

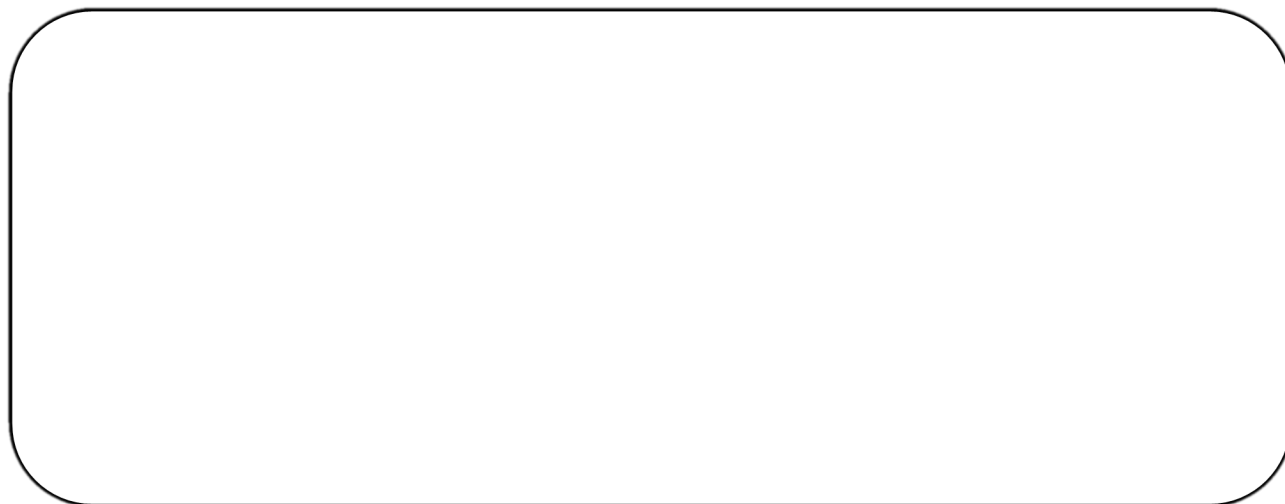
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IS IT THE RIGHT TIME TO RETIRE?

My employer completed a major reorganization (aka layoff) last year. I'm now driving 50 miles each way to my new office. My former team was decimated by the reorganization, with just me and one other person left. I reached the minimum retirement age a few months ago. I'm not sure how long my current position will be funded. Due to a quirk in my pension calculation, my benefit will drop if I retire after July 1. I would need to work at least another year and a half before my pension benefit returns to its previous level. Do I retire now, or stay and hope that my job lasts for at least two more years?

How do you make the decision whether to retire? You evaluate choices and make comparisons. For retirement, compare the status quo with what might come after. How do you envision your "after"? How will you spend your time? Where? With whom? Doing what? Describe your retirement here.



It's almost certain that your financial situation will be stronger if you work longer. You are likely in your highest income-earning years, and your financial commitments may be at their lowest. The result is that you have the potential to save LOTS toward retirement. Plus, the longer you work, the fewer years your savings and investments will have to support you. But we all come to a point where we ask, Is it time? Is working longer worth it? Today we will look at a process to help you identify the trade-offs of retiring now versus later, and make an informed decision.

Evaluate Your Financial Situation: Income, Expenses, Assets

Indicate in the last column the results of your “investigation” for each task:

☺ You’re “retirement ready.” – Has no impact on when you retire. ☹ You should wait to retire.

Which are the most important items? Some will be deal-breakers and out-weigh all others.

Topic	Task	Questions to Ask	Tools & Resources	☺ - ☹
Expenses	Track current income and expenses; create a budget. <i>Estimate last month’s expenses using these records Then add what you spent in cash.</i> <ul style="list-style-type: none"> • Credit card statements • Checking account: debit card, checks, electronic payments 	Are you currently living within your means? How will your expenses change in retirement?	<i>Monthly Spending Plan</i> , University of Illinois Extension http://bit.ly/U_I_SpendPlan Online services such as Mint.com Software such as Quicken Excel spreadsheet	
One-time expenses	Estimate costs for major expenses planned/expected in the next five years.	What do you need/want to do in next 5 years? Buy car · Vacation · Remodel · College expenses · Major home repair (roof, driveway, furnace/AC)	Home remodeling & repair: Get estimates from service providers or use online calculators.	
Social Security	Set up a mySocialSecurity account at www.ssa.gov/myaccount/ . Obtain estimate of Social Security benefits at various ages. Evaluate different Social Security claiming strategies for your situation.	When should you (and your spouse) claim Social Security benefits? Social Security benefits are usually reduced if you also receive a pension from a government job where you did not pay into Social Security . You must use a the WEP and GPO calculators to get an accurate estimate of your benefit.	Social Security benefit calculators: http://bit.ly/SocSecCalc <ul style="list-style-type: none"> • Retirement Estimator – uses your earnings info • Online calculator – manually enter info • Government pension from job where you did not pay into Social Security – use the WEP and GPO versions To evaluate different claiming strategies: <ul style="list-style-type: none"> • http://www.maximizemysocialsecurity.com/ (\$40 fee/year) • http://www.bedrockcapital.com/ssanalyze/ (free) 	

Topic	Task	Questions to Ask	Tools & Resources	☺ - ☹
Pension	Learn every detail about your pension.	<ul style="list-style-type: none"> • What is normal retirement age? • What is the reduction for early retirement? • Is your pension integrated with Social Security? • Are there restrictions on returning to work with your former employer? With other employers? 	<p>Calculators on HR website</p> <p>Classes offered by employer.</p> <p>Retirement counseling session with HR.</p>	
Other guaranteed income	Estimate the monthly or annual amount.	<ul style="list-style-type: none"> • Will you have other sources of guaranteed income, such as rental income or annuities? • Could this income stop or be reduced, such as at the death of your spouse? • Would payments be larger if you wait until later to start receiving them? 		
Net worth	Calculate your net worth.	<ul style="list-style-type: none"> • How much savings and investments do you have? • How much debt do you have? • Is debt increasing or decreasing? 	<p>Net worth calculators and forms.</p> <ul style="list-style-type: none"> • http://office.microsoft.com/en-us/templates/ • http://bit.ly/U_I_NetWorth 	
Income from savings & investment	<p>Estimate sustainable withdrawal amount.</p> <p>Count only investable assets, not:</p> <ul style="list-style-type: none"> • home, car, jewelry, etc. • college savings accounts • checking account for current expenses • raw land • assets intended for heirs. 	<p>How much can you withdraw from your savings and investments each year?</p> <p>4% rule may not apply:</p> <ul style="list-style-type: none"> • If retirement may last longer than 30 years • Current interest rates are significantly lower than historical norms. 	<p>Retirement income calculators:</p> <ul style="list-style-type: none"> • Vanguard – simple http://bit.ly/Vanguard_How_Long • T Rowe Price, more detailed, intuitive http://bit.ly/TRowePrice_Retirement_Calculator • MarketWatch, allows lots of customization http://bit.ly/MarketWatch_Retire_Calculator 	
Working after retirement	Estimate how much you can realistically earn.	If you claim Social Security before full retirement age and you continue to work, your benefits may be reduced for that year.	SSA Publication 05-10069, How Work Affects Your Benefits (http://www.ssa.gov/pubs/10069.html)	
Cash flow	<ul style="list-style-type: none"> • Prepare a year-by-year projection of income & expenses. • Include one-time expenses. 	<p>How much will you need from savings each year to fill the gap?</p> <p>How do these amounts compare with safe withdrawal rates?</p>	<p>See sample Cash Flow Projection, below.</p> <p>Current research indicates that spending may decrease in the middle retirement years, and increase in later years when health declines.</p>	

Cash Flow Projection: Example

		2018	2019	2020	2021	2022	2023	2027
Age:	Mr.	61	62	63	64	65	66	70
Age:	Mrs.	60	61	62	63	64	65	69
Notes/one-time expenses		Both work full time work	Retire/Trip/PT work	New car/Soc Sec (Mrs.)		Mortgage paid/Roof		Soc Sec (Mr.)
Expenses		\$110,000	\$88,000	\$90,640	\$93,359	\$81,760	\$84,213	\$94,782
One-time		\$0	\$12,000	\$25,000	\$0	\$15,000		
Total expenses		\$110,000	\$100,000	\$115,640	\$93,359	\$96,760	\$84,213	\$94,782
Salary	Mr.	\$90,000	\$20,000	\$20,000	\$20,000	\$20,000		
Salary	Mrs.	\$48,000	\$15,000	\$15,000	\$15,000			
Pension	Mr.						\$8,000	\$8,000
Soc. Sec.	Mr.		Delay to age 70					\$23,000
Soc. Sec.	Mrs.			\$12,000	\$12,360	\$12,731	\$13,113	\$14,758
Total income		\$138,000	\$35,000	\$47,000	\$47,360	\$32,731	\$21,113	\$45,758
Gap		\$28,000	(\$65,000)	(\$68,640)	(\$45,999)	(\$64,029)	(\$63,100)	(\$49,024)

The 4% “rule” estimates that a 65-year old can withdraw 4% from investments in the first year of retirement, increase that amount each year by the rate inflation, and probably expect the money to last for 30 years.

Using the 4% “rule,” these gaps indicate a required nest egg of \$1,000,000 or more. The smallest year’s gap of \$45,999 ÷ 4% = \$1,150,000. The largest gap of \$68,640 ÷ 4% = \$1,700,000.

But 4% may not work for this couple. They are not yet 65 and current interest rates are very low, so a 3% or 3.5% initial withdrawal rate may be safer.

Suppose this couple has \$600,000 of savings and investments. Are they ready to retire? What changes could make their retirement plan work?

Employee Benefits

Benefit	Questions to Ask	☺ ☹
401(k)	<ul style="list-style-type: none"> • Are you vested in your employer’s contributions? If not, when will you be? • Can you get the maximum employer match if you don’t work the entire year? • Do you own company stock inside the plan? <i>Get professional advice before taking ANY money out. If handled correctly, appreciation could be treated as capital gains and taxed at a lower rate than ordinary income.</i> 	
Insurance	<p>Which types of insurance will you need after retirement? Which ones can be continued as a retiree, for how long, and at what cost?</p> <p>Are there conditions for retaining insurance? For example, some government workers must take a monthly annuity, not a lump sum, to have health insurance coverage.</p> <ul style="list-style-type: none"> • Health insurance: If you are not yet 65, compare cost of COBRA to purchasing on the Exchange. Will COBRA last until you reach age 65? • Life: Do you need life insurance? If so, what is the cost of keeping employer insurance compared to purchasing an individual policy? • Disability: Disability insurance replaces lost income. If you are no longer working, you do not need this insurance. • Long term care: You can keep as an individual policy; arrange with insurer about how, when to pay. 	
Vacation & sick leave	<ul style="list-style-type: none"> • Do you get paid for unused days? • Will the payout push you into a higher tax bracket, especially if you retire late in the year? • Can you contribute to your 401(k) from payout for unused leave? 	
Company stock	<p>For stock options: Must or should you exercise/sell before retirement? What are the tax consequences? What records do you need to keep?</p>	
Professional development	<ul style="list-style-type: none"> • What professional development opportunities will you lose when you retire? • Which ones can or will you replace? What will be the cost? • Will any of those expenses be tax deductible? 	
Technology	<ul style="list-style-type: none"> • As a retiree, what technology do you want or need: laptop, smart phone, software? • What will technology cost you? • How will you get support? • How will you keep your tech skills up to date? 	
Other benefits	<p>What other benefits will you lose, for example, miles earned on business travel, employer-paid internet, cell phone, or other services.</p>	

Stress Test

My next step was to envision a best and worst outcome for retiring and for continuing to work, and to estimate how likely each of those things was to happen. I considered this a stress test, a way of asking myself if I was willing to accept the worst possible result of my decision.

Use this table to describe the best and worst case scenarios for continuing to work and for retiring. What is the likelihood that each will happen?

Option	Likelihood	Best case scenario	Worst case scenario	Likelihood
Continue working	%			%
Retire	%			%

How will you feel if in each of those scenarios? Which outcomes are you willing to risk? This exercise helped me realize that my best case scenario for continuing to work was highly unlikely, and that I could live with what I believed to be the worst possible outcome if I retired.

Final Words

Working through the process described in this handout will help you gather information needed to make an informed decision. It is not intended to result in a definitive answer about what you should do, and it does not guarantee that you will make the best decision. The decision will still be up to you. You may need to consult with a financial planner, a tax professional, human resources officer, or use other resources to evaluate your choices. This handout and today's seminar are educational in nature and should not be interpreted as advice.

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