Thinking about retiring? Here are some things to consider

Should you claim Social Security at age 62 or wait until full retirement age?

You will receive the highest monthly benefit if you wait until your full retirement age (as determined by the Social Security Administration) to claim the benefit. For example, if your full retirement age is 66 and you claim your benefit at one of the ages listed below, it will be reduced by the following:[1]

Age 62 - reduced by 25%
Age 63 - reduced by 20%
Age 64 - reduced by 13.3%
Age 65 - reduced by 6.7%

A person who waits to claim Social Security until age 66, rather than claim at age 62 will *on average* break even between ages 77 and 78.[2]

Health and the availability of other assets should be taken into consideration when determining what age to claim the benefit.

Will your Social Security Benefits be taxed?

Up to 85% of your Social Security benefits could be taxed. The amount that is taxable is calculated based on your "combined income". Combined income is your adjusted gross income, plus any nontaxable interest, plus half of your Social Security benefit. The calculations are fairly complex so you should consult your tax professional for assistance.

[1] SSA.gov
[2] "When Should You Take Social Security," Charles Schwab

What are your options for medical coverage if you retire before age 65?

If you retire prior to age 65 and are no longer covered by your employer's medical plan, your options are either COBRA or private insurance. You are able to obtain COBRA benefits from your former employer for up to 18 months after you retire. If you will not turn 65 within 18 months of retirement, you'll need to purchase private insurance to bridge the gap until you are Medicare eligible. You may also need to consider coverage for your spouse until they reach their Medicare eligible age.

When does Medicare begin?

You are able to apply for Medicare three months BEFORE the month you turn 65. This is highly recommended as if you apply more than three months AFTER you turn 65 you will be assessed a late enrollment penalty. The late enrollment penalty increases your Part B premium by 10% for each full 12 month period that you could have had Parts A and B Applying late for Medicare can have long term negative results as the premium increase is permanent.

If you are actively working at age 65, you may be able to delay Medicare enrollment and continue on your employer sponsored healthcare plan. However, if you chose to enroll in Medicare, because you are no longer using your employer sponsored healthcare plan, your spouse may no longer be able to either. If your spouse is ineligible and is between the ages of 62 and 65, he/she may be eligible for up to 36 months of COBRA benefits under your employer's plan to bridge the gap to becoming Medicare eligible.

What Medicare plan is right for you?

Medicare Part A is hospital insurance. Medicare Part A helps pay for up to 150 days of inpatient hospital care. The current deductible is $1,340 for each benefit period and the coinsurance rates are as follows:[3]

[3] Medicare.gov

Days 1-60: $0 for each benefit period

Days 61-90: $335 per day for each benefit period

Days 91 and beyond: $670 per lifetime reserve day (maximum of 60 days per lifetime)

For most people there is no premium for Part A.

Part B is medical insurance. Medicare Part B pays 80% of approved charges after meeting a deductible of $183. The monthly premium varies based on your income. If your income is less than $85,000 single or $170,000 joint, your monthly premium will be the minimum of $134 per month. If your income is higher, there is a tiered scale that determines your premium with the maximum being $428.60 per month.

Part C is Medicare Advantage plans. These are managed care plans (like an HMO or PPO) offered by private companies who have contracts with Medicare to provide coverage for Parts A and B. There are multiple plans available with varying coverages and premiums.

Part D is the prescription drug plan. You pay a monthly premium based on the plan that is chosen. In addition, if your income is higher than $85,000 single or $170,000 joint, there is a tiered income scale that determines a monthly adjustment amount in addition to your plan premium with the current minimum being $13 and the maximum being $74.80 per month.

Medicare Supplement Insurance (Medigap) is a policy sold by a private company that helps to pay some of the costs not covered under Original Medicare such as copayments, coinsurance, and deductibles. Monthly premiums vary by plan.

Will long term care insurance be needed?

Long-term care insurance provides benefits to cover the cost of skilled nursing care, intermediate care, and custodial care in a nursing home or in-home care. Coverage benefits, maximums, and elimination periods vary by plan. Long term care insurance can be beneficial for people who have functional disabilities and need assistance with dressing, toileting, eating, bathing, etc.

The average cost of a nursing home stay in a semi-private room is $225 per day or $82,125 per year. The average nursing home stay is 835 days or more than two years.[4] Long term care insurance can help to offset these costs.

Should you continue funding life insurance policies or are they no longer necessary?

Life insurance is generally purchased to replace a person's income should they die unexpectedly, to cover estate taxes, or to leave funds to heirs. Are any of these reasons still applicable?

Will your income cover your expenses during your retirement years? Do your investment objectives and asset allocation need to be modified?

In order to ensure you have enough funds to live comfortably in your retirement years, you should estimate your total income and expenses. Your Wealth Advisor will be able to help you determine if you have captured all necessary items and provide an estimate of the number of years funded.

In addition, reviewing your asset allocation and updating your investment objectives is an important step as you leave the wealth accumulation phase and enter the spending phase. For example, based on your individual situation, it may be advantageous to move to less risky investments or to ones that provide higher income to meet your needs.

[4] National Care Planning Council (longtermcarelink.net)

What are Required Minimum Distributions (RMD's)?

At age 70 ½ you are required to begin taking yearly withdrawals from qualified retirement accounts. The required amount is calculated based on IRS tables and is typically taxed at ordinary rates. If you fail to take the required withdrawal, you will be charged an excise tax equal to 50% of the withdrawal you did not take.

In certain cases it may make sense to convert all or a portion of your retirement accounts to a Roth IRA as RMD's do not apply to this type of account. You should consult with your tax professional or Wealth Advisor to determine if this would be beneficial to you.

Where will you live during retirement?

Many retirees change their principal residence in some form or another. For some downsizing is the right option, while others may wish to keep their current home and purchase a second home. You may also be considering changing residency to a state that does not impose a state income tax. Currently, nine states do not assess state income tax: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington and Wyoming. Because there is no state income tax, these states often have higher property and/or sales tax rates so be sure to take that into consideration. If you do chose to move to another state, ensure that you take all of the necessary steps required to establish residency.

Are your estate planning documents updated to reflect your retirement life?

Durable powers of attorney, health care powers of attorney, living wills, wills, and trust documents should be reviewed to ensure that your current thinking is consistent with what is contained in your documents.

In addition, if you change your state of residency, you should consider updating your documents to adhere to the new state's requirements.

Are you concerned about having too much free time during retirement?

You should be sure that you are ready for the “freedom” that comes with retirement. Staying active is an important aspect of a successful retirement whether it be spending more time with loved ones, travelling, or starting new hobbies. If you are not sure you can manage the new found downtime, consider putting your skills to work in some sort of a part time job; it can not only be mentally stimulating but also provide for additional financial security if that is a concern.

There are many factors to take into consideration as you near your retirement. Your Wealth Advisor is able to guide you through the process and provide you with the information needed to help you make the best decisions based on your individual situation.