Title:
Helping Your Money Last... After Your Last Paycheck

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760

Summary:
Can you see the light at the end of the work tunnel? Is it time for you to start planning for your retirement? Here are some financial considerations:

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Article Body:
A look at different ways to afford retirement

Today's seniors can expect a longer retirement than their parents. That means more years to finally do what you want to do, including travel and hobbies (not to mention spoiling the grandkids). But a longer retirement also means more years of money going out and no paycheck (or only a small one) coming in. That's why seniors need to be smart about how they pay for their retirement years.

"You really need to have a strategy to make sure your savings last," said Lee Bowman, National Coordinator of Community Affairs at the FDIC.

To help you set or adjust your own plans for affording retirement, FDIC Consumer News offers this look at some different sources of money, including some potential pitfalls to avoid. But first, remember that this is general guidance only. Your own need for retirement money will depend on factors such as your health-care costs or whether you plan to earn part-time income. As with any major financial decision, be sure to consult with financial advisors and loved ones to decide what strategies are best for you.

Social Security and Pension Benefits: Your first order of business: Determine when the best time is to start tapping this money. For example, if you start receiving your Social Security benefits before your "full" retirement age (which could be anywhere from 65 to 67 under current laws), your benefits will be reduced permanently, and perhaps significantly, from what they would be at your full retirement age. And if you receive Social Security benefits early, but you continue to work and your earnings exceed certain limits, your benefits will be reduced even more until you reach full retirement age. On the other hand, if you delay collecting Social Security until after your full retirement age, you can continue to work and still get your full retirement benefits, or even higher benefits, no matter how much you earn.

Here's basic guidance from the Social Security Administration (SSA): "As a general rule, early retirement will give you about the same total Social Security benefits over your lifetime, but in smaller amounts to take into account the longer period you will receive them. There are advantages and disadvantages to taking your benefit before your full retirement age. The advantage is that you collect benefits for a longer period of time. The disadvantage is your benefit is permanently reduced."

Employer pension plans usually have options somewhat similar to those of Social Security. Contact your employer's personnel department for guidance.

No matter when you decide to start receiving your benefits, remember that it could take several weeks to receive your first payment. Also consider having your payments deposited directly into your bank account so you don't have to worry about a check getting lost or stolen in the mail.

IRAs, 401(k)s and Other Retirement Savings Plans: As with your Social Security and pension benefits, you may want to delay tapping into your retirement accounts as long as possible so they can continue to grow to cover unexpected medical costs in the future or to protect the inheritance for your heirs. However, if you need to supplement your income, Individual Retirement Accounts (IRA) and other retirement savings can be a good source.

Before you start withdrawing money from your retirement accounts, most financial planners suggest setting a target annual withdrawal rate. Make it low enough to avoid depleting these funds too quickly. You can fine tune your withdrawal strategy each year, preferably with the guidance of your financial or tax advisor. For example, if your personal situation changes, you can adjust how much you should withdraw.

Also review your retirement portfolio — your mix among stocks, stock mutual funds, CDs (certificates of deposit), bonds and so on — to be sure it's well-diversified.

Another caveat: If you have retired, every year after age 70 ½ be sure to take out at least the minimum required distribution from your tax-deferred retirement savings plans (except Roth IRAs) to avoid large IRS tax penalties. (If you are still working at 70 ½ or later, you do not need to start taking minimum distributions from your employer's plan until April 1 of the year following the year you finally retire.)

"Remember, you only have to withdraw the money, you don't have to spend it," said Heather Gratton, an FDIC Senior Financial Analyst. "If you don't need the money you can reinvest it somewhere else, such as in a bank savings account." She added that, because each person's situation is different, it's best to discuss your strategy with your tax or other advisor.