3 Key Decisions to Make Before You Retire

When to take Social Security, how to pay for health care, and how to generate income?

Paid Content by Fidelity, November 2015

#1 How and when will you claim Social Security?

You can claim Social Security as early as age 62, but that may not be in your best interest financially. Why? Because Social Security payments increase if you delay claiming your benefits, your monthly benefit can go up until age 70. The difference between your check at 62 and 70 could be as much as 37%. For example, a monthly benefit of $1,300 if claimed at 62 could increase to more than $2,000 each month at age 70.

Your Social Security benefit is guaranteed for as long as you live, and it will keep up with inflation. So even though delaying means you would pass up some extra money in hand during your 60s, having a larger guaranteed source of inflation-protected monthly income for life is a big benefit for most people. Married couples have a number of options to potentially boost their lifetime benefits by as much as $250,000, according to Fidelity research.1

Of course, delaying isn’t always better—or always possible—for everyone, particularly for people with health issues, because it can take years to reach the breakeven point. Other families may need the Social Security income right away. But if you defer until age 70, and you live a long life, you will collect more by waiting to start your benefits. Figuring out when to collect benefits isn’t always as simple as deciding how long to wait.

#2 How will you pay for health care?

It probably won’t surprise you that health care costs tend to go up as you get older. What may be surprising is by just how much. An average couple who retired in 2014 expected to spend about $220,000 on out-of-pocket health care costs during their retirement.2

You probably can’t escape health care costs, but you can plan for them. That starts with the government’s retirees health care insurance program-Medicare. No matter when you claim Social Security, Medicare won’t kick in until age 65. So if you retire early, you will need to buy health insurance privately. A couple retiring at age 63 instead of age 65 might have to spend an extra $17,000 on health care before they are eligible for Medicare.2

While you are still working, you should also consider a health savings account (HSA), in conjunction with a high-deductible health plan, to save for health care costs in retirement. You may want to buy supplemental health insurance or long-term care insurance to pay for expenses not covered by Medicare. Finally, it pays to be a choosy consumer of health care services, ask a lot of questions about the cost and necessity of services, and compare prices from different providers.

#3 How will you generate cash flow once you stop working?

In retirement, Social Security will likely just be one of several sources of income. Others may include your savings, pension, annuities, rental income, or working part time. So how do you come up with a plan to make sure you have money?
There are many approaches, but it starts with a budget that identifies your needs-essential expenses like food, housing, and health care-and your wants-disciplinary expenses like travel, eating out, and entertainment. The definitions between needs and wants will be different for everyone, but once you have your list, it makes sense to match essential expenses with guaranteed income-money that you can’t outlive like Social Security, pensions, and lifetime annuities (which let you convert savings into guaranteed income). Then use your other savings and income for discretionary expenses.

One practical test to see whether you are financially ready for retirement is to try living off your retirement budget before you retire. If it’s too tight, you still have time to make adjustments. For instance, you can work longer, use home equity, or find part-time work.

Get Ready
You may be ready to stop working, or you may be getting ready to stop financially and emotionally. Whichever is the case, consider your strategy for Social Security, health care, and cash flow. It can help you get where you want to go.

Call 866-616-0199 to talk to a Fidelity representative about your retirement income needs today, or visit Fidelity.com/income to learn more.

1. Note: All income benefits are expressed in present values, calculated using an inflation-adjusted discount rate and life expectancy of 85. The numbers are sensitive to, and would change with, the discount rate and life expectancy assumptions.

2. Source: Fidelity Benefits Consulting, 2014. The estimate is based on a hypothetical couple retiring in 2014 at age 65 or older, with average (age 61-65 male, 65 female) life expectancies. Estimates are calculated for “average” retirees but may be more or less, depending on actual health status, area of residence, and longevity. The estimate assumes that individuals do not have employer-provided retiree health care coverage but do qualify for Medicare. The calculation takes into account non-employer-provided expenses such as medicare, medigap, and prescription drug costs. It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services, and long-term care. Life expectancies based on research and analysis by Fidelity Investments Benefits Consulting group and data from the Society of Actuaries, 2014.

Fidelity Brokerage Services, LLC Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917
©2015 FMR LLC. All rights reserved. 5/4/164 22:0

BrandAmp by AARP is an advertising program offered by AARP Media Sales. This consent is paid for and prepared in collaboration with the disclosed advertiser and AARP Media Sales. The AARP editorial staff of AARP had no role in the preparation of this consent or this BrandAmp by AARP program.