Are You Dreaming or Dazing?
A Guide to Creating a Fulfilling Retirement

You've been thinking about retirement for a long time, and lately it's becoming more appealing every day. You could stay up later at night, rather than go to bed early in order to get up early. You'd have time in the morning to linger over the newspaper and a second cup of coffee. Those hobbies you've wanted to dive into would finally get attention. And avoiding the daily commute is something you've dreamed about. Sounds wonderful, doesn't it?

Retirement also brings some changes related to finances, health, family, and other issues. The purpose of this guide is to introduce topics and changes that you may face as you enter retirement and to suggest specific steps you can take to ensure that this new period of your life is secure and enjoyable.

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 workday, dry-cleaning bills, and contributions to birthday or other gifts for coworkers.

Others may not change, such as housing costs, auto loans, and groceries. Still others will go up, or you might incur 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's the net effect? Determining that will be very helpful in developing a better picture of your finances in retirement.

List your retirement income sources

Make a list of all possible sources of income during retirement. This could include earnings from part-time work, rental income, annuities, and other sources.

You may have retirement or pension plans that would provide income. Check with your Human Resources office if you're 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 taking withdrawals.

Finally, look closely at your options for receiving social security benefits.

Full Retirement Age for Social Security Benefits

It is important to understand when you will be eligible for full social security benefits and what the consequences are if you choose to begin receiving benefits early.

Your 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 the start date for receiving benefits beyond your full retirement age, your benefits will increase. For example, if you were born in 1943, your monthly benefit amount will increase by 8 percent for each year you delay benefits after reaching full retirement age, in this case age 66. These credits do not continue beyond age 70.

On the other hand, if you elect to begin receiving benefits before your full retirement age, the amount you receive 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 percent.

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 2019 is $17,640. This limit applies only up to full retirement age, when the earnings limit goes away entirely.

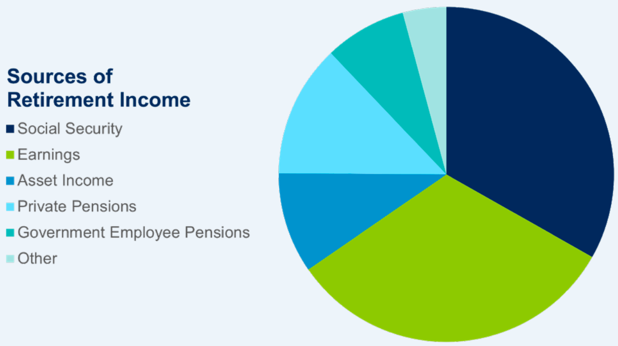
Calculate how much of your pre-retirement income you'll need

The rule of thumb for many years has been that you should plan to replace 70 percent to 100 percent of your pre-retirement income to maintain your standard of living in retirement. But recent research reveals that this target range may be outdated and much too low.

Whether you use the 70-percent to 100-percent target or a higher number, carefully consider how all of your sources of income will work together to replace your pre-retirement income.

Income During Retirement

Of the various sources of income, what share do social security benefits generally represent? Social security usually makes up approximately one-third of income.



Source: Social Security Administration

Don't ignore inflation

Inflation is the rate at which the price of goods and services rises and, consequently, purchasing power falls. 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 continue to rise.

Here's a brief perspective on the rising cost of living over time (assuming a 3-percent rate of inflation).

Item	Average Cost Today	Average Cost in 5 Years	Average Cost in 10 Years
House Cost in Florida (South)	$308,800	$357,984	$415,001
Recreational Vehicle (RV)	$115,000	$133,317	$154,550
10-Day Caribbean Cruise	$1,499	$1,738	$2,015
Round of Golf at Local Golf Club	$75	$87	$101

Sources: BestPlaces.net, CamperReport.com, Golfweek.com

Consider how long you will be in retirement

Great strides in health care have increased how long we're living. Average life expectancy in the U.S. is now almost 78.6 years, according to the U.S. Department of Health and Human Services.

The average 65-year-old American man can expect to live to age 83 and the average 65-year-old woman to age 86, the Social Security Administration reported. Those averages mean that one in two of us will 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 Benefits Consulting research found that a couple retiring in 2018 should have set aside an average of $280,000 for their retirement just to cover medical expenses not paid by Medicare.

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

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 don't 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/supplement-other-insurance/medigap/whats-medigap.html***.

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 coverage and premiums from which to choose.

Resources for Helpful Information

"Journey Through the 6 Stages of Retirement"
Investopedia
www.investopedia.com/articles/retirement/07/sixstages.asp

AARP
www.aarp.org

Social Security
Official website for social security information, benefit estimates, and so on
www.ssa.gov

Medicare
Official website for information, costs, Medicare Advantage plans, Medigap policy information
www.medicare.gov

Long-Term Care
Federal long-term care website, sponsored by the Department of Health and Human Services
https://longtermcare.acl.gov

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