Retirement Planning, Part 13
Timing Retirement
By Gary Case

One of the most basic trade-offs in retirement income planning revolves around the timing of retirement—precisely when to stop working or downshift to part-time work. This is something that most retirees have substantial control over, and there is growing evidence that more people are deciding to postpone full retirement. This may reverse a long-running trend towards "early" retirement that ran for much of the past century. According to the Bureau of Labor Statistics, in 1976, 57% of men between the ages of 62-64 were still in the workforce. Twenty years later in 1996, only 44% of that age group was still working. By 2002, the percentage had crept back up to 52%.

This evidence isn't enough to declare a trend, but financial pressures and changing attitudes towards work and leisure do seem to be combining to raise Americans' typical retirement age. A service-based economy with fewer physically demanding jobs may be increasing demand for seniors' experience and increasing their willingness to work. Some sociologists look forward to seeing millions of seniors use their mid-60s—following their "first retirement"—to go back to school and retool before pursuing a second or third career, full- or part-time.

Few people realize how much a decision to delay retirement can contribute to income security later in life. Such benefits include:

- Making a decision to return to work voluntary rather than necessary
- Higher Social Security benefits—"full" benefits
- Full eligibility for Medicare (eliminating expensive medical insurance premiums if your work provides such benefits)
- More years of income

Meanwhile, the pre-retiree's nest egg remains untapped and may benefit from further compounding. With respect to social security benefits, delaying retirement can raise Social Security benefits. What's more, unless current law is changed, benefits for delaying retirement are set to increase more over the coming years while penalties for "early" retirement rise.

This is a classic trade-off, pitting immediate leisure against continued work and greater future income. Social Security Administration data shows that the program is designed to deliver roughly equal total incomes to recipients up to typical life expectancies. By about age 82, a male who retires at age 62 will have received the same total income as a man who waited until 65 ½ to collect. At that "crossover" point, the patient retiree, whose monthly benefits are higher, begins to pull ahead. Should he live to age 92, he will collect tens of thousands of dollars more from the system than the early retiree.

Next time—converting assets for lifetime income.

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