Are You Financially Ready to Retire?

Whether you hope to retire at 55 or don't plan on joining the ranks of retirees until you reach age 67, one important aspect to your plans will be deciding when you can afford it. While there are plenty of rules of thumb to use when answering the question "Do I have enough money to retire?" this question is personal – and the answer depends on several factors unique to your circumstances. Consider the following questions.

Are you debt-free?

If you have high-interest debt, like from a credit card or vehicle loan, you may want to consider paying it down before retirement, when you are still earning income. The amount of interest you are required to pay each month depends on the balance of your debt and the interest rate you are being charged, so the larger the amount you owe, the more you will be charged each month for not paying it off.

> **Note:** If you are trying to pay off debt but cannot pay the bill in full, paying off more than the minimum payment each month will lower your interest charges while making a dent in the debt itself.

Many of us will be living off a fixed income in retirement. The higher your debt, the less money you will have to spend on other things. Furthermore, consumer debt typically has higher interest rates than market returns on retirement investments. As a result, your standard of living could suffer as you draw down your retirement funds faster to pay the debt.

Have you met your retirement savings goals?

Experts suggest that you need 70—80% of your pre-retirement income to live comfortably in retirement. This does not mean that you need 70% of one year's income in total, but rather that you need 70% of your pre-retirement income for each year that you will be retired.

For example, if you retire at 67 and live to 100, you would need 33 years of income. If you made an average of $50,000 per year during your working years, you would need over $1.1 million to maintain your standard of living throughout retirement.

Fortunately, you do not need to self-fund the entirety of your retirement savings. Between a pension, employer contributions to retirement accounts, disability benefits, and (possibly) Social Security benefits, you may receive a significant chunk of your monthly retirement needs from outside sources.

Subtract your guaranteed income from your monthly retirement expenses to determine how much money you need to save outside these sources. You can also use Navy Mutual's **Retirement Savings Calculator** to get a ballpark estimate of how much money you need to save for retirement and our **Retirement Planning Calculator** to estimate how long your current savings will last.

Read more: **Retirement Planning for Current Active Duty Military**

Are you eligible to make withdrawals from your retirement accounts? Or, do you have enough savings to get you through until you are eligible?

There are specific IRS rules when it comes to withdrawing money from dedicated retirement accounts like a TSP, IRA, and 401(k). Mainly, if you withdraw money from a retirement account before you reach age 59 ½, you may face penalties unless you are totally and permanently disabled or meet **other specific requirements**. You may also be required to pay income taxes on the amount withdrawn (unless you are withdrawing funds from a Roth account).

If you can wait to make withdrawals until you reach age 59 ½, however, you can take them without penalty. Note that the IRS also mandates that individuals begin taking required minimum distributions beginning the year they turn 72 years old. There may be significant tax penalties for individuals who fail to take out the required amount each year.

If you can avoid withdrawing funds from your retirement accounts before you reach age 59 ½, you will save yourself the 10% early withdrawal penalty and allow your money more time to grow.

Do you have a plan for health care?

As you age, your likelihood of developing health conditions increases. **Fidelity** estimates that an average couple retiring in 2021 would need $300,000 to cover their health care expenses in retirement. Without insurance, that number could be significantly higher.

Most employers will not continue providing your health care coverage into retirement, meaning that you need to find insurance coverage from the time you separate from your last job through to the end of your life. You have a few options outside of the **federal health care marketplace**:

- **Medicare:** Medicare is federal health insurance coverage available to individuals who are 65 or older. It is composed of three different parts. Part A covers hospital and hospice care. Part B covers doctor's visits, preventative care, and outpatient services. Part D covers prescription medications and vaccines. Medicare does not provide hearing, dental, or vision coverage.
    - Medicare Part C, also known as Medicare Advantage, is offered by private insurance companies and integrates parts of Medicare Part A and Part B and may include additional vision, dental, and hearing benefits.
- **TRICARE:** Retired servicemembers and their families may be eligible for health insurance coverage through TRICARE. Specifically, retirees who are eligible for Medicare may

automatically be covered by TRICARE For Life, which provides supplemental coverage to Medicare Part A and Part B.
    - Those who are not yet 65 years old can enroll in TRICARE Prime. This insurance plan is intended to bridge the gap from retirement from service until age 65 – at which point retirees lose eligibility for TRICARE Prime and can sign up for both Medicare and TRICARE For Life.
    - Retirees and their families may also be eligible for TRICARE Select, TRICARE Select Overseas, or the US Family Health Plan.
- **VA Health Care:** VA Health Care provides health insurance to eligible veterans (though rarely to their family members). Benefits provided are based upon one's priority group, recommendations from a VA primary care provider, and existing health conditions.
    - Priority groups are based on one's history of military service, disability, income, and other VA or DOD benefits received.

If you retire within 18 months of becoming eligible for Medicare, you may be eligible for **COBRA** coverage. COBRA allows you to stay on the same insurance plan that you had while employed, but you will no longer receive subsidies from your employer – you are liable for the full cost of coverage.

Do you have a robust emergency fund?

Before you retire, you may have been able to get away with not having an emergency fund by using money from your paycheck or credit card to cover expensive emergencies. In retirement, though, not having an emergency fund can be costly.

Without an emergency fund in place, you could have to pull money from your TSP, IRA, or 401(k) to pay for unexpected expenses – meaning less money for your retirement-specific expenses. An emergency fund can also help protect your retirement investments should the market become tumultuous – you need your investments to make money to provide for you during retirement; an emergency fund could allow you to hold off on investment withdrawals during times when market values may be low, such as during a recession.

The amount of money you should have in your emergency fund is specific to your needs – typically advisers recommend three to six months of living expenses (including your housing costs, insurance, utilities, transportation, and recurring medical expenses). Depending on your retirement savings, your fixed income sources, and how your funds are invested, you may want a larger or smaller emergency fund. Remember, once your emergency fund has been depleted, it will be harder to re-fund the account without a steady source of new income.

Are you reliant on Social Security benefits?

Social Security was never intended to replace 100% of a retiree's pre-retirement income; in fact, the Social Security Administration states that its benefits typically replace **only 40%** of a retiree's income. This means that you need to come up with at least 30% of your pre-retirement income from other sources. Using the example from above, you would need to self-fund nearly $500,000.

Keep in mind, the **2020 Annual Report** of the Social Security Board of Trustees states that the trust fund that pays out retirement and survivors benefits "will be able to pay scheduled benefits on a timely basis until 2034… At that time, the fund's reserves will become depleted and continuing tax income will be sufficient to pay 76 percent of scheduled benefits.” While there is time for this to change, the availability of Social Security benefits is based on the long-term sustainability of the program.

Given that Social Security benefits may not be guaranteed in the future, being reliant on them as they stand today could put your retirement plan into jeopardy. It may be wise to plan for a retirement that does not rely on Social Security at all – if the benefits are there during your retirement, then they provide supplemental income. If not, you still have the funds to live your retirement the way you want.

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