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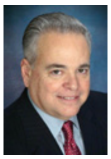
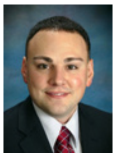
21st century retirement





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in this issue:

Retirement: A Community Audition

A house once filled with the constant comings and goings of a growing family has become quiet. Family visits are now few and far between. The indoor and outdoor maintenance of a home is getting to be more of a hassle than you had anticipated. If this sounds familiar, it may be time to look at your living situation as you prepare for your "golden years."

At different stages in life, your concerns about your house vary: at different times, you may think about its location and landscaping, whether it is close to community resources, and whether it allows social interaction and lifestyle consistency. If you have lived in the same home for many years, it may provide you a sense of continuity and of community, and it may also be paid for by the time you reach retirement. However, its size and upkeep—which may have been more appropriate at a time in your life when your children were still at home—may no longer suit you. You can begin to feel isolated in your family home if its location limits your access to social support systems (particularly if lifelong friends or family members have moved away).

Although housing needs change as we grow older, shelter, in any form, is always more than mere physical comfort. It is a financial, psychological, and social base that anchors our sense of stability. For this reason, some people who move to warmer climates early on in retirement later return to the familiarity of their original communities and the proximity of family and friends.

Retirement communities, also known as **55+ communities**, have become a viable option to consider for people in similar situations who are thinking about downsizing. These neighborhoods or complexes, which vary from condominium-style settings to single-family homes, usually require that at least one member of the household be age 55 or older.

This type of community typically offers an independent lifestyle for healthy and active adults who do not require assistance with daily living, as provided at an **assisted living facility (ALF)**. The Housing for Older Persons Act of 1995 eliminated the requirement that these communities have "significant facilities and services designed to meet the physical and social needs of older persons." This legislation has increased the popularity of such communities for people age 55 and over who do not require assistance with the routine activities of daily living.

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Countdown to Retirement: Strategies for Saving in Your 50s

Many retirees today are redefining the "golden years." Forget about endless days of leisure. Retirees seek adventure, travel, and new business pursuits. While these changes may redefine retirement, will retirees be able to finance their plans? Today, many people age 50 and older have not begun to save for retirement or have yet to accumulate sufficient funds.

If you're in this age group and find yourself facing an underfunded retirement, it's not too late to take charge. There are actions you can take today to get on the right track. Here are some ideas:

What's it going to take? First, estimate how much money you will need in retirement. Once you have an idea of the amount, you can work toward meeting that goal. A good rule of thumb is that you may need 60%–80% of your current annual income in retirement. Your financial professional can help you assess the best amount for your situation.

Maximize your contributions. If your employer offers a retirement plan, contribute as much as the law will allow. In 2018, those age 50 and over can contribute up to $24,500 to an employer-sponsored 401(k) plan ($18,500 + $6,000 "catch-up" contribution). Many employers also offer a company match, so be sure you contribute enough to claim this "free" money, which can add up over time.

Create a spending plan. In other words, make a budget. Many people think a budget is restrictive, but look at it this way: You can spend now, or you can have the money to afford your dream adventures later. To start, it is important that you pay down debt and avoid accruing new debt. Next, examine your spending habits and replace some of your discretionary spending with saving. Saving even $20 more per week is a step in the right direction.

Take initiative. Besides contributing to your employer's plan, you can save more by opening your own Roth IRA. Contributions are made after taxes, but earnings and distributions are income-tax free, provided the account is at least five years old and you have reached age 59½. Those age 50 and over can contribute up to $6,500 a year in 2018. Eligibility in 2018 for these plans begins to phase out with adjusted gross incomes of $120,000–$135,000 for single filers and $189,000–$199,000 for married joint filers.

Hang out your shingle. Many Boomers hope to start their own businesses in retirement. Why wait? If you begin your entrepreneurial efforts now, your business has the potential to be in full swing by the time you retire, and any profits between now and then can be added to your savings.

Consider downsizing. Your home may have significantly increased in value since you first bought it, and you may have already paid off the mortgage. With children at or near adulthood, do you really need all that space? Selling now and moving to a smaller, more affordable location may allow you to transfer some of the equity in your home into a savings vehicle.

Reconsider your retirement age. If you want to cushion your retirement savings, consider staying on the job longer. Some people actually leave retirement to reenter the workforce because they feel more fulfilled while working. Others seek part-time work, consulting, or entrepreneurial endeavors. Such options may enable you to earn more money to save, which may help to postpone spending down your savings.

Regardless of which options you choose, you can benefit from time and compounding interest. Every year that your savings remain untouched allows more time for growth. It is never too late to start preparing for your future. So, take action *now* to get on track to saving for your retirement.

Gender Differences in Retirement Planning

Women often face more financial challenges than men as a result of lower salaries, prolonged career breaks, and relative longevity, according to a study recently published by the BMO Retirement Institute.

Women tend to have smaller pensions or 401(k) balances, on average earn less than men while working, and are more likely to have part-time jobs with limited retirement benefits. Women also leave the workforce more than men to become family caregivers, further reducing their ability to save.

The study showed that men and women have very different approaches to preparing for retirement. For example, men are more likely than women to feel very confident that they will have enough retirement income to live comfortably with funds for both basic and medical expenses. But women are generally less confident in their knowledge about financial products and services.

More men than women indicated they are somewhat or very knowledgeable about IRAs, Roth IRAs, Rollover IRAs, and Social Security. Also, men are three times as likely as women to describe their investment style as "aggressive," while women are more likely to describe their style as "pragmatic" or "conservative." Moreover, nearly half of the men surveyed have a do-it-yourself attitude to retirement planning, compared to about one-third of the women.

The authors suggested that women need to consider improving their level of financial literacy while becoming more engaged in the financial planning process. On the other hand, men could benefit from being more receptive to advice from experts, and recognizing their financial limitations. Researchers added, "Men would do well to keep in mind that retirement is a life event as well as a financial event, and that preparing for the social aspect of retirement is equally important as preparing for its finances." ■

retirement: a community audition

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Considerations

Relocation of any kind requires a careful assessment of the possible pros and cons. Before selling your home to move to the newest 55+ community in your area, here are some important areas to explore and think about:

Security. Retirement communities may offer security that a typical neighborhood would not. Generally, they have security guards at the entrance of the neighborhood or building. With this added protection, you may feel more comfortable in your surroundings.

Recreation. With people living longer, retirement can be an active and fulfilling phase of life. Depending on the size, location, and affordability, some retirement communities offer world class amenities that can include a clubhouse for sports and billiards, a fitness center, an outdoor pool, and tennis and bocce courts. Many have a recreation center that organizes group activities for residents, such as movie nights, lectures, day trips, and dinner parties.

Maintenance. Although you may have once considered mowing the lawn and pulling weeds pleasurable pastimes, those same activities may not be as appealing now. Independent living communities typically take care of the landscaping and snow removal, helping residents to enjoy having a yard without maintaining it.

Costs. The services provided by retirement communities come at a cost that must be considered in addition to typical homeowners' expenses. Usually, there are entrance fees and monthly maintenance costs (similar to condo fees), which increase your purchase price and/or monthly bills.

Limited socialization. While many people consider a 55+ active community's lifestyle an advantage, residents without readily available transportation may view the prospect of being surrounded by the same group of people as socially confining.

Determining where you want to live in retirement is a decision that requires some serious thought. Whether you choose to stay in your home, look into various 55+ independent living communities, or choose to explore other living arrangements, it is important that you plan ahead and are comfortable with your choice. ■

Helping Employees Meet Retirement Goals

To minimize disruptions in the natural progression of workforce turnover and to foster sound workforce planning, employers should help employees stay on track for retirement by quantifying their levels of retirement readiness, a study released by Sibson Consulting has recommended.

The study, "Quantifying Retirement Readiness: How to Determine if Your Employees Are on a Smooth Path to Retirement," was published in the January 2018 issue of the firm's newsletter. According to the analysis, many employers have no idea how financially prepared their employees are for retirement. For example, the study's authors pointed out, companies may be unaware that have a quite a few later-career employees who are nowhere near ready for retirement, or a number of mid-career employees who have plenty of savings to retire and are looking for an early exit.

The study's authors therefore recommended that employers use a comprehensive strategy to understand how retirement readiness—defined as the ability to retire with sufficient income to maintain the individual's current standard of living throughout retirement—affects their business. Specifically, they suggested that employers identify which employees appear to be on track for a timely retirement and which do not, and take steps to help employees financially prepare for retirement.

According to the study, the most direct metric for retirement readiness is the replacement ratio, which defines the required income for retirement as a percent of income just before retirement. Setting a ratio of 80% as the benchmark, the authors observed that part of the replacement income will come from Social Security and other retirement vehicles, while the remainder will come from savings and other assets. However, they cited research showing that the contributions of these sources will vary by generation: for example, whereas the average retiree currently aged 69-89 receives an estimated 22% of his or her income from an employer-sponsored pension, a worker currently aged 25-49 can expect to receive only 12% of his or her retirement income from an employer-sponsored pension.

The study's authors further emphasized that when employees start accumulating retirement wealth and when they begin drawing from this accumulation are key to determining an appropriate savings rate. They warned that since most replacement ratios use a retirement age of 65, employees who plan to retire before that age will need to accumulate more savings to attain the same replacement ratio for the additional years in retirement. While acknowledging that there is no single "right" answer for a wealth-accumulation target, researchers estimated that a target of 10 times the individual's

pay is reasonable for a worker retiring at age 65.

Finally, researchers advised employers to provide employees with a qualitative assessment of their progress so they can see if they are falling short of their desired replacement ratio and wealth-accumulation target. For example, employers can use retirement-readiness letter grades that score an employee's current standing based on his or her age plus the expectation that he or she will reach an appropriate level of retirement readiness.

"Once this information is clear, the next step is to develop and implement strategies to help employees retire when they want to," the study's authors concluded, adding that these strategies may include using plan design analysis/changes, educational materials, or communications campaigns to affect behavioral changes. ■

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