Planning for retirement milestones.

Retirees and pre-retirees should plan for big decisions as early as age 50.

Retirees need a clear strategy before and after retirement at these key milestones. Work with your New York Life financial professional to navigate through the different key ages, many mandated by government regulations. Let's take a trip with Frank, a 50 year old. He's still working but he's starting to think about what retirement looks like. Let's explore how these milestones will affect Frank.

Important Milestones to Remember

50	55	59½	62	65	66/67	70	70½	85
Catch up provision allows greater contributions to qualified plans	If retired, can begin 401(k) withdrawals without penalty	Can withdraw tax-deferred assets (i.e. Roth IRA) without penalty	First year of Social Security eligibility	First year of Medicare benefit eligibility	Full Social Security benefits (depends on birth year)	Age of max Social Security benefit eligibility	Required to begin taking required minimum distributions (RMDs)	Required to begin withdrawals from qualifying longevity annuity contract (QLAC) accounts*

* New York Life only offers an IRA version of a QLAC (through a deferred income annuity), and therefore requires an IRA balance as of 12/31 of the previous year end in order to purchase a QLAC. Clients can use qualified money to fund a QLAC, but the QLAC limits are based on the IRA balance as of 12/31 of the prior year.

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Let's look at each milestone in more detail:

50

Frank is eligible for the "catch up" provision, which means he can make greater contributions to qualified retirement accounts (IRAs, Roth IRAs, 401(k)s, etc.). For IRAs and Roth IRAs, this means he is eligible to contribute an extra $1,000 per year, and an extra $6,000 per year to his 401(k). If he wasn't able to start saving for retirement earlier in life, this provision is important.

55

If Frank were retired already, he can begin 401(k) withdrawals without penalty. Normally, any distribution except specifically qualified distributions prior to age 59½ would result in a 10% early distribution penalty.

59½

Frank can now choose to access his retirement savings without the 10% early distribution penalty. Income tax is still assessed on traditional 401(k) and IRA withdrawals. Withdrawals from Roth IRA accounts are tax-free if held in the account for more than 5 years.

62

This is the first age that Frank is eligible to file for Social Security benefits. However, he will only be eligible to receive 70% of his full Social Security benefit at age 62. In fact, filing for Social Security benefits before the full retirement age of 66 or 67 (depending on birth year) will result in reduced benefits. He might think about an income annuity to bridge the income gap from age 62 to 67 or even to 70.

65

Frank is eligible for Medicare. This means that his health insurance isn't limited to his employer-sponsored or private health insurance, and likely more affordable. The initial enrollment period for Medicare (all four parts) begins three months before the month he turns 65 and lasts until the end of the third month after his birthday month – a total of seven months. If he doesn't sign up during the initial window, he can sign up between January 1 and March 31 each year for coverage that begins July 1. Failure to sign up during the initial enrollment period, however, could result in permanently higher premiums – unless he qualifies for a special enrollment period.

66/67

For those baby boomers born between 1946-1954, age 66 is the full retirement age for Social Security benefits. For Frank, born after 1960, age 67 is the full retirement age. This means that he can receive his full retirement benefit from Social Security. Spousal benefits are also affected by when people decide to receive benefits. A spouse may claim 50 percent of the higher earner's benefit. So if Claire, having the higher earnings record, decides to file at 65 and not 67, and receive a reduced benefit, then her spouse would receive 50 percent of her reduced benefit.

70

For every year that Frank delays filing for Social Security, he receives an 8% annual increase to his Social Security benefits up to age 70.

70½

Frank is required to take required minimum distributions (RMDs) from traditional retirement accounts, or he will have a 50% tax penalty on the amount that should have been taken out. Due to this penalty, it is very important to calculate and schedule the RMDs. Because the traditional qualified retirement accounts have grown tax-deferred, at age 70½, the RMDs are taxable as income. RMDs do not apply to Roth IRAs.

85

If Frank doesn't want to pay taxes on his RMDs at age 70½ or need his RMDs for income until later, he has the option of deferring a portion of his RMDs as late as age 85 with a qualifying longevity annuity contract (QLAC). A QLAC is a special type of qualified deferred income annuity that guarantees lifetime income but gives him the flexibility to delay receiving payments until up to age 85. QLACs have premium limits of $130,000 (2019) or 25% of all IRA balances (per individual). Postponing RMDs can help Frank to delay paying taxes on money he doesn't necessarily need in retirement, providing income for possible late in life medical expenses, and giving the potential to leave more assets to a spouse.

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