

# PREPARING FOR RETIREMENT

## Your Retirement Readiness Checklist

You have been thinking about retirement for a long time. You could stay up later and watch old movies, linger over the newspaper and a second cup of coffee in the morning, and those hobbies you have wanted to dive into would finally get attention. Sounds wonderful, doesn't it?

Besides the many wonderful benefits, retirement also brings some challenges related to finances, health, family and other issues. This brochure and checklist introduce topics and changes you will face as you enter retirement, and suggest specific steps you can take to help ensure this new period of your life is secure and enjoyable.

Accompanying this brochure is a booklet of very easy-to-use and helpful worksheets that will help you identify the assets that will provide income to you during retirement.

## Where to Start?

Begin your retirement preparedness checklist by answering the following questions. The answers will help you clarify where you might need more thought and planning. And you'll probably generate even more questions.

Check off the boxes as you consider each question:

### Where will I live?

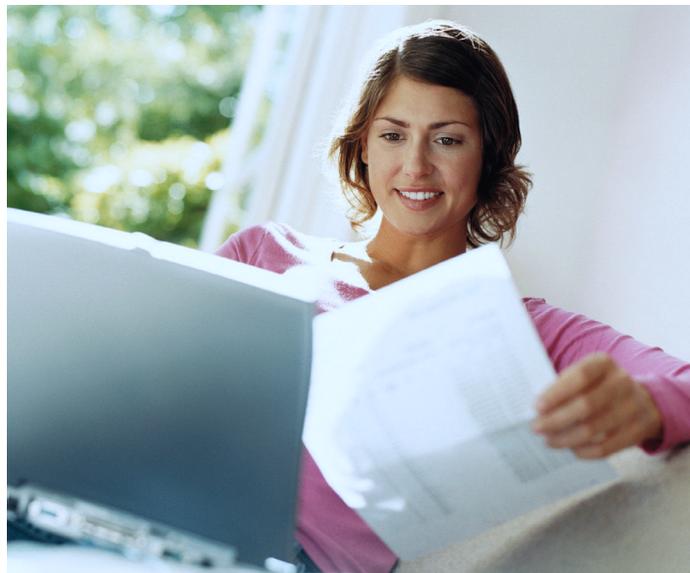
- Do I want to move?
- Should I downsize?
- Can I keep up with home maintenance?
- Will I be close to the activities I want to pursue?
- Are medical facilities nearby?

### What will I do?

- Do I want to work either full-time or part-time?
- Are there volunteer jobs I would like?
- Will my hobbies keep me busy enough?
- Will I miss the social aspects of working?
- Could I end up with too much time on my hands?

### How much money will I need?

- How will my current expenses change?
- What specific costs may change, and by how much?
- Have I created a retirement budget?
- Will my assets last long enough?



### How much money do I have?

- What is the status of my potential savings and income?
- Am I contributing enough to my retirement account?
- What are my Social Security options?

### What are likely health-related issues?

- What is my life expectancy?
- Will my medical coverage premiums and costs go up?
- When should I enroll in Medicare?
- Might I need long-term care at some point?

There are many other topics you will need to address, such as those related to family and elder care, the tax implications of Individual Retirement Arrangements (IRAs) and retirement plan withdrawals, and whether you will simply have to work at least part-time. You may want to create a file so you can expand on your answers and keep additional resources.

Write down these and other questions you may have, and your answers. That information, along with the specific action steps in this checklist, will help you measure your retirement preparedness and develop your own action plan for success.

# Action Steps to Prepare

## □ Review expenses

Take a close look at your current expenses. Some will go away when you retire, such as commuting costs, buying lunch every work day, dry cleaning bills, and contributions to birthday or other gifts for co-workers.

Others may not change, such as housing costs, auto loans, and groceries. Still others will go up, or be new expenses, such as hobbies, more travel and entertainment, and additional costs in your new location if you move.

Outline how each of those expenses will likely change upon retirement, and prepare a budget. What is the net effect? Determining that will be very helpful in developing a better picture of your finances in retirement.

## □ Verify income sources

Learn what distribution options are available for your retirement plan account. Many plans provide for full or partial withdrawals, leaving your balance in the plan, and rolling over your balance to an IRA. Find out your plan's rules by reading all plan booklets and talking with your benefits representative in Human Resources.

You may also have other retirement or pension plans that would provide income. Again, check with your Human Resources office if you are not sure. Also, if you have changed companies, remember to check with past employers to see if you have vested retirement plan account balances that were left behind.

IRAs are also a common source of funds during retirement. Clarify the types of IRAs you have (traditional, Roth, etc.) and the rules for making withdrawals.

Finally, look closely at your options for receiving Social Security benefits.

What is the average Social Security benefit for a retired worker?

*\$1,503 per month for 2020<sup>1</sup>*

## Your Full Retirement Age

First, be aware of when you will be eligible for full benefits. Full retirement age depends on your year of birth.

Year of Birth	Full Retirement Age
1937 or earlier	65
1938	65 + 2 months
1939	65 + 4 months
1940	65 + 6 months
1941	65 + 8 months
1942	65 + 10 months
1943 □ 1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960 or later	67

Source: Social Security Administration

If you delay beginning benefits beyond your full retirement age, your benefit will be increased. For example, if you were born in 1943, your monthly benefit amount is increased by 8% for each year you delay benefits after reaching full retirement age, in this case age 66. These delay credits do not continue beyond your reaching age 70.

On the other hand, if you elect to begin receiving benefits before your full retirement age, they will be reduced. If your full retirement age is 66, for example, and you begin receiving benefits at age 62, the amount will be permanently reduced by 25%. Don't forget to take into account that you may have to pay federal income tax on a portion of your benefits.

Lastly, you can collect Social Security benefits while you're working but your payment will be reduced if you earn more than the annual limit. The limit in 2020 is \$18,240. This limit applies only up to full retirement age, when it goes away entirely.<sup>2</sup>

Only 23% of workers are very confident about having enough money for a comfortable retirement. And only 27% are very confident they will have enough money to pay for basic expenses in retirement.<sup>3</sup>

<sup>1</sup> Social Security Administration, FAQs, [www.ssa.gov](http://www.ssa.gov)

<sup>2</sup> Social Security Online, Retirement Planner, [www.socialsecurity.gov/retire2](http://www.socialsecurity.gov/retire2)

<sup>3</sup> The 2019 Retirement Confidence Survey, ©2019, Employee Benefit Research Institute and Matthew Greenwald & Associates.

## ❑ What to bring to apply for Social Security benefits

Generally, people should apply for retirement benefits no more than four months before they want to begin. A person who meets all requirements of entitlement can receive reduced benefits beginning with the first full month that he or she is age 62. You can apply online or at any convenient Social Security office. When you are ready to apply, you should have the following items:

- Your Social Security card or proof of your Social Security number
- Your birth certificate or other proof of your age
- Information about the home where you live, such as the mortgage, lease, and landlord's name
- Tax return or W-2 forms, payroll slips, insurance policies and other information about your income and the things you own
- Proof of U.S. Citizenship or eligible non-citizen status
- Your checkbook or other papers that show your bank, credit union or financial institution account number so you can have your payments deposited directly into your account.

## Contacting Social Security

[www.ssa.gov](http://www.ssa.gov) or call toll free (800) 772-1213

## ❑ Calculate how much income you'll replace

The rule of thumb for many years has been that you should plan to replace 75%–100% of your pre-retirement income to maintain your standard of living in retirement.<sup>4</sup> But, recent research by Hewitt Associates reveals that this target range may be outdated and much too low.

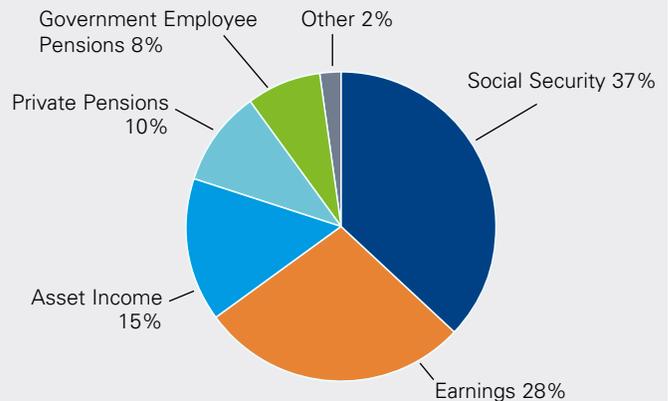
When inflation and rising health care costs are considered, the Hewitt researchers predicted that workers will need to replace, on average, 126% of final pay upon retirement.

Whether you use the 75%–100% target or a higher number, carefully consider how all of your sources of income will work together to replace your pre-retirement income.

10% of workers and/or their spouse have calculated a retirement savings goal, and almost two-thirds of those started saving or investing more as a result.<sup>5</sup>

## Income During Retirement

Of the various sources of income, what share do Social Security benefits generally represent? Social Security is about 37% of income, on average.



Source: Social Security Administration

## ❑ Don't ignore inflation

Inflation is the rate at which prices of goods and services is rising, and, consequently, purchasing power is falling. After you retire, you will probably be living on a fixed income. So remember to take inflation into account when you look at your expenses in retirement. Unfortunately, the cost of basic necessities will likely continue to rise.

Here is a brief perspective on the rising cost of living over time (assuming a 3% rate of inflation).

Item	Average Cost Today	Average Cost in 5 years	Average Cost in 10 years
House Cost in Florida (South)	\$285,600	\$330,313	\$383,016
Recreational Vehicle (RV)	\$140,728	\$163,142	\$189,127
10 Day Caribbean Cruise	\$1,499	\$1,738	\$2,015
Round of Golf at Your Local Golf Club	\$75	\$87	\$101

Source: BestPlaces.net, Kmotion research 2020.

This is a hypothetical example for illustration purposes only. Actual inflation rates may be more or less than the illustrated rate.

<sup>4</sup> Kmotion Research, 2020

<sup>5</sup> The 2019 Retirement Confidence Survey, ©2019, Employee Benefit Research Institute and Matthew Greenwald & Associates.

## □ Consider your life expectancy

Great strides in health care and prevention have increased how long we're living. Average life expectancy in the United States is now almost 80 years, according to the U.S. Department of Health and Human Services.

The average 65-year-old American male can expect to live to age 84 and the average 65-year-old female to age 86½. Those averages mean that one in two of us may live longer than that.

## □ Plan for rising medical expenses

Spending on health care represents one of the largest expenses for many people in retirement.

Fidelity's Retirement Health Care Cost Estimate reveals that a couple, both aged 65 and retiring in 2019, can now expect to spend an estimated \$280,500 on health care throughout retirement<sup>6</sup>.

The figure has increased over 50 percent since 2005 when it was \$190,000. Factors boosting this year's estimate include longer life expectancies and anticipated annual increases for medical and prescription expenses. The estimate assumes enrollment in Medicare health coverage but does not include the added expenses of nursing home or long-term care.

As you plan, assume that health care costs will absorb an increasing amount of your income.

## □ Verify your health care coverage

Be sure to confirm what will happen to your employer-provided health care plan when you retire. Most plans continue to cover retirees until they become eligible for Medicare at age 65, but there are variations.

And do not forget to look ahead to exactly how your current coverage will coordinate with Medicare, if at all, when you enroll in Medicare at 65.

Get a sense of what you can expect in actual medical costs. Expect these costs to keep rising as the years go by.

To supplement Medicare coverage, if you don't have an employer-sponsored retiree health insurance plan, consider buying Medigap insurance, which covers many things that Medicare does not. Medigap resources can be found at [www.medicare.gov/medigap](http://www.medicare.gov/medigap).

<sup>6</sup> 2019 FidelityConsulting

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## □ Consider long-term care insurance

Long-term care, either in a medical facility or at home, can quickly deplete your savings. Also, medical costs will likely continue to rise, often at a rate higher than general inflation.

Long-term care insurance can be tailored to your needs, and there is usually a range of coverages and premiums from which to choose. Check out the following resources for additional information:

[www.longtermcare.gov](http://www.longtermcare.gov)

[www.aarp.org](http://www.aarp.org) and search "long term care insurance"

## Are You Ready?

Being prepared to retire requires a great deal of thought and planning. You need to estimate expenses and income, project how much to withdraw from your savings plans, monitor your asset allocation, and anticipate roadblocks and setbacks.

Most of all, being ready requires action. To help you organize your retirement readiness action steps, complete the worksheets accompanying this brochure.

## □ Check out these resources

[www.aarp.org](http://www.aarp.org) □ AARP (informational articles and interactive tools)

[www.dinkytown.net](http://www.dinkytown.net) – Variety of financial calculators and tools

[www.ssa.gov](http://www.ssa.gov) – Official Social Security website

[www.medicare.gov](http://www.medicare.gov) – Official Medicare website

[www.longtermcare.gov](http://www.longtermcare.gov) □ Sponsored by the U.S. Department of Health and Human Services

[www.irs.gov](http://www.irs.gov) – Official Internal Revenue Service site

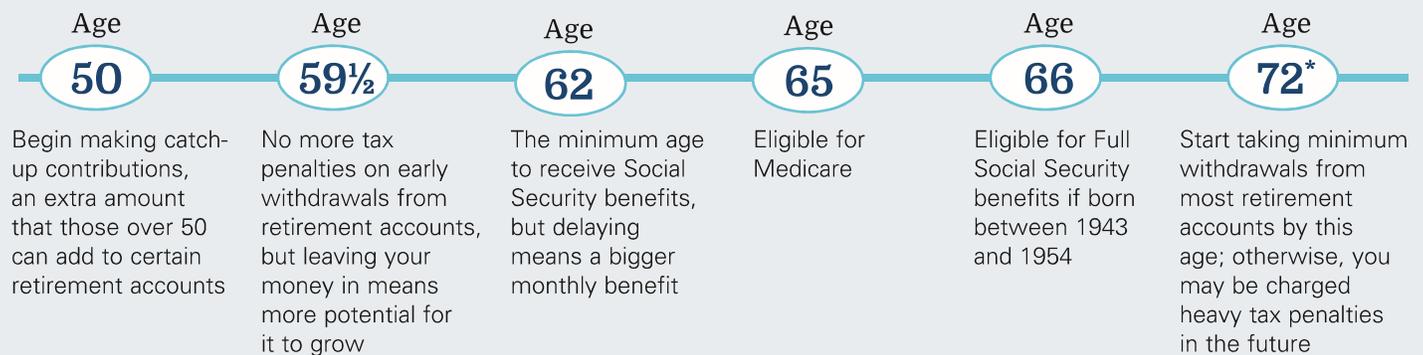
[www.pasca.org](http://www.pasca.org) – Profit Sharing Council of America (retirement planning and calculation tools)

# GETTING PREPARED

## Retirement Readiness Worksheets

As you think about this new adventure called retirement, make certain that you are as prepared as possible. Reviewing, completing and adding to this checklist may go a long way toward ensuring a pleasant and secure retirement.

### Timeline for Retirement



Estimate expenses in retirement

Estimate income from all sources

- Social Security
- Pension plan
- Retirement plan
- IRAs
- Savings
- Other investments

Consider distribution options

- Rollover to IRA
- Full or partial withdrawals
- Leave account balance in plan
- Consider annuities

Prepare a realistic retirement budget

Watch for income tax implications

Estimate how long savings will last

Review options for Social Security

- Work longer?
- Start benefits before full retirement age?
- Delay benefits?

Verify healthcare coverage

Learn about Medicare choices

Consider long-term care insurance

Monitor retirement account asset allocation

Do an annual portfolio checkup

Consider estate planning

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Now fill in the worksheets in this booklet. It will help you put this information to use as you get ready to retire.

\* Age 70½ if you reach age 70½ before January 1, 2020.

## A: Today's Money

Instructions: Record amounts for yourself and for your spouse in columns 1 and 2. Add up the money across each row for you and your spouse, and write the total in column 3. Then add all the numbers down column 3 and write the total in column 3 at the bottom.

	1 You	2 Spouse	3 Total
Retirement savings			
Net home equity (market value)			
Personal savings and investments			
Other assets (collections, etc.)			
<b>TOTAL ASSETS</b>			

## B: Your Money – 10 Years from Now

Asset Growth Factors for Three Selected Rates of Return\*

1.344 for 3%      1.629 for 5%      1.967 for 7%

	1 Current \$ value (from Worksheet A, Column 3)	2 *Asset growth factor (rate of return)	3 Asset value in 10 years (Column 1 x Column 2)
Retirement savings			
Net home equity (market value)			
Personal savings and investments			
Other assets (collections, etc.)			
<b>TOTAL ASSETS</b>			

## C: New Savings Between Now and Retirement

Savings Growth Factors for Three Selected Rates of Return\*

139.741 for 3%    155.282 for 5%    173.085 for 7%

	1 Estimated monthly savings amount	2 *Savings growth factor	3 Value of savings in 10 years (Column 1 x Column 2)
Retirement savings			
Net home equity (market value)			
Personal savings and investments			
Other assets (collections, etc.)			
<b>TOTAL ASSETS</b>			

## D: Monthly Income Over a 30-Year Retirement

Income Conversion Factors for Assumed Rates of Interest\*

0.004216 for 3%    0.005368 for 5%    0.006653 for 7%

	1 Accumulated assets (Column 3 from Worksheet B plus Column 3 from Worksheet C)	2 *Income conversion factor	3 Monthly income beginning at retirement (Column 1 x Column 2)
Social Security (estimate based on your retirement year)			
Retirement savings			
Net home equity (market value)			
Personal savings and investments			
Other assets (collections, etc.)			
<b>TOTAL ASSETS</b>			

# E: Monthly Expenses Today

**Instructions:** Now that you know what your savings and investments are, the next step is to move on to today's expenses. Worksheet E calculates what you spend today.

Some monthly expenses are easy to figure. Others, like a heating bill, may not remain the same from month to month and will require a calculation of your average monthly bill over a year's time. Still other bills may arrive only quarterly. While you may want to estimate some of these bills the first time you fill in the worksheets, you will want to add more accurate figures later.

If you are married, include your spouse's expenses and anyone who is financially dependent on you.



	Monthly amount
Housing	
<ul style="list-style-type: none"> <li>Mortgage (including HOA fees)</li> <li>Rent</li> <li>Maintenance</li> </ul>	
Food (at home)	
Utilities	
<ul style="list-style-type: none"> <li>Electricity</li> <li>Heat</li> <li>Internet/cable</li> <li>Phones</li> <li>Water/sewer</li> <li>Gas</li> </ul>	
Clothing	
Taxes	
<ul style="list-style-type: none"> <li>Real estate</li> <li>Income (state and federal)</li> <li>Other property taxes</li> </ul>	
Insurance	
<ul style="list-style-type: none"> <li>House</li> <li>Life</li> <li>Car</li> <li>Disability</li> <li>Long-term care</li> </ul>	

Worksheet E - continued

	Monthly amount
Loans	
Car	
Credit card	
Other	
Retirement savings	
Personal care	
Hair cut	
Dry cleaning	
Gym	
Other	
Transportation	
Car repairs and maintenance	
Gas	
Parking	
Public transportation	
Travel/vacations	
Entertainment	
Eating out	
Hobbies	
Movies/theatre	
Charitable contributions	
Other	
Gifts	
Membership dues	
Pet-related costs	
<b>TOTAL ESTIMATED MONTHLY EXPENSES (other than health)</b>	
Healthcare	
Health insurance	
Doctor visits	
Hospital	
Medicine	
Over-the-counter medicine	
Dental	
Vision	
Noncovered items	
<b>TOTAL ESTIMATED MONTHLY EXPENSES (health)</b>	

# F: Monthly Expenses in 10 Years

(First year of retirement)

	<b>1</b> <b>Total monthly expenses now</b> (from monthly expenses column in Worksheet E)	<b>2</b> <b>10-year inflation factor of 1.4106 (3.5%)*</b> (except for healthcare – see below)	<b>3</b> <b>Total expenses in 10 years adjusted for inflation</b> (Column 1 x Column 2)
Housing			
Mortgage (including HOA fees)			
Rent			
Maintenance			
Food (at home)			
Utilities			
Electricity			
Heat			
Internet/cable			
Phones			
Water/sewer			
Gas			
Clothing			
Taxes			
Real estate			
Income (state and federal)			
Other property taxes			
Insurance			
House			
Life			
Car			
Disability			
Long-term care			
Loans			
Car			
Credit card			
Other			
Retirement savings			

\* This inflation rate factor is simply the factor equal to a 3.5% inflation rate for 10 years.

Worksheet F - continued

	<b>1</b> <b>Total monthly expenses now</b> (from monthly expenses column in Worksheet E)	<b>2</b> <b>10-year inflation factor of 1.4106 (3.5%)</b> (except for healthcare)	<b>3</b> <b>Total expenses in 10 years adjusted for inflation</b> (Column 1 x Column 2)
Personal care			
Hair cut			
Dry cleaning			
Gym			
Other			
Transportation			
Car repairs and maintenance			
Gas			
Parking			
Public transportation			
Travel/vacations			
Entertainment			
Eating out			
Hobbies			
Movies/theatre			
Charitable contributions			
Other			
Gifts			
Membership dues			
Pet-related expenses			
<b>TOTAL MONTHLY EXPENSES ADJUSTED FOR 10 YEARS INFLATION (other than health)</b>			
Healthcare (for a 7% inflation factor use 1.9672)			
Health insurance			
Medicare Part B			
Medigap			
Doctor visits			
Hospital			
Medicine			
Over-the-counter medicine			
Dental			
Vision			
Noncovered items			
<b>TOTAL MONTHLY EXPENSES ADJUSTED FOR 10 YEARS INFLATION (health)</b>			

# G: Comparing Projected Income and Expenses

**Instructions:** This worksheet compares your anticipated income and expenses over 30 years in retirement and is designed to reflect any shortfall between the two.

Use the total monthly income calculated in Worksheet D and multiply it by a value adjustment factor for 0% (0.5174) at right. Then multiply this result by 360 months and enter that amount in Column 4 of Worksheet G. This is your total projected income.

Next, record the total monthly expenses calculated in Worksheet F. For expenses other than health, choose an inflation adjustment value factor of 4%. For health,

use a 7% inflation rate. Multiply this result by 360 months and enter it in Column 4. Now subtract the total value of projected expenses (“other than health” and “health”) over 30 years of retirement in Column 4 from the corresponding total value of your projected income (also

Value Adjustment Factors	
Inflation rate	5% assumed rate of return
0%	0.5174
3%	0.7520
4%	0.8640
7%	1.3691

	1 At retirement	2 Inflation adjusted value factor (See chart above)	3 Value in \$ at retirement for one month (Column 1 x Column 2)	4 Total value in \$ at retirement (Column 3 x 360 months)
Total projected income Worksheet D, Column 3 total				
Total projected expenses Worksheet F, Column 3 total Health Other than health				
Projected value of income less expenses Subtract Line 2 from Line 1				

# H: Additional Savings Needed Before Retirement (in 10 Years)

## Additional Savings Factors\*

0.00716 for 3%    0.00644 for 5%    0.00578 for 7%

Gap between projected total value of expenses and projected total value of income (from Worksheet G)	
Additional savings factor*	
Additional monthly savings needed (Multiply Line 1 x Line 2)	

Source: U.S Dept. of Labor, Employment Benefits Security Administration; [www.dol.gov/ebsa](http://www.dol.gov/ebsa)

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