

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 journey would end the day they were eligible for their pension.

But if you use AARP's retirement planning calculator at www.aarp.org/money you'll see that figuring out the best retirement date for you is not so obvious. Many people don't have a pension to count on at a certain age. Employer-sponsored health benefits for employees are disappearing. Social Security alone won't cover all the bills for a comfortable retirement, 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.

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 have full retirement at 65. Those born after 1959 have 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 is 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. Note: You do not have to make a required withdrawal in 2009.
- **Working:** If you collect Social Security and earn an income from a job, you could lose some of your benefit due to the "earnings limits." If you're younger than your full retirement age and you earn more than your earnings limit, your Social Security benefit will be reduced.

As you create your retirement roadmap and identify the stops along the way, there are two main sets of things to consider in setting a retirement date: your financial prospects and personal or lifestyle issues. Try to 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: Once you turn age 62, you can start on Social Security at that time but the longer you wait—until age 70—the higher your benefit will be. The Social Security Statement you receive once a year tells you about how much you can count on if you retire at different ages. However, if you start on Social Security and continue to work, you could lose some of your benefit if you earn income over limits set by the government.

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 59½ will be expensive: You'll owe Uncle Sam both income tax and a 10 percent penalty;
- Once you turn 70½, 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; and
- If you have a Roth IRA, you won't have to pay income tax on your withdrawals. But to avoid a 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 potential income so you can set a retirement date.

Taxes: The IRS may tax your income from Social Security and/or money from retirement accounts. If your total income on your federal tax return is \$25,000 or more (\$32,000 if you file jointly) you will pay taxes on your Social Security. Before setting a retirement date, make sure you know what taxes you'll have to pay after you retire, so you're not surprised later on. If you're not sure how to do this, get help from a financial professional or another trusted person.

Health Insurance: Finding affordable health insurance is a major challenge for people who retire before going on Medicare at age 65. If you're thinking of retiring before you turn 65, be sure to check into your options. These may include COBRA from your job, joining an HMO or buying an individual policy—and be sure to factor the cost of health insurance 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 answer the questions on AARP's online Retirement Roadmap at www.aarp.org/money and discuss the possibilities. Once you've envisioned what your retirement might be like, you'll be ready to see how you can manage your money—and when to retire—so you can actually live your retirement vision.

Your To-Do List:

- Use AARP's Retirement Planning Calculator** at www.aarp.org/money to estimate how much income you'll need in retirement, and if you are on track to reach this goal.
- If you're eligible for a traditional pension**, find out from your employer how much your benefit will be at different retirement ages.
- Review your Social Security Statement** to see the benefit you can expect at different retirement ages. You can request a statement at 1-800-772-1213 or www.ssa.gov/estimator/.
- Find out how your Social Security benefit will be reduced if you continue working while you receive benefits**, at www.ssa.gov.
- Drive through AARP's Retirement Roadmap** to help define your retirement lifestyle at www.aarp.org/money (search "Retirement Roadmap").
- Learn about your options for health insurance** if you retire before you qualify for Medicare, www.aarp.org/health/insurance.
- Learn about COBRA coverage** if you need insurance between jobs before you are eligible for Medicare at www.aarp.org/health/insurance.

This and other tip sheets provide general financial information; it is not meant to substitute for, or to supersede, professional or legal advice.

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