6 RETIREMENT QUESTIONS

Government Employees Should Be Asking

INTRODUCTION

Making the transition from the workforce to retirement can be demanding. After years in the public sector, you're ready to settle into a more comfortable and leisurely lifestyle. As professional financial advisors, we understand the challenges that may lie ahead and present this special report to answer your most pressing retirement questions.

A fluctuating market, an unsteady economy, political instability, and an unclear vision of your financial future—these are all factors that may shake your confidence as you enter a new phase in life. The dream of a comfortable and enjoyable retirement may sometimes get clouded amid the uncertainties of changing circumstances and transitions.

An increasing number of Americans, including public sector employees, are wondering whether they can afford to retire. Will their savings last? Is Social Security adequate supplemental income? How will public pensions and other government programs fit into their retirement puzzle?

Add to the mix taxes, survivor benefits, health care, leaving behind the familiar workday routine, and the emotional strain of disconnecting from workplace colleagues, and suddenly the gleam on those upcoming golden years begins to fade.

Developing a retirement strategy may help provide you with a deeper sense of financial stability and a greater confidence for a bright future.

DO I WANT TO RETIRE?

You've seen them in the grocery stores, at restaurants, and at other places of businesses. These are the elderly folks who you imagine should be retired but who obviously aren't—otherwise they wouldn't be working at the store, the restaurant, or the business, right?

Well, maybe.

They could be working because they want to work. After all, many retirees have said they truly enjoyed retirement. The first 24 hours of it, that is.

Or they could be working because they don't have a choice. Their retirement savings fell short of what they needed to survive. Social Security income isn't adequate and their other investments just don't seem to fill the gap.

Another scenario involves the retiree who made adequate plans but later learned not-so-wise financial decisions along the way and not-so-golden investment opportunities left them cash strapped and a whole lot of dollars short for the long haul. In other words, they outlived their nest eggs.

There's the retiree who never made any plans for retirement. Then retirement happened—and the retiree's bottom line had the final word: Get back to work!

One more example: This is the retiree on the other side of the checkout line at the grocery store, sitting at the table at the restaurant, or shopping for goods or services at the place of business. This retiree doesn't work for two reasons: He doesn't have to and doesn't want to.

The question is: Which one are you, and how do you plan to reach your personal retirement goals?

Financial analysts point to 3 principles for making retirement a success:[1]

PLAN: Planning provides the impetus for most other endeavors in life: building a business, getting fit and in shape, or learning a new language. The same principle applies to your retirement. Plan it right, and you'll live it well.

PROTECT: It took hard work, sometimes decades of sacrifice, and careful planning to build for retirement. One wrong move, one bad investment, and you've lost it all. Taking risks has its place, but protecting your investments, especially if they've been built over a lifetime, must take priority. Stay the course; don't get distracted.

PROSPER: Usually those who carefully plan their retirements and maintain disciplined investment strategies end up prospering in retirement. Start early, stay smart, and watch your money continue to grow.

As a public employee, you've reached the point where you're ready to make the decision. What do you do next?

First, map it all out. Identify your income streams and your projected expenses. How much will you have in Social Security, pensions, retirement investment returns, and other income sources? Match it with your expected expenses. Consult with a financial planner to help develop a long-term and pliable strategy that takes the long view and takes into account your current assets. (We'll delve deeper into these steps later.)

Determine your retirement plans. How much income will you need to maintain the lifestyle you want? Are you looking to travel? Do you want to move to a warmer state?

Consider your health-care expenses. You're eligible for Medicare at 65, so you'll need medical insurance, which may be available from your present employer, to cover the difference if you're retiring early. Additional insurance to fill the coverage gaps might be wise.

What about your legacy? How much do you want to leave your family? Do you have adequate life insurance to cover ongoing living expenses for your spouse if you die first?

CAN I AFFORD TO RETIRE?

Retirement at a certain age or after a number of years may be compulsory for public sector workers. However, contrary to misconceptions, the average retirement age (62) for public sector employees is still about the same as those in the private sector.[2]

The anxieties and questions government workers on the verge of retirement have are the same as their private-sector peers. With the average retirement lasting 18 years, older Americans are wondering whether they'll have enough money to make it.[3]

Historically, public employees found reason to have confidence. Robust pension funds with healthy benefits packages promised secure and comfortable retirements.

But as bloated government budgets began to quake under the burden of unfunded liabilities, politicians began looking for ways to pull in the financial reins to avoid the prospects of crippling cuts or even bankruptcy. Suddenly, funding of public pensions came into view—with the ax being readied for possible reductions.[4]

Experts say U.S. state and local government pension system shortfalls have reached $5 trillion.[5]

Establishing a budget enables you to focus on other, more enjoyable activities during your retirement, as opposed to fretting over politics. Budgets foster a more disciplined outlook on retirement living, which helps alleviate stressing over money matters.

Once you generate some numerical projections for your personal budget, you'll be better equipped to decide how you want to spend your retirement.

A simple, conservative rule for estimating your monthly retirement spending levels is by multiplying your current working numbers by 85-90 percent. For example, you spend $3,000 a month while you're employed. You can figure on spending $2,550-$2,700 during retirement.[6]

Once you determine your outgoing spending levels, take a look at your income, and that includes your Social Security benefits, pensions, and other sources. If you've been able to generate retirement savings or investment income, you can use the money to supplement your lifestyle or make up any income-expenditure shortfalls.

You'll need to track retirement withdrawals closely over time to ensure your retirement money lasts. While the U.S. Census Bureau projects nearly 20 years for today's retirees, a healthy and active lifestyle can add more than five years to your life.

Of course, one problem with these life-expectancy formulas is the "x" factor, your mortality. You can't precisely generate that number to accommodate your budget, especially considering that 1 of every 4 Americans 65 years and older will live past the age of 90, and 1 in 10 will live past 95.[7] Your lifespan depends on a variety of factors, including your lifestyle, your health, and your genetics.

An earlier formula—the 4 percent rule—was used in the past to calculate percentages of withdrawals retirees could take annually from retirement accounts.[8] The rule may not be as applicable in today's more rocky market.

A financial professional can help guide you through the confusion of an intimidating investment marketplace.

While you may not be able to alter the "x" factor, you do have the ability to exert some control over the other factors in the formula.

Here are 4 ways you can tweak your retirement formula to help you pursue a more comfortable and secure retirement:

1. While you're still working, you can increase your contributions to your retirement savings. Contribute the maximum amount into your tax-deferred retirement plan. Opening a Roth IRA might be an excellent way to accelerate growth of the account. If you're 50 and over, you can do the catch-up provision for your retirement contributions.

2. You can delay retirement by working longer which will allow you to continue adding to your retirement savings. Waiting to retire increases your Social Security benefits (if you're under 70).

3. Take a look at your current living expenses. With the children grown and living on their own, that large house may not be necessary. You might consider moving into something smaller and cozier. To cut expenses, you can delay big purchases in the early years of your retirement. That way you can maintain a robust retirement account for longer.

4. Recall the more "mature" folks mentioned earlier, the ones you may see on occasion working at grocery stores, restaurants, and other places of business. You do have the option of continuing to work, just maybe not at your current place of employment. Many public employees take advantage of the opportunities in the public sector of retiring early to seek part-time work or a second career.

With your years of experience, your options are open. Part-time employment may allow you to set your own schedule and at the same time pursue hobbies or activities you've long sought to participate in. Employment income may affect how much you collect in Social Security—at least until you reach your full retirement age.

WHAT WILL MY RETIREMENT LOOK LIKE?

An ancient wise man once said: "Where there is no vision, the people perish." The same is true for retirement. Planning when and how you'll retire is important, but envisioning your retirement may be the single most important part of your plan.

Numbers and timelines don't mean anything if you don't have a supporting dream to drive them forward. Your retirement vision becomes the foundation for your later years.

Your vision has to be carefully crafted—detail by detail. Once you start imagining what you'll do, how you'll spend your time, and where you'll go, put it in writing. Don't leave out any parts. How will you spend your days? What are your short- and long-range plans?

Chart it out. Lay it out day by day, month by month, year by year. Do you plan on taking a vacation? When and where? How often? What will you do during the day? Where will you go, and what exactly will you do? Do you want to travel, visit family and friends, or join social or recreational groups? Write out your answers.

Once you've laid the foundation of your vision, start building upon it. You've already assembled the numbers. You've already determined the income flow. Shape your retirement vision to suit the financial reality you've built during your working years.

For example, how much money will you have available to travel? Overlay your budget onto your retirement vision and begin tweaking and doing the adjustments to make your vision fit into your financial reality.

You may have to alter your vision slightly or rearrange some of your priorities, but merging the practical and idealistic sides may lead to a more secure and fulfilling retirement.

Here are several tips to help you with the envisioning process:[9]

WHO ARE YOU?

This may be the most important question in creating your vision. This is a kind of personality index. Recall what you do—or what you used to do—during your off time when you were working. What did you do for recreation? What were you wishing you had more time to do? Imagine how you will spend your retirement time differently.

WHAT ARE YOUR PRIORITIES?

This gets back to imagining. Create a list of your favorite or preferred activities. It could be volunteering, starting a business, gardening, spending time with your grandchildren, or doing a variety of activities. Put the items in order of priority. What's most important? Your aim is to make retirement satisfying and rewarding.

On the flip side, make a list of pet peeves and annoyances. What are you looking to avoid doing? Create a kind of reverse priority list. It may be driving in city traffic or having to get up early.

WHAT DO YOU WANT TO DO EVERY DAY?

Describe your typical day. What will you be doing? Retirement offers at least one precious commodity: freedom. You determine your daily schedule. To avoid the doldrums, establishing a schedule adds anticipation and order to your day. Of course, you can change your schedule anytime. It's the idea that counts.

Developing your day should go beyond wishful thinking. What do you really plan to be doing on a typical day 1 year after you retire? How about in 5 years?

LOOK AT EXAMPLES.

Are you struggling with some of the steps in the envisioning process? You're not exactly sure what you want to do every day; you're just glad you're retiring. You may also be interested in doing something completely different, a change of pace. After all, after several decades of living life one way, you're eager for a switch.

Read stories about retirees living unusual or exciting lifestyles you might enjoy. What do they do, and how do they plan their lives?

It doesn't have to be all about skydiving and winery hopping in the south of France. Local newspapers and magazines occasionally feature profiles on outstanding retirees who are making an impact on their communities. Some find part-time jobs an invigorating pastime to keep connected with other people and to stay engaged while retaining a degree of freedom from the demands of full-time work.

SET NO BOUNDARIES.

Don't set limits on your expectations, at least initially. Let your imagination run wild, and run along with it to see where it goes. What have you always wanted to do in life but never had the opportunity? Maybe your busy career in the public sector or the demands of raising a family prevented you from exploring the outer edges of life. This might be the time.

It doesn't have to be fantasy island. Climbing Mount Everest may have stirred your inner Indiana Jones a few decades earlier, but your aspirations have matured somewhat over the years. It could be something as simple as learning to play the guitar, improving your golf game, renovating classic cars, taking sculpture classes, or visiting the Grand Canyon.

Don't worry about making changes. In fact, expect to make changes later. Lifestyles do change. Your health or circumstances may alter your retirement strategies. Your retirement plans aren't set in stone.

HOW WILL I PAY FOR MY HEALTH CARE?

Better treatments for cardiovascular and infectious diseases have extended life expectancy and improved quality of life. Today's retirees can expect to live nearly two more decades.[10]

Although retirees are living longer, healthier lives with better access to health care, costs remain their primary challenges, especially against the backdrop of changing political perspectives on the government's role in insurance coverage and health care.

Analysts estimate that retiring couples will need at least $250,000 to cover medical bills, which doesn't include long-term care costs.[11] That figure also doesn't include costs for early retirees whose Medicare coverage hasn't taken effect.

The estimate, however, includes costs for deductibles and copayments, premiums for additional coverage for physician visits, prescription drugs, and other expenses not included in Medicare. Medicare recipients should expect to spend 15% of their household budgets on health care.[12]

Public sector employees should investigate the availability of extended benefits coverage from their employers, which may cover the difference. Here's a review of cost options available to retiring government workers:[13]

- Employer retiree health plans provided the bulk of supplemental coverage for one-third of those on Medicare; however, that number continues to decline.

- Medicare Supplement Insurance provides supplemental coverage to about 25% of Medicare recipients. The insurance fulfills fully or partially Medicare Part A and Part B's cost-sharing requirements.

- Nearly 11 million Medicare recipients also had supplemental Medicaid coverage. More than 6 million people 65 and over receive Medicaid and 4.6 million people under 65 with disabilities. Medicaid provides coverage for Americans with low incomes and modest assets.

WHAT ARE MY PLAN OPTIONS?

Evaluating your different retirement plan options can get intimidating and sometimes overwhelming. Your aim is to choose the right plan to suit your vision. As your retirement approaches, you should have all the details and arrangements in place to make the transition smooth and stress-free.

A financial advisor can help you overcome the obstacles and clear the unexpected hurdles to retirement. Advisors can help direct you to areas in your plan that may need attention and that you may have overlooked in the last few years of your employment.

As a public employee, you want to know your choices and the options available for a prosperous retirement. Here is a list of the top plans:

DEFINED BENEFIT PLANS[14] provide guaranteed benefits to participants based on age, years working, and salary range. Employers oversee contribution investments to pension funds; retirement benefits do not depend on investment performance.

The Windfall Elimination Provision and other federal rules may affect your Social Security benefits. Public agencies and employers have looked for ways to reduce or modify their pension obligations. Consult with a financial professional to learn more about the potential risks to your benefits.

Washington politicians are beginning to ramp up discussions for a 2019 federal employee wage freeze. Federal officials are also considering a reduction in employer contributions to retirement benefits which would require retirees pay more out of pocket for their health insurance.[15]

DEFINED CONTRIBUTION PLANS allow employees to designate specific amounts or percentages of income to be set aside by the employer to the employees' benefits.[16] The employer-sponsored plans, which are the most common, restrict how and when employees can withdraw funds without incurring penalties.

The most common types are 401(k)s, 403(b)s, 457s, and Thrift Savings Plans (TSP).[17] Employees determine their levels of contributions from their paychecks based on the investment choices the employer provides.

Employees retain control of the invested money in their accounts, which is tax deferred. Once retired, the holder of the fund may choose to transfer the money into an Individual Retirement Account or similar fund.

HYBRID RETIREMENT PLANS[18] include elements of both the defined benefit (which is based on the employee's final average salary) and the defined contribution savings plans. An employer may offer a cash balance plan, for example, that gives employees the opportunity to contribute in the same way as in a defined benefit plan. But employees also have the option of receiving regular payments or a lump-sum distribution at retirement.

The hybrid plan typically yields lower returns than the defined benefit and the defined contribution plans.[19] The plan's lump-sum provision, which allows holders to roll the money into IRAs or new plans, makes it popular. However, the lump-sum provision also makes it the most risky. Holders retain complete responsibility for their investments.

WHAT DO I DO BEFORE RETIRING?

While retirement paves the way for a fuller lifestyle with more opportunities for recreation and leisure, it also poses a few challenges for those who enter into it unprepared. Here is a summary of tips:

- Paint the vision of your retirement future. Dream big. Use your imagination.
- Carefully calculate your retirement expenses. The more exact you are, the better equipped you'll be later on when facing unanticipated expenses.
- Examine your anticipated income sources. This may include pensions, retirement savings plans, and Social Security benefits.
- Take a look at your health-care coverage options. Watch Medicare and insurance deadlines.
- Read and review wills, trusts, medical directives, beneficiary information, powers of attorney, and other legal documents.
- Contact your plan sponsor to get information about retirement requirements, distribution options, and pertinent documents.
- Talk with a qualified financial professional who specializes in clients like you.

WHAT DO I DO NEXT?

You've created your retirement vision; you've painted the picture of your new life. Retirement empowers you with the liberty and hopefully the resources to retire in style.

However, employing the services of a financial professional can instill a sense of clarity and confidence and help insure your retirement plans remain securely on track.

WHO DO I CALL?

We hope you've found this retirement guide interesting, informative, and reassuring. We want to show you some simple steps you can take to make your retirement more secure. We're ready to encourage and support you as you move into the next phase of your life.

We offer ourselves as a resource to you and your family. We are happy to answer any questions you may have about your personal financial situation and future goals. If you have any questions about the information in this report, contact us today. We would be delighted to talk.

FOOTNOTES, DISCLOSURES, AND SOURCES:

[1]https://www.kiplinger.com/article/retirement/T047-C032-S014-can-you-afford-to-retire.html
[2]http://www.fedweek.com/publishers-perspective/retirement-numbers/
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