




YOUR RETIREMENT HANDBOOK

Practical knowledge
for the start of your second act



A blue alarm clock with two bells and a metal handle is partially submerged in the sand on a beach. The clock's face is white with black numbers and red hands. The background shows the ocean waves crashing onto the shore, creating white foam. The top of the image has a dark blue header with a vertical stripe of blue, white, and orange on the left side.

With your retirement
not so much
“on the horizon” as
“here and now,”
it’s time for action.

Suddenly, retirement is real.

More than a goal or an objective to plan for, it is now an event on your calendar, a *bona fide* transition in your life you are about to experience.

What financial steps should you consider taking
in the year or two before you retire?

What financial moves should you contemplate
in the year or two following your retirement?

With your retirement not so much “on the horizon”
as “here and now,” it’s time for action.

At what age will you be retiring?

Will you be retiring before age 60? If you are fully retiring or ending your employment, you might be eligible to take a withdrawal from your workplace retirement plan, if the plan permits, without a 10% early withdrawal penalty in addition to ordinary income taxes on the money. Some plans permit you to do this as early as age 55. At 59½, you may withdraw money from an employer-sponsored retirement plan or IRA without facing the 10% early withdrawal penalty, though the withdrawal amount will generally still be subject to income taxes. Most pre-retirees see the wisdom of keeping the money invested after age 55, as some of the greatest compounding of the invested assets may occur in the years preceding retirement.¹

Will you be retiring at age 62? That is the age at which you may first claim Social Security. More than one-third of Americans do just that, but for every year you delay claiming Social Security between age 62 and age 70, your Social Security benefits increase by 8%. From this standpoint, there's merit in working past age 62, but, of course, you have fewer years of life left to collect those larger yearly Social Security benefits. If you're retiring at 62, take heart in the fact that your projected lifetime Social Security income should be about the same as if you retired later. If you have pressing financial needs or health problems, then the income from Social Security may be essential at age 62.^{2,3}

You may need to buy private health insurance until you receive Medicare, and the options available may be expensive. If you can extend your employer's group benefits through COBRA for a few months, you will likely bear the cost yourself.

Will you be retiring at age 65? Visit [Medicare.gov](https://www.medicare.gov): you want to sign up within the appropriate window of time. Original, standard Medicare does not cover everything, so you may want to buy a Medigap policy; sign up for a Part D drug plan; or enroll in a Medicare Advantage plan (a Part C plan) once you have the standard Part A and Part B coverage in place. Medicare's annual Open Enrollment period (in which you may switch out of standard Medicare to a Part C plan or vice versa) occurs from October



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15-December 7 each year. Your chosen health or prescription drug plan coverage begins January 1 of the subsequent year.⁴

Will you be retiring at age 70? Once you turn 70½, you're required to take Required Minimum Distributions (RMDs) from the following kinds of retirement accounts: traditional IRAs, rollover IRAs, SEP and SIMPLE IRAs, Keogh Plans, inherited IRAs, 401(k), 403(b), and 457(b) plans (including Roth versions). You have until April 1 of the year after the year you turn 70½ to take your initial RMD from these accounts. If you celebrate your 70th birthday in the first six months of a year, your very first RMD deadline falls on April 1 of the succeeding year. If you celebrate your 70th birthday in the last six months of a year, your initial RMD deadline falls on April 1 of the year *after* the succeeding year. Thereafter, subsequent RMDs must be taken by December 31 of each year. (Very few people wait until April 1 of the succeeding year to take their first RMDs, as it sets them up for two taxable retirement account distributions in the same tax year.) One last, rarely mentioned, but important fact about RMDs: if you happen to own 5% or less of a company sponsoring a retirement plan and keep working for that company after age 70½, the plan may let you delay RMDs until the year you retire.^{1,5}

Sources:

1 - merrilledge.com/article/ready-set-retire-8-deadlines-you-need-to-know [2/17/16]

2 - cnbc.com/2015/05/20/retirees-wait-longer-to-claim-social-security-benefits.html [5/20/15]

3 - ssa.gov/planners/retire/delayret.html [2/17/16]

4 - cms.gov/Outreach-and-Education/Reach-Out/Find-tools-to-help-you-help-others/Medicare-Open-Enrollment.html [9/21/15]

5 - forbes.com/sites/nextavenue/2016/02/04/abcs-of-rmds-required-minimum-distribution-rules-for-retirement/ [2/4/16]



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12-24 months out

Set a precise retirement date.

That is the date when you are “on your own” financially, when you need to have income streams in addition to Social Security, an adequate emergency fund, and private health insurance if you are too young to enroll in Medicare.

Strive to reduce your consumer debt as much as you can.

You can't always “retire” a major debt, such as a home loan; in some circumstances, you may not even want to do so. Consumer and education debt is another matter. You should strive to retire without education loans, consumer loans, and large credit card debts burdening you. Retiring with a great deal of debt invites stress and financial uncertainty.

Determine where you will draw income from.

Besides Social Security, what will your other income sources be? A pension? A retirement account distribution? Dividends? Rents? Will you work part-time, in such a way that your Social Security benefits will not be impacted? Having multiple streams of income is not only a goal before retirement, but after retiring. Even smaller income streams can help you absorb minor costs such as utility bills, grocery expenses, and fuel expenses. Also, speak to a financial or tax professional to determine just how much income you want to withdraw from taxable and non-taxable sources.

Have a conversation (or two) about your estate and long-term care.

Does your estate planning need revisions with retirement? Do you have enough financial resources to cope with the costs of a long-term illness or degenerative condition, especially if you lack long-term care insurance? Have you assigned financial or medical power of attorney to your spouse or your children?

What will
your income
sources be?

SOCIAL SECURITY

55% of retirees call Social Security a major source of their retirement income.

55

PENSIONS

38% of retirees say that a significant source of their retirement income will come from traditional pension payments.

38

38

STOCKS

11% of retirees say a significant amount of their income comes to them via stock investments.

11

18

RETIREMENT ACCOUNTS

38% of retirees use retirement accounts as a major source of retirement income.

HOME EQUITY

18% of retirees help finance their retirement using equity they've built up in their home.

If you are enrolled in a traditional pension plan, look at the formula for the pension benefits.

See how much you will collect monthly when retired, given your planned retirement date. If that date occurs before you reach age 65 (or whatever your employer's pension plan deems "normal" retirement age), are you looking at a notable reduction in monthly benefits?

Be sure to retire *after* matching retirement plan contributions from your employer vest.

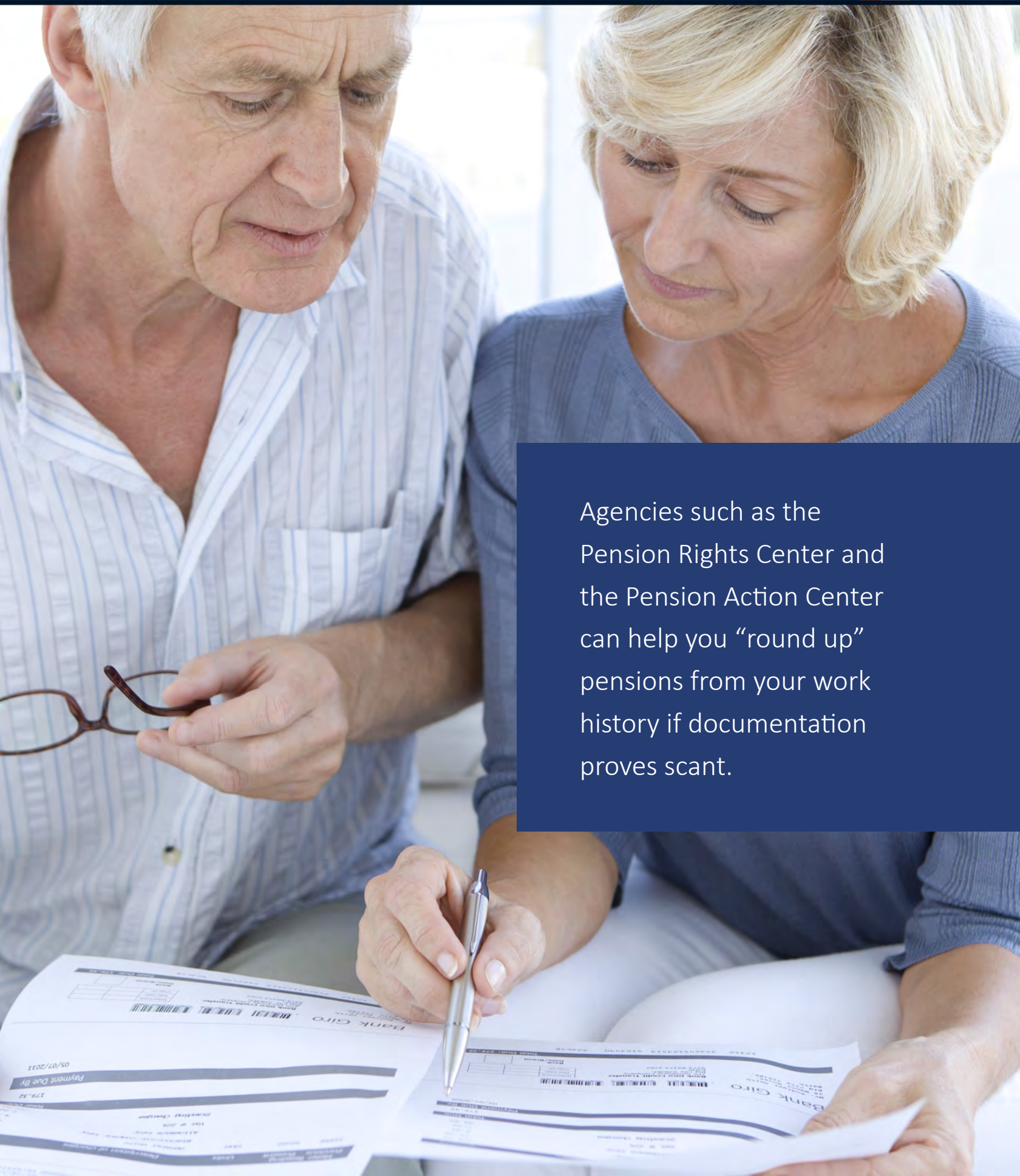
If your current employer has been providing some degree of match for your retirement plan contributions, avoid retiring before the next vesting date.

"Round up" stray IRAs, retirement plan accounts, and pension plan accounts.

You may have kept a nice, long paper trail regarding the accounts you opened years ago at former workplaces or through credit unions and banks. (Maybe you even have the Summary Plan Descriptions for the pension plans.) That paper trail will probably make it a simple matter to reach out to plan administrators so you can start collecting benefits as your retirement begins. Agencies such as the Pension Rights Center and the Pension Action Center can help you "round up" pensions from your work history if documentation proves scant. The PAC and the Pension Benefit Guaranty Corporation offer a handy PDF guide, *Finding a Lost Pension*.⁶

Source:

6 - consumerreports.org/cro/2014/03/retirement-planning-schedule-timeline-15-years-5-years-1-year-6-months/index.htm [3/14]



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6-12 months out

Start talking about your entry into retirement with your spouse.

You are probably not retiring together, and that means that he or she will have to get accustomed to your new schedule. Make sure both of you talk about the new situation, what your role around the house will be, and the adjustments other family members may need to make. Your spouse may even be “inspired” to retire a little earlier in life now that you are retiring.

If you have a pension plan, get all the details.


Can you opt to receive your pension as a lump sum as well as monthly payments? What is the trade-off for doing so? Can you roll a lump sum from your pension into another fund? If you want a monthly payment, should you select single-life or joint-and-survivor? Is your pension taxable or non-taxable? What is the exact name of the pension fund? Who serves as its manager? How can you contact the pension fund when you are on your own and don't have the option of having an HR manager contact the fund on your behalf?

Tell your employer you will be retiring.

Six months is a reasonable window of time. If you inform your employer of your intentions a year or more away from retiring, you risk walking around the office for a year or more as a “retiring employee,” an employee who doesn't warrant any more raises or bonuses.

Print out your wage statements.

How much tax has been withheld from your paycheck? How much have you been paying for group health coverage, if applicable? You should retire knowing these numbers; you may want to share them with the financial professional helping you plan your entry into retirement. Is any deferred compensation owed to you?



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new schedule.

Get the most out of a group health plan.

Does your employer sponsor a health plan for its workers? If so, use those benefits while you still can. Standard Medicare will not pick up the tab for most dental care, and it will not usually pay for eyeglasses or contacts.⁶

See if your employer will extend your insurance benefits into retirement.

If you are in an employer-sponsored health plan, can you transfer that health coverage to an individual policy? Will your employer extend these benefits to you for at least a few months via COBRA? Does your employer offer any life insurance or long-term care coverage options for its retiring workers?

Ask what your choices are with stock options.

If you have them, does your employer mind if you hang onto them? Are you supposed to exercise your options as you leave the company? Ask about the vesting schedule for the options. Ask a tax professional and/or the HR officer what taxes you'll need to pay and when.

Ask your superiors for recommendation letters.

Who knows, you may want to work part-time or even full-time once retired; you may want the income, or you may even decide you are not the retiring type.

Make the most of your vacation time.

There is nothing wrong with taking all of the paid vacation days due to you in the year preceding your retirement. You have earned those days. If you know you will take fewer personal or vacation days than allotted to you, see if your company will let you convert the unused days to cash when you exit.

Set a budget for the future.

Estimate what your fixed monthly expenses will be in retirement, then what your discretionary monthly expenses might be. Confer with a financial professional you know and trust to see if that kind of spending is appropriate given your retirement savings and you age as you enter retirement.



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3-6 months out

Decide how you will spend that first 6-12 months of retirement.

Map out what might happen, what you want to see happen, in the first months of your “second act.” What will your days look like? Will you be traveling? Will you be starting a new line of work, part-time or even full-time? Get in touch, or increase touch, with the contacts that might lead to you being referred and hired. If you want to volunteer, research different groups and organizations. Start an exercise routine, or talk to your doctor if you want to begin a fairly intensive one.

Try living on your projected retirement income for a month or two.

Do this about 4-5 months before retirement, to see if it is realistic to live on that kind of money or whether your assumptions (and retirement income strategy) need adjusting.

Sign up for Social Security benefits.

If now is the time to claim them, you want to apply for benefits about four months in advance of when you want to receive your first Social Security monthly payment. Social Security lets you apply over the phone, online, and in person at local Social Security offices.

Sign up for Medicare if you are old enough.

You can do this up to 3 months prior to turning 65. Should you already be receiving some Social Security benefits, the federal government will remind you to enroll in Medicare. If that is not the case, you must be proactive and sign up by calling the Social Security Administration. The standard coverage (often called “original Medicare”) is Part A (hospital coverage) + Part B (doctor visits, outpatient care). You may wish to enroll in a Part C (Medicare Advantage) plan. Medicare Advantage plans are at least as wide-ranging as original Medicare, and many also provide coverage for drug costs (Part D).



Map out what you want to see happen in the first months of your “second act.” What will your days look like?

If your Advantage plan lacks Part D coverage, you can optionally join a Medicare Prescription Drug Plan. Or, you may opt for original Medicare plus Part D coverage, or original Medicare plus a Medigap policy and Part D coverage. If your workplace insurance plan isn't being extended to you as you enter retirement, a Medigap policy may be very useful. The ideal time to shop and sign up for a Medigap policy is in the six months after you sign up for Medicare Part B. This is the open enrollment period, when insurers are forbidden to hike your premiums or refuse coverage to you due to sudden health issues.⁶


Start the rollover process.

If you intend to roll over your workplace retirement plan assets into an IRA, now is the time to proceed. Do this with the help of a financial professional, so that you don't risk tax mistakes trying to do it yourself. Also, think about whether you want to transfer those funds into a Roth IRA for the years ahead; withdrawals from Roth IRAs are tax-free provided you are older than age 59½ and have owned the Roth IRA for at least five tax years. In the later stages of retirement, it could be very nice to have a source of tax-free retirement income, especially since seniors with no dependents relying largely on unearned income have far fewer tax deductions to claim than young families.⁷

Source:

6 - consumerreports.org/cro/2014/03/retirement-planning-schedule-timeline-15-years-5-years-1-year-6-months/index.htm [3/14]

7 - nerdwallet.com/blog/investing/know-rules-before-you-dip-into-roth-ira/ [1/29/16]



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1-12 months in

Track your spending.

Online tools can help you do this. As retirement starts, you want a few months of data about how much you are spending and where that money is going each month. You don't want to breed the habit of overspending.

Consider scheduling a regular weekly or monthly adventure.

Go someplace in your community or region you've never been to; try something you've never done before; learn a new language or a new skill.

Strengthen your closest relationships. Start new relationships.

Your spouse, your kids, your closest friends; see if you can get to know them even better via a recurring get-together or regular, shared experiences. Also, work on creating a network of friends who have no connection to your old workplace.

Be mindful of how continuing to work may affect your Social Security.

If (prior to full retirement age) your yearly income exceeds a certain level, then your yearly Social Security benefits may be taxed. The taxable amount depends on your "combined income," which Social Security measures as follows: *Adjusted gross income + non-taxable interest + 50% of Social Security benefits = combined income*. If your income is between \$25,000-34,000 as a single filer and between \$32,000-44,000 as joint filers, you may have to pay federal income tax on up to 50% of your benefits. If your income exceeds \$34,000 as a single filer and \$44,000 if you file jointly, then you may have to pay federal income tax on up to 85% of your benefits. Those who are married and file separately will "probably" have their Social Security benefits taxed, according to the program's website.⁸



If your yearly income exceeds a certain level, then your yearly Social Security benefits may be taxed.

1-2 years in

Review your retirement strategy to see how well it is living up to expectations.

Does your spending need to be adjusted? Does your portfolio need to be tweaked? Are there new opportunities for tax savings? A review is an absolute essential, a year into your retirement and every year to follow. If you have spent copiously in the start of retirement, that won't necessarily always be the case. In fact, the expenses of retirees tend to decline starting around age 75; the federal government's Consumer Expenditure Survey has shown that people 75 and older spend 37% less than those aged 65-74, even given the possibility of greater medical expenses.⁹

If you've retired into a bear market, play defense, but don't forget about offense.

Given that bear markets have historically tended to be shorter than bull markets (the average bear market since 1900 has lasted about 15 months), retiring with a minority of your portfolio in equities when the bears come out can be very wise.¹⁰

Think about those first RMDs down the line.

Your retirement plan administrator or custodian will almost certainly calculate this amount for you. You may be retiring some years before you turn 70½, but you should think about what the infusion of cash (and the resulting taxation of it) will mean for you financially.

Ask yourself whether or not you want to downsize in the future.

Older homes need maintenance, and older homeowners aren't always up for it (or up for footing the bill for remodeling or home improvement projects). Think about whether you want to "age in place" or move to a more affordable, less taxed, smaller residence.



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**If you want to work again,
tap contacts within your industry to see if any strong leads surface.**

Tell them you want to work part-time and let them know you are actively seeking work. Ask about (or research) whether any health benefits might be available for such part-time positions. If you have always been the entrepreneurial type, remember that planning to start a business can seem like a job in itself. Alternately, consider buying yourself a job and owning a franchise with a proven business model. Or, consider taking a hobby a step further into a job; many hobbies have income-earning potential.

Have the conversation early

**Talking about retirement with financial professionals,
with family members, or with those closest to you, helps you
to evaluate and refine the financial and lifestyle steps you take.**

Too many retire without adequate planning, with little consideration of what they want to do next, and with key items yet to be scratched off of their to-do lists. You need not be one of them: your retirement transition can be more orderly and less stressful.

Source:

9 - time.com/money/2794841/get-the-first-decade-of-retirement-right-pfau-shiller/ [10/28/13]

10 - cnbc.com/2015/08/24/8-things-you-need-to-know-about-bear-markets.html [8/24/15]



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