Timing Your Retirement

It used to be pretty easy to predict when you’d reach retirement. Most people started on Social Security as soon as age 62, and many others knew their working days would end the day they were eligible for their pension.

But if you use AARP’s free Retirement Calculator at www.aarp.org/retirement calculator, you’ll see that figuring out the best retirement date for you is no longer so simple. Many people can no longer count on a pension. Employer-sponsored health benefits for retirees are disappearing. And Social Security alone won’t cover all the bills in retirement—especially if you claim the reduced benefit at age 62—so many people have to work well into their 60s, and even later.

Others prefer to work, if only part-time, because they’re in good health and they enjoy the social contact and stimulation of a job. AARP can help you envision and achieve the retirement of your dreams. As you create your vision of retirement and identify what you need to get to your retirement date, you need to consider two main sets of issues: your financial prospects and your personal or lifestyle issues. At www.aarp.org/readyforretirement, we can help you think through these issues before you set a retirement date.

Financial Prospects

You need to figure out how much income—from all sources—will be available to you at the age you want to retire. Let’s say you’d really like to stop working completely at age 62. What financial information do you need to determine if this will work?

Social Security: You can start collecting Social Security at age 62, but the longer you wait—up until age 70—the higher your benefit will be. The Social Security Administration can give you an estimate of how much you can count on if you retire at different ages. However, if you start drawing on Social Security while continuing to work, some of the benefits you would otherwise receive will be withheld if your income exceeds the annual “earnings limit” set by the government. When you reach your full retirement age, your earnings history will be recalculated and that withheld amount will be returned to you over the course of your life. The AARP Social Security Benefits Calculator can help you calculate the pros and cons of claiming at different ages. Go to www.aarp.org/socialsecuritybenefits.

Pension income: If you have a pension, check with your employer to see how much you will receive at different retirement ages. Often a few more years on the job can make a big difference in the amount of your benefit.

Savings: When you retire, you’ll need to draw from the savings in your retirement accounts, such as a 401(k), IRA, SEP, Keogh, or SIMPLE plan. The trick is to figure out how much income you can get from investments in these accounts, and how long the money will last if you take some of it out on a regular basis.

Retirement accounts have important, special rules:

- In most cases, taking money out before you turn 59 1/2 will be expensive: You’ll owe Uncle Sam both income tax and a 10 percent penalty.
- Once you turn 70 1/2, the tables turn: To avoid penalties, you must start withdrawing some of the money every year. The amount, set by the IRS, depends on your estimated life span.
If you have a Roth IRA, you will never have to pay income tax on your withdrawals. But to avoid an early withdrawal penalty, you must have had the Roth account for at least five years.

Other income: Be sure to include rental income, money from selling a business or other property, an inheritance, or any other financial assets when adding up the potential income that will fund your retirement.

Taxes: Before setting a retirement date, make sure you know what taxes you’ll have to pay after you retire—including federal, state and local income taxes and property taxes—so you’re not surprised later. If you’re not sure how to do this, get help from a financial professional or another trusted person. The IRS and some states may tax your income from Social Security and retirement accounts if your income exceeds certain limits. In 2010, if your “taxable income”—including only half of your Social Security income—was $25,000 or more ($32,000 if you file jointly), you would pay federal taxes on your Social Security. For the most up-to-date information on the taxability of Social Security benefits, see IRS Publication 915 at www.irs.gov.

Health Insurance: Finding affordable health insurance is a major challenge for people who retire before they’re eligible for Medicare at age 65. If you’re thinking of retiring before you turn 65, be sure to check into your options. If you don’t have retiree health benefits from your employer, your options may include continuing coverage from your former job under the COBRA law, buying an individual policy on the open market or—if you’re eligible—Medicaid for lower-income people or veteran’s health coverage. You can compare policies using a new federally managed website, www.healthcare.gov. Even with insurance, some experts say you should expect to face somewhere between $200,000 and $500,000 in out-of-pocket health care costs in retirement. Be sure to factor the cost of health insurance and health care into your retirement budget.

Lifestyle Issues
Retirement usually brings huge lifestyle changes—changes in schedule, routine, where you live, and with whom you spend your time. To make retirement the happy and rewarding time it should be, you should start thinking about your options BEFORE you set a retirement date.

A good way to start is for you and your spouse or partner, if you have one, to read over the “10 Steps to Get You Ready for Retirement” article, at www.aarp.org/readyforretirement, and discuss the possibilities. Once you’ve envisioned what your retirement might be like, you’ll be ready to plot how to manage your money—and when to retire—so you can actually live your retirement vision.

Social Security and Timing Your Retirement—The Basics

- **Retirement ages:** The exact age you need to reach before you are eligible for full retirement benefits depends on when you were born. Those born before 1938 reach full retirement at 65. Those born after 1959 reach full retirement at 67. If you were born between 1938 and 1959, your full retirement age will be between 65 and 67.

- **Reduced benefits:** You can start getting a reduced Social Security benefit as early as age 62. The amount of reduction depends on your age and when you start receiving Social Security. For example, if you were born in 1954, your full retirement age would be 66. If you start receiving benefits at 62, you’ll receive 75% of your full benefit. If your full benefit would have been $1,000, you will only receive $750 each month.

- **Benefit credits:** Delaying to receive your benefits until after full retirement age may result in a larger monthly payment. The increase gets larger until you reach age 70.

- **Working:** If you collect Social Security and earn an income from a job, you could lose some of your benefit due to the “earnings
If you’re younger than your full retirement age and you earn more than your earnings limit, your Social Security benefit will be reduced.

**Your To-Do List:**

- If you’re eligible for a traditional pension, ask your employer how much your benefit will be at different retirement ages.
- Estimate your Social Security benefits. Due to budget constraints, the Social Security Administration has stopped providing annual statements. You can still receive a verbal statement over the phone by calling 1-800-772-1213, or you can estimate your benefits at [www.ssa.gov/estimator](http://www.ssa.gov/estimator).
- Find out how your Social Security benefit will be reduced if you claim early or continue working while you receive benefits, at [www.aarp.org/socialsecuritybenefits](http://www.aarp.org/socialsecuritybenefits).
- Then use AARP’s Retirement Calculator at [www.aarp.org/retirementcalculator](http://www.aarp.org/retirementcalculator) to estimate how much income you’ll need in retirement, and whether you are on track to reach this goal.
- Learn about your options for health insurance if you retire before you qualify for Medicare, [www.aarp.org/health](http://www.aarp.org/health). You can compare policies using a new federally managed website, [www.healthcare.gov](http://www.healthcare.gov).
- Ask your employer about COBRA coverage if you are not Medicare-eligible and will need insurance between jobs.

- AARP Social Security Benefits Calculator: This free online tool can help you sort through the issues above. Visit [www.aarp.org/socialsecuritybenefits](http://www.aarp.org/socialsecuritybenefits).
Ready for Retirement Self-Assessment Tool

Do you have a retirement dream? Have you thought about it? You may want to travel the world, indulge your green thumb, or spend more time with your grandchildren.

Whatever your retirement dream is, it will cost you money. Take this self-assessment to find out what your retirement dreams might mean in dollars and cents.

For each category, please circle the statement that best reflects how you envision your retirement. After you are done, add up your scores using the scoring instructions below.

1. Working
   a. I’ve had it! To me, retirement means retirement, and I don’t plan on working.
   b. I’m going back to school so I can pursue my dream job.
   c. I’ll do some part-time or consulting work—it’ll bring in some extra money and keep my mind active.
   d. I will continue working full-time in my chosen profession.

2. Volunteering
   a. My dream is to volunteer overseas, even if it costs me money to participate.
   b. I don’t have time to volunteer, but I will give generously to charities.
   c. I want to give something back to my community by volunteering.
   d. I don’t intend to volunteer.

3. Hobbies
   a. I’ll splurge on my hobby, even if it costs me a pretty penny.
   b. I may turn my hobby into a business, although I don’t expect to make much of a profit.
   c. I am eager to spend more time on my hobbies, which cost next to nothing.
   d. I don’t have any hobbies.

4. Lifelong Learning
   a. I intend to go back to college for my own enjoyment.
   b. I dream of taking educational trips to learn more about the world.
   c. I’ll take a class or go to a lecture.
   d. I want to read lots of books from the library.

5. Entertainment
   a. With all this free time, I’m going to kick up my heels and go out on the town.
   b. I’ll do an evening out occasionally.
   c. I’ll use my senior discount to grab a bargain lunch or see a movie once in awhile.
   d. I like to tinker around the house and visit with neighbors.

6. Health
   a. My medical bills will stack up because of chronic health conditions.
   b. I expect to pay for expensive prescription drugs.
   c. Knock on wood, I’m in good health, but I worry about paying for long-term care.
   d. I will be on Medicare and will buy long-term care insurance just in case I need it.

7. Family
   a. There won’t be retirement for me anytime soon—that is, from my children or grandchildren. I’m still raising them.
   b. I like to spend lavishly on my family—it makes me happy.
   c. I’ll fly to see my family occasionally.
   d. My family lives nearby and I’ll see them often.

8. Housing
   a. My rent will continue going up each year.
   b. I’m thinking of getting a vacation home.
c. I’ll still be paying off my home mortgage.
d. I own my home free and clear; I will stay here, or sell my home and buy a less expensive one.

9. Exercise
a. Exercise—that’s the last thing I want to do in retirement, even if it may mean higher medical costs later on.
b. I want to join in all of the latest, pricey exercise crazes.
c. I intend to join a health club to keep active.
d. I love to walk and plan to do it anytime I want.

10. Travel
a. I want to travel around the world first-class.
b. I dream of touring the country.
c. I plan to take one big trip each year.
d. I don’t have the travel bug and I don’t want to get it.

11. Money
a. Saving, what’s that? I live for today.
b. Savings, sure I have some—but I’ll struggle after retiring.
c. With a nice amount of savings, I will make ends meet.
d. I feel fortunate—with a pension and investments, I will live well and plan to leave something for the kids.

12. Insurance
a. I will need lots of insurance—auto, home, and life insurance, to be sure.
b. With my children grown up, I’ll drop life insurance.
c. I’ll sell one of the cars so I won’t have to pay the insurance.
d. With one car and a smaller house, my insurance costs will go down.

Scoring: For each question, please award yourself one (1) point if you answered “a,” two (2) points if you answered “b,” three (3) points if you answered “c,” and four (4) points if you answered “d.” Then, add all the points up.

37 to 48 points—You’re envisioning a modest lifestyle. Your vision of retirement is unlikely to break the bank—you have a good chance of making ends meet in retirement.

25 to 36 Points—Your retirement vision is rather standard, but parts of your retirement could be costly. So, think about changing some of your saving and spending habits now—with your future in mind!

24 or Fewer Points—Watch out! Your vision of retirement may be quite expensive! Better to start saving now rather than later.

Now, take advantage of AARP’s Retirement Calculator to see if you are saving enough money for your retirement dream. You can find it at www.aarp.org/retirementcalculator. You can investigate all of the retirement topics listed above at www.aarp.org/money.