21 Questions to Ask Yourself Before Deciding to Retire

By Cameron Huddleston (https://www.gobankingrates.com/author/cameronhuddleston/)
July 6, 2016

Back to Slide One

Plenty of us fantasize about what life will be like in retirement. But unfortunately, a lot of people don't give much thought to figuring out how and when to retire. In fact, only 13 percent of those surveyed by the Federal Reserve Board who aren't already retired say they've given "a lot" of thought to financial planning for their retirement. And, nearly 40 percent say they've given little to no thought to retirement planning.

"People probably spend more time planning their summer vacation than their retirement," said Scott Bishop, director of financial planning at STA Wealth Advisors (http://www.stawealth.com/) in Houston. Yet, retirement is a big decision that you shouldn't rush, he said.

Bishop and several other financial advisors say there are several factors you should consider to determine your retirement readiness (https://www.gobankingrates.com/retirement/10-signs-youre-not-ready-retire/). So before you decide to retire from the workplace, ask yourself these 21 retirement questions.

1. What Sort of Lifestyle Do I Want?

In order to figure out how much money you need to retire (https://www.gobankingrates.com/retirement/you-dont-need-million-dollars-retire/), consider what sort of lifestyle you want in retirement, said John Sweeney, executive vice president of retirement and investing strategies at Fidelity (http://www.fidelity.com).

Do you plan to live more frugally than you live now? Or, do you want to travel, enjoy the arts, take up new hobbies or engage in other activities that will raise your cost of living?

Figuring out the life you want to live in retirement will affect how much you spend in retirement and what sort of income stream you need, Sweeney said.

2. Where Will I Live in Retirement?

One of the most important decisions you have to make in retirement is where you will live, said Jamie Hopkins, a professor at The American College of Financial Services (http://www.theamericancollege.edu/) and co-director of the New York Life Center for Retirement Income.

“Research from The American College of Financial Services has shown that most Americans want to live in their current home for as long as possible in retirement and age in place,” he said.

So, it’s important to consider whether you can continue to afford to live in your current home or should move into a smaller, more affordable house. Also, figure out whether your home will be suitable for you later in life when you might face more physical challenges. Understand that your housing needs might change throughout retirement as you age, said Hopkins.

3. How Long Will I Live?

You can't know exactly how long you will live, but you need to have an estimate to figure out how many years you'll need to cover expenses in retirement.

The average life expectancy in the U.S. is 78.8 years, according to the Centers for Disease Control and Prevention. However, about one in four 65-year-olds today will live past age 90, according to the Social Security Administration. The SSA has a life expectancy calculator that will show you the average number of years you can expect to live based on your gender and date of birth.

"You won't have a problem if you live less, but if you live longer than you expect and run out of assets, that's a huge problem," said Neal Frankle, founder of Wealth Resources Group (http://www.wealthresourcesgroup.com/index.html) and editor of financial planning blog Wealth Pilgrim. A financial planner can help create a plan to ensure you won't run out of money if you live longer than expected, he said.

4. What Will My Retirement Expenses Be?

Most people can expect to spend about 85 cents in retirement for every $1 spent before retirement, Sweeney said. However, factors such as your health or the lifestyle you want in retirement can cause that ratio to go up or down. For example, if you're not in good health, you could end up spending more in retirement.

Nonetheless, this rule of thumb is a good starting point to estimate your expenses if you're still several years away from retirement and need to boost your retirement savings (https://www.gobankingrates.com/retirement/17-clever-ways-save-retirement/), said Sweeney. But to get a better estimate, consider using an online calculator or r meeting with a financial planner.

5. What Are My Retirement Income Sources?

While roughly 22 percent of adults ages 55 and older have more than $300,000 in retirement savings, an even greater percentage — 28 percent — don't have any retirement savings, according to a recent GOBankingRates survey (https://www.gobankingrates.com/retirement/1-3-americans-0-saved-retirement/). If you don't have significant savings, it doesn't necessarily mean you're not ready to retire.

"There are many paths to a comfortable retirement," said Carla Dearing, CEO of SUM180 (https://www.sum180.com/), an online financial planning service created by women for women. "Even if your investment portfolio is not large enough to support your retirement needs, for example, you may find that you have other assets — a business, or real estate — that can contribute."

Plus, you can expect a monthly Social Security check as a source of income.

6. How Much Will I Get From Social Security?

Social Security is the main income source for many American retirees. The average monthly Social Security benefit for retired workers is $1,347.59, according to May 2016 figures from the SSA. The maximum benefit if you were to retire in 2016 at full retirement age is $2,639.

You can calculate your Social Security benefit online. Then, you can figure how much more you'll need from savings and other sources to cover your expenses.

7. Will I Have Enough Money to Cover My Expenses?

Less than half of workers — only 48 percent — say they or their spouse have tried to calculate how much money they will need to live comfortably in retirement, according to the Employee Benefit Research Institute 2015 Retirement Confidence Survey. Start by figuring out how much money you need to cover your estimated monthly expenses, then look at whether the income sources you'll have in retirement will be enough to cover those expenses, Bishop said.

To do this, use the basic assumption that you'll live 25 years in retirement and can withdraw 4 percent of your savings annually. If you see that the 4 percent withdrawal from savings combined with Social Security and other income won't be enough to cover your expenses, you need to adjust your savings or retirement time frame.

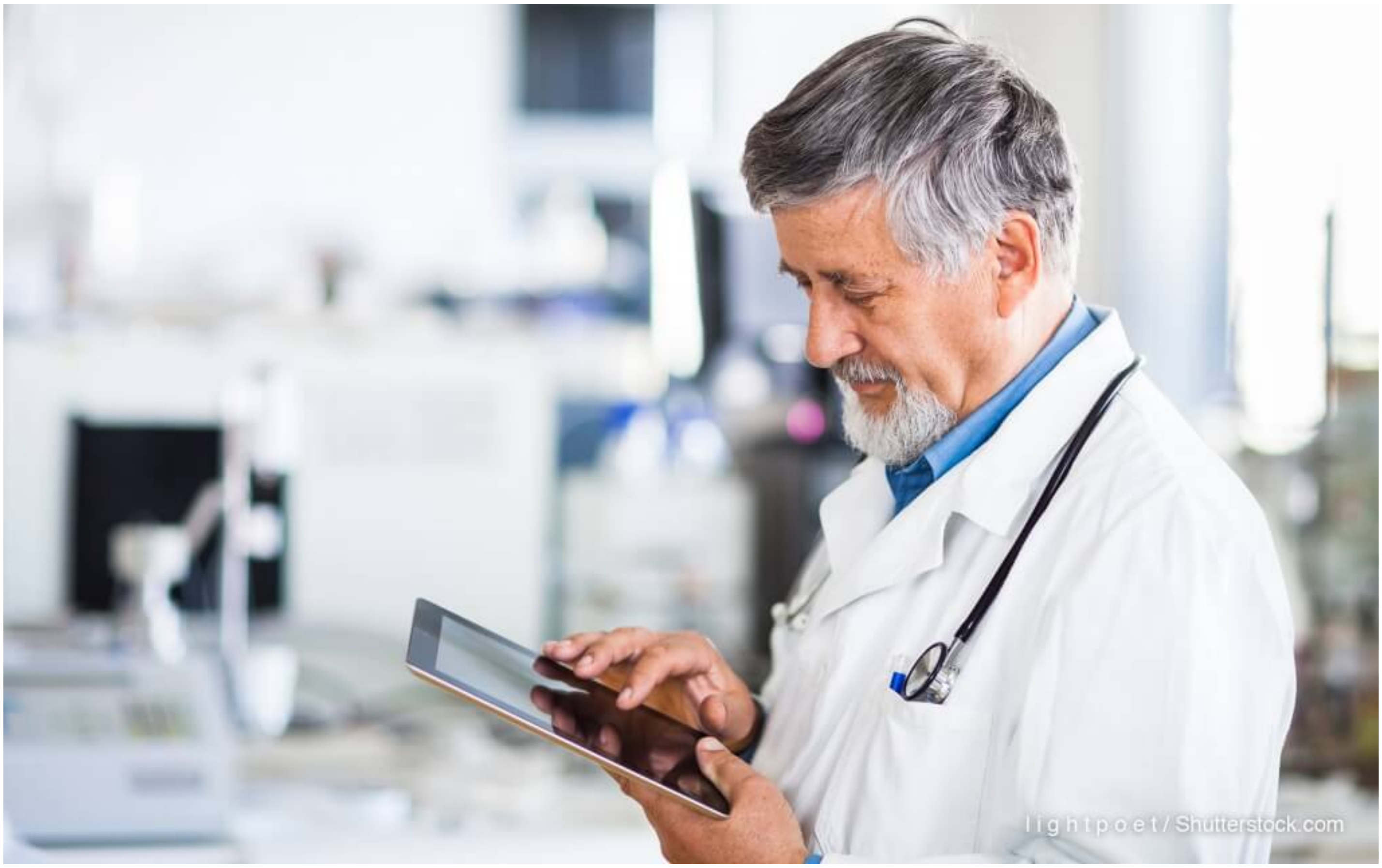
Note that once you're in retirement, you need to revisit your withdrawal percentage every year to adjust for your actual spending, both Bishop and Sweeney said.

8. When Should I Collect Social Security?

The Social Security benefit you receive depends on what your yearly earnings were while working and when you start collecting benefits. You can start collecting retirement benefits as early as age 62, but your benefits could be reduced by as much as 30 percent.

To get your full benefit, wait until full retirement age, which is currently 66 but gradually increasing to age 67. But to get an even bigger monthly payout, you can delay claiming Social Security until age 70. The maximum benefit for those retiring at age 70 in 2016 is $3,576 — almost $1,000 more than the maximum benefit for someone claiming benefits at the full retirement age.

“For most people, deferring Social Security is the best strategy,” Hopkins said. “However, it can often be a real challenge to defer Social Security all the way out to age 70 without other sources of income.”



9. Should I Work Longer?

Some people continue to work in retirement to keep their minds active and to stay engaged. Others work out of necessity.

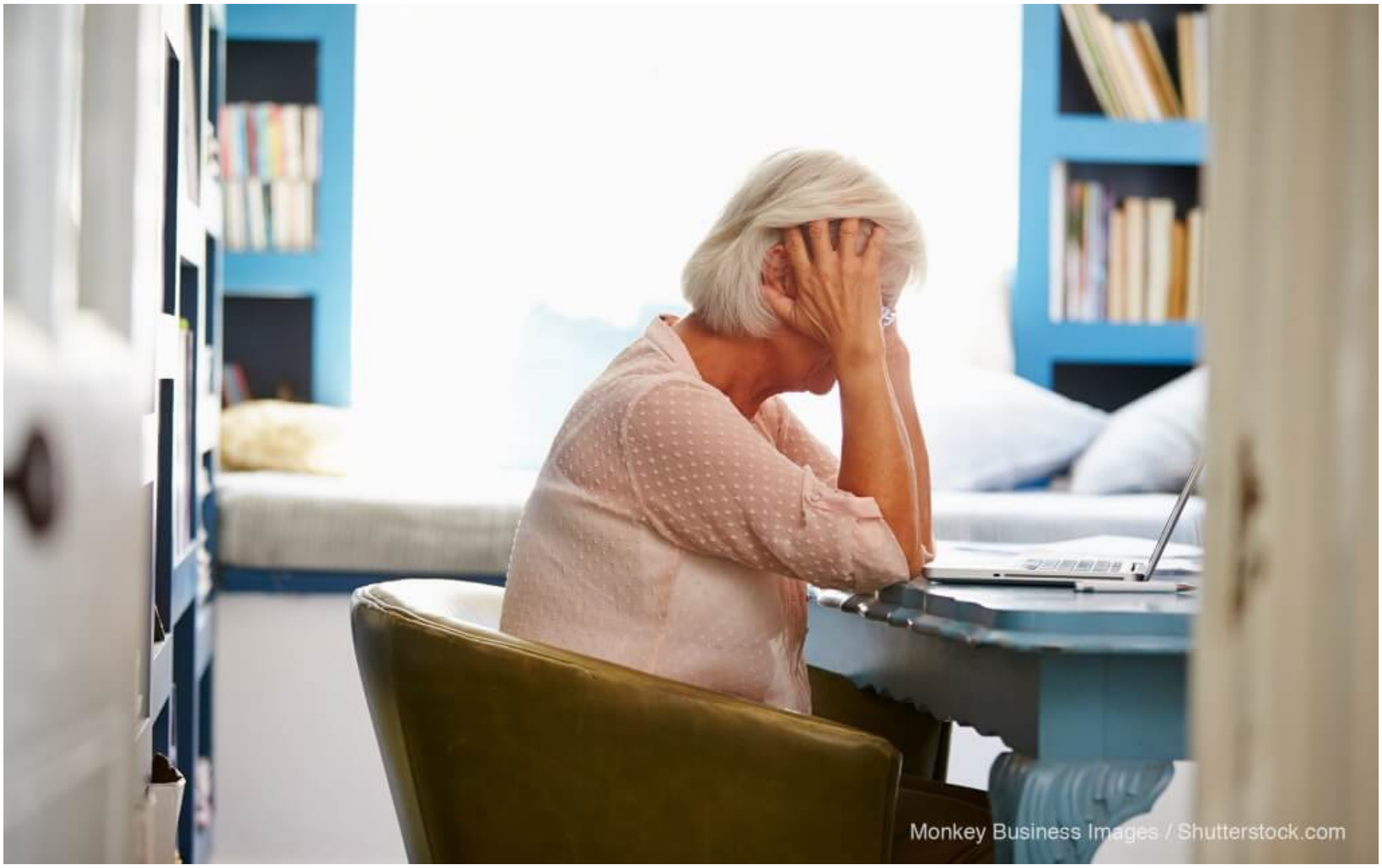
The fact is "even one or two extra years of work during your peak earning years may have a significant effect on your quality of life in retirement," said Dearing. Working longer can reduce the amount you need to withdraw from savings and might help boost your Social Security benefit.

Because the SSA recalculates your benefits every year based on earnings, your monthly payment could actually increase. If your most recent year of earnings is one of your highest years, your benefit will be recalculated and you might be eligible for an increase, states the SSA. But if you claim Social Security before full retirement age and continue working, your earnings might reduce your benefit amount — but only until you reach full retirement age.

10. Will My Retirement Portfolio Outpace Inflation?

Another step you need to take to make sure your savings will last through retirement is to structure your portfolio to outpace inflation. If your investments don't grow at a fast enough pace, your nest egg might not be big enough to keep up with rising costs.

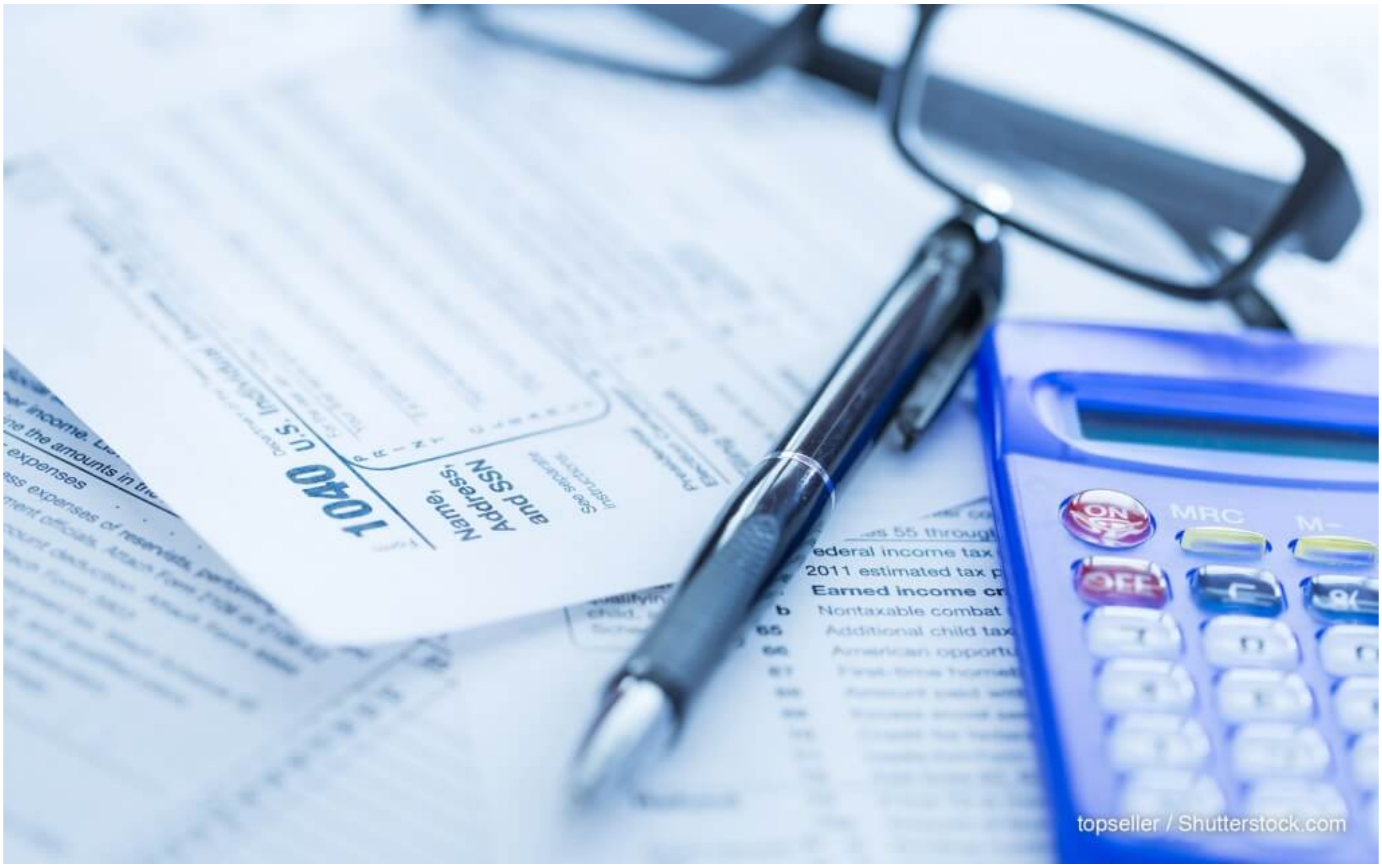
Although you should reduce your exposure to risk in retirement, you still need to be invested in equities. That means having a mix of stocks — about 55 percent — in the early years of retirement for growth and fixed-income, such as bonds, to guard against market volatility, said Sweeney.



11. How Much Debt Do I Have?

It almost goes without saying that the more debt you carry into retirement, the more money you'll need to pay off what you owe, leaving you with less money to cover retirement expenses and do things you enjoy. So when you're deciding when to retire, figure out how long it will take to pay off your debt. A financial planner can help.

Bishop said you should pay off any high-interest rate debt that isn't tax-deductible first, such as credit card debt. If you have good credit, refinance any high-interest debt that's tax-deductible, such as a mortgage, to get the lowest rate possible. Or, pay off your mortgage before retirement if you can afford to do so to eliminate a major monthly expense in retirement.

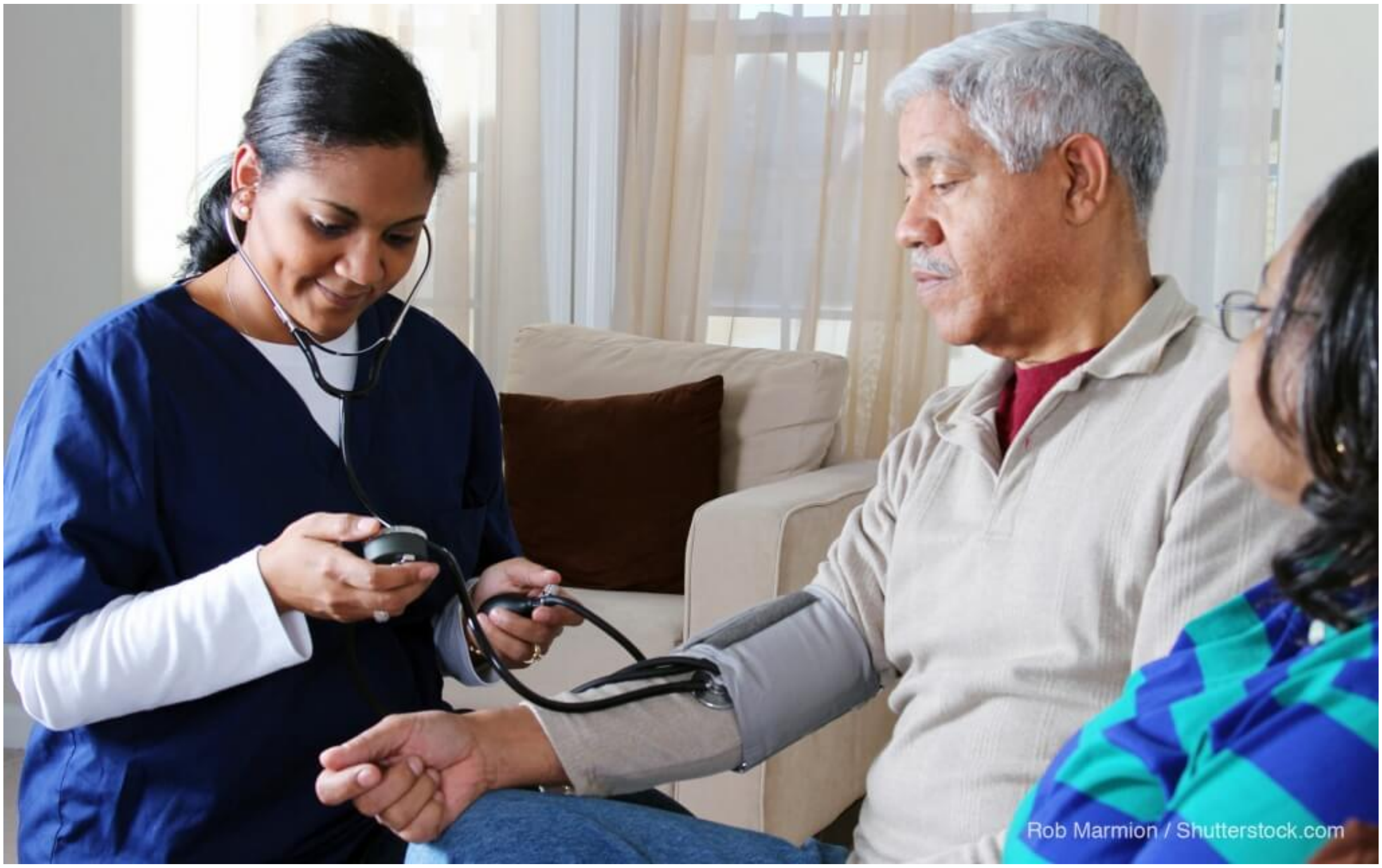


12. What Impact Will Taxes Have on My Retirement Income?

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 percent of your Social Security benefits may be taxable if you have income in addition to your benefits. And withdrawals from traditional IRAs and 401ks are taxed as ordinary income. So if you need, say, $5,000 a month for expenses, you might need to withdraw a total of $6,000 to cover the tax bill, Bishop said.

Plus, some states have their own rules for taxing retirement income (https://www.gobankingrates.com/retirement/best-worst-states-retire-rich-2016/). An accountant or 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.



13. Where Will I Get My Healthcare?

Chances are your employer won't continue providing healthcare coverage for you in retirement. Only 23 percent of large firms that offered health benefits in 2015 also offered retiree health benefits, according to a 2015 Kaiser Family Foundation survey. Luckily, you are eligible for Medicare — the federal health insurance program — when you turn 65.

But Medicare isn't free. There's typically no monthly premium for hospital insurance coverage (Part A) if you paid Medicare taxes while working, but the standard premium for medical insurance (Part B) is $121.80 or higher, depending on your income. And, there's usually a fee that varies for Medicare prescription drug plans.

14. How Much Will My Healthcare Cost?

A couple who are both 65 and retire in 2015 can expect to spend $245,000 on healthcare in retirement — including the cost of Medicare premiums — according to Fidelity's 2015 Retirement Health Care Cost Estimate. Many Americans haven't planned for these costs, said Jody Dietel, chief compliance officer at WageWorks (https://www.wageworks.com), which administers employee benefits programs.

One of the ways to help cover medical costs in retirement is to fund a health savings account before retiring if you're currently covered by a high-deductible health plan.

"Establishing an HSA gives you the ability to amass savings to be used exclusively for healthcare expenses and preventing the need to dip into 401k funds for medical-related costs in retirement," Dietel said.

15. Do I Have a Plan to Cover Long-Term Care?

Someone turning 65 today has a nearly 70 percent chance of needing long-term care, according to LongTermCare.gov. So, you need to factor in how you will pay for it into your retirement planning, Hopkins said.

The annual median cost of care in assisted living facility for a private one-bedroom room is $43,539, and the average cost of a private nursing home room is $92,378, according to the 2016 Cost of Care survey by insurer Genworth.

Medicare is not designed to cover long-term care expenses, which is a common misconception, Hopkins said. And since there's a chance you might not be eligible for Medicaid because of your income and assets, you should look into long-term care insurance for more comprehensive coverage and find room in your budget to pay for a policy.

16. Should I Get an Annuity?

With the decline in pension plans, retirees now need to create their own pension and retirement paycheck, Hopkins said. One way to do this is to use an annuity. But, you need to make sure you have the right annuity for your situation.

Immediate annuities start making payments today, deferred annuities start making payments in the future, variable annuities can provide some market upside with some downside protections, and some annuities make set payments for a set number of years, explained Hopkins.

“When looking at your retirement income plan, keep an open mind about the use of annuities, as they can be the best thing for your situation if used properly,” he said.

17. Will I Use My Home Equity in Retirement?

The largest asset the average couple entering retirement will likely have is their home equity, said Hopkins. “However, most retirees do not spend sufficient time considering how to strategically use their home equity as an income source in retirement,” he added.

You can tap into your home's equity to help fund your retirement. For example, you can get a reverse mortgage or a home equity line of credit. This strategy is best used in early retirement to reduce market risks and to provide extra cash to delay claiming Social Security, Hopkins said.

18. Will Retiring Abroad Save Me Money?

Retiring to a country with a lower cost of living is one way to live comfortably for less money. But there are several factors to weigh when considering a move overseas, said Art Koff, founder of RetiredBrains.com (http://www.retiredbrains.com/), an online retirement planning resource.

For example, although there are some countries that are cheaper for retirees (https://www.gobankingrates.com/retirement/50-cheapest-countries-live-retire/), you should ask yourself whether a country offers the climate and lifestyle — such as access to the arts, sporting events, volunteer opportunities — you want before making the big move. You'll also want to consider the country's stability, safety and healthcare options.

19. Will My Children Require Financial Assistance?

If you have adult children who are relying on you financially, you need to factor that in your retirement plans. Frankle of Wealth Resources Group said he has seen numerous clients help their children to the extent it depleted their retirement savings. In one case, the couple had to go back to work in their late 70s.

"Sometimes, people start off with just helping a little, and then the kids come back for 'just a bit more,' and that cycle only stops once the retirees are broke," he said. "Sure, help the kids. But realize how much you can afford to help and set a limit — even if it means the kids will have to fund their ideas elsewhere or not fund the project."

20. Do I Want to Leave My Children an Inheritance?

If you want to leave your children an inheritance, consider this when figuring out which assets you'll have to fund your retirement and how much you want left to pass on, said Frankle. Any assets you want your children to have should be excluded from your calculations when projecting your retirement income.

You might have to adjust your retirement plans — perhaps work longer or live a more frugal lifestyle in retirement — to have money left over for your kids. Or, you might have to leave less to your children so you can have a comfortable retirement.

21. What Will I Do to Fill My Days?

Before you retire, you need to ask what you will do every day to fill the time that your job used to take up, said Charles C. Scott, an accredited investment fiduciary and president of Pelleton Capital Management (http://www.pelletoncapital.com/) in Scottsdale, Ariz.

He recommended trying to plot what you would do in the morning, at noon and at night for an entire month. Create a calendar of sorts, and write the activities that you see yourself doing.

“The goal is to fill it up with what you want to do, just like work filled it up with what you had to do,” Scott said. “If this seems too daunting, maybe you're not quite ready to retire.”

Back to Slide One

Share This Article

‹ PREVIOUS NEXT ›