

Age Makes a Difference: The Rules of Retirement

What Does This Article Cover?

- What is the best age to retire?
- At what age can I maximize my Social Security benefit?
- Can I access my 401(k) account plan without being penalized if I retire before age 59½?

The truth is the right age for retirement depends on a number of factors including how much you've saved in a 401(k) plan or other retirement account, if you have a company defined benefit pension plan, and how much you will need to rely on your Social Security benefits. Whenever you decide is the best time for you, there are rules governing each of these retirement income elements based on your age that could influence your retirement decisions - and, if you're not careful, perhaps undo years of planning

One of the most important steps you can take, according to Deborah Owens, author of **Confident Investing: A Wealth Building Guide for Women**, is to understand how the age rules surrounding retirement can affect your decisions. Owens was featured in the May 13, 2004 issue of **BusinessWeek** in an article entitled "The Many Ages of Retirement."

In her book, Owens cites the example of a middle manager who accepted an early retirement buyout at 59 believing she was financially set for life. When the stock market tumbled so did her assets and she spent her 401(k) savings much faster than anticipated. Still too young to start on Social Security, she was forced to return to the work force and has thus far only been able to find work as a consultant, working at a much lower pay scale.

To avoid such missteps, below is a summary of the most important age related rules. If you're married, be sure to determine how the rules might affect both you and your spouse if you retire at various ages.

Retirement by the Numbers

Age 50

When you turn 50, you can begin to make additional or "catch up" contributions to your employer's 401(k) plan or similar qualified retirement plans if your employer's plan provides, or to an IRA.

Age 55

Many people are able to retire at age 55. Others leave their jobs via downsizing or other packages. If you are one of those, and begin to withdraw savings from your qualified plan or 401(k), you may do so without paying a 10% early withdrawal penalty. You will, however, be taxed on the withdrawal, unless the money is rolled over into another IRA or 401(k).

Age 59½

At this age, you are eligible to withdraw your money from your employer's 401(k) plan or an IRA without paying the 10% early withdrawal penalty- regardless of whether you leave your job or retire. Of course whether or not you can actually withdraw funds from the 401(k) then will depend on terms of the employer's plan. Income tax must be paid on the entire withdrawal unless you roll over the money into another IRA or another employer's 401(k) plan. (Withdrawals prior to the age 59½ may be subject to a 10% penalty in addition to regular income tax.)

Age 62

When you hit 62, you can begin to receive Social Security. Many people however, prefer to wait before beginning to receive their first Social Security checks. The longer you wait — though you can't wait beyond 70 — the higher benefit you will receive. Also, if you are working when you begin receiving Social Security, your benefit will be subject to an earnings test until you reach your "retirement age" and social security. If your earnings exceed the annual minimum amount, your Social Security benefit will be reduced. See www.ssa.gov for the exact rules.

Age 62-70

During this eight-year span, you can start collecting Social Security at any time. Remember, the longer you wait the larger your benefit will be. The amount of your benefit depends on several factors, including the year you were born, which determines your "full retirement age" — an arbitrary point when you receive your full benefit. If you were born during 1943 to 1954 your full retirement age is 66. If you wait until age 67 to receive your benefit, it will be eight percent more than what you would have received at age 66. By waiting until age 70 you will increase your benefit 32 percent over what it would have been at age 66. Once you reach age 70, your benefit will not increase any more, and you must begin receiving it, anyway.

The Social Security site has all the details and calculators to help you figure your own personal situation.

Remember, things to think about when you're considering receiving Social Security benefits are: impact on your tax bill, other available retirement income, and best estimate of how many years you may live.

Age 70½

Here's where you turn on the spigot and begin to receive all the accumulated savings. The IRS requires you to start withdrawing money from your IRA in what's known as a Required Minimum Distribution (RMD) based on a complicated formula that hinges on your life expectancy. With the exception of monies from a Roth IRA, you'll have to pay income taxes on these withdrawals. Details can be found at www.irs.gov.

Seek Assistance

Once you know these rules, the most difficult part, according to Owens, is creating a retirement income strategy. She urges people facing retirement to seek help from a financial professional or the employee benefits experts at your workplace.