

TIMING YOUR RETIREMENT: THINGS TO CONSIDER

When you start thinking about when to retire, a lot of questions come into play: What kind of life do you want? Would you like to continue working in some form? How do your savings stack up against what you'll need? How will your timing decision affect your Social Security benefit and your health care options? What are the tax implications of your decisions?

It's a lot to think about, so AARP offers helpful resources at www.aarp.org/retirement, where you can come up with ways to deal with all the moving parts of your retirement decision, including:

1. LIFESTYLE CHOICES FOR RETIREMENT

Ask 10 pre-retirees how they want to spend their time post-career and they'll give you 20 different answers. It isn't easy to nail down a solid view of life on the other side of work. Lots of retirees get great satisfaction in their role as grandparents. Others want to continue working, whether in a volunteer or a part-time capacity. Still others may picture a life of leisure and travel.

Think through how you may want to play out your retirement and talk with your partner about his or her views, too.

2. HOW DO YOUR FINANCES LOOK?

Once you have a sense of how you want to live out your retirement, it's time to compare it to your financial situation. A great tool to help with this is AARP's Retirement Calculator, which you can find at www.aarp.org/retirementcalculator.

With some simple inputs, it can help you get a handle on your retirement income and see how it compares to what you may need.

In retirement, your income may be from a traditional pension plan, a 401(k)-type savings plan or IRA, Social Security or other sources.

PENSION INCOME

A "defined benefit" pension, also known as a traditional pension, pays you a monthly benefit for life once you have earned the right to it (by working enough years, for example). Some plans allow employees to take a one-time lump sum payment at retirement rather than taking monthly benefits for life. While this sounds attractive, the better choice is usually to take those monthly payments that you can't outlive.

If you have earned a traditional pension through your job, check with the employer to find out how much you will receive based on when you retire. Often a few more years on the job can make a big difference in the amount of your benefit.

401(k)-TYPE PLANS AND IRAS

Finding the money to save and making good investment choices may have seemed like the most important part of retirement planning during your working years. But figuring out how to draw down your savings in retirement is just as important. You want to make sure that your money lasts as long as you do and that you avoid tax errors that can be costly.

Retirement accounts have special rules:

- In most cases, taking money out before you turn 59½ will cost you a 10% tax penalty, and you'll have to pay ordinary income tax on the amount you withdraw.
- Once you turn 70½, the tables turn. To avoid penalties, you must start withdrawing some of the money every year. The IRS sets your minimum amount of withdrawals, which it bases on your estimated lifespan. This rule is designed to prevent people from using these accounts as a means to pass money onto heirs, as well as avoid paying taxes that have been deferred since the contributions were made.
- If you have a Roth IRA or Roth 401(k), you will never have to pay income tax on your withdrawals. But to avoid an early withdrawal penalty, you must hold the Roth account for at least five years.

SOCIAL SECURITY

An important foundation of your retirement income will be your Social Security benefit. Sign up today for a my Social Security account through www.ssa.gov. From there, you'll have ready access to your benefits estimate based on different retirement ages.

You can start collecting Social Security as early as age 62, but that would reduce your benefit permanently. Or you can work past your full retirement age and earn an extra 8% a year in benefit increases, up to age 70.

If you do continue to work past "normal retirement" (typically considered the year in which you are eligible for full Social Security retirement benefits), you'll have longer to save and fewer years to finance your retirement.

OTHER INCOME

If you plan to sell a business or your home, be sure to include this amount when adding up your potential retirement income. Also include rental income, expected inheritance, alimony or other financial assets.

3. HEALTH INSURANCE

You become eligible for Medicare at age 65. You have the three months prior to your 65th birthday and four months following to apply for Medicare Part A (hospital insurance) and/or Part B (medical insurance). You will pay higher premiums if you enroll late. You can opt for Medicare Part C in place of Parts A and B, for which you choose from a number of providers for the Medicare Advantage Plan. You can also sign up for prescription drug coverage through Medicare Part D.

If you aren't yet eligible for Medicare, you can sign up and pay for continuation of coverage (COBRA) through your employer, which can cover you for 18 months. Your monthly payment will likely be higher than it was before retirement because many employers pay a share of active employees' monthly premiums. After that, or alternatively, you can sign up for coverage through www.healthcare.gov. There are special open enrollment periods for certain triggers, like losing health insurance when you leave a job.

To get a sense of what your health care costs may be in retirement, use AARP's Health Care Costs Calculator at www.aarp.org/healthcostscalculator.

4. TAXES

Before setting a retirement date, make sure you know what taxes you'll have to pay after you retire. These include federal, state and local income taxes and property taxes. If you're not sure what your tax rates will be, get help from a financial professional.

The IRS and some states may tax your Social Security benefit if your retirement income exceeds certain limits. If your taxable income—including one half of your Social Security income—is \$25,000 or more (\$32,000 if you file jointly), you will pay federal taxes on a portion of your Social Security benefit. For the most up-to-date information on the taxability of Social Security benefits, see IRS Publication 915.

As you can see, there are lots of considerations to make when you're thinking about when to retire. AARP is here to help. Head over to www.aarp.org/retirement today and use our tools and insights to help you make a decision that's right for your personal circumstances.

TAKE ACTION!

- Visit www.aarp.org/retirement for help getting your arms around making the decision on when to retire.
- Use AARP's Retirement Calculator at www.aarp.org/retirementcalculator to help see if you're on track with your savings and other income to retire when you'd like.
- Sign up for a my Social Security account at www.ssa.gov for easy access to an estimate of your benefits.
- If you plan to retire before Medicare kicks in at age 65, look at your options through COBRA and the health care marketplace at www.healthcare.gov.
- Make sure to account for taxes in retirement. Refer to IRS Publication 915 to find out if your Social Security benefits may be taxable.

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