

# 21<sup>st</sup> century retirement



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## *Are You Planning an Early Retirement?*

As your 62<sup>nd</sup> birthday approaches, the dream of early retirement may seem like a possibility. From that day on, you may qualify for Social Security retirement benefits. While you may be lured by monthly Social Security checks, seriously consider your financial position to be sure you can afford to walk away from the nine-to-five routine.

As you imagine your retirement, it is essential to incorporate accurate Social Security figures into your financial equation. Keep in mind that Social Security benefits paid at an early retirement age will be less than the benefits paid at full retirement age (65–67, depending on your date of birth). To get an estimate of what you can expect to receive from Social Security, you can go to the Social Security Administration's website at [www.ssa.gov](http://www.ssa.gov) and use the agency's online calculator.

## *Go Beyond Social Security*

Beyond your Social Security benefits, however, are other important factors, such as your overall financial situation, prospects for future income, and satisfaction with your job. If early retirement seems a reasonable goal, determine how much income you can count on from savings to supplement your Social Security benefits. Remember to include income from company retirement plans, **Individual Retirement Accounts (IRAs)**, or **annuities**.

Pension benefits may be tied to Social Security benefit amounts, so check carefully regarding the possible effects of early retirement on these sources of income. Your company's human resource manager may be able to provide you with the pertinent facts and figures about your retirement plan. Once you have determined the benefits you will receive upon retirement, add up your current living expenses and determine a rough estimate of how much income you may need during retirement. It is possible that you may live on less than your pre-retirement income, depending on your lifestyle.

## *Other Considerations*

Another critical point to consider is whether retiring from your job would leave you without **life** and **health insurance** or other necessary benefits. You may want to investigate the cost of private health coverage until you may be eligible for **Medicare**.

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## Gearing Up for the Golden Years

**W**ill you have enough money for your retirement? This is a major concern facing many Americans, as retirement looms closer on their financial horizon. If you're facing a retirement shortfall, you're not alone. Many American households may retire on less annual income than they may need to live comfortably during their "golden years."

Guidelines for retirement planning recommend that you may need at least 60% to 80% of your pre-retirement income to maintain your current lifestyle. The following steps may help you get a clearer view of your retirement finances, and may help you identify any needed adjustments to your savings strategy:

**1. Project a retirement budget,** taking your current standard of living into consideration. How will you meet future medical expenses, housing costs, travel, and entertainment? Answering this question can give you a target for your budget.

**2. Review your financial assets** to see if they will meet your

retirement needs. Be sure to consult your qualified financial planning professional annually to determine if your assets are on track for the retirement lifestyle you envision.

Remember to include *all* your resources on your balance sheet. Some of these untapped sources may be:

**Home Equity.** If you sell your home, the Internal Revenue Service (IRS) allows you to keep up to a certain dollar amount of capital gains tax free, which you can then use to boost your retirement savings, provided you have owned and occupied the residence as a principal resident for an aggregate of at least two of the last five years before the sale.

**Highly-Appreciated Non-Income-Producing Assets.** With careful financial planning, you may be able to convert non-income-producing assets, such as stocks or real estate, into income-producing assets.

**Valuable Collectibles.** Specialty items, such as estate jewelry, antiques, and stamp, coin, or doll

collections, may be converted into cash, but only if you're willing to relinquish them at some point. Evaluate what these valuables may be worth to you in your retirement years and seek the services of a professional appraiser, if needed, for an accurate appraisal of items.

**3. Consider moving to a more affordable locale** that could potentially free up additional retirement capital by lowering your cost of living.

**4. Consider delaying your retirement.** Each additional year you wait to retire will help reduce your budget shortfall. In addition, working longer will give you an added opportunity to increase your savings.

The way to handle a potential retirement shortfall is to plan carefully and begin acting *now*. Once you have determined your strategy with a financial planning professional, implement it. If you start now, your golden years may turn out just as you have planned. ■

## Cognitive Aging Could Affect the Ability to Delay Retirement

**W**orking longer has been suggested as an effective way to boost Americans' retirement security, but setting a higher standard retirement age overlooks the problem that a minority of workers may experience levels of not just physical, but cognitive decline that could negatively affect their job performance, a study published in November 2016 by the Center for Retirement Research at Boston College warned.

The study, "Cognitive Aging and the Ability to Work," was written by economists Anek Belbase and Geoffrey T. Sanzenbacher. The authors

cited previous research showing that as workers age, they tend to experience a decline in "fluid" intelligence, or the capacity to process new information. It has also been shown, however, that most older workers are able to maintain their productivity despite this loss of fluid intelligence because their "crystallized" intelligence, or their accumulated knowledge, tends to increase; and because their cognitive reserves continue to exceed the demands of the job.

The researchers explained that as workers grow older and more experienced in their job, their crystallized

intelligence offsets declines in fluid intelligence because the amount of information they need to learn decreases, and the steady accumulation of knowledge over time makes up for their loss of fluid capacity. Moreover, workers who perform simple or routine tasks may have more fluid intelligence than their job demands. For example, the authors said, many clerical positions require workers to perform routine activities that become automatic with time, leaving such workers with enough

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fluid capacity in reserve to act as a buffer against decline.

However, Belbase and Sanzenbacher noted that certain types of workers may struggle to maintain their productivity as they age, including those in high-skilled occupations with an intense demand for fluid intelligence, those who switch jobs later in life and therefore lack the crystallized intelligence needed to compensate for a loss of fluid intelligence, and those who experience unusually severe levels of cognitive decline.

To demonstrate the interplay of crystallized and fluid intelligence, the researchers cited a study of the

performance of air traffic controllers that asked participants to re-route two planes on a collision course. The results showed that older controllers performed substantially worse than younger controllers, and no better than younger study participants with no training in air traffic control. In light of such evidence, the researchers noted, air traffic controllers are required to retire by age 56.

The authors also pointed to previous research showing that while the risk of dementia remains low among people in their fifties and early sixties, at about 4%; this risk rises to 15% among people aged 65-74. They also observed many individuals who

develop severe dementia in their seventies start to exhibit significant symptoms while in their sixties.

Based on these findings, Belbase and Sanzenbacher recommended that as the retirement age rises, employers have screening programs in place to identify older workers who are suffering from cognitive decline—especially if these workers are performing tasks that have high cognitive demands or in which errors could significantly harm others. “Screening could protect the public from harm and potentially allow the cognitively impaired to qualify for retirement under the disability program,” the authors said. ■

## are you planning an early retirement?

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If you find that your total retirement income will be insufficient, explore the possibilities of downsizing your home, moving to an area with a lower cost of living, or finding part-time employment where compensation is within allowable Social Security limits to avoid benefit reduction. If you are working and collecting Social Security benefits while under full retirement age, there is a \$1 loss (a “give-back”) in benefits for every \$2 earned above \$16,920 in 2017. If you attain full retirement age in 2017, there is a benefit loss of \$1 for every \$3 over \$44,880 earned in months prior to attainment. Once full retirement age is attained, these earnings thresholds no longer apply. Many health professionals encourage part-time employment or volunteer opportunities during retirement for the social aspects, sense of purpose, and community involvement.

### *Retirement Needs Checklist*

To begin preparation for retirement, read each of the following statements. If you have given careful consideration to the task, give yourself a check. The remaining items will require your attention soon, even if your retirement is still some years off.

- I have completed an assessment of my current financial situation, including income, expenses, assets, and liabilities.
- I have determined which of my expenses may be lower after I retire and which may be higher.
- I have determined how much I can expect from Social Security, veterans benefits, and pension plans.

- I have estimated how much I expect to receive from interest on my savings, real estate rentals, etc.
- I have reviewed my insurance policies to ensure that they meet my present and future needs.
- I have organized a strategy to pay off my large bills and debt before retirement.

### *Final Assessment*

If you have any doubts about being able to make ends meet, working for a while longer may improve your financial situation. If, however, income from savings, rents, royalties, or other non-employment sources, combined with your projected Social Security income, is enough to meet your retirement expenses, you may want to focus on making your dream of an early retirement a reality. ■

## Mapping the Road to Retirement

Somewhere along the road to retirement, you may want to check your “map” to be sure that you are on the right path. How far off is your retirement? Do you have sufficient financial resources for the entire journey? With longer life spans and the rising cost of inflation, your financial resources may need to last for several decades in retirement.

### *The Sooner You Begin, the Better*

Many people in their prime earning years do not save enough for retirement. One advantage of saving at a younger age is that you can have a longer planning horizon. The more you accumulate before retirement, the less you may need to be concerned about working during retirement to maintain your desired lifestyle. For these reasons, you may want to spend time *now* developing a strategy, or “road map,” for your retirement.

Here are five signposts to consider en route to retirement:

**1. Determine your retirement needs.** A sound retirement strategy may need to provide you with an income stream (indexed for inflation) that can last from 30 to even 40 years. With a 4% annualized rate of inflation, the cost of goods and services will triple in approximately 30 years. So, keep this in mind when comparing your current expenses to the amount you will need in retirement.

Once you have determined your needs, begin developing financial strategies that may provide you with your required income stream. Assess your current assets and savings. Think about how you may fill gaps between what you have today and what you will need tomorrow.

- 2. Recognize that Social Security and pension benefits may not meet all expenses.** In the past, Social Security and a company pension were significant sources of retirement income. However, these days if you depend solely on Social Security or a pension, you may find that your income falls short of meeting your retirement needs. But, a retirement planning strategy can help you address anticipated shortfalls in income.
- 3. Increase your personal savings.** One way to boost your savings is to set money aside on a regular basis. Look for areas where you can curb spending and adjust your budget to save more.
- 4. Take full advantage of your company plan.** If your employer sponsors a retirement plan, such as a 401(k), consider contributing the maximum amount. You can take advantage of pre-tax contributions and accumulations on a tax-deferred basis. In addition, many employers match employee contributions—usually

up to a maximum percentage. This is “free money” from your employer that automatically goes into your workplace retirement account.

- 5. Use personal tax-efficient alternatives.** Individual Retirement Accounts (IRAs) allow you to save on a tax-deferred basis. Contributions to traditional IRAs may be pre-tax, and funds accumulate on tax-deferred; however, income taxes are due when distributions from the IRA are taken. On the other hand, contributions to Roth IRAs are made with after-tax dollars; funds accumulate tax free, and no income tax is due when distributions are taken. For the 2017 tax year, contributions to an IRA, or combination of IRAs, are limited to \$5,500 (\$6,500 for individuals aged 50 and older). In some cases, cash values of a life insurance policy and annuities may also provide tax advantages.

### *You're in the Driver's Seat*

Retirement may be a long way off, however, the sooner you begin planning and taking advantage of your saving opportunities, the better prepared you may be to enjoy your “golden years.” Be sure to periodically consult with a qualified professional on the road to your financial future. ■

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