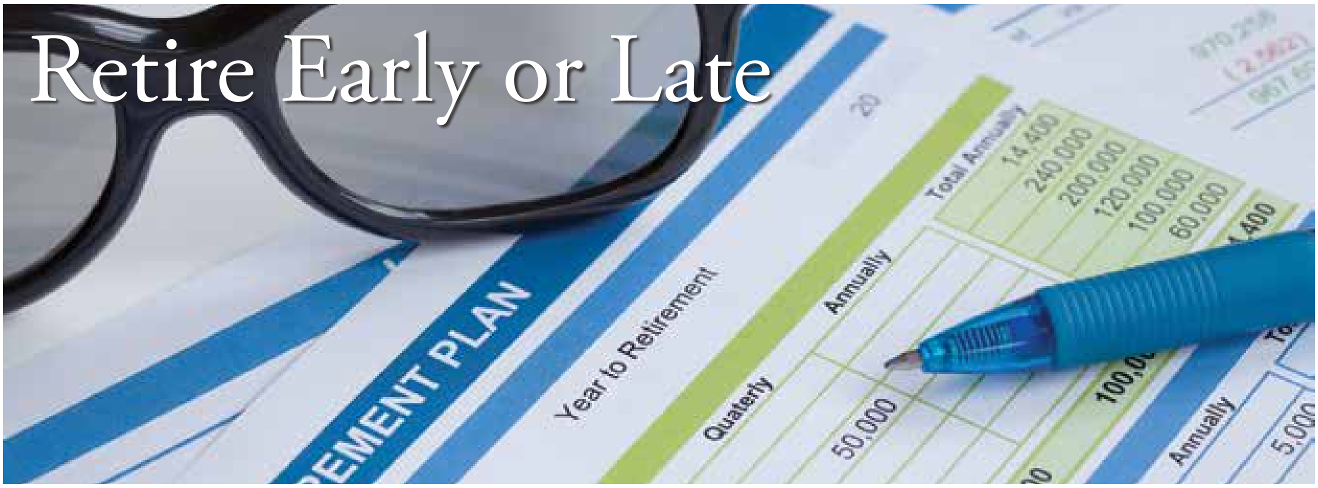
Retire Early or Late



"You have to put off being young until you can retire." —Author Unknown

When Should You Retire?

This is fast becoming the No. 1 question on the minds of many workers.

American workers have wide-ranging choices to make when they try to pinpoint a retirement age. For many workers today, the time span is from 50 to 70—a 20-year time period. With greater freedom in selecting a date for retirement, it is important that you choose carefully. There are pros and cons to each option. Today, nearly four in ten workers say they want to retire before age 65, according to the Employee Benefit Research Institute (EBRI). In considering your options, remember that if you work even a few extra years, you can dramatically improve your retirement assets, particularly if your job has a retirement plan and health insurance.

The right choice will help to ensure a successful retirement.

Retiring Unexpectedly

For some workers, early retirement is not necessarily a free and happy choice. In planning, you should be prepared for the unforeseen. According to an EBRI survey, 50% of workers who planned to work longer had to retire unexpectedly due to a hardship such as a health problem or disability or because of changes at their companies. Only 14% of people stopped working at the age they predicted. Many people retire before 65 due to the loss of a job or family members in need of caretaking. A higher percentage of women retiring early cite such reasons.

Your Options

The federal Age Discrimination in Employment Act bars mandatory retirement except under a few circumstances. Older workers must be assessed for continued employment solely on a basis of ability—not age. If, based on your personal circumstances, the choice is up to you, then you have three options.

- You can retire and stop working at your full retirement age (FRA) and begin collecting Social Security (or not). **(See page 36.)**
- You can continue working and choose whether or not to claim Social Security benefits.
- You can take early retirement. This could mean before FRA as defined by Social Security or a retirement age defined by your employer's

plan. You may choose to begin collecting Social Security if you're eligible, or you may choose to delay claiming Social Security.

When to Retire

Current Social Security law gradually increases the FRA from 65 to 67 by the year 2027. **(See page 37 for a discussion of how your Social Security benefits will be affected by a decision to retire early.)**

The decision of when to retire—before, at or after FRA—ideally should depend on your personal circumstances. There are many things to consider. You may want to quit earlier, take your pension and find an easier job. You may want to work past 66 or 67 to meet continuing high costs for medical care, children's or parent's expenses, or other needs. Or you may be ready to quit at 66 or 67 to take life easier. Finances are not the only thing to think about. Retirement is a mental health consideration. Being emotionally grounded going into retirement will likely lead to better financial decisions.

Work satisfaction is another important factor in making decisions about whether to continue on the job as long as you can or to retire early. If you have a physical job and the work is getting too demanding, and particularly if doctors recommend taking things easier in your 50s or early 60s, retiring may be the right thing to do. However, most people are still physically fit and able to continue on the job beyond their FRA.

If you are part of a two-career couple, you should consider whether you want to retire at the same time. Separate retirement dates can offer

Your Retirement Finances

Experts say 80-130% of your preretirement income is needed to maintain living standards in retirement. The examples below show how much retirement income may be needed. While the estimated first year of Social Security income remains steady, the income needed from savings, investment and work goes up as the percentage of income needed goes up.

Percent of income needed to maintain living standards	80%	100%	130%	Your Numbers
Income from last year at work	40,000	40,000	40,000	
Retirement income	32,000	40,000	52,000	
Estimated first year of Social Security income at FRA	14,688	14,688	14,688	
Income needed from pension, investments, and full- or part-time work	17,312	25,312	37,312	

The above is for your first year of retirement. Taking the 80% example, ten years from now, with a 4% inflation rate, instead of $32,000, you'll need approximately $47,400. Social Security is indexed for inflation and, assuming it's not changed, will return approximately $21,742. You'll then need another $25,658 from your pension, work and investments to maintain your present living standard.

advantages, including extending employer health insurance to cover the retired spouse.

Do You Feel Ready to Retire?

Whatever you do, whenever you retire, remember that you face psychological changes. Retirement is a stage of life that stirs up intense feelings of excitement, liberation, fear and anxiety. Retirement for many involves a leap of faith after decades of routine. Retirement is a major transition that unfolds over many years, and the journey will require flexibility and resilience.

If regular work is such a habit for you that the very thought of breaking it by retiring is a psychological problem, then perhaps working beyond FRA is your answer. Idleness may give you a feeling of guilt, a loss of self-esteem or a feeling of withdrawal from society. But remember, in the long run, the substitution of new things—work and play and just plain relaxing—may be better for you.

In retirement, you must face yourself anew. Try to keep free of self-pity and bitterness. Accept your situation, compensate for whatever losses might come, and remind yourself that what is important is not what you've lost but what you still have and still can do.

In short, learn to focus on retirement as a positive experience. Retirement is a new beginning; it gives you the chance to develop and expand your interests in ways that were not possible during your working years. Before retirement, much of your time is taken up by the day-to-day necessity of work. In retirement, the end of that routine means the beginning of new opportunities.

Before You Decide

With the help of your employee benefits department at work and/or someone in the Social Security office, find out whether staying on the job beyond FRA would substantially increase your eventual retirement benefits. Find out when and in what form you can receive your benefits at retirement.

For some, particularly those who have been jobless over long periods or have changed jobs frequently so that years of service for one employer haven't accumulated sufficiently to fully vest, working beyond FRA is likely a step toward a more adequate income in retirement.

If you're thinking about retiring early, check with your Social Security office to find out how much you'll forfeit in benefits, and check with your company personnel office to find out how your pension will be affected. When it comes to Social Security, retiring at 62 could reduce your benefits by about 20% compared with working to FRA. **Try this calculator: www.ssa.gov/OACT/quickcalc/early_late.html**

Can You Afford to Retire?

Revisit your cash flow, debt management, and savings and investment program. Review your sources of income in retirement. People who are not covered by a pension plan may need to continue to work as long as possible.

Do you need to continue working for income and employee benefits?

For example, are you paying off a mortgage or other debts? If so, do you need to continue receiving a regular paycheck to do it comfortably?

Do you have some other important financial need that can best be met by continuing in your regular job beyond FRA? Under such circumstances, the ability to work can be a blessing.

Health care costs continue to escalate. Do you need health insurance through your employer? Do you qualify for Medicare? Even if you do, Medicare does not cover a number of health items that you'll have to pay for yourself. **(See Chapter 8.)**

Take into consideration that working a few more years can make the difference between enjoying a comfortable lifestyle or having difficulty paying bills. Even with the best-laid plans, circumstances can change your financial status. Plan for potential health problems, family issues and financial bumps in the road.

Early Retirement

Carefully consider the pros and cons of early retirement—the possible rewards and the potential pitfalls. Those who have worked for three or four decades may find inactivity difficult. Some people must substitute something else for work.

You should have a carefully thought-out new life ahead. While that is true for everyone who retires, regardless of their age, it is particularly true for those retiring early. Younger retirees must look ahead not for an average decade or two, as those 66 or 67 must, but for as long as three decades.

If you're going to start a new life early, ask yourself what it is going to be like. Early retirement is not for everyone. You should be ready for it and able to take it in full stride and enjoy it. Most of all, you must be able to afford it, not just at the time of early retirement but also through the years to come.

Those wondering whether they should retire early should consider the following:

- Why do I want to retire early? Retire early to what? Do I have a new life waiting for me? Do I have a new job waiting for me?
- If you are considering early retirement without plans to take another job, full- or part-time, what then?
- Are you really ready for all the leisure you'll have? Can you fill your time with community service, educational opportunities, hobbies, travel, sports, cards, etc.? It sounds easy to do, but the transition isn't easy for many retirees. **(See more questions on page 50.)**

Think about how many years you likely have ahead of you and make sure, by advance planning, that you can make them active and fulfilling years. If you are in your 50s and do not have a job waiting for you, be wary of retiring early unless you have sufficient reserves to make additional income unnecessary. The years you'll spend in retirement can be 15 to 30 years or more. Keep in mind that retiring earlier will decrease the amount of money you can safely withdraw.

Retire early if you can enjoy your later years free of financial worries and free of boredom. Stay on the job if you aren't sure you can.

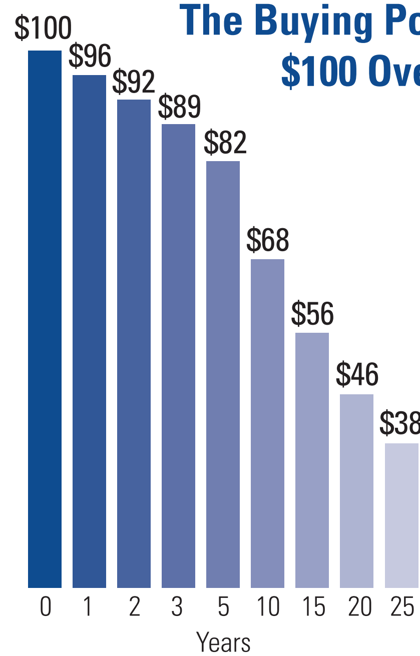
Delayed Retirement

The reason today's retirees may stay working longer is primarily economics. They won't be as ready to retire at 55, or maybe even at 66 or 67, because of inadequate savings, reduced employer benefits and the possible scaling back of what the federal government will provide.

As the rules governing Social Security payments gradually change, with full benefits eventually not kicking in until age 67, people may find further incentives to keep working.

Even without such a change in the rules, though, many retiring workers could be in for a

The Buying Power of $100 Over Time



The buying power of $100 decreases as the price of goods increases with inflation. This chart assumes a 4% annual average inflation rate. Social Security is indexed for inflation, but your pension may not be, so your investments should earn 4% after taxes to stay even.

shock at the size of their monthly Social Security benefit payments.

It is probably true that today's mature workers are better able to keep plugging away at a job. Many 60-year-olds are healthier than those a generation ago. Moreover, fewer jobs now require heavy physical labor. Reeducating and retraining older workers could prolong their work lives.

Consider this: The longer you work, the harder it may be to adjust to retirement. It may be easier to change your lifestyle when you are more active and healthy than in your later years. You will likely adapt more readily to the things you would enjoy doing but haven't had an opportunity to do, and it will be easier to slip into a new, less arduous job if you want to supplement your retirement pay.

IMPORTANT AGES

- **55:** If you retire at this age, you can take penalty-free 401(k) withdrawals from your account with your most recent employer. If you have a pension plan, some plans allow reduced pension payments as early as age 55.
- **59½:** The 10% early withdrawal penalty on IRA withdrawals no longer applies.
- **62:** You can begin collecting reduced Social Security retirement benefits.
- **65:** You're eligible for Medicare.
- **66-67:** You can begin collecting unreduced Social Security at your FRA depending on the year you were born.
- **70:** You can increase your Social Security payments if you delay claiming your benefit until age 70. After age 70, there is no added benefit to delaying Social Security.
- **70½:** You're required to take annual withdrawals from 401(k) plans and traditional IRAs and pay the resulting income tax. Your first distribution must be taken by April 1 of the year after you turn 70½.

Inflation

Every retiree should be aware of the impact of inflation because it is a problem that is likely to continue. Even when the rate of inflation is fairly low, it still remains a factor. A 4% annual rate of inflation amounts to a rise of more than 20% in the cost of living in just five years.

Remember, dollars are worth less year to year. It can be difficult to live with inflation while you're working, and it will be even harder when you retire on a fixed income. Costs go up and, even with cost-of-living changes in Social Security benefits, the income of retirees may not keep up with living costs.

The problems will be considerably worse for those who elect to retire earlier with smaller pensions and Social Security payments. Assess how the changes in the economy will affect your pension, investments and retirement benefits.

Unless you can retire early and build up your reserves through a new job, a new business or a new career, you will probably be better off economically working longer and concentrating on accumulating savings for a more secure future.

Inflation will reduce the value of your retirement dollars. Social Security is indexed for inflation, but the index doesn't fully cover the increased costs of medical care and goods and services.

Your pension may be indexed, but many are not.

Your investments should earn the rate of inflation plus taxes for you to stay even financially.

Retire to a Second Career

Do you need to bring in additional income? Do you seek personally fulfilling work? Do you have a job waiting for you? Ideally, you will want to plan your second career while you are still working.

Early Retirement

Detailed planning for retirement should begin five to ten years before you retire. If you are thinking about early retirement, consider the following questions.

- Do you have something definite you want to do after early retirement? Is there something you have always wanted to do that you can undertake in your late 50s or early 60s? A second, deeply satisfying career, perhaps?
- Is your pension or savings enough to bridge the gap between your early retirement and the time you'll start receiving Social Security payments?
- Have you factored in inflation? If inflation averages 4%, $1,000 in today's money will be worth $375 in 25 years.
- Have you planned sufficiently for early retirement with your spouse and other members of your family?
- Are major debts paid off or under control?
- How will you maintain health insurance between the time you leave your job and group plans and when you will become eligible for Medicare?
- Have you planned for unexpected developments like becoming widowed or divorced, developing health problems or taking care of ailing parents?
- Have you talked to other early retirees? How are they doing? If people you know are living the retirement life you want, have you learned how they got it?
- Are you sure that early retirement is what you really want? Will it make you happier? If you are married and have kids, will it make your spouse and family happier?

According to EBRI, 80% of workers plan to work in retirement; however, workers are far more likely to plan to work in retirement than retirees are to have actually worked.

Remember, if you are considering retirement, it's easy to talk casually about resting up for a while and then getting a new job. But those who do not have highly marketable skills could run into difficulty in finding a new position. You might find that it's awfully hard to find a new job once you have left the workforce. **(See Chapter 10 for ideas about earning money.)**

It can help to keep your skills current or develop new ones by, for example, taking a class. **(See Chapter 13 for more ideas about keeping up to date.)**

Retirement vs. Vacation

Many people plan their vacations with more detail than their retirement. But deciding to retire without planning can put a successful transition and a satisfying retirement at risk. Start your planning early—at least five years before your planned date.

Checklist for
Before You Retire

When your retirement is approaching, here are some things you should do.

Yes	No	
○	○	Most important, make realistic plans for day-to-day living in retirement. Review estimates of what your financial needs will be for living costs, housing, insurance, health care, transportation, utilities, clothing, recreation and miscellaneous costs. If inflation changes, earlier cost-of-living estimates may no longer be accurate. Review estimates of income sources.
○	○	Begin developing retirement interests and activities. If you are married, these considerations should be both individual and joint.
○	○	Get your papers in order, especially the documents you will need to claim Social Security benefits: Social Security cards; proof of age, preferably a birth certificate; and your marriage license, if married.
○	○	Register with your Social Security office about three months in advance of your retirement in order to receive your first payment in the month after you retire. It takes that long to process applications. If married, your spouse should go with you. Take the documents you need, including a copy of your last two W-2 tax forms, withholding statements and your spouse's tax papers if both of you are working.
○	○	Check with former employers to find out whether you might be due partial pensions based on their contributions to pension plans on your behalf when you were employed. Vesting rules vary. Some retirees lose money because they neglect to check with former employers about pensions. (See Chapter 2.)
○	○	If you have a pension, decide on your options. Ask the employee benefits department of your company to work out the details of your pension. Ask how and when pension checks will arrive. Find out if you're restricted from working full- or part-time once you start receiving your pension. If you are married, you need to decide between monthly payments that end with your life or continue on to a surviving spouse. (See Chapter 14.)

Yes No

- ◯ ◯ Decide on how you will draw down your 401(k), IRA and other retirement income accounts.
- ◯ ◯ Decide on options for handling your mortgage or other financial obligations that will continue after retirement.
- ◯ ◯ Decide on whether cars and appliances should be replaced while your income is at its maximum. It's generally a good idea to replace appliances that are more than ten years old. Also consider your basic clothing needs.
- ◯ ◯ Have a medical checkup while you are still covered by your company's medical program. It will save you money.
- ◯ ◯ Decide on health insurance needs. (See Chapter 8.)
- ◯ ◯ Under some conditions, retirement benefits are available to war veterans with limited incomes or to widows of veterans. To qualify, veterans must be permanently or totally disabled due to a service or nonservice injury. If you think you might qualify, check with your nearest Veterans Affairs office.
- ◯ ◯ Check with your employee benefits department on your options for accrued vacation or sick leave time (often you can get a lump-sum payment), whether life insurance carries over or must be switched from a group plan to an individual policy, and whether health insurance can be continued.
- ◯ ◯ Visualize the kind of person you want to become in retirement, share your vision with other people and get their feedback—especially people who have successfully made the transition to retirement.

In a nutshell, when you retire, be ready. Know what retirement will mean and how you will acclimate to it.

Checklist for
When You Retire

So, you've retired. What now?

Your advance planning should have given you an answer to that question. Review how things are going compared with what you planned for. Here are some more items you should consider.

Yes	No	
○	○	If you have received a lump-sum payment from a qualified pension or defined contribution plan, talk to someone at your bank or a reputable brokerage about how it can be best used to meet your future needs. Don't consider the big check a windfall and go on a spending spree. Remember, it's taxable money.
○	○	You may avoid an immediate tax on a lump-sum payment by having your employer transfer the money directly to an IRA within 60 days. (See page 27.)
○	○	If you have any long-term savings or tax-deferred investments, check with your banker or broker about the advisability of changes to these accounts. (See Chapter 2.)
○	○	Your tax position changes with retirement. Social Security benefits are taxable if your adjusted gross income plus nontaxable interest and half of your Social Security benefit are more than a base amount (the base for an individual is $25,000; for a couple filing jointly, it is $32,000), but part or all of your pension and retirement/investment accounts will be subject to income taxes. So will income you may have from part-time or other work and from most other sources. Unless you take another regular job, you won't have money withheld to cover continuing taxes. Be prepared to handle more tax work—and tax payments on your own. If you have any questions, call or email the Internal Revenue Service for answers.
○	○	Consider ways to cut insurance costs. Does your auto insurer offer a premium rate to drivers of retirement age who do not use cars to drive to work? Some do. If your car is more than four years old, check with your agent about dropping the collision insurance in your policy; it might not be worth the cost. And if you plan to buy a new car, check on insurance rates for the cars you're interested in: Rates differ from model to model.
○	○	Reassess the adequacy of your home insurance every year. With inflation, repair and replacement costs are rising year to year. Be sure you are sufficiently protected against losses from fire or other hazards.
○	○	Check with your life insurance agent as to whether you can convert your present coverage to a paid-up policy and save on further premiums. You may not need the policy.

Yes	No	
○	○	If you want to work, there are agencies in most counties or cities that help older workers find part-time or full-time employment. Any local agency that works with older people can refer you to one. You may also register with an employment agency. (See Chapter 10.)
○	○	If you don't want a job but want to keep busy, investigate local volunteer service opportunities. Volunteers are in short supply everywhere. (See Chapter 12.)
○	○	Check into recreation, education, community service and/or civic activities that offer enough in the way of new opportunities to provide a sound basis for a new life in retirement.
○	○	Don't try to adapt overnight to your new life and your changed circumstances. Go at it slowly and carefully, remembering that retirement is not an end but a beginning.