So much has changed over the course of the last sixty years, during the lifetime of Baby Boomers. Take television, for instance. In the 1950’s and 1960’s there were only three national networks. Most families watched the same programs together and gathered with friends the next day to discuss them. There was a certain uniformity to it all.

The concept of retirement was also quite different. People worked for as long as they could before retirement. Once retired, they lived as frugally as possible on their meager savings or were taken care of by their children. As working adults during the Great Depression, those retiring in the 1950’s often had little saved. The average Social Security payment was just $29 per month, which only equates to about $280 today when adjusted for inflation. Retirees back then saw retirement as a time for frugal living and few luxuries.

Nowadays, many things have changed. We have thousands of TV channels with cable TV, satellite TV, internet streaming, and on-demand. Our options are anything but uniform. This expansion of options has spilled over into retirement as well. Many of the people who retired during the 1950’s wouldn’t even recognize what we call retirement today.

Modern Retirees Face Unprecedented Longevity

One of the most significant factors contributing to the change in retirement over the past 65 years is increased longevity. Since 1950, the average life expectancy for a 65-year-old has increased by over 6 years. Couple that with a lower retirement age and there is a dramatic change in the length of retirement.

In the early 1950’s, the average retirement age was 67 and the average retirement lasted 12 years for men and 13 ½ for women. Today, the average retirement age is 63 and lasts 21 years for men and 24 for women (1). Retirements are almost twice as long now as they were back then. And those are just averages; a quarter of today’s 65-year-olds will live past 90 and one in ten past 95 (2). Those folks are looking at retirements of over 30 years.

In English we call those 65 and older “senior citizens,” but in Spanish they use the term “tercera edad” which is translated to mean “third age.” Now, more than ever, this is an appropriate picture of retirement in America. Retirement is not the end of life as it was half a century ago, but rather just the final third.

Those 67-year-olds retiring back in 1950 were leaving the workforce because they had difficulty working predominantly physical jobs. Today, so many of our jobs now are less physical and more intellectual. Also, with government- and employer-backed retirement savings programs, many people now choose to retire not because they can’t work, but because they no longer have to.

Many retirees today feel that retirement is not the end of life but rather the beginning of a new season. Retirement can be a long and enjoyable time of life for those who are properly prepared. The key to making the final third of your life the best part is by planning.
The First Step in Retirement Planning

The first and most important step in retirement planning has nothing to do with finances, but about dreams and goals. The question most people ask about retirement is “will I have enough money?” But that begs the question, enough money for what? What exactly do you envision for your golden years? Would you try to plan a vacation without having a destination in mind? You wouldn’t be able to arrange transportation and lodging, plan activities, or know how much money you would need if you didn’t know where you were going. The same logic applies to retirement.

The first step in retirement planning is deciding what you want your retirement to look like. It’s not enough to say, “I want to be able to stop working.” You could do that now if you were willing to live on the streets and eat in soup kitchens. It’s important to define what you do want this last third of your life to look like. Would you like to spend your days on the lake fishing from a row boat? Or will it be an expensive sailboat? Do you want to travel the world to see the Pyramids and the Panama Canal? Do you want to help care for your grandchildren? Turn your hobby into a full-fledged business? Spend your time giving back to the community as a volunteer? Further your education and get that degree you always wanted?

Yogi Berra once said, “If you don’t know where you are going, you’ll end up someplace else.” If you want the kind of retirement that will leave you fulfilled on a daily basis, you have to visualize it first so that you have a clear goal to work towards. It might help you in your conceptualization process to get a feel for some of the options available beyond the stereotypical retirement of simply ceasing to work.

New Retirement Options

Retirement isn’t just a time of declining health for those unable to work anymore. Most of today’s retirees are healthy, vibrant and active, positioning themselves for an exciting and fulfilling final third of their lives.
Second Career

For some people, retirement isn’t about not working, but rather about having the financial freedom to take a completely different career path. Perhaps they didn’t find their career fulfilling but were trapped by financial responsibilities and unable to make changes. Or maybe they loved their career but just want to try something new. Whatever the motivation, beginning a new career in retirement provides you with an exciting challenge that can broaden your horizons, increase your skill set and give you a profound sense of meaning in your life. Some examples include teaching English overseas or working as a patient advocate or a national parks employee.

Home Business

Retirement is the perfect season for many to branch out and start their own business. The pressing needs of family and finances have lessened, allowing time and energy for creating something from scratch. Taking a beloved hobby and bringing it to market can be a dream-come-true for many. Whether the prime motivation is supplemental income or just an entrepreneurial spirit, many people find the challenge of building their own business from the ground up to be incredibly rewarding and more interesting than just spending their days in leisure.

Continue Working

Some people just don’t want to retire. They watch their 65th, 66th, 67th birthdays come and go and keep on working. In our modern society, where much of the work is now mental and relational instead of physical, working well into your 80s could very well be an option. Depending on your profession, just because most people stop working at age 62 does not necessarily mean you should. In fact, in a recent Pew study, 21% of respondents said that they are not planning to retire at all (3). Whether you love what you do or aren’t ready for a big change, continuing to work can be an enjoyable way to spend retirement that allows you to still feel connected.
How Working In Retirement Affects Social Security

Many people that want to work during retirement, whether they continue with their current job or start something new, worry about how it will affect their Social Security payments. Once you have reached your full retirement age, which ranges from 65-67 based on the year you were born, earning an income has no effect on Social Security.

However, if you begin collecting your Social Security benefit before full retirement age it will be affected by your earning an income. In the years before you reach full retirement age, your benefit will be reduced by $1 for every $2 you earn over the annual limit, which is $15,720 in 2016. In the year you reach full retirement age, up until your birthday your income will be reduced by $1 for every $3 you earn over the annual limit, which is $41,880 in 2016. Yet, as you continue to work and pay into the system you may increase your future benefit amount which could make it all even out in the end (4).

Stop Working

Many people still choose to stop working when they reach retirement age. After working hard for decades, they simply want to relax and focus on their hobbies and interests. With a sufficient nest egg, they can afford to spend their days in leisure or donate their time to a good cause.

Once you know the kind of retirement you want, you can start developing a plan to turn your dream into a reality. Having that goal in mind will help you stay the course as you build towards your retirement and give you the motivation to keep going even if it gets difficult. While the key to a successful retirement strategy is having a clear vision, there are several other things that help build the foundation for a secure retirement.

Steps To Prepare For A Secure Retirement

Now that you have taken the time to dream of the retirement you want, the next step is to come up with a plan to get there. No matter what kind of retirement you are planning, there are several key things that everyone should do to put themselves in the best possible position going into retirement. Having a plan, eliminating debt, and saving are all vital parts of a secure retirement.

Create A Plan

As a wise man once said, “a goal without a plan is just a wish.” A plan is the path that you lay out to guide you into turning your dreams into reality. No matter what your desire is for your retirement years, you need to convert it from thoughts in your head to a plan on paper. Having a plan keeps you accountable to your goals and gives you confidence that you are moving in the right direction. Having a written plan can be very motivating as well. An October 2014 Wells Fargo Retirement survey found that middle-class Americans with a written plan were saving more than twice what those without a plan saved (5). Working with an experienced financial advisor can help you create a realistic retirement plan.
Budget

A good retirement plan starts with a good budget. If you are a few years from retirement, imagine how and where you will be living, and what you will be doing. With more free time on your hands, you may find yourself spending on new things and hobbies, while work related expenses like commuting go down. If you’ve paid your house off, you still need to pay the taxes, and pay for upkeep. As you plan your budget, think about how your spending patterns may change over time. You may spend less on life insurance and more on healthcare. Your income taxes will change and certain areas may give tax breaks on property taxes. It’s best to get a professional to assist with tax estimates. Whatever you do, just don’t pick a round number of X dollars per month or think you will magically just spend less when you retire. The budget number is an important input for your financial projections (of how long your money will last), so it needs to be accurate.

Eliminate Debt

Many people that want to work during retirement, whether they continue with their current job or start You’ve worked too hard saving and building up your nest egg to let it be slowly eroded away by debt payments. That money is supposed to be for your comfort and enjoyment in old age, not to pad the coffers of creditors. One of the best things you can do to position yourself for a successful retirement is to eliminate as much debt as possible. Begin by paying off all of your consumer debt; it would be ideal to pay off your mortgage as well. If you aren’t able to pay off your mortgage, take heart. Having a mortgage in retirement is getting more common. In 2013, nearly 40% of people ages 65-74 were still paying off their home loans, an increase of 126% over the past 20 years (6).

Entering retirement with high levels of debt will reduce your standard of living and put a strain on your savings. Paying off your debt prior to retiring also provides you with greater flexibility in retirement. Whether or not you are able to pay off your debts before retiring, at least make sure not to take on any more debt right before retirement.

Save Enough

Having a plan and minimizing your expenses before retirement by paying off debt put you in a good position. However, there is still one critical element, you have to save enough for retirement. Working with a qualified financial advisor can help you determine how much you’ll need to save. It’s important to factor in your expected rate of return, taxes, inflation, and healthcare costs.
Plan For Long Term Care

Living longer translates into a greater chance of needing elder care at some point. With the average annual cost of an assisted living facility ringing in at $43,200 and a nursing home reaching upwards of $90,000 for a private room, this is something that requires some planning (7). First you must consider your probability of needing care. What is your family history? Does it include a predisposition for Alzheimer’s or other diseases? Statistics show that someone turning 65 today has an almost 70% chance of needing some form of long-term care services. You should also identify potential caregivers and discuss it with them ahead of time. If you have enough of a nest egg built up you may be able to self-insure, but if you do not, you can purchase insurance to offload the financial risk.

Have A Plan B

A lot can happen between now and retirement. Health problems or family problems can arise, causing you to save less or stop working sooner than originally planned. A 2014 Employee Benefit Research Institute survey found that 33% of workers expect to retire after age 65 but only 16% of retirees report staying on the job that long. Only 9% of workers planned on retiring before age 60, yet 35% of retirees ended up doing just that (8). Plans change, so in addition to the plan you create for your dream retirement, it is wise to also be aware of your options in case you need to retire early or your savings plan doesn’t unfold the way you wanted.

Income Sources In Retirement

Whether you look forward to starting your own business or spending your retirement on the golf course, your mortgage or property taxes will still need to be paid and the utility company will still send a bill every month. Retirements of all shapes and sizes need to be financed. Below are some of the most common funding sources that people fit together in order to finance their retirement.
Pension

Though pensions are not as common as they once were, 49% of the workforce still has private pension coverage. Pensions are offered through employers and usually guarantee a specific benefit amount upon retirement for the life of the worker. Sometimes the worker’s surviving spouse is also eligible to receive benefits, but this needs to be checked through your employer’s specific plan.

Pensions are not always as secure as one would expect. After the economic turmoil of the last decade, many public and private pension plans are dangerously underfunded. All pensions are guaranteed through the Pension Benefit Guaranty Corporation (PBGC), so if your employer or pension fund goes bankrupt you will not be left with nothing. However, you may be left with a lot less than you expected.

In March 2003, while emerging from bankruptcy, US Airways terminated their pilots’ pension plan. The PBGC took over the pension, but for a 20-year veteran pilot expecting to retire at age 60, instead of the $96,000 annual pension promised, they will only receive $28,000 a year (9). Pensions are a great source of retirement income, but there is risk involved when you place your entire future in someone else’s hands, so it’s often a good idea to have other retirement savings just in case your pension doesn’t pay out as you expected.

401(K) Or 403(B)

Another employer-sponsored retirement plan is the 401(k) for businesses or 403(b) for non-profit organizations. Unlike a pension plan, there is no guaranteed return. Whatever a worker puts into his account is what he will have at retirement, plus any interest it has earned. Usually, the worker also controls how the funds are invested within a range of options offered by the plan sponsor.

A 401(k) or 403(b) plan can be a great opportunity if yours is one of the many employers who match contributions. There are tax benefits as well. Money is contributed to traditional accounts pre-tax and Roth accounts allow for after-tax money to grow tax-free. A 401(k) or 403(b) plan is an excellent retirement savings vehicle if available to you.

IRA

Whereas pension plans and 401(k) participation is limited to those whose employer offers it, anyone with an earned income can open an Individual Retirement Account, or IRA. IRAs are available as both traditional, where contributions are tax-deductible, and Roth, where after-tax contributions grow tax-free. Anyone can open an IRA, but there are income limitations to be able to receive the preferential tax treatment. Annual contributions to an account are also limited, capped at $5,500 in 2016 with an additional $1,000 allowed for those over age 50. An IRA is a nice savings option offered by the government, especially for those with no retirement plan through their employer.

Self Employed Plans

The self-employed have several retirement savings options. For someone who does not have employees working for them, a SEP (Simplified Employee Pension) is simple to set up, very cost effective and allows for tax deductible contributions, just like a 401(k). Self-employed people can also set up their own solo 401(k), which can cover both them and their spouse. If the company grows to include more employees, a more traditional 401(k) may be the best option.
Social Security

Almost everyone over age 62 that has paid into the Social Security system is eligible to receive retirement benefits. In addition to workers’ benefits, spousal benefits are also available for those married to a worker or who were previously married to one for at least 10 years. Benefits are calculated based on your top 35 years’ wages and when you claim them. Though eligibility begins at age 62, delaying collection of your benefits will increase the amount of your monthly payment.

Nine out of ten individuals over age 65 receive Social Security benefits and they make up about 39% of the income of the elderly. Though designed as a safety net and never intended to be a person’s sole source of retirement income, Social Security is crucial for many people. Among the elderly in 2015, 53% of married couples and 74% of unmarried people depended on Social Security for 50% or more of their income. Twenty-two percent of married couples and 47% of unmarried people count on Social Security for over 90% of their income (10).

Earned Income

As mentioned above, many people continue to work and earn an income well beyond their 62nd birthday. For many, this is necessary to meet their everyday financial needs. Currently, 33% of the workforce has no savings set aside specifically for retirement, so working during the traditional retirement years may become more and more common in the years to come (11).

Rental Real Estate

Rental real estate can provide a steady stream of income, but is higher maintenance. With most financial products you invest your money and forget about it. With rental real estate you have to find and screen tenants, maintain the property, collect the rent, etc. Some find all of the work involved in owning rentals an enjoyable activity that keeps retirement interesting, while others outsource it to a property management company. Outsourcing decreases maintenance, but it also cuts down on your profits.
Family Assistance

In many cultures, the elderly are supported by the younger generations, ranging from financial assistance to shared housing arrangements. If turning to your children or other family members is a part of your retirement plan, it is important to consider the impact it will have on them as well. Your financial needs may impede their ability to pay down debt and save for their futures, so it is important to have open and honest discussions about your expectations in order to come up with the plan that works best for everyone involved.

Getting Started On Your Retirement Plan

Planning for retirement goes beyond just saving. With so many investment options and ways of financing your golden years, most people turn to an experienced financial professional for help. Putting together a strategy for your retirement will involve many things; the following are a few examples of things to be aware of as you plan.

Tax Management

Limiting taxation is something that people strive for their entire lives. During retirement, it can be achieved by coordinating withdrawals from different kinds of retirement accounts. Withdrawals from some accounts, such as traditional IRAs or 401(k)s, will contribute to your tax liability while others, such as Roth accounts, will not. Your taxable accounts can also provide an opportunity to realize taxable gains or losses. By properly coordinating withdrawals between accounts with different tax treatment, you can limit your taxes for the duration of your retirement.

Investment Management

Having your money invested in the right places can make or break your retirement. Aggressive investments result in increased volatility, but if your investments are too conservative, inflation will slowly dissolve your nest egg. A wise approach to take is to mentally divide your retirement into 3 different time periods, the immediate future, 5-10 years down the road and 10+ years and beyond. For each time period you can invest your money differently, staying very conservative for the money needed within 5 years while investing for growth the funds you won’t need for a long time.
Social Security Claiming Strategies

Though recent legislation has limited Social Security claiming options, it is still something important to consider. First of all, you need to consider whether it makes the most sense for you to collect early, at age 62, or delay as long as possible in order to receive a larger payment amount. For married people, it is necessary to coordinate collecting a workers’ benefit and a spousal benefit. Each individual situation is unique, so there isn’t one best claiming strategy for everyone.

Are You Ready for Your Retirement?

In our modern era where retirement can constitute a full third of one’s life, having a plan and being well-versed in your options is essential. Just as each individual aspires to a different kind of retirement each retirement plan must be personalized as well. There are so many things that factor into planning for a successful retirement that having an experienced professional to guide you through the process can be invaluable. If you need help figuring out how to make your dream a reality, we’re here to help you every step of the way.

About Bill

William “Bill” Kring is the founder of Wealth & Pension Services Group, Inc, an independent wealth management firm serving individuals and businesses in Atlanta, Georgia. As a twenty year financial veteran, Bill brings his expertise and experience to focuses on wealth management including retirement planning, investment management, fiduciary consulting, trust and estate planning, as well as insurance and 401(k) plan services. In his past, he competed as a U.S. Cycling Federation class III rider in both road and track. To learn more about how Bill may be able to help, visit the Wealth & Pension website, connect with him on LinkedIn, call his office at 770.333.0113 x106 or email him anytime at bill@wealthandpension.com.
Sources


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