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Preparing For Life After Employee Benefits

As you plan for retirement, you will have many financial questions to address. You will likely focus on things like aligning your asset allocation with your target retirement date, creating a detailed budget for your post-retirement living expenses, and thinking about how you want to spend your newfound free time during retirement.

In addition to these big-picture considerations, your retirement planning should also include preparing to manage the benefits that have been provided by your employer throughout your career.

This piece looks at some of the benefits-related topics that workers need to consider as they approach retirement. Some of these items have a fairly short window for taking action, so it pays to begin preparing well before your actual retirement date. Many aspects of benefits planning depend on your employer's specific policies and state laws, so it is important to meet with a representative from your company's human resources department to learn about what options are available to you.

Medical Insurance

Medical care will likely be one of your biggest expenses during retirement, so it is vitally important to plan for how you will transition away from your employer-provided health insurance.

Medicare

Medicare, which starts on the first day of the month you turn 65, will become your primary insurance if you are eligible and no longer covered by an employer plan, even if you choose COBRA or retiree insurance. If you are already receiving Social Security benefits when you turn 65, then you will be automatically enrolled in Medicare. Otherwise, you must contact the Medicare office (*medicare.gov*) to enroll. You can enroll during the seven-month period that begins three months before the month you turn 65 and ends three months after the month you turn 65. Missing the window to enroll in Medicare parts B and D could result in higher premiums over your lifetime.

Post-Benefit Planning– Not Just for Retirees

Many of the topics described in this piece apply to any employee preparing to leave his or her current job, not just those who will be retiring from the workforce. Planning for life after employee benefits is especially important for people who are leaving a company to become self-employed or work at a start-up firm.

Understanding Medicare – Parts A, B, and D

Part	What it covers	Monthly Premium
A	Some of the costs of hospitalization, limited skilled nursing home care, home health, and hospice.	$0 (in most cases)
B	Doctor visits, lab tests, surgeries, and other medical services and supplies	$134 in 2017
D	Prescriptions	Varies depending on plan

If you are still employed upon turning 65 and have coverage through your employer, you may want to wait to enroll in Part B coverage because the employer plan may be the primary payer and it may offer little, if any, additional coverage to justify paying the Part B premiums. If you do not wish to enroll in Part B, you must decline enrollment.

If you are still working beyond age 65, your employer plan may continue to be your primary insurance. If this is the case, you have up to eight months to enroll in Medicare without penalty once employment ends.If you retire before turning 65, you will need to think about how you will get insurance coverage until becoming eligible for Medicare. Your options may include:

- ***COBRA*** — You can elect to continue your current coverage through COBRA. You must elect COBRA coverage within 60 days of terminating your employment, and COBRA coverage is generally limited to 18 months. COBRA applies to medical, dental, and vision coverage for yourself, your spouse, and your eligible dependents.
- ***Retiree health coverage*** — Some companies offer retiring employees the option of converting the group coverage offered to current employees to a group plan for retirees. Generally, workers have 60 days after terminating employment to elect retiree coverage.
- ***Private insurance*** — You can purchase individual insurance through an independent insurance company, or the state health insurance marketplace that was created through the Affordable Care Act.

Health Savings Accounts
If you had a Health Savings Account (HSA) through your employer's plan, you get to keep the HSA upon terminating employment and continue using it over your lifetime tax-free for qualified medical expenses. Once you turn 65, you will be able to use the funds in the HSA for nonqualified expenses without penalty, although these withdrawals may be subject to income tax.

Flexible Spending Accounts
If you had funds remaining in a Flexible Spending Account (FSA) upon terminating employment, you will still have access to those funds for dates of medical service prior to your date of termination or if you continue making contributions to the FSA through COBRA after termination.

Social Security
You may apply to begin receiving Social Security retirement benefits any time between ages 62 and 70. The longer you wait to begin receiving benefits, the larger your monthly benefit will be; there is no benefit to delaying benefits past age 70, however. You should contact the Social Security Administration (*ssa.gov*) three to four months before you would like to start receiving your benefits to discuss your payment options.

Life Insurance
If your employer offers group life insurance or if you carried additional voluntary life insurance for yourself or eligible dependents, you may be eligible to convert that coverage into an individual plan upon retiring; a medical exam may be required, and premiums may change. You typically must make this conversion election within a certain number of days of terminating employment.

401(k) and Profit-Sharing Plans
If you retire or change jobs, you will have to decide what to do with the assets that are in your employer-sponsored retirement plan, such as a 401(k), 403(b), or profit-sharing plan.

Options for distributions
You typically have four options when leaving an employer. You may take a lump-sum distribution in cash, leave the assets in your former employer's plan, move the assets to your future employer's plan, or roll over your assets to an Individual Retirement Account (IRA). If you choose a non-direct rollover, the distribution is paid directly to you, taxes are withheld, and you have 60 days to transfer the assets to the IRA to avoid taxes and penalties.

When making a decision about your retirement plan options, you should carefully consider many factors, including your age at the time of the rollover, fees and expenses, the investment options and benefits offered by your existing or future employer's plan, your asset allocation, your withdrawal and liquidity needs, and your retirement and estate planning goals.

Penalties and taxes
Regardless of which method you choose, you generally will face a 10% early withdrawal penalty for any funds withdrawn before reaching age 59 ½. Any withdrawals of pre-tax contributions (i.e., non-Roth accounts) will be considered taxable income, regardless of how old you are when you withdraw the funds.

Important dates
Before deciding on your retirement date, you should talk to your company's human resources department to find out if there are any important deadlines for being eligible for that year's retirement contribution. Many companies' profit-sharing plans require that an employee be employed as of the last day of the plan year to be eligible to receive a profit-sharing contribution from the firm that year. For example, if a company's plan year ends on December 31, an employee may want to consider working through that date so he can receive the firm's contribution.

Pension Plans
If your employer offers a pension (or "defined benefit" plan), you will likely need to decide how you want to receive your payout upon retiring. Plans generally offer a lump-sum option or a life annuity option, which provides an income stream over your lifetime that may continue for your named beneficiary. Some plans allow you to take a combination of the two payouts. Regardless of which payout option you choose, the distributions will be taxable income. If you take the lump sum, you might consider rolling it directly into an IRA so you can avoid a large one-time taxable event. Factors to consider include your taxes, investment fees, investment experience, personal health, and interest in leaving assets to your heirs.

Deferred Compensation
Many companies offer deferred compensation plans for senior executives and other highly compensated employees. Often this deferred compensation is paid once the employee retires. If you are eligible for deferred compensation, it is important to work with your employer and your tax advisor to understand the requirements for receiving the payout and the tax implications.

Unused Vacation and Personal Days

Some states have laws that require employers to compensate employees for unused vacation and personal days. As you prepare to retire or leave your company, talk to the human resources department to make sure your unused days have been tracked accurately.

Early Retirement Packages

Companies looking to reduce payroll expenses may offer some employees early retirement incentives. The amount of the compensation package is usually based on your salary and tenure with the company. If you are offered early retirement, it is important to carefully evaluate the payout options and whether you can afford to retire early. You should also understand how accepting early retirement would affect your other benefits, including health insurance, life insurance, Social Security, and pension.

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