7 Questions to Ask Yourself Before Deciding to Retire

- By Cameron Huddleston
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Few Americans save enough for retirement. Whether due to financial issues or a lack of foresight, a lot of people either don't give much thought to retirement or are unable to save up enough to help them fund their elder years.

In fact, only 13 percent of people who haven't retired yet say they've given a lot of thought to financial planning for retirement, according to a survey conducted by the Federal Reserve Board. Nearly 40 percent say they have given little to no thought to retirement planning.

Mapping out your retirement takes more than asking yourself, "When should I retire?" Consider these seven questions to help you better plan for financial and personal obstacles in retirement.

Read: What Retirement Without Savings Looks Like

1. What kind of lifestyle do I want?

Before figuring out how much money you need to retire, you need to consider what sort of lifestyle you want to have in retirement, said John Sweeney, Executive Vice President of Retirement and Investing Strategies at Fidelity.

Do you want to stay in your current home or downsize? Will you want to move to a bigger city or someplace warmer? Maybe you want to travel the world.

No matter how you envision your retirement, you'll need to plan ahead to fund it. Depending on your goals, you might need to save more than you originally planned. If you're married, you'll need to speak with your spouse to make sure your retirement plans are aligned.

2. What will my expenses in retirement be?

Sweeney said most people can expect to spend about 85 cents in retirement for every dollar spent before retirement. Depending on your health, however, you might need to save more to cover medical expenses. If you have a chronic condition or mobility issues, over time you might end up needing to spend more money to maintain your quality of living.

To help you project rough estimates of your retirement costs, you can use an online retirement income calculator. With a financial planner, you can get a detailed cash-flow analysis and help managing taxes.

3. Will I have enough savings to cover my expenses?

Less than half of all workers say they've ever tried to calculate how much money they will need to save to live comfortably in retirement, according to The 2015 Retirement Confidence Survey conducted by the Employee Benefit Research Institute. Scott Bishop, Director of Financial Planning at STA Wealth Advisors in Houston, recommends comparing your current monthly expenses with how much income you'll have in retirement.

If your retirement savings can't sustain your mortgage, insurance and other typical costs, you might want to reconsider your current savings plan. You will also want to calculate your Social Security benefit to determine how it will affect your monthly budget. When considering whether you'll have enough income in retirement, assume you'll be in retirement for 25 years and have access to four percent of your savings annually.

In retirement, you'll want to revisit your withdrawal percentage, adjusting for your actual spending, said Bishop. Your retirement portfolio, which should include numerous asset types, should also be structured to outpace inflation. Sweeney recommends you have a mix of stocks — about 55 percent — in your early years of retirement to maintain growth, and fixed income, such as bonds, to guard against market volatility.

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4. What impact will taxes have on my retirement income?

Taxes don't disappear when you stop working. In fact, your tax bill can take a big bite out of your retirement income.

Up to 85% of your Social Security benefits might be taxable if you have income in addition to your benefits. Withdrawals from tax-deferred retirement accounts, such as traditional IRAs and 401(k)s, are also taxed. So, if you need $5,000 a month to cover expenses in retirement, you might need to withdraw up to $6,000, said Bishop.

Higher-income taxpayers will have to pay taxes on profits from the sale of stocks, bonds, mutual funds and other investments not held in tax-deferred retirement accounts. States have their own rules for taxing retirement income, so depending on where you live, you could be hit with an above-average tax bill.

The states that impose the highest taxes on retirees include California, Connecticut, New York, Oregon, Rhode Island and Vermont, according to a 2014 analysis of state taxes conducted by Kiplinger, a publisher of business forecasts and personal finance advice. A financial planner can help you figure out how taxes will impact you in retirement and what strategies you can use to minimize your tax bill.

5. Where will I get my health care?

Chances are your employer won't continue providing health care coverage for you in retirement. Only 28 percent of companies with 200 or more employees offer retiree health coverage, according to the 2013 Kaiser/HRET Survey of Employer-Sponsored Health Benefits.

You are eligible for Medicare when you turn 65. You likely won't need to pay a premium for Medicare Part A, which covers inpatient hospital stays, care at nursing facilities, hospice care and some home health care. If you want extended health benefits, however, you'll need to pay a monthly premium for Medicare Part B, which covers most doctor and outpatient services. Medicare Part B typically costs around $104.90 each month.

If you retire early, you'll have to get an insurance policy on your own. Couples who retire at 62 can expect to pay $17,000 a year for health insurance premiums and out-of-pocket costs until they're eligible for Medicare, according to Fidelity. A retiree can expect to pay an average of $220,000 in medical expenses over the course of their retirement.

You also need to factor in long-term medical care, which could wipe out your retirement savings if you’re not prepared. The median annual cost of care in an assisted living facility is $43,200, and the average cost of a private nursing home room is more than double that, according to the Genworth 2015 Cost of Care Survey. To curb these types of costs, you can look into long-term care insurance.

6. How much debt do I have?

The more debt you carry into retirement, the more retirement income you’ll need to pay off what you owe. When you’re deciding when to retire, you need to figure out how long it will take to pay off your existing debts. You should pay off any high-interest debts that aren’t tax-deductible first, such as credit card balances, said Bishop. If you have good credit, refinance any high-interest debt that’s tax-deductible, such as a mortgage, to get the lowest rate possible.

7. Am I emotionally ready to retire?

Ask yourself what you will do once you retire. If you don’t know — and most people don’t — you might have a problem, said Bishop. Around 22 percent of people surveyed by the Federal Reserve Board say they plan to stop working entirely in retirement.

You need to figure out before you retire whether you want to continue working in some capacity. If you initially choose not to work in retirement, you might have a harder time becoming employed after being out of the workforce for a while.

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Deciding to retire, much less knowing how to map out a retirement plan, takes work and careful thought. Consider meeting with a financial planner to help you determine how to decide when to retire and to create an action plan for retirement. Knowing how and when you will retire will allow you to look forward to retirement.