THE Fiscal TIMES

Ready to Retire? 7 Things You Need to Do Now

By SHERYL NANCE-NASH, The Fiscal Times | May 31, 2013

You've worked hard over many years and finally your retirement finish line is 3-to-6 months away.

But don't start exhaling just yet—there's still plenty of race left to run. Before you take one of the biggest steps of your life, make sure you read this list to understand what you need to do and why:

1. Do the math.

When you first thought of retirement years back, you probably had a vague idea of what your spending would amount to by the time you actually took this step. But at this point, you should have a much clearer picture of your monthly budget. Be sure to laser in on your fixed expenses as well as on your lifestyle expenses to determine your financial needs.

"Potentially the most important decisions baby boomers make before entering retirement are about income planning. I often recommend waiting to begin drawing Social Security as long as possible—and using 401(k) or other accounts first—to maximize the monthly income," says Dan White, founder and president of Daniel A. White & Associates, based in Glen Mills, Pennsylvania. "The volatile economy is pointing many toward the value and stability of defined benefit programs, such as Social Security, pensions and annuities, that give retirees piece of mind. Avoiding these decisions until it's too late can mean worrying about running out of income later in life."

> "While it's never too late to start preparing, the sooner you start, the more choices you'll have."
>
> *-Dan White*

While you can start taking Social Security benefits at age 62, your payments will be reduced based on the number of months you take those benefits before you reach full retirement age. And if you take a part-time job in retirement, that could reduce your Social Security payments, says Katie Libbe, vice president of consumer insights at Allianz Life.

For example, if you're under 66, you can only earn up to $15,120 in 2013 without it impacting your Social Security. Once you exceed that, you'll lose $1 in benefits for every $2 in wages you earn (which doesn't include investment income like dividends or capital gains), according to Jonathan Gassman, CPA with The Gassman Financial Group. But if you wait until full retirement age, you can earn as much as you want and your benefit won't be affected.

If the numbers don't add up in your favor when you're doing your budget – you may need to delay retirement by a year or two in order to ramp up savings.

2. Tell your employer.

There's no set rule for when it's best to tell your employer you plan to retire.

Some employers have the advance notice time you must give written into your contract, so read over company policies carefully. If you're high up on the corporate ladder or occupy a critical role in the company, it's typically recommended to give your boss at least six months notice, according to Joyce Gioia, a management consultant with The Herman Group. But for most people, one to three months will suffice. "It's important to look at what others have done [in your company] when giving notice for retirement," she says.

3. Meet with your human resources department.

If you're lucky enough to have a pension in 2013, understand it. What is it going to pay you? Are there any advantages to waiting to take your money? While most employers offer a lump sum option, for many people an annuity might be better if it is coordinated with overall retirement income. Furthermore, consider any possible roll-over options to IRAs or Roth IRAs, depending on your retirement income goals, advises Jamie Patrick Hopkins, a professor of taxation at American College.

If you have a 401(k), what are your distribution options? What benefits may be portable or convertible, such as health, life, or long-term care insurance? Look through all of your benefits and compensation information—some employees find they have deferred compensation they never knew about. Verify everything to prevent any surprises.

4. Get a handle on health care costs.

Health care is a wild card in retirement. A recent Fidelity Investments survey estimates that a couple retiring at age 65 this year will need $220,000 to cover health care expenses—and that's with traditional Medicare coverage.

Well before you leave your job, research Medicare and look at all your health care options. Are you and your spouse eligible for Medicare, and what supplemental insurance might be best for you? You might need to continue private insurance if you aren't eligible for Medicare yet. Or perhaps your spouse is under 65 and separate decisions will need to be made, says Roy Laux, president of Synergy Financial Services

5. Eliminate as much debt as possible.

The fewer debts you have going into retirement, the better. If possible, it's a good idea to pay off any lingering debt, says Rita Cheng, a certified financial planner with Ameriprise Financial. But you also don't want to drain your retirement savings just to enter your golden years debt-free.

Start by paying off any credit card debt, since you're likely paying a higher interest rate on the balance (the national average is 13 percent for fixed-rate credit card). Your mortgage is the last type of debt you should pay off. If you don't have the luxury of paying it off before you retire, consider refinancing. It's easier to qualify for a refinance while you're still employed, and though mortgage rates are currently low, they're likely to rise soon. Today's 30-year fixed-rate mortgage is 3.77 percent, but they've been inching higher and are likely to continue doing so. By 2014, the rate is expected to be 4.5 percent, according to the Mortgage Bankers Association.

6. Review your investments.

"This close to the [retirement] finish line, you don't want to leave your savings to chance. Moving investments out of volatile stocks and mutual funds into more stable options [like annuities] is a smart move when you don't have time to recoup losses," says White.

Not only should you check to see if your asset allocation is appropriate as you enter this next life stage, you also want to take a good look at all fees associated with your investments. White recommends moving some funds into low or no-fee CDs. "While [interest rates] are low today, we'll see them start to rise on these accounts sooner rather than later," he says.

7. Develop a strategy for withdrawals.

Drawing down retirement savings can be incredibly complex—it requires a thorough analysis of all sources of income to ensure assets are utilized in the correct order, taking into account Social Security and tax implications, says Libbe at Allianz Life.

The trick is knowing how to turn those assets into income. "There's a rule that says you can safely withdraw 4 percent of your assets annually, adjusting the amount upward for inflation each year," says James Poe, founder of Texas Retirement Specialists. But that's not engraved in stone, he says. Speak to your financial advisor to determine how much you'll need to begin with-drawing from your portfolio to meet your needs, then set up a monthly disbursement.

Of course, as much as you can prepare, sometimes even the best-laid plans need to be changed. Be ready to make big adjust-ments or small tweaks if there are developments in your life or the economy that warrant those changes. Six months or so into retire-ment, many people realize their financial needs are different than they expected. "While it's never too late to start preparing, the sooner you start, the more choices you'll have," says White. ■