higher) - termination pay INCLUDED in 60-month calculation
- **Membership January 1, 1984 to June 30, 2011**: Highest 36 consecutive months (3 years) - termination pay EXCLUDED
- **Membership July 1, 2011 or later**: Highest 60 consecutive months (5 years) - termination pay EXCLUDED

WHY IT MATTERS:

Your pension is calculated based on your AMC. Even a small increase in this average can mean thousands more per year in pension benefits for life.

ACTION STEP:

- **Pre-1984 members**: Consider timing retirement to maximize vacation/sick leave payouts since they count toward your average
- **1984-2011 members**: Focus on maximizing base salary in your final 3 years through promotions or additional responsibilities
- **Post-2011 members**: Plan salary growth over your final 5 years, as you have a longer averaging period but termination pay won't help

4. EVALUATE EARLY RETIREMENT PENALTIES

WHAT TO DO:

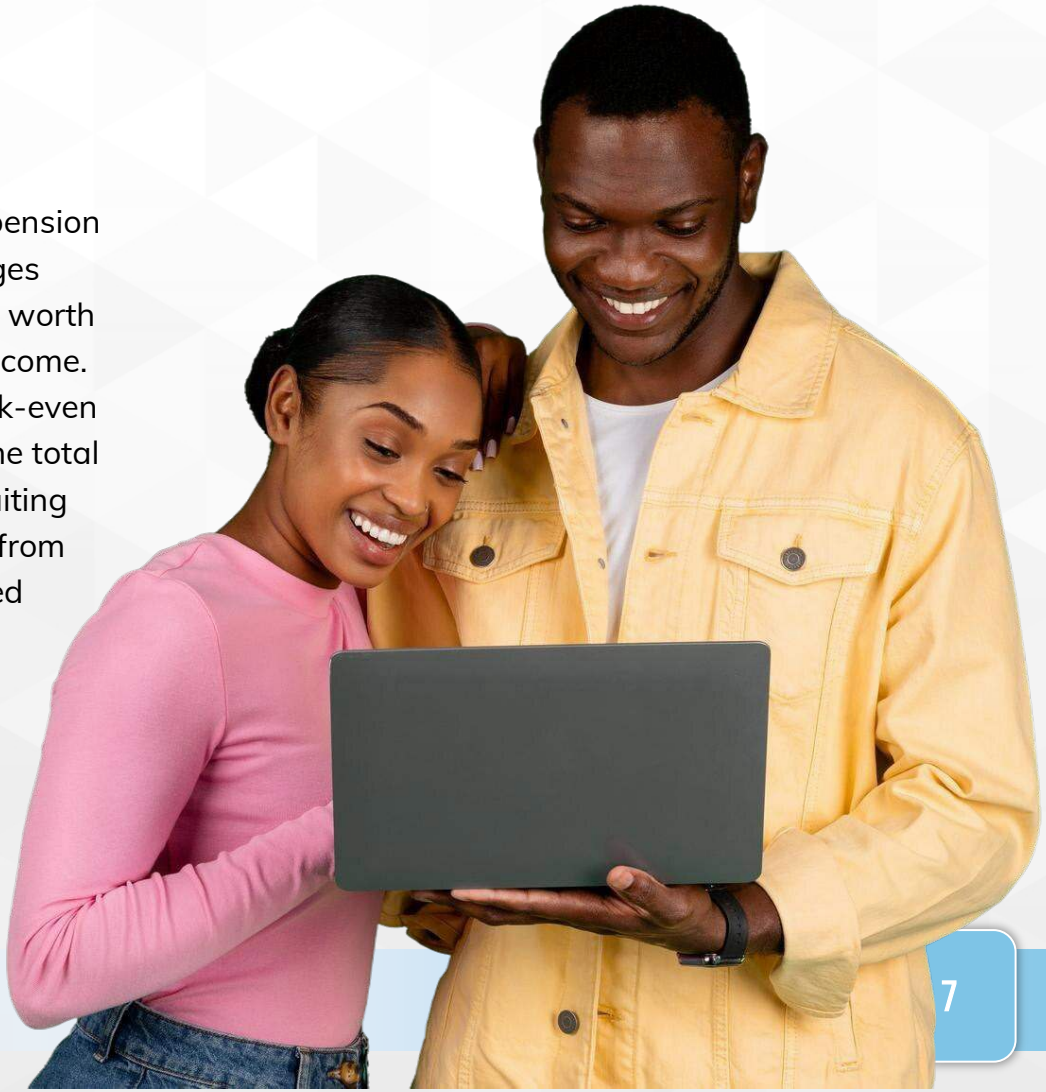
Understand the reduction factors if you retire before normal retirement age. For example, retiring at age 50 can mean a significant benefit reduction compared to waiting until normal retirement age.

WHY IT MATTERS:

The early retirement reduction is permanent and applies to your entire retirement. However, more years of retirement might still make early retirement worthwhile in some cases.

ACTION STEP:

Calculate your monthly pension at different retirement ages (50, 55, 60, 65) and if it's worth taking the reduction in income. Also consider your "break-even point" - the age where the total lifetime benefits from waiting to retire equals the total from retiring early with reduced payments.



5. OPTIMIZE YOUR 401(A), 403(B), AND 457(B) CONTRIBUTIONS

WHAT TO DO:

If you have the cash, maximize contributions to your plan. In 2025, you can contribute up to $23,500 to each 403(b) and 457(b) plan ($31,000 if over 50). If you chose the ORP, you're contributing to a 401(a) plan instead of earning ASRS pension benefits.

WHY IT MATTERS:

These accounts will provide crucial supplemental income to bridge the gap between your pension/ORP and total retirement expenses. They also provide tax diversification opportunities (more on that in the next step).



ACTION STEP:

Review your current contribution rates and increase them toward the maximum if possible. Consider whether traditional or Roth contributions make more sense for your situation. ORP members should ensure they're maximizing their 401(a) contributions since this is their primary retirement vehicle.



6. DEVELOP A ROTH CONTRIBUTION OR CONVERSION STRATEGY

WHAT TO DO:

Implement a strategy to build tax-free retirement income through Roth contributions (if under income limits) or Roth conversions during strategic low income periods.

Roth Contributions: If your income allows, contribute to Roth IRAs for tax-free growth as well as tax free distributions (as long as you follow all the rules). You can also contribute to Roth 403(b) or 457(b) regardless of your income level.

Roth Conversions: This allows you to convert pre-tax/traditional account balances to Roth IRAs during lower-income years, especially the gap between retirement and claiming Social Security. Please consult with a tax advisor as these can be complicated.

WHY IT MATTERS:

Since your ASRS pension (or ORP withdrawals) will be taxable, having tax-free Roth income in retirement provides valuable tax diversification and can help manage your tax brackets throughout retirement.

ACTION STEP:

Calculate your current tax bracket and determine the optimal Roth strategy. Consider converting traditional IRA funds to a Roth during early retirement years when your income might be lower, and before you start claiming Social Security benefits. Work with a professional tax advisor to ensure you understand all the implications.

YEARS 2-5 BEFORE RETIREMENT



7. ANALYZE SURVIVOR BENEFIT OPTIONS



WHAT TO DO:

Understand the difference between taking maximum pension benefits (like the Straight Life Annuity) versus survivor benefit options (50%, 66.67%, or 100% joint survivor).

WHY IT MATTERS:

Choosing survivor benefits reduces your monthly pension but provides continued income for your spouse. You can also consider life insurance strategies if you want to ensure your spouse receives something but don't want the reduced pension benefit.

ACTION STEP:

Map out what would happen to your spouse financially if you passed away early in your retirement. Would they need that pension to get by, or would they have enough outside assets to have a comfortable retirement?

8. PLAN YOUR SOCIAL SECURITY TIMING



WHAT TO DO:

Determine how much you'll receive in Social Security benefits at different ages, as well as the tax implications when you factor in your other sources of income (ASRS pension, part time income, investment distributions, etc).

WHY IT MATTERS:

Fortunately, Social Security provides cost-of-living adjustments that your ASRS pension lacks. That will make a significant impact to fight against inflation, which slowly erodes your purchasing power.

ACTION STEP:

Create a Social Security account at ssa.gov and review your benefit estimates. You can take Social Security as early as age 62, but you'd receive a reduced benefit (around 70% of your full retirement age benefit). It may make sense to delay Social Security to age 70 for a larger monthly check (around 132% of your full retirement age benefit), but you must consider your life expectancy as well as what other income sources you'll need during the gap between retirement and age 70 when Social Security begins.

9. ADDRESS HEALTHCARE COVERAGE GAPS

WHAT TO DO:

Understand what happens to your health insurance when you retire and plan for the gap between employer coverage and Medicare eligibility at age 65.

WHY IT MATTERS:

Healthcare costs can be one of your largest retirement expenses. On the health insurance marketplace, premiums alone could cost $1,500-$2,500 monthly for a couple in their 50s and 60s. This shouldn't dissuade you from a retirement before age 65, but it's really important to plan ahead for this extra cost.



ACTION STEP:

Research the ASRS health insurance premium benefit first. Retirees with 5+ years of service receive $50-$260 monthly toward health insurance costs, but only if you stay on ASRS or employer-sponsored plans (not available with private/marketplace insurance). Also explore COBRA continuation coverage and ACA marketplace plans as alternatives.

10. CREATE A TAX-EFFICIENT WITHDRAWAL STRATEGY



WHAT TO DO:

Plan the order in which you'll claim sources of income (Social Security, pension) as well as withdrawals from different account types (Traditional retirement accounts, Roth accounts, taxable investments, etc).

WHY IT MATTERS:

The sequence of withdrawals can significantly impact your lifetime tax burden. Poor sequencing could push you into higher tax brackets unnecessarily. Each of these income sources has different tax treatment, which makes it all the more confusing to handle in a way that lowers your lifetime tax burden.

ACTION STEP:

Review the tax treatment of all potential income sources you'll have, as well as model different withdrawal sequences to minimize taxes over your entire retirement. Consider which accounts to tap first and how to manage Required Minimum Distributions (also discussed in step 15).

11. CREATE, REVIEW AND UPDATE ESTATE PLANNING DOCUMENTS



WHAT TO DO:

Update wills, trusts, beneficiary designations, and powers of attorney. Create these documents if they haven't been established already.

WHY IT MATTERS:

Setting up your estate plan now, while you are healthy of mind and body, ensures your wishes are carried out the way you want if you are never able to make those decisions in the future. Also, we need to make sure your spouse and family are protected and know how you would like your affairs handled.

ACTION STEP:

Review all beneficiary designations on ASRS accounts, 403(b), 457(b), IRAs, life insurance, bank accounts, non-retirement investment accounts. Ie, every financial account you have should be reviewed to ensure your money goes where you want when you pass away. Also ensure estate planning documents are current.

FINAL 2 YEARS BEFORE RETIREMENT



12. FINALIZE YOUR RETIREMENT DATE STRATEGY



WHAT TO DO:

Choose your specific retirement date considering factors like pension calculation timing, healthcare coverage, and tax implications.

WHY IT MATTERS:

Retiring at the end of a calendar year versus mid-year can affect your taxes, healthcare coverage transitions, and pension calculations.

ACTION STEP:

Work with HR, the benefits calculator, and your financial advisor to understand all implications of your chosen retirement date and ensure it aligns with your financial strategy.

13. OPTIMIZE INVESTMENT ALLOCATION FOR RETIREMENT



WHAT TO DO:

The way you invested in your 20s, 30s, and 40s is likely not the way you should be invested in retirement. People get more risk averse as they age and some get a little more nervous when their income depends on their portfolio and the stock market, instead of their paycheck.

WHY IT MATTERS:

People who have an investment portfolio that is not aligned with their risk tolerance tend to get more nervous in economic downturns, which can lead to poor decision making. We want your portfolio set up for the long haul and prepared to generate an income for 30 plus years of retirement.

ACTION STEP:

Review your overall asset allocation to ensure it matches your risk tolerance, as well as your need to generate an income from your portfolio.

14. PLAN YOUR PENSION APPLICATION PROCESS



WHAT TO DO:

Understand ASRS application deadlines, required documentation, and processing timeframes to ensure your first pension payment arrives on schedule.

WHY IT MATTERS:

Pension applications can take 45-90 days to process. Missing deadlines or providing incomplete information can delay your benefits and create income gaps.

ACTION STEP:

Contact ASRS 6 months before your planned retirement date to begin the application process and understand all required steps and documentation.

15. PREPARE FOR REQUIRED MINIMUM DISTRIBUTIONS



WHAT TO DO:

Understand when Required Minimum Distributions (RMDs) begin from your traditional retirement accounts and plan for the tax impact.

WHY IT MATTERS:

RMDs begin at age 73 and can push you into higher tax brackets if not planned properly. The combination of pension income, Social Security, and RMDs can create significant tax burdens.

ACTION STEP:

Calculate projected RMDs from all traditional retirement accounts and model the tax impact when combined with your pension and Social Security benefits. Note that this could tie into your Roth conversion strategy discussed earlier. Also, Congress loves to change the rules surrounding RMDs, so check for any new legislation.

FINAL NOTES

Remember: This checklist provides general guidance, but every ASRS member's situation is unique. For personalized advice regarding your specific ASRS benefits and retirement planning situation, consult with a qualified financial advisor who specializes in ASRS benefits to ensure you're making optimal decisions for your specific circumstances.

Timing is crucial: Many of these strategies work best when implemented years before retirement. The earlier you start, the more options you'll have and the better your results will be.

Stay informed: ASRS rules and tax laws can change. Review your retirement strategy regularly and stay updated on any changes that might affect your planning.

The good news? You don't have to figure this out alone.

As a fee-only fiduciary specializing in ASRS retirement planning, Forthright Finances helps Arizona public servants coordinate all these pieces into a comprehensive strategy that helps you retire comfortably and minimizes your lifetime tax burden.

READY TO OPTIMIZE YOUR ASRS RETIREMENT STRATEGY?

To learn more, visit forthrightfinances.com or schedule a free, no obligation consultation:

Schedule your complimentary ASRS Retirement Strategy Session today.

CLICK HERE TO SHEDULE

ABOUT SCOTT NEWHOUSE



Scott Newhouse is a Certified Financial Planner™ helping people get clarity on what they need to do to achieve financial success. He is the owner of Forthright Finances, a fee-only financial planning firm that always acts in its clients best interest. To learn more, visit [forthrightfinances.com.](forthrightfinances.com)


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