RETIREMENT

WHY ~ WHEN ~ HOW

A comprehensive look at the many options
available for you and your family
when it comes to your financial strategy.

WHY

“When is the right time to retire? When you dread going to work.”
~Mary Bright

There are probably as many reasons to retire as there are opposing reasons to continue working. Let’s consider a few of the elective reasons to get started:

1. Retire to spend less time at work

For some, the work place may have become less appealing over the last few years – changes in management, demands for increased productivity, younger co-worker attitudes and ever changing technological demands. Some demands no longer reflect the appeal of the original job conditions.

Many manufacturing employees simply reach a point where their bodies cannot take continued physical labor. Whether the day is spent walking on concrete, laying bricks or driving heavy equipment, the body begins to ache after years of daily repetitive activity.

Similarly, daily mental stress in the professional field, takes its toll as well. Those who must stay mentally alert while multi-tasking throughout the work day are likely to have stress related burnout. While the technology revolution has made more information available, it has overloaded those responsible for interpreting and implementing that data. The traditional 40-50 hour work week has increased as a result

2. Retire to spend more time with family

We know we only have our grandchildren’s early years to make an impression. Our children may simply remember us as good people who went to work every day and visited two weeks during vacation. If we want our grandchildren to retell stories of swimming *f*ully clothed, singing while hanging out of car windows and dancing to our generation’s rock and roll songs, we need to spend more time with family and less time at work. Unfortunately retirement comes at a time our children are committed to their career, and are working just as we were at that age. This makes a connection with them more difficult and requires more planning and coordination. A week together can buy memories worth more than the financial cost.

3. *Retire to checking off the "Open Window List"*

Let's not use the term "Bucket List" that implies what you can do before you die. In reality we are limited by what we can do while we are still physically capable; hence, the "Open Window List". At around 50 we realize that it is only our body that ages while our minds are still young. How else can you explain those aches and pains that plague us after we do the activities that gave us so much pleasure just a few years ago? Our bodies can be 64 years old but our minds still trick us into playing like we did in our 30's.

4. *Retire to devote more time to the hobbies*

Golfing, fishing, traveling, reading and napping all require a significant devotion of time to reach that truly superior level of performance. The vision of uninterrupted daily practice is what keeps many going.

5. *Retire to spend your children's inheritance*

After years of saving for retirement, the relief of saving enough is thrilling. If your children are beyond the life changing twenties and thirties, well employed, and now saving for their own retirement, the pressure is off. You can enjoy the benefits of your saving habits guilt free!

> "Retirement is wonderful. It is doing nothing without worrying about getting caught at it."
> ~ Gene Perret

The non-elective reasons to retire are:

1. Employer "R I F – Reductions in Force"

That embarrassing walk out the door with HR personnel carrying your box of "personals" is immediate and suprising. Without time to plan a methodical retreat the employee may be left hanging without adequate health insurance and the suspension of other employee benefits. While COBRA may provide coverage for as long as 18 months for terminated employees, their spouses and dependents, the premiums now must be paid by an unemployed jobseeker.

2. Family health issues lead to termination

Family health issues may cause an early termination of employment for those who are required to care for a spouse, parent or child. Because health events are normally sudden lightning strikes, this unplanned termination event gives little opportunity to plan around the loss of employee benefits. Thanks to the Affordable Care Act, the ill family member can qualify for health insurance in the post-employment world of higher health care costs; although, the retiree may have to deal with a much higher premium unsubsidized by the ex-employer.

Sixty years ago, when life expectancies were around 70 years, it was typical for employee manuals to define mandatory retirement age as 65, the Social Security optimum threshold age at that time. Now that actuarial tables extend life expectancy into the eighties there are many productive years remaining after 65. A Gallup poll found that among those 67 years old or older, two-thirds are retired; but, one-third still work at least part-time. Some of the reasons to continue working may be:

1. You enjoy work and the sense of accomplishment

Many have worked so long that the career has become who they are – and that image does not reflect the image of an unstructured retirement life. A choice to continue working may be best for some with a work ethic that cannot be extinguished.

2. Savings are insufficient

Far too many people have not saved enough to comfortably retireand continued employment may be a better choice. An extended work life both defers the time when the retiree must deplete retirement savings and gives more time for appreciation of the existing investments, plus additional savings.

3. Recovery of retirement assets

The employer's retirement plan, perhaps a 401(K) or a simple IRA, took a real hit in the Great Recession of 2007-2012, and again in 2022, and needs more time to recover.The tax deferred growth of continued income and appreciation has an exponential multiplying effect and can significantly add to the ultimate retirement benefits.

4. Employer needs

For a fortunate few, the employer may make it more attractive to continue working than to retire. In many regions of the country, the pool of replacement employees is not adequate either in number or experience to assume the demands of a job currently held by an experienced veteran. Some employers offer bonuses for would-be- retirees to work, at least part-time, after retiring; some even allow retirees to receive retirement plan benefits while working.

5. Health insurance coverage

Retirees who have full insurance premium benefits may need to work at least until all covered family members reach age 65, when Medicare coverage is available. While taking Social Security benefits at 65 still extracts a penalty from the benefit payment, it does provide a source for paying the Medicare premium – it can be withheld from the Social Security payment.

6***. Social Security benefits***

Working beyond age 66 will add to the ultimate Social Security benefits. The longer you delay receiving benefits, the greater your benefits. The ultimate benefit continues to increase by eight percent per year for each year after age 66; so to wait to the final allowed age of 70, raises benefits by 35 percent. While this may initially appear to be a no-brainer, remember the benefits terminate at death; so the worst case scenario is that you wait until 70 to begin receiving benefits and then die at 72. Your heirs may be disappointed to learn the Federal government actually benefited more from your delay than they will.The break-even time period is approximately 11 years; i.e., you have to live to be 81-years-old to ultimately receive an amount greater than the total not taken in ages 66-69.

Conversely the opposite occurs for those who may choose to begin taking Social Security benefits at the earliest possible age – 62. There are two major drawbacks to consider before making this decision:

1) For those whose full retirement age is 66 benefits are reduced by 25% - effectively a penalty of 25% that lasts for as long as benefits are paid. If the early-retiree is the higher earning spouse, that penalty spans not only that life but also the benefit period for the surviving spouse.

2) Furthermore, if the early retiree continues to work, benefits are reduced by $1 for every $2 earned above the annual threshold limit – 19,560 for 2022.

Considering the two major financial reductions in social security benefits, an employee is discouraged from retiring early, the long-term cost in benefits may be too costly.

7. Remaining lifetime

For a 65-year-old retiree the post-work-life is expected to be 18-20 years, or almost 20 percent of your total lifetime.This is a long time to rely on the retirement resource bank for support.

Those with the traditional work ethic may have not taken enough time to develop hobbies attractive enough to induce retirement fantasies. We all know people who have worked happily into their 80’s or 90’s, continuing to dress for work every day as they have done for decades. In the early years of our work, the thought of retirement is a distant escape. But as time progresses, the reality of retirement becomes clearer – it takes planning to be successful.

"Don't think of retiring until
the world will be sorry that you retire."
~ Samuel Jackson

WHEN

Asked “When do you want to retire?” most workers will respond that he/she want to retire “ASAP”, or “When I can afford it”. The first factor of affordability is to determine how much income is provided by the “retirement resources pool” – the combination of assets providing monthly cash flow. These assets can be fixed income bonds, dividend paying stocks, annuities, rent, royalties or any other source that has a reliable cash flow pattern.

Bonds - Interest payments on corporate bonds are typically paid semi-annually, making it easy to construct a consistent monthly cash flow. The rate of interest is easily determined by reviewing the bond description which can be found on the internet or from the selling agent. Corporate bonds are independently rated with AAA being the most conservative with little risk of default all the way to C being the most risky. Risk and interest rates have direct relationships; i.e., the less the risk the less the interest rate, likewise the greater the risk the greater the interest rate. The AAA rated bonds will pay less interest but will likely last to maturity.

US Treasury Bonds have the least absolute risk and thus carry the lowest rate of interest.The most critical decision in buying Treasury Bonds is the maturity date, or duration. While the longer term bonds, with maturities of 30 years, may have a higher interest rate, they do have significant market risk. If later bond issues carry a higher interest rate, the value of outstanding bonds falls to an amount that provides an interest rate comparable with the current prevailing rate.

Stocks - Publically traded stocks can provide consistent cash flow with quarterly dividend payments. Again the dividend cash flow can easily be constructed to provide monthly income by buying stocks with payments in sequential months. Mutual funds are a professionally managed collection of individual stocks that fit the funds goals as outlined in its prospectus. There are over 8,000 mutual funds, many of which provide monthly cash payments to owners. Owning stocks or mutual funds gives the investor a stream of cash flows and the chance for appreciation in value.

Annuities - Annuities can provide a constant monthly income for life, but come with some built-in issues – commission rates are higher than that of securities; and there is typically a seven year waiting period to begin withdrawing which subjects premature withdrawals to substantial penalties.

Renting - Experienced landlords know that a consistent stream of rental income can be problematic – dead-beat tenants, periodic vacancies and repairs can disrupt the cash flows.The typical advice for those considering purchasing rental properties is that you should have at least 20 or none. The critical mass number for rental units should be enough to have no more than 10% vacant and 10% being repaired so that the remaining 80% of the units are occupied with good rent paying tenants.

Expenditures - Controlling your expenditures in retirement is critical. Debt service expenditures can adversely effect the retirement resources pool. Debt service is the amount required monthly for home mortgage, portfolio margin debt, auto purchase debt and/or any other indebtedness.

Typically the decision to purchase an asset with debt is a carryover from the working years when monthly income was more certain and retirement was on the distant horizon; but, once retired the monthly payments may become more stressful. Obviously prior planning is required to have these debts minimized at retirement. It is a rare situation when you can buy a home, primary residence or vacation home, at age 60 and not effect the retirement resources pool.

Credit card debt is the other enemy of post-retirement financial security. Again this type of debt is usually incurred in the dynamic working years and can be a burden at retirement. 25% or more interest rates and fees can eat away at retirement resources that are earning less than 10%.

Managing monthly expenditures for home, vehicle and health are the primary concerns for retirees. With a mortgage-free home retirees may wrongly believe their housing cost to be insignificant; however, remember that your home ages at the same rate you do. If your home was 25 years old when you bought it 25 years ago, it is now 50 and probably in need of repair and updating. Likewise, vehicles require more attention.

Now for the most significant threat to the financial, emotional and physical securityfor retirees – health care costs, including insurance can consume a large portion of the budget. Most critical to facing the financial burden is the purchase of supplemental insurance to fill the gaps Medicare does not cover. Homes can be remodeled to provide handrails and doorways can be widened for wheel chairs, but all that comes with a cost.

Many advisors recommend testing a retirement budget lifestylefor a number of months while still working. First, make a post-retirement budget that is realistic.Then set aside four-six months to test whether or not you can actually maintain a comfortable lifestyle within that budgeted amount. If you find yourself giving monthly excuses to raid savings or “temporarily” adjust your expenditures upward, you need to reevaluate whether or not you are ready to adjust your lifestyle to the retirement reality of restricted resources.

"Retirement: Twice the husband and half the income."
~ Unknown Wife

HOW

"The question isn't at what age I want to retire, it's at what income."
~ George Foreman

As in,"How much is enough?"

All Baby Boomers will remember just how lofty a goal of $100,000 for retirement seemed. As inflation adjusted our style of living, it also raised our retirement target to $1,000,000; surely that would be enough.

Unfortunately, along the way to age 66, full retirement age for Social Security benefits, three standards changed: first inflation made us realize it takes more money to buy the same goods later than it does now; healthcare costs have increased at a rate greater than the annual inflation rate; and we are all living longer, giving us more time to experience inflation and incur greater medical costs.

Consider that babies born in 1900 had a life expectancy of just 50 years, while those born 100 years later have an expected life of more than 80 years. The good news is that the older we become, the longer we are expected to live.

An easy way to estimate the future effects of inflation, considering the goal for the annual inflation rate in the US is three percent (3%), is to use a rate of 1.33 for every ten year period. For example if you typically spend $5,000 per month or $60,000 per year, the amount you need in ten years is then

$60,000 X 1.33 = $80,000.

If you expect to live another ten more years, then multiply the

$80,000 X 1.33 = $106,400.

Of course the $80,000 annual income may come from multiple sources – savings withdrawals, Social Security, investment income etc. Using the annual goal of $80,000, if $26,000 can come from these other sources then only $54,000 need come from savings. Most advisors suggest that annual withdrawals from the retirement savings should be no more than four percent in order to assure the savings last a lifetime. Using the $54,000 annual expenditure goal, that would mean the savings need to be at least $1,350,000 ($54,000/.04) at retirement.

The importance of starting early
The earlier a person begins to save for retirement the more resources can be accumulated thanks to the rule compounding rate of return. To illustrate the power of compounding consider this example of how to accumulate $100,000 earning 6% per year, investing monthly for a specific number of years prior to age 66:

For 10 years, at age 56, you need to save $607 per month.

For 15 years, at age 51, you need to save $342 per month.

For 20 years, at age 46, you need to save $215 per month.

For 25 years, at age 41, you need save only $144 per month.

For 30 years those insightful 36 year olds it only takes $99.06.

No matter what you have saved or what age you are, the important thing is to start now. Whatever you can save will be helpful for your non-working days

Methods of accumulating the retirement resource pool
Human beings are creatures of habit. So the best way to save is by making it a habit – setting aside specific amounts monthly. Many find the best method of monthly savings is through payroll withholdings that have favorable income tax treatment. There are a number of IRS approved plans that defer the income tax on contributions as well as annual earnings:

- **Employers 401(K), 403(B) or 457 retirement plans –** allows an employee less than 50 years old to contribute as much as $20,500; if over 50 the maximum is $27,000. Employers may match the contribution based on a percentage of the gross payroll.

- **Simple IRAs –** allows the employee to contribute as much as $14,000 if under 50 years old, or if over 50 as much as $17,000. Employers may add as much as three percent of the gross payroll or the match the employee's contribution, whichever is less.

- **SEP IRAs –** self-employed taxpayers can contribute as much as 25% of his/her self-employed earnings up to a maximum of $61,000.

- **Traditional or ROTH IRAs –** allows a taxpayer less than 50 years old to contribute and deduct as much as $6,000; a taxpayer over 50 may contribute and deduct as much as $7,000.

The basic rule of thumb is that contributions to tax-deferred plans should always be maximized. At the very least employees should contribute the amount required to have the maximum employer matching, thus doubling the tax deferred benefit.

It must be remembered that the tax deductible status of the contributions and the tax deferred status of the earnings means all future withdrawals are taxable as ordinary income. So consider that 20-to-35% for future withdrawals must be dedicated to pay federal and state income taxes.

"Everyone who doesn't work has a scheme that does."
~Munder's Law

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