Retirement for Real: Lessons Learned From Ten Years of Retirement

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OUR AGENDA FOR TODAY

• Perspective—Some statistics
• The “real story”
• Lessons learned
• What it means for you personally
• What it means for you as an employer
THE REALITY—MORE RETIREES

- Longevity—we’re living longer
  - 45 million over 65
  - 6 million over 85
- Expected continuation of the trend to 2035
  - 75 million over 65
  - 11 million over 85
- For a 65 year old couple, 50% chance that one will reach age 92 and 25% chance one will reach age 97
- One in four chance to live past 90
- One in ten chance to make 95

Katie’s father-in-law on his 93rd birthday
THE REALITY—FINANCES

- EBRI estimates a $4.3 trillion retirement income shortfall, $70,000 per married individual
- Safety net not so safe?
  - Social Security concerns—funding runs out in 2033
    - 52% of couples and 72% of singles get at least half of their income from SS
    - 165 million covered by SS
    - Nine out of ten people over 65 receive SS benefits
- Fewer DB plans
  - 112,000 in 1985, 22,700 in 2013
  - Mostly public pension vs. private ER

Employee Benefit Research Institute—May 2012
Wall Street Journal—June 23, 2014
THE REALITY—FINANCES

- Expenses don’t necessarily go down
  - 39% of age 55+ households have mortgages
  - Most expenses remain constant—food, clothing, transportation, entertainment, donations
  - 34% of workers have NO retirement savings
  - 51% of workers have NO private pension coverage

- Risks exist:
  - The market is more volatile—do you want to still have money in stocks?
  - Interest rates are low—return on conservative investments is down
  - Impact of inflation—reduces the value of your money
  - Impact of divorce—division of assets, two households instead of one!
  - Longevity—outliving your savings
  - Timing of retirement—bull or bear market?
Growth of $1,000 from April 1987 to December 2012

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Growth of $1,000 from April 1987 to December 2012

- S&P 500® Index: $17,952
- S&P MidCap 400® Index: $8,894
- Russell 2000® Index: $7,269
- MSCI EAFE® Index: $5,779
- Barclays Capital: $2,654
- Aggregate Bond Index: $2,155
- 91-Day Treasury Bills: $2,016
- Consumer Price Index: $2,155
THE REALITY—COMMITMENTS

- **Sandwich generation**
  - Supporting children and grandchildren
    - 52% provide care to adult children
    - 35% provide care to grandchildren
  - Helping care for parents in their late 80s+
    - 16% provide care to parents

- **Continuing to work**
  - 55% of Americans now expect to work past age 67
  - Over 30% of people between ages 65 and 69 are in the workforce
  - Why?
    - Provides a purpose and structure
    - Social aspects
    - Need the money

2013 Merrill Lynch Retirement Study
THE REALITY—FOR WOMEN

- Live longer, need more $
  - Life expectancy 2-5 years longer
  - Likely to be widowed

- Caregiving impacts income and benefits
  - Out of the workforce for child care and parental assistance

- Lower earnings impact income and benefits

- Shift from DB impacts survivor benefits

- Fewer sources of income—more dependent on Social Security

Source: SSA Office of the Chief Actuary
SOURCES OF RETIREMENT INCOME

- The “new” three-legged stool for baby boomers
  - Social Security—41%
  - Employer plans—19%
    - Less DB, fewer guarantees
  - Personal savings—18%
    - 4.8% in May 2014, up from 4.5% (US Bureau of Economic Analysis)
- Income gap—14% to 26%
- Replacement ratio—only 59% to 64%
- Remainder often made up by continued employment income
  - 39% seeking part time employment
  - 24% seeking intermittent employment
BIG UNKNOWN—HEALTHCARE

- The Good:
  - Advances in technology
  - Advances in pharmaceuticals
  - Elimination of diseases and conditions that were previously killers

- The Bad:
  - Advances are more expensive
  - Fewer of us have retiree medical - <25%
  - More of us in long-term care—EXPENSIVE!
  - 60% of bankruptcies in the U.S. today are related to medical bills!

- The Unknown:
  - Impact of the Affordable Care Act
  - Medicare funding—needs to be fixed!
KATIE’S STORY—LIVING THE DREAM

- Timing the Decision!
  - Telling work
    - How much notice? What is too much or too little?
    - Telling coworkers and clients
    - Important for benefit elections, insurance planning, etc.
  - Telling family and friends
    - Clark—4 months ahead of retirement
    - Katie—left FT employment for a year then taught and consulted 4 more years

Felt like vacation the first winter!
LIVING THE DREAM

- Keeping busy!
  - Major league baseball stadiums—all 30 plus updates and new ones
  - A month in Paris
  - River cruises, ocean crossing, other water travel and travel abroad
  - Trips with grandchildren as each reaches age 14
  - Care for parents
THINGS TO ASK WHILE WORKING

- **When will you stop?**
  - Phasing out or a quick and immediate stop?
  - Successor training and orientation?

- **Where and how will you live?**
  - One home, two homes, downsize, move or not?

- **What will you do?**
  - Finding your niche
  - Volunteering, travel, part-time work, family care . . .

- **What are your sources of income for the remainder of your life?**
PLANNING THE FINANCIAL PICTURE

- Annually for 20+ years prior to retirement
- At income tax time—a good time to pull things together
- Projections
  - Expenses
  - Investment growth
  - Contributions
  - Income sources
  - Distribution planning
PLANNING WHERE TO LIVE

- How do we want to live?
  - Housing
    - Multiple homes? Where to homestead?
  - Weather?
  - Activities—golf, volunteering
  - Travel
    - How much? Where?
  - Healthcare accessibility
  - Where are the kids and grandkids?
  - Where are our friends?
ACCUMULATION PHASE

- Needs/wants analysis
- Project account balances
- Estimate returns and inflation
  - Review annually since it WILL change
- Convert to an estimated monthly income, guaranteed to cover basic living expenses
- Think about life expectancy
  - Our parents lived long lives
  - Running out of money is an important consideration
DISTRIBUTION PHASE

- TIAA-CREF recommends no more than 4.5% per year
- Annuitize the amount needed to cover basic expenses using your:
  - Social Security
  - Any DB pension
  - A portion of your DC assets
- Build in COLA assumptions so your income can increase annually
- Expect the unexpected
- Review annually!
MEDICARE—BASIC

- Eligibility begins the 1st of the month in which age 65 is reached
  - Who is primary if still employed?
  - Who is primary from date of retirement until coverage ends?
- Part A premium for hospitalization = Free if qualify, otherwise $426 per month
- Part B premium for medical insurance = $102-336 per month (varies by income)
- Part D Premium for prescription drugs = $0-70 per month (varies by income)
- Resource—www.medicare.gov
OUR MEDICARE EXPERIENCE

- Since Clark retired at the age of 65, COBRA took me to Medicare eligibility
  - We have the right age difference!
  - If not, coverage is quite expensive for pre-65

- Supplemental coverage is by state, and often by country
  - Coverage away from home can be a challenge to secure
  - Purchase travel insurance when you’re out of the country or away from your coverage area
MEDICARE SUPPLEMENTS

- Lots of coverage gaps
- Supplements medical coverage, pharmacy
- Average premium = $200+ per month
- Lots of resources:
  - www.medicare.gov
  - www.aarp.org
  - Insurance company websites
  - Financial publications and websites
  - Local library online resources
SOCIAL SECURITY CONSIDERATIONS

- **When to draw?**
  - Social Security Normal Retirement Age (SSNRA)
  - Age 62 with reduction

- **Need to meet with SS in person**
  - Proof or birth, marriages, divorces, etc.
  - Estimate of final year’s compensation

- **Earnings limitations prior to SSNRA**
  - Impacts those who are still working
  - Income limit of $15,480 per year
  - Every $2 over limit reduces benefit $1
  - Income limit of $41,400 in year of reaching SSNRA, $1 reduction for every $3 over the limit (month by month)
DEFINED CONTRIBUTION ASSETS

- Qualified plan from current employer
  - ESOP, 401(k), 403(b), 457
- Rollover IRAs from former employers
- Traditional IRAs from early eighties
- Miscellaneous assets
- How much to withdraw?
- When to withdraw?
PENSION BENEFITS

- Fortunate that we had!
  - One from current employer, two from plans that had been terminated by former employers for Clark, two for me from former employers

- Finding them and claiming them—internet search may help a lot

- Helpful hints:
  - Keep documents
  - Be able to verify employment dates

- If lost, SSA or PBGC may provide help

- Can be very challenging if M&A or company termination has occurred
PENSION BENEFITS

- Consider payment form
  - Life Annuity
  - Joint and Survivor
  - Life and Certain

- Impact of starting early
  - Reductions may be sizeable for early commencement

- Think through longevity risk—probably the greatest risk

- If you take a lump sum—how to protect it and make it last
  - Investment risk is much greater this way
  - The Dow day-to-day shouldn’t determine your day-to-day life
EMPLOYER STOCK

- NUA Treatment—IRC 402(e)(4)
  - Allows distribution in a lump sum in a single tax year
  - Current taxation on the stock’s basis
  - NUA (Net Unrealized Appreciation) taxed as capital gain when stock is sold
- If rollover to IRA—all taxed as ordinary income
- Normal investment concerns:
  ✓ Do you want to retain or sell?
  ✓ Is it a good investment?
  ✓ Does it fit in with my retirement investment strategy?
“INVESTABLE ASSETS” DECISIONS

- Continue with current advisors?
- Assess amount of day-to-day involvement desired—roles played by us past, present and future
- Consolidate investments with one or more vendors?
  - We had money in 3 plans and 8 IRA vendors
- Informal RFP to several vendors:
  - Investment philosophy/asset allocation
  - Cost structure
  - Works when away from “home”?  
  - Personal chemistry
  - Withdrawal strategy for future years

- OUR EXPERIENCE—Consolidated to one provider following interview process. Has worked well for ten years at this point!
LONG-TERM CARE INSURANCE

- Do you need it? 35% to 50% will utilize (depending on terms)
  - Self-insure
  - Purchase insurance
  - Ignore and hope for the best

- Many variables in products
  - Years and level of protection
  - Inflation protection?
  - Setting covered—nursing home, assisted living, home care
  - Spousal benefits—“sharing”

- OUR EXPERIENCE—Not an investment, but view as insurance. Friends our age have had to use it already!
LIFE INSURANCE

- Do you still need it?
- Why do you need it?
  - Protection
  - Income for surviving spouse
  - Estate planning
- Many different types and companies
- Good information on several websites
  - www.aarp.com
  - www.medicare.gov
  - Insurance company sites
- OUR EXPERIENCE—Converted to paid-up policies. Really money for funeral expenses, not as part of desired asset transfer to children. Works for us, but maybe not for everyone.
CONTINUING TO REASSESS

- On-going need to revisit finances and planning
  - Homes in Minnesota and Florida
  - Travel
  - New cars
  - Family needs
  - My mom’s death, his dad’s health
  - Our children and grandchildren
SURPRISES FOR US AND FRIENDS

- Finding the right balance of “work” and “play”
- Finding financial “peace of mind”
- Dealing with family concerns, both children and parents
THE NEXT TEN YEARS

More travel...go go, then slow go, then no go! - Health and mobility as well as financial considerations

Maintain healthy habits and relationships – Marriage, friends, exercise, diet, etc.

Consider transitions before they are mandatory – My parents, my father-in-law
THE NEXT TEN YEARS

- More travel . . . go go, then slow go, then no go!
- Maintain healthy habits and relationships
- Consider transitions before they are mandatory!
WHAT CAN EMPLOYERS DO?

- Retirement Plan Design—enhance the value
  - Encourage saving: More is better
  - Auto enrollment, escalation
  - Allow pre-tax and Roth
  - Stretch match
  - Appropriate investments
    - Defaults—diversification to control risk
    - Make it easy—models, TDFs, advice, auto rebalancing
  - Don’t encourage loans
  - Encourage rollovers
WHAT CAN EMPLOYERS DO?

- Allow group purchasing, where possible, even during retirement
  - Less expensive
  - Long-term care, life and health insurance

- Educate on employer stock
  - Tax implications

- Educate on pros and cons of annuity options
  - Evaluate offering in-plan annuities
  - Permanence of choice
  - Lump-sum counseling
WHAT CAN EMPLOYERS DO?

- Education, education, education
- Develop resources—i.e., projections
- Start sooner—55 or 60 is too late
- Broaden the focus
  - Historically plan information only
  - Different portfolios before and after retirement?
  - Social Security—features and timing
  - Medicare and supplements
  - LTC, budgeting
  - Wills and estate planning
WHAT CAN EMPLOYERS DO?

- Evaluate feasibility of phased retirement
  - Does it work for your workforce?
  - Impact on retirement plans—i.e., DB formula
  - Impact on income—allow in-service W/D?

- Develop a target income replacement rate—help participants get there

- Encourage rollovers!

- Advisors/planners
  - List of resources
  - Negotiate discounts or help pay?
EMPLOYER ISSUES

- Respect privacy
- Avoid liability
- Make education mandatory?
- Programs during work hours (i.e., paid)?
- “Is it really my problem”
  - Mobile workforce
  - What’s in it for me?
RESOURCES

- Financial industry is responding
- More modeling tools
- More information on statements
- Annuity options—add stability
  - In-plan
  - At time of distribution
  - Deferred/Longevity Annuities, i.e., start at age 80
    - 25% of balance up to $125,000
    - Not subject to RMD rules
THANK YOU!

Questions?