

# RETIREMENT RED ZONE

The five-year mark before retirement is the “Red Zone” of financial planning. It is the critical period where the focus shifts from **wealth accumulation** (growing the pile) to **wealth preservation and distribution** (organizing the exit).

In 2026, with shifting tax laws and updated contribution limits, this transition requires a precise tactical approach. Here is your 5-year pre-retirement checklist.

## 1. The “Catch-Up” Sprint

Now is the time to leverage your highest earning years to maximize tax-advantaged accounts.

- **Max Out 401(k)/403(b):** In 2026, the contribution limit is **\$24,500**.
- **Utilize “Super Catch-Up”:** If you are between ages **60 and 63**, you can contribute an additional **\$11,250** (for a total of \$35,750). If you are 50–59 or 64+, the catch-up limit is **\$8,000**.
- **IRA Catch-Up:** The limit is **\$7,500** plus a **\$1,100** catch-up for those 50+.

- **HSA Funding:** If you have a high-deductible health plan, max out your Health Savings Account. It is the only “triple tax-advantaged” vehicle (tax-free in, tax-free growth, tax-free out for medical costs).

## 2. Reconstruct the “Retirement Paycheck”

Five years out, you must move from “Net Worth” thinking to “Cash Flow” thinking.

- **Define Your Burn Rate:** Track your actual spending for 12 months. Do not guess. Subtract expenses that will disappear (commuting, work clothes) and add new ones (travel, private health insurance, etc.).
- **Identify Income Floor:** Calculate your guaranteed income sources:
  - \*Social Security estimates (use the SSA.gov portal)
  - \*Pensions (request an updated “Summary Plan Description”)
  - \*Annuities or rental income
- **The Gap Analysis:** If your “Floor” income is \$4,000/month but your “Burn Rate” is \$7,000/month, your portfolio must reliably generate that \$3,000 gap.

## 3. Mitigate “Sequence of Returns” Risk

The biggest threat to a new retiree is a market crash in the first few years of retirement.

- **The 2-Year Cash Bucket:** Aim to have 18–24 months of living expenses in high-yield cash or money markets by your retirement date. This ensures that if the market drops on your first day of retirement, you aren’t forced to sell stocks at a loss.
- **De-Risk the Core:** Gradually shift from aggressive growth to a “Total Return” approach.

## 4. The 2026 Tax Strategy

Tax laws are in flux. Proactive planning now saves significant wealth later.

- **Roth Conversion Ladder:** If you expect to be in a lower tax bracket in the first few years of retirement, plan to convert traditional IRA funds to Roth IRAs. This reduces future Required Minimum Distributions (RMDs).
- **Tax Diversification:** Ensure your wealth is spread across three “buckets”: Taxable (Brokerage), Tax-Deferred (401k), and Tax-Free (Roth/HSA). This gives you control over your reported income in retirement, which affects your Medicare premiums.

## 5. Healthcare & Medicare Onboarding

Healthcare is often the largest “wildcard” expense in retirement.

- **The “Bridge” Plan:** If you retire at 62, how will you cover the gap until Medicare starts at 65? Research COBRA costs or ACA (Marketplace) premiums now.

- **Long-Term Care (LTC):** This is the window to lock in LTC insurance or “Hybrid” life/LTC policies. Rates climb significantly after age 60.

\*Note: In 2026, new rules allow for small penalty-free withdrawals from retirement accounts to pay for qualified LTC premiums.

## 6. Lifestyle & Estate Integrity

- **The “Practice” Retirement:** Try living on your projected retirement budget for six months while you are still working. Direct the “excess” salary into your cash bucket.

- **Estate Refresh:** Update your Power of Attorney and Healthcare Directives. Ensure your beneficiary designations on 401(k)s and IRAs are correct, these bypass your Will and are a common source of legal errors.

Navigating the “Red Zone” requires more than just a checklist, it requires a partner who understands the high stakes of this five-year window. At Isthmus Partners, our planning process goes beyond the numbers to ensure every tax strategy, cash flow analysis, and estate update is tailored to your specific goals. We are here to help you master the tactical requirements of 2026 and beyond, setting you up for a seamless transition into a secure and successful retirement.

## SUMMARY CHECKLIST FOR 2026

Action Item	Frequency	Target
Max 401(k) + Catch Up	Monthly	\$32,500-\$35,750 total
HSA Contribution	Annual	Maximize for medical “nest egg”
Portfolio Rebalance	Semi-Annual	Reduce “Sequence of Return” risk
SSA.gov Review	Annual	Verify earnings history
Estate Document Review	Every 3-5 years	Confirm beneficiaries and POA

### Precision Planning for the Most Important Five Years

A checklist tells you what to do. A great advisor tells you how — and makes sure nothing falls through the cracks.

At Isthmus Partners, we guide clients

through the Red Zone using our Discover, Design, Deliver process. We start by understanding your full picture: your income sources, your spending reality, your tax situation, and what you want retirement to actually look like. From there, we design a plan built around your specific circumstances — not a template.

paycheck question. Rather than relying on a static withdrawal rate, Income Lab models what you can safely spend across all of your resources, and builds in guardrails so that when life changes — and it will — you know exactly how to adjust and stay on track.



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One of the most powerful tools in that process is Income Lab, which takes the guesswork out of the retirement

We layer that income analysis with tax-efficiency at every step: structuring withdrawals to manage Medicare IRMAA surcharges, evaluating Roth conversion opportunities during the early retirement window, and coordinating across your taxable, tax-deferred, and tax-free buckets to keep more of your wealth working for you.