Should You Retire Now, Or Later?

The case for working past 65. Increasingly, baby boomers are urged to work until full retirement age or beyond. (Social Security defines “full” retirement age as 66 for those born from 1943-1954; it incrementally rises to 67 for those born in 1960 or later). If your health and workplace allow this, it may be a good idea for a few notable reasons.

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Your Social Security payments will be larger. Researchers from UCLA and Duke University jointly conducted a study and found that about 80% of Americans sign up for Social Security before full retirement age. In fact, 50% of Americans claim their federal retirement benefits either at age 62 or within two months of losing or quitting a job they hold at age 62 or older. The rush to get Social Security comes with a distinct penalty, though.

As an example, take a hypothetical pre-retiree named Sharon. Born in 1952, Sharon wants to retire next year at age 62. If she leaves work and claims Social Security benefits in 2014, she will end up getting 25% less in monthly benefits than if she had waited until her full retirement age of 66.

You have a chance to save more. Most people need to save more for retirement. Why not give yourself more years to amass extra funds for the next stage of life? They may even prove to be your peak earning years. If you have considerable retirement savings, think about the boost your nest egg could get from just two or three more years of growth and compounding.

Additionally, the longer you work, the shorter your retirement becomes. If you work two or three years longer, that is two or three years less of retirement that you have to fund.

Do you have a dream of retiring debt-free? Why not give yourself a better chance to realize it? Too many people are approaching retirement with significant debt – not just mortgage debt, but also business and education loans, auto loans and high credit card balances. This is becoming a major headache for baby boomers.

In a recent Securian Financial Group survey, 67% of those polled anticipated retiring with an outstanding mortgage. Credit card debt may seem easy to manage, but consider that most cards charge interest rates of 15% or more. In retirement, will your investments give you that kind of return? Retiring with your house paid off also puts you in position for a reverse mortgage should you need another income stream.

You can keep your health insurance. If your employer sponsors a health plan, leaving work at age 62 is a definite risk when you aren't eligible for Medicare until age 65. Unless you want to shop for your own health insurance or live without coverage for up to three years, it makes sense to stay on the job.

You have a chance to delay RMDs from your workplace retirement plan. Owners of traditional IRAs, SIMPLE IRAs and SEP-IRAs must take Required Minimum Distributions from those accounts after turning 70½. It doesn't matter whether you are working or retired; you must do it. That isn't the case with qualified retirement plans such as 401(k)s, 403(b)s and 457(b)s. With some exceptions, you can wait until the year in which you retire to take your first RMD from those accounts. So each year you work past 70 potentially represents another year in which you don't have to take an RMD from a qualified retirement plan and see your income taxes jump as a result. No RMD also means a bigger account balance that may benefit from another year of compounding and investment returns.

You may even be happier. Working provides a sense of purpose and accomplishment. If you don't have a new passion or objective in mind when you end your career, you may start to feel a bit adrift.

A 2012 report from the American Psychological Association's Center for Organizational Excellence found that workers older than 55 enjoy their jobs more than any other age group. Asked why they stayed at their particular job, 80% of the employees polled who were older than 55 said job enjoyment was the main reason, with 76% noting “work-life fit” as the leading justification. In contrast, only 58% of employees aged 18-34 cited job enjoyment as a motivation to stay with their current employer, and just 61% felt their jobs fit well with the other aspects of their lives.

So if you like what you do, you may want to keep at it a little longer. The financial and emotional benefits could be considerable.

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