



# 41 Frequently Asked Questions About Retirement



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# 41 Frequently Asked Questions About Retirement

Most people know a thing or two about retirement, but it can also be an intimidating time if baby boomers have not properly prepared and its filled with questions. What's the most useful process to shift from your job career to retirement? How much should I save? When should I begin to withdrawal my benefits? To keep your lifestyle, proper planning and consideration must be done.

## Q1 Where will my retirement income come from?

According to the Social Security Administration, many retirees receive income from four main sources:

1. Personal Savings and Investments
2. Earned Income
3. Company Pension Benefits
4. Social Security Income

## Q2 If inflation averages 5%, how much will I need in the future?

Assume you retire at age 60 and need \$4,000 per month retirement income. Assuming 5% inflation, at age 65 you will need \$5,105 to buy the same goods and services. At age 70, this amount will rise to \$6,515. At age 75, you will need \$8,315 to maintain the same purchasing power as \$4,000, 15 years earlier.

## Q3 What percentage of my final working earnings will I need in retirement income?

Retirement planning resources suggest 66% to 75% of final earnings as a "rule of thumb." However, many people have to adjust to a 1/4 to 1/3 drop in their income. We recommend that as you near retirement, you make a monthly "needs" budget based on past spending (review your check register for the last year) and combine that with a "wants" list; items like travel, golf, entertainment, gifts, etcetera, so that you have a carefully considered income goal, rather than just an estimate based on your final year's salary.

## Q4 Before I retire, is there a way for me to project my retirement income?

With today's technology, there are many financial planning computer programs that are reasonably accurate. For more detailed planning as you approach retirement, seek the advice of a professional such as a Certified Financial Planner (CFP), a Certified Public Accountant (CPA), or another advisor experienced in retirement preparation.

*Using a computer program does not guarantee a profit or protect against a loss.*

## Q5 Where can I go to find answers to questions about Social Security Benefits?

We have found Social Security Administration offices in our area to be quite helpful. A call to the local Social Security office any time you have a specific question will probably be welcomed. Also, a number of books that describe Social Security benefits are available at most bookstores or the public library. You can also find it on the internet at [www.SSA.gov](http://www.SSA.gov).

*The accuracy of a financial planning computer program and its applicability to your circumstances is not guaranteed. Information derived from the use of these programs should not be used to make investment decisions and cannot ensure a profit or protect against a loss. You should obtain personal advice from qualified professionals prior to making any investment decisions.*

**Q6** When should I file for my Social Security? What will I need when I file for Social Security?

Normally, you should file for Social Security three months before you plan to receive benefits. You will need:

1. Your Social Security card
2. Proof of your age
3. Tax forms from the previous year
4. Marriage certificate/divorce documents, if any
5. Death certificate, if applying for survivor benefits

Call your Social Security office for further details prior to visiting the office.

**Q7** What is the maximum Social Security I can be paid if I retire this year at the normal, retirement age?

A worker retiring (in 2016) at the normal retirement age could receive as much as \$2,663 per month and a worker retiring at age 70 could receive as \$3,501 per month.\*

\*Source: Social Security Administration <https://www.ssa.gov/news/press/factsheets/colafacts2016.html>

<https://www.ssa.gov/news/press/factsheets/colafacts2015.html>

**Q8** What's the best way to get an accurate estimate of my Social Security benefits?

Request a "Personal Earnings and Benefit Estimate Statement" form from the Social Security office, complete and send it in and you will receive a record of your wage history and an estimated retirement benefits statement. You can also request a Social Security Statement through the Internet at [www.ssa.gov/SSA\\_home.html](http://www.ssa.gov/SSA_home.html).

**Q9** Will Social Security keep up with the cost of living?

Although Social Security has had cost of living adjustments in the past, because of well-known changes in demographics, we do not recommend relying on Cost of Living Adjustments (COLAs) to increase benefits at the rate of inflation in the future.

**Q10** What is the maximum Social Security I can be paid if I retire this year at the normal, retirement age?

For individuals born in 1937 and prior, normal retirement (the age at which recipients are entitled to 100% of his or her SSI benefits) is 65 years of age. For each month you choose to collect social security income before the "normal" retirement age, your payment is reduced by .555%. The earliest you can collect is age 62 and the benefit would be 80% of your "normal" SSI. For individuals born after 1937 the reduced benefit is 79.17% at age 62, and the normal retirement age increases from 65 and 2 months to 67 years of age, depending on the year of birth.

The complete table of Social Security Full Retirement and Reduction by Age can be found at [www.ssa.gov/retirechartred.html](http://www.ssa.gov/retirechartred.html).

Source: Social Security Administration

**Q11** How much income can I earn from employment without affecting Social Security payments?

This is an important consideration, because many retirees choose to work during retirement. Based on 2009 figures:

- Under age 65, a worker can earn \$14,160 with a reduction of \$1 in benefits for every \$2 earned over the \$14,160 limit.
- Social Security recipients 65-69 no longer have earnings limits.

Source: Social Security Administration

**FYI**

For individuals born after 1937 the reduced benefit is 79.17% at age 62, and the normal retirement age increases from 65 and 2 months to 67 years of age, depending on the year of birth.

### Q12 Will my Social Security be taxed?

**For couples filling a joint tax return:**

- If your “income” is less than \$32,000, your benefits are not taxable.
- Between \$32,000 and \$44,000, 50% of your Social Security is included in taxable income.
- Above \$44,000, 85% of Social Security is taxable.

**For single taxpayers:**

- If your “income” is less than \$25,000, your benefits are not taxable.
- Between \$25,000 and 34,000, 50% of Social Security is included in taxable income.
- Above \$34,000, 85% of Social Security is taxable.

See your tax advisor for complete details, including the definition of “income” as it relates to the taxability of Social Security income.

### Q13 Is there a way to reduce the “Social Security Tax?”

One way is to continue to defer income not needed, through investments such as IRAs or single-premium tax-deferred annuities.

### Q14 What kind of investments do you recommend for retirees?

Investments should be coordinated with an investor’s individual need for income, growth of income, safety of principal and liquidity. Only after careful planning should investments be recommended to a retiree.

In general, however, many retirees have the need for three kinds of investments: Short term investments like Money Market Funds, CDs and Treasury Bills are useful in meeting needs for cash within the short term. Fixed income investments like municipal and government bonds help meet intermediate need for income, for periods beyond a year but not more than 8 to 10 years. Long-term investments like real estate, stocks, and stock mutual funds can be used to potentially increase a portfolio and the income it produces in years to come, although the risk can also be higher.

### Q15 In general, how would you arrange my investments to meet my need for income and growth?

**Following basic planning principles:**

First, we determine a cash reserve amount and set that aside for use in the next 12 months and to meet emergency expenses. Next, we arrange fixed-income investments to produce income for a period of, say, eight years. The balance could be positioned in several growth investments, each employing different approaches to investing, thereby diversifying the portfolio. Using this strategy, we plan that income will be available each year for a number of years and that unguaranteed but higher potential growth investments can be left untouched for eight years or longer. However we do remind you that past performance is no guarantee of future results and there is no assurance that such a strategy can satisfy your income needs or will be successful.

### Q16 How can CDs fit in my portfolio?

Fixed-dollar investments with short maturities, such as CDs, do offer stability of principal and could be one component of nearly every retired investor’s portfolio. The income, however, can and does fluctuate widely from year to year. According to the Federal Reserve Board, during the 10 year period ended December 2001, the highest average interest paid on 6-month CDs was 6.7% (in 2000); the lowest was 1.9% (in 2001). So while the principal may be stable, it is not really safe to level retirement income.

*\*\*CDs are FDIC insured up to the legal limit of \$250,000 and sometimes even more for special kinds of accounts or ownership categories.*

*<https://www.fdic.gov/consumers/consumer/information/fdiciorn.html>*

**Q17** Now that I'm going to stop working, won't my taxes be lower?"

Many retired workers are surprised to learn that they will still be paying income taxes, often with little or no reduction in tax payments from their working years. You need to plan carefully, and you should consider using some tax-advantaged strategies. Start by determining your taxable retirement income and your marginal tax bracket.

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**Q18** I've always liked real estate as an investment. Should I own real estate?"

Real estate investments may be appropriate because of their growing income and appreciation potential. But real estate properties may require hands-on management, which can grow into an unwelcome chore during retirement years.

Many investors choose to participate in real estate investments called Real Estate Investment Trust (REITs). REITs can offer exposure to real estate investments for growth and income, and many are liquid because they are actively traded like stocks on an exchange.

*REITs may not be appropriate for all investors. Certain REITs may have limited transferability, lack liquidity and the value of an investment in a REIT may fluctuate based on economic, regulatory and environmental factors. Redemption may be at a price which is more or less than the original price paid for the units by the investor.*

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**FYI**

Fixed income investments like municipal and government bonds help meet intermediate need for income, for periods beyond a year but not more than 8 to 10 years.



**Q19** What are my options for the money that is in my 401(k) or other pension plan?

Most investors should consider a number of alternatives including:

- Municipal bonds that pay tax-exempt interest
- Proper planning with IRAs, Roth IRAs, and annuities can offer tax deferral of earnings and tax advantaged income
- Quality common stocks that could appreciate.

There are advantages and disadvantages to all investments, and you should review your suitability for an investment that you may consider. You should talk to a financial professional before making such changes.

*Income for municipal bonds may be subject to the Alternative Minimum Tax (AMT), and capital appreciation from discounted bonds may be subject to state or local taxes. Capital gains are not exempt from federal income tax. Furthermore, IRAs and annuities may be subject to ordinary income tax rates upon withdrawal of earnings. Individuals should contact professional tax advisors or other professionals to help answer specific questions about specific situations or needs prior to taking any action.*

**Q20** What options are available with my 401(k) plan when I retire?

Usually there are four broad choices, each with different advantages and disadvantages:

1. Leave it invested in the company plan
2. Annuitize and receive an income for life
3. Withdraw the account balance, pay taxes and then invest the funds
4. Rollover to an IRA or other pension fund, paying no taxes and continue to defer the income tax

**Q21** When am I required to withdraw money from my IRA?

By the end of the first quarter of the year following the year that you become 70 1/2 years of age, you must make your first “Required Minimum Distribution” (RMD) withdrawal from your IRA.

**Q22** How do I calculate the amount of the RMD that I must withdraw?

The Internal Revenue Service has issued proposed regulations substantially simplifying the calculation of minimum required distributions from qualified plans, IRA’s and other related retirement savings vehicles. The calculation is based on the following factors:

1. The value of your IRA account at the end of the previous year.
2. Your age and a single table based on the concept of a uniform lifetime distribution period.

Consulting with a tax and/or estate planning advisor and financial planner is extremely important for many investors when determining who should be named as your beneficiary and what methods should be elected in calculating the required minimum distribution.

**Q23** Do the required withdrawals apply to single-premium deferred annuities, too?

Usually not. Typically, you can leave money in annuity contracts to compound tax deferred until age 85.

**Q24** What if I forget to withdraw the minimum amount at age 70 1/2, or I make a mistake on my minimum distribution and do not withdraw enough?

The penalty is 50% of the “under withdrawal” the difference between what you withdrew and what you should have taken out to meet the Required Minimum Distribution. Your IRA custodian firm should have systems in place to assist you in determining the dates and amounts you should withdraw from your IRA.

**Q25** I've heard that if I take my "rollover" money out of my company plan, my employer will withhold 20%. Is this true?

It is true. If your company writes you a check for your pension balance, even if you intend to deposit it to an IRA, they must withhold 20%. Therefore, if you deposit the check to an IRA, you must use funds from other sources (for instance, other savings or borrowing) to make up the withheld amount. Otherwise, you must pay income taxes on the 20% that is withheld and not rolled over into the IRA.

**Q26** Is there a way I can avoid having 20% withheld from my rollover?

Yes. You can arrange to have the funds transferred directly from the pension into an IRA. In that case, your company writes the check to the custodian of your IRA, not to you, and there is no withholding applied to the account balance.

**Q27** I have an \$180,000 IRA rollover and I need \$1,500 in monthly income from the IRA. If I make an average return of 6% on my investment portfolio, how long will my money last? What if I can increase the return to 8% or even 9%?

Earning 6% interest and withdrawing 10% from the account each year would deplete the principal in approximately 15 years. At 8% interest, the portfolio would run out in 20 years; at 9% return, in 27 years.

Obviously a portfolio earning more than the rate of withdrawal will never be depleted and can actually be used to provide increasing income in retirement to offset the rising cost of living. The above figures are for illustrative purposes only and do not represent the performance of any actual investment. Actual investment results may vary.

**FYI**  
Carefully consider what you will do with your time, who you will see, and what is important to you. Make a weekly schedule of activities and events that you intend to pursue in retirement.

**Q28** What are my biggest financial risks in retirement?

For many retired Americans the largest financial risk is the cost of health care, either in hospital, or long-term care provided in a facility or at home. A number of insurance companies offer contracts that can reduce these risks, but the cost of the insurance coverage can be very high. Prior to retirement the risks and the cost of the insurance should be considered within the total financial planning process.

**Q29** Should I keep my life insurance or cash it in?

The primary use of life insurance is the cash benefit it provides to offset the loss of income that an individual's family would realize in the event of death of the insured person. This is the reason many people own life insurance.

But what about in retirement? Ask yourself this question. Who loses financially as a result of your death? One very good reason to keep life insurance after your "non-working" years is to compensate for the loss of pension benefits. Perhaps you cannot rollover your pension account and must take payments for life. Many retirees

choose to take the higher benefit based only on their life (rather than a reduced payment based on joint life payments) and use the extra income to pay for existing or new insurance to make up the lost payments in the event of their death before their spouse's death. However, other issues, such as insurability and ability to continue premium payments must be considered before making such a decision.

**Q30** Isn't life insurance a bad investment?

While many argue that life insurance can be a poor investment, there are some advantages. Most insurance companies are highly regulated and carefully monitored, and therefore are usually very reliable. Often the tax advantages are overlooked. The proceeds of a life insurance policy are normally tax-exempt. While many other investments are taxed on the difference between the cost and the payoff, the death benefit from life insurance owned by an individual is usually not taxable. However, "cashing in" a policy can lead to a taxable event. A Financial Consultant that is knowledgeable about life insurance should be consulted before terminating your life insurance.



**Q31** What about estate planning?

You should review your wills, trusts, and related documents regularly with your attorney. You may discover that you need to update your estate plan because of changes in your family and/or changes in laws that affect estate planning. Titling of your accounts is also a very important consideration. It is sensible to spend a modest sum on good legal advice for this purpose. If you do not have an attorney, get a referral from a friend or advisor that you trust. If your attorney does not specialize in estate planning work, he or she may be able to refer you to one who does.

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**Q32** Are there tax wise ways to transfer wealth to my heirs?

There are several provisions in the current estate tax laws that allow individuals to pass wealth to their survivors without estate taxation. Each individual can generally leave an unlimited amount of wealth to a surviving spouse without taxation; this is called the "marital exemption." To a non-spouse heir each individual may leave an amount that is not subject to estate taxation that depends on the year of death. Assuming death in 2015 that amount is generally limited to \$5,430,000. \*\*\*

Additionally, anyone can gift an amount (\$14,000 in 2015) to any individual and that amount is not subject to gift taxation and would normally not be considered in the taxable estate of that individual at their death. See your estate and tax advisors for more detailed information on estate planning\*\*\*.

\*\*\* <https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Whats-New-Estate-and-Gift-Tax>

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**Q33** Is there a way to gift more than \$13,000 per year to my children?

One method of leveraging gifts is often used by individuals that are concerned about the amount of estate tax their heirs may have to pay. By gifting cash each year to an irrevocable trust (or directly to heirs) that purchases life insurance on the life of the donor, gifts can be multiplied. While life insurance owned by an individual is considered part of that individual's estate, life insurance that is owned by an irrevocable trust is (subject to meeting certain requirements) not included in the deceased's estate. Therefore at the death of the donor the beneficiary/heirs receive the proceeds income tax free and estate tax free, effectively increasing the value of the annual gifts. You should consult your tax professional for full information on gifting.

**FYI**

An experienced advisor that you like, trust and already know is the first way you might consider dealing with this issue. Next ask friends and other advisors for a recommendation based on their experience.

**Q34** I already own life insurance; can I gift this insurance to my children or a life insurance trust?

An insurance policy can be gifted to a trust or heirs, but the donor must survive that transfer by three years or it will be included in the value of the donor's estate. New purchases of life insurance by a trust or children on the life of a parent or donor may not be subject to this three year rule.

**Q35** I'm concerned about the change that retirement will bring to my daily routine. What can I do to prepare myself for this change?

Carefully consider what you will do with your time, who you will see, and what is important to you. Make a weekly schedule of activities and events that you intend to pursue in retirement. Talk things over with your spouse and family and get involved in retirement activities prior to actually retiring.

Consider a "dress rehearsal" by taking a two-week vacation at home and pretending you have retired. Many pre-retirees have found this to be a practical way to find out if they are ready (or not) to retire.

**Q36** The idea of not working makes me uncertain about my (our) financial future. How can I know that the resources I have accumulated will help me meet my needs for the rest of my life?

This is the purpose of financial planning for retirement. Remarkably, many individuals work for up to forty years accumulating wealth, and then spend only a minimal amount of time analyzing and projecting their income at retirement.

Because of the number of retirees today, many Financial Consultants focus on retirement planning. Additionally many software programs are available at little or no charge.

**Q37** I hear and read about people that do their own investing at lower cost than those that use Financial Consultants. Why should I pay more to invest?

Some individuals should take the "do it yourself" approach. Others should not. Ask yourself these questions:

- 1. Am I knowledgeable about the investment markets?
- 2. Can I do my own financial planning?
- 3. Do I have the extra time that I want to commit to these tasks? 4) Will I enjoy handling my own investments and planning?

If you are answering "yes" to these questions, you might want to take your retirement planning into your own hands. Answers of "no" may suggest that you should use the services of a professional advisor to assist you with these important tasks.

**Q38** Assuming I decide to work with a Financial Consultant, how can I get started? How can I find someone to help me with my retirement and investment planning?

An experienced advisor that you like, trust and already know is the first way you might consider dealing with this issue. Next ask friends and other advisors for a recommendation based on their experience.

Also consider attending retirement planning seminars. It's likely that you will pick up at least one useful idea and in the process you might make contact with a Financial Consultant who can assist you in planning your retirement and continue to work with you for many years.

**Q39** What does it cost to work with a Financial Consultant?

At most major investments firms, Financial Consultants are compensated by commissions and in some cases, on an annual percentage of the amount invested in other "fee-based" investment accounts.

Your total charges will vary based on your needs and the services required to meet your objectives. Be wary of advisors who avoid answering questions on this subject. Also, be sure to ask for a description of what services will be provided for the fees and charges you expect to pay.

**Q40** Is there a way that I can simplify my investing during retirement?"

Many investors, over the course of their working years develop numerous investment accounts at banks, brokerages, mutual fund companies, etc. If you can select one investment firm or advisor that meets your needs and you are comfortable working with, it is possible and actually quite easy to consolidate your investment holdings.

Many investment firms can transfer your existing investments into your account(s) at that firm, greatly simplifying your situation, your tax preparation, your future estate distribution, not to mention making things much easier for your Financial Consultant to properly advise you.

**Q41** What are the biggest mistakes retirees make?

Unfortunately, some retirees just don't have a financial plan, which can lead to over-spending or under-spending as a result.

Ironically, many newly retired workers are too conservative. Our experience has been that some retirees should spend more money in the first few years of retirement and enjoy their health and high energy. They also have a backlog of "to-dos" that they have been wanting to experience like travel, cruise, etc. Often we find that, unless prompted to start enjoying life, some retirees settle into an attitude of "we have to save the money for later." ❖





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