

Three questions to ask yourself before you retire

As you near the end of the final lap of your working years, and begin scanning the retirement horizon, you are likely to be seeking the information that you need to ensure a safe passage. Here, we touch on three of the most important questions that you should be asking yourself as you transition to retirement.

1. Do I understand all of my Social Security benefits options?

When do you want to begin receiving Social Security benefits? Apply at least three months ahead of the time that you wish to begin. You can receive a reduced benefit once you reach age 62. The full benefit shown on the Social Security estimate statement that you receive each year can be yours when you reach “normal retirement age” (no longer automatically age 65, but dependent upon your date of birth). Or do you want to wait until later, to increase the amount of your benefit? You may want to run the numbers. If you plan a “working retirement,” find out if your benefits will be reduced, and by how much. You can make estimates of what benefits you can receive by using the benefits calculator at: www.socialsecurity.gov/OACT/ANYPIA.

Benefits aren't automatic. You can apply for benefits by: filling out an application online (www.socialsecurity.gov); calling 1-800-772-1213; or visiting your local Social Security office.

2. Do I have all my health insurance coverage in place?

There are three avenues to explore here:

First, Medicare. If you're already receiving Social Security benefits at age 65, your Medicare (Part A) starts automatically.

If you're not receiving Social Security, you should sign up for Medicare close to your 65th birthday, even if you have not reached your full retirement age, or you aren't yet ready to retire. Part A is called hospital insurance and covers most hospital stay costs, as well as some follow-up costs. Part B, for which you must enroll, pays some doctor and outpatient medical care costs. Prescription drug coverage became available in January of 2006 (Medicare Part D). The rules are complicated, so you will want to familiarize yourself with them before you need to make any decisions. Plan providers, AARP and the Medicare Web site (www.medicare.gov) can offer guidance.

Second, Medigap (and other) policies. About two-thirds of all Medicare recipients aged 65 or over buy this kind of supplemental private health insurance, designed to deal with some of the holes in Medicare coverage. Before buying Medigap, HMO or other managed care insurance, you'll need to do a thorough review of the kinds of policies available and their costs.

Third, retiree health insurance. Find out if you can obtain retiree health insurance from your or your spouse's company or union. You may find that the cost is less than that for a Medigap policy and provides more benefits. Make sure that you read the policy's fine print. Especially important: Will premiums rise with inflation? If you are a veteran, find out if you are entitled to medical or prescription drug coverage from the government.

3. Do I know how I want to manage my company retirement plan payout?

Your 401(k) or other qualified retirement plan may offer several kinds of distribution choices. One option may be to receive your benefits as periodic payments (an annuity). For pension plans there are choices within choices: Your payments might be fixed or variable, paid out over your lifetime or that of you and your spouse.

Or you may be entitled to receive a lump sum payout of your account balance. In that case you will need to make a decision as to whether you should: (1) take the money in hand, pay tax on it and invest what's left; or (2) arrange to roll over all or part of your payout into an IRA, avoiding all tax as long as the money remains there. (At age 70 1/2 you are required to begin making withdrawals.)

If you are planning an IRA rollover, tread carefully, for there may be tax traps. For example, arrange for a direct rollover of your account from the company plan to a Rollover IRA. If you don't, your employer is required by law to withhold 20% for income taxes.

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