Carmel-Quintero Financial

Planning Your Financial Future

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Working in Retirement: What You Need to Know

Planning on working during retirement? If so, you're not alone. Recent studies have consistently shown that a majority of retirees plan to work at least some period of time during their retirement years. Here are some points to consider.

Why work during retirement?

Obviously, if you work during retirement, you'll be earning money and relying less on your retirement savings, leaving more to grow for the future. You may also have access to affordable health care, as more and more employers offer this important benefit to part-time employees. But there are also non-economic reasons for working during retirement. Many retirees work for personal fulfillment, to stay mentally and physically active, to enjoy the social benefits of working, and to try their hand at something new.

What about my Social Security benefit?

Working may enable you to postpone claiming Social Security until a later date. In general, the later you begin receiving benefit payments, the greater your benefit will be. Whether delaying the start of Social Security benefits is the right decision for you depends on your personal circumstances.

One factor to consider is whether you want to continue working after you start receiving Social Security retirement benefits, because your earnings may affect the amount of your benefit payment.

If you've reached full retirement age (66 to 67, depending on when you were born), you don't need to worry about this — you can earn as much as you want without affecting your Social Security benefit. But if you haven't yet reached full retirement age, $1 in benefits will be withheld for every $2 you earn over the annual earnings limit ($16,920 in 2017). A higher earnings limit applies in the year you reach full retirement age. If you earn more than this higher limit ($44,880 in 2017), $1 in benefits will be withheld for every $3 you earn over that amount, until the month you reach full retirement age — then you'll get your full benefit no matter how much you earn. Yet another special rule applies in your first year of Social Security retirement — you'll get your full benefit for any month you earn less than one-twelfth of the annual earnings limit ($1,410 in 2017) and you don't perform substantial services in self-employment.

Not all income reduces your Social Security benefit. In general, Social Security only takes into account wages you've earned as an employee, net earnings from self-employment, and other types of work-related income such as bonuses, commissions, and fees. Pensions, annuities, IRA payments, and investment income won't reduce your benefit.

Even if some of your benefits are withheld prior to your full retirement age, you'll generally receive a higher monthly benefit starting at your full retirement age, because the Social Security Administration (SSA) will recalculate your benefit and give you credit for amounts that were withheld. If you continue to work, any new earnings may also increase your monthly benefit. The SSA reviews your earnings record every year to see if you had additional earnings that would increase your benefit.

One last important point to consider. In general, your Social Security benefit won't be subject to federal income tax if that's the only income you receive during the year. But if you work during retirement (or you receive any other taxable income or tax-exempt interest), a portion of your benefit may become taxable. IRS Publication 915 has a worksheet that can help you determine whether any part of your Social Security benefit is subject to income tax.

How will working affect my pension?

Some employers have adopted "phased retirement" programs that allow you to ease into retirement by working fewer hours, while also allowing you to receive all or part of your pension benefit. However, other employers require that you fully retire before you can receive your pension. And some plans even require that your pension benefit be suspended if you retire and then return to work for the same employer, even part-time. Check with your plan administrator.

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The Health-Wealth Connection

"Always keep two things in stock: crunchy vegetables and an emergency savings account."

Michael F. Roizen, MD, and Jean Chatzky, personal finance commentator

Authors of Ageproof: Living Longer Without Running Out of Money or Breaking a Hip

It's a vicious cycle: Money is one of the greatest causes of stress, prolonged stress can lead to serious health issues, and health issues often result in yet more financial struggles.[1] The clear connection between health and wealth is why it's so important to develop and maintain lifelong plans to manage both.

The big picture

Consider the following statistics:

1. More than 20% of Americans say they have either considered skipping or skipped going to the doctor due to financial worries. (American Psychological Association, 2015)

2. More than half of retirees who retired earlier than planned did so because of their own health issues or to care for a family member. (Employee Benefit Research Institute, 2017)

3. Chronic diseases such as heart disease, type 2 diabetes, obesity, and arthritis are among the most common, costly, and *preventable* of all health problems. (Centers for Disease Control and Prevention, 2017)

4. Chronic conditions make you more likely to need long-term care, which can cost anywhere from $21 per hour for a home health aide to more than $6,000 a month for a nursing home. (Department of Health and Human Services, 2017)

5. A 65-year-old married couple on Medicare with median prescription drug costs would need about $265,000 to have a 90% chance of covering their medical expenses in retirement. (Employee Benefit Research Institute, 2017)

Develop a plan for long-term health ...

The recommendations for living a healthy lifestyle are fairly straightforward: eat right, exercise regularly, don't smoke or engage in other risky behaviors, limit soda and alcohol consumption, get enough sleep (at least seven hours for most adults), and manage stress. And before embarking on any new health-related endeavor, talk to your doctor, especially if you haven't received a physical exam within the past year. Your doctor will benchmark important information such as your current weight and risk factors for developing chronic disease. Come to the appointment prepared to share your family's medical history, be honest about your daily habits, and set goals with your doctor.

Other specific tips from the Department of Health and Human Services include:

Nutrition: Current nutritional guidelines call for eating a variety of vegetables and whole fruits; whole grains; low-fat dairy; a wide variety of protein sources including lean meats, fish, eggs, legumes, and nuts; and healthy oils. Some medical professionals are hailing the long-term benefits of the so-called "Mediterranean diet." Details for a basic healthy diet and the Mediterranean diet can be found at health.gov/dietaryguidelines.

Exercise: Any physical activity is better than none. Inactive adults can achieve some health benefits from as little as 60 minutes of moderate-intensity aerobic activity per week. However, the ideal target is at least 150 minutes of moderate-intensity or 75 minutes of high-intensity workouts per week. For more information, visit health.gov/paguidelines.

... and long-term wealth

The recommendations for living a financially healthy life aren't quite as straightforward because they depend so much on your individual circumstances. But there are a few basic principles to ponder:

Emergency savings: The amount you need can vary depending on whether you're single or married, self-employed or work for an organization (and if that organization is a risky startup or an established entity). Typical recommendations range from three months' to a year's worth of expenses.

Retirement savings: Personal finance commentator Jean Chatzky advocates striving to save 15% of your income toward retirement, including any employer contributions. If this seems like a lofty goal, bear in mind that as with exercise, any activity is better than none — setting aside even a few dollars per pay period can lead to good financial habits. Consider starting small and then increasing your contributions as your financial circumstances improve.

Insurance: Make sure you have adequate amounts of health and disability income insurance, and life insurance if others depend on your income. You might also consider long-term care coverage.[2]

Health savings accounts: These tax-advantaged accounts are designed to help those with high-deductible health plans set aside money specifically for medical expenses. If you have access to an HSA at work, consider the potential benefits of using it to help save for health expenses.

[1] American Psychological Association, February 4, 2015; The Telomere Effect: A Revolutionary Approach to Living Younger, Healthier, Longer, by Blackburn and Epel; and Ageproof: Living Longer Without Running Out of Money or Breaking a Hip, by Chatzky and Roizen

[2] The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the policy. It should be noted that long-term care carriers have the discretion to raise their rates and remove their products from the marketplace.

Infographic: 4 Things to Do in the 4 Years Before College

College is a huge financial undertaking. With costs increasing every year and the prospect of too much student debt at the forefront of many families' minds, it's more important than ever to be an educated college consumer. Go into the planning process wisely with these four steps.

1 Take stock of your savings

A few years before you need to start paying tuition bills is a good time to look at your college savings. How much have you saved? Are you currently making monthly contributions? Can you increase them? How much will you have saved by the time your child graduates from high school?

2 Get familiar with financial aid...

Get an estimate of your expected family contribution (EFC) by filling out the federal government's FAFSA4caster tool at www.fafsa.ed.gov. Your EFC will depend on your family's income, assets, and household information, like the number of children you'll have in college at the same time.

3 ... and net price calculators

Colleges differ in the amount of merit and need-based financial aid they offer. To get an idea of how generous a college is, run the net price calculator available on every college website to get an estimate of what your out-of-pocket costs will be at that college. This 10-minute endeavor can help you compare the cost of different colleges in an apples-to-apples way.

4 Have a frank conversation with your child about college costs

Share how much you expect to have saved and how much you will be able to contribute each year during college. When talking about loans, make sure your child knows exactly what the monthly payment will be after graduation for different loan amounts. Help your child avoid excessive borrowing.

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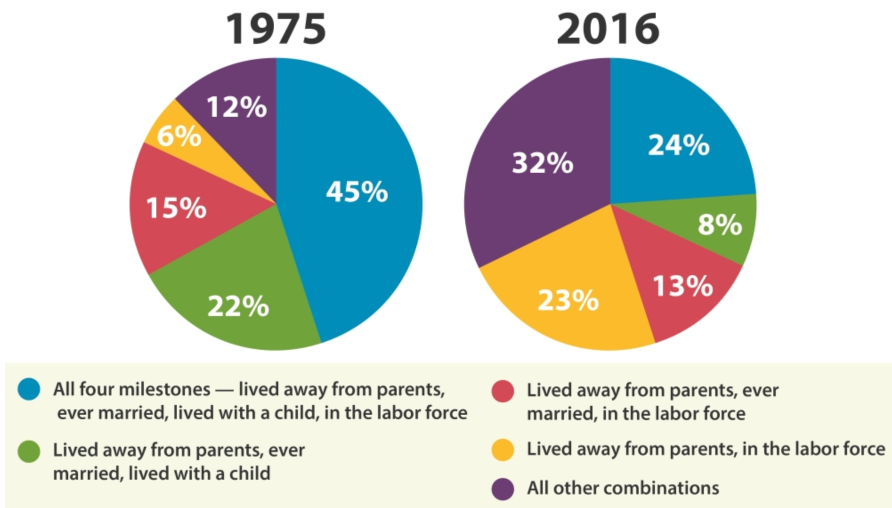
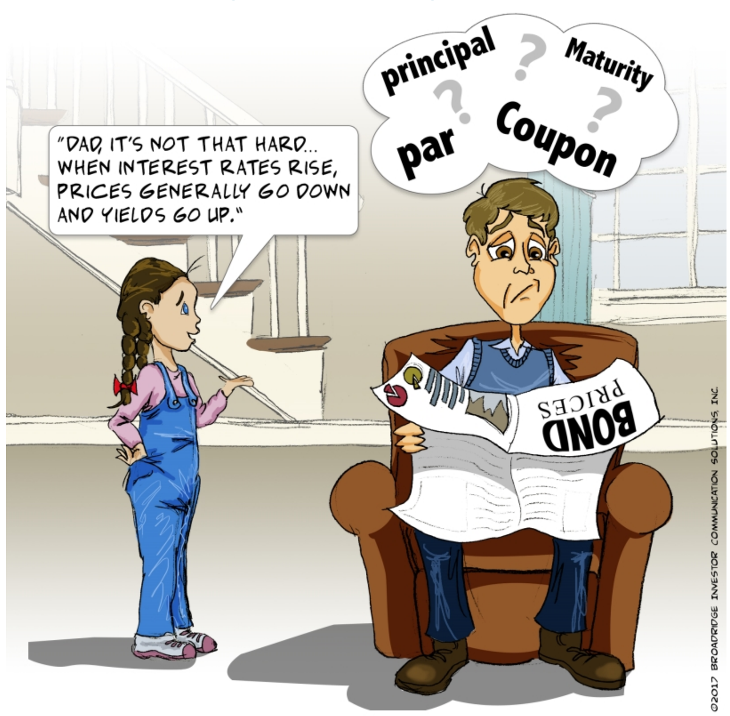
Chart: Young Adult Milestones, 1975 vs. 2016

The following pie charts compare four common milestones of adulthood — getting married, having children, working, and living independently — achieved by young adults ages 25 to 34 in 1975 and 2016. The data indicates that the experiences of young people today are more diverse, with fewer accomplishing all four milestones in young adulthood. Instead, many young adults are delaying or forgoing some experiences (marrying and having children) in favor of others (living independently and gaining work experience).



Source: U.S. Census Bureau, "The Changing Economics and Demographics of Young Adulthood: 1975-2016," April 2017

Cartoon: Father and Daughter Bonding Experience



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