46 FAQs about Retirement

AND THE ANSWERS TO HELP YOU PLAN YOUR FINANCIAL FUTURE

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The Answers to 46 Frequently Asked Questions about Retirement

Basic Questions

Where will my retirement income come from?

According to the Social Security Administration, many retirees receive income from four main sources:

1) Personal Savings and Investments
2) Earned Income
3) Company Pension Benefits
4) Social Security Income

How much will my income need to increase to keep up with the cost of living?

The annual increase in the cost of living (as measured by the Consumer Price Index) has fluctuated, but has averaged between 2% and 3% over the past 20 years. Even though inflation has been 1% to 2% at times, financial professionals recommend that retirees compensate for inflation when preparing retirement income projections.

If inflation averages 3%, how much will I need in the future?

Assume you retire at age 60 and need $4,000 per month retirement income. Assuming 3% inflation, at age 65 you will need $4,650 to buy the same goods and services. At age 70, this amount will rise to $5,400. At age 75, you will need $6,250 to maintain the same purchasing power as $4,000, 15 years earlier.

Before I retire, is there a way for me to project my retirement income?

With today's technology, there are many financial strategy computer programs that are reasonably accurate. For more detailed strategies as you approach retirement, seek the advice of a professional such as a CERTIFIED FINANCIAL PLANNER™ professional, a Certified Public Accountant (CPA), or another financial professional experienced in retirement preparation.

Investments

Why do some people I know say they never made money investing in stocks? Are stocks good retirement investments?

Some investors maintain a short-term perspective, buying only on good news (when the share prices are high) and quickly selling on bad news (when prices are low). There are no guarantees with stock ownership. Yet many patient investors have enjoyed very attractive returns over 10- and 20-year holding periods. Because most retirees have at least 10 or 20 years to leave a portion of their money invested, stocks can be an excellent investment for a portion of their retirement investments.

In general, how would you arrange my investments to meet my need for income and growth?

Dividend stocks are a great way to enjoy an income while your principal grows. For instance, the 2% dividends that you would get on your $100,000 investment of $2000 a year, would grow to $4000 a year if your principle grew to $200,000.

I've always liked real estate as an investment. Should I own real estate?

Real estate investments may be appropriate because of their growing income and potential long-term appreciation. But real estate properties may require hands-on management, which can grow into an unwelcome chore during retirement years.

Many investors choose to participate in real estate investments called Real Estate Investment Trust (REITs). REITs offer exposure to real estate investments for growth and income. REITs are potentially illiquid and because of their non-diversified nature carry higher risks of loss of principal, and there is no assurance that the financial goals of REITs will be met.

401Ks, Pensions, IRAs

What are my options for the money that is in my 401(k) or other pension?

Usually there are four broad choices, each with different advantages and disadvantages:

1) Leave it invested in what the company offers.
2) Annuitize and receive an income for life.
3) Withdraw the account balance, pay taxes, and then invest the funds.
4) Roll over to an IRA or other pension fund, paying no taxes, and continue to defer the income tax.

Who should consider a Rollover IRA?

If you change companies or retire, the 401(k) distribution you receive may become your primary source of income. It's tempting to take your distribution in cash, but you could lose a significant amount to taxes and penalties. Rolling these funds directly into an IRA maintaining your tax-deferred earnings compounding—may be a wiser choice for the long-term. *(www.ssa.gov FAQs)*

Should I roll over to an IRA when I can leave my pension or 401(k) balance in my account and not pay any expenses?

While many investors do leave pension balances in a company sponsored account, many individuals prefer an IRA for a number of reasons.

First, the choices in the company account are usually limited to a handful of investment accounts while an IRA offers an almost unlimited number of alternatives and the ability to make changes frequently and easily.

Second, many retired investors find the service from a former employer or from a voice menu reached via a toll-free number to be less than adequate service.

Perhaps the most important reason retired investors choose an IRA is the personal attention and advice offered by a financial professional who is knowledgeable about the investment markets, financial strategies, and the needs of the retiree.

I've heard that if I take my "rollover" money out of my company account, my employer will withhold 20%? Is this true?

It is true. If your company writes you a check for your pension balance, even if you intend to deposit it to an IRA, they must withhold 20%. Therefore, if you deposit the check to an IRA, you must use funds from other sources (for instance, other savings or borrowing) to make up the withheld amount. Otherwise, you must pay income taxes on the 20% that is withheld and not rolled over into the IRA.

Is there a way I can avoid having 20% withheld from my rollover?

Yes. You can arrange to have the funds transferred directly from the pension into an IRA. In that case, your company writes the check to the custodian of your IRA, not to you, and there is no withholding applied to the account balance.

Social Security

Where can I go to find answers to questions about Social Security benefits?

We have found Social Security Administration offices in our area to be quite helpful. A call to the local Social Security office any time you have a specific question will probably be welcomed. Also, a number of books that describe Social Security benefits are available at most bookstores or the public library. New Social Security website enhancements provide a wealth of information. Log on at *www.ssa.gov* or *www.socialsecurity.gov*.

When should I file for my Social Security? What will I need when I file for Social Security?

Normally, you should file for Social Security three months before you receive benefits. You will need:

1) Your Social Security card
2) Proof of your age
3) Tax forms from the previous year
4) Marriage certificate/divorce documents, if any
5) Death certificate, if applying for survivor benefits

Call your Social Security office for further details prior to visiting the office, or else log onto the Internet at *www.ssa.gov*.

Can I apply for Social Security benefits online?

Yes. Go to *www.ssa.gov* and click the Retirement Tab, and then click on "Apply For Retirement Benefits." You can also apply for disability benefits online.

Will Social Security keep up with the cost of living?

Your benefit amount will not stay the same. Generally, the benefit amount increases each year and protects beneficiaries against inflation. Social Security provides an Annual Cost-of-Living Adjustment (COLA) that is based on the consumer price index. In 2022, Social Security announced a 6% benefit increase. This will benefit more than 62 million Americans receiving Social Security or Supplemental Security Income (SSI). *Source: http://www.socialsecurity.gov/news/press/factsheets/colafacts2015.html*

There is another way that your benefit might increase. When you work you pay Social Security taxes based on your earnings. And because you pay these taxes, Social Security refigures your benefits to take into account your extra earnings. If the worker's earnings for the year are higher than the earnings that were used in the original benefit computation, Social Security substitutes the new year of earnings. The higher your earnings, the more your refigured benefit might be.

We can't tell you here how much your benefit will increase, as each case is different and your benefit is recomputed using your lifetime earnings. You need not take any special action. A re-computation of your benefits will be done automatically in the year following the close of the year in which you worked. The Social Security Administration usually completes all re-computations by September of the following year. (Remember, employers do not report your income to the SSA until February 28 of the year following the year of earnings.) If you are entitled to a higher benefit, it is retroactive to January of the year after the year when you had the additional earnings. *Source: Social Security Administration*

What is the maximum Social Security I can be paid if I retire at my full retirement age?

The maximum benefit depends on the age a worker chooses to retire. So, a worker who retires at his/her full retirement age in 2022, the amount is $3345, or $4194 if you waited until 70. This figure is based on earnings at the maximum taxable amount for every year after age 21. Source: *http://www.socialsecurity.gov/news/press/factsheets/colafacts2015.html*

What's the best way to get an accurate estimate of my Social Security benefits?

Request a *Social Security Statement* form from the Social Security office. Complete and send it in and you will receive a record of your wage history and an estimated retirement benefits statement. You can also request a *Social Security Statement* through the Internet at www.ssa.gov.

If I work after I start receiving Social Security retirement benefits, will I still need to pay Social Security and Medicare taxes on my earnings?

Yes. Any time you work in a job that is covered by Social Security—even if you are already receiving Social Security benefits—you and your employer must pay the Social Security and Medicare taxes on your earnings. The same is true if you are self-employed. You are still subject to the Social Security and Medicare taxes on your net profit.
Source: Social Security Administration FAQs: http://www.ssa.gov/planners/faqs.htm

Do I have to pay income taxes on my Social Security benefits?

The answer is "maybe." Some people who receive Social Security will have to pay taxes on their benefits. You may have to pay taxes if you file an individual income tax return as an "individual" and your total income is over $25,000. If you file a *joint* return, you may have to pay taxes if you and your spouse have a total income of more than $32,000. *Source: www.ssa.gov FAQs*

I may open a small business. Will I pay more in Social Security Taxes than I did when I worked for someone else?

A self-employed person pays twice as much as an employee pays. However, because the employer pays a matching amount, the combined rate paid by the employer and the employee is equal to the self-employment tax. But there are special tax credits you can take when you file your tax return that are intended to lower your overall rate. *(www.ssa.gov FAQs)*

Someone told me that Social Security has a financial consulting service. I don't understand the connection between financial consulting and Social Security.

Social Security is not in the financial consulting business. However, the free *Social Security Statement* mentioned in answer number 9, can help you assess your financial consulting needs. That Statement gives you a breakdown of all the wages reported under your Social Security number as well as estimates of what Social Security benefits you and your family would be eligible to receive. *Source: Social Security Administration FAQs: http://www.ssa.gov/planners/faqs.htm*

If I decide to retire before my normal retirement age, should I file for Social Security early at the reduced rate? What is the reduction?

For individuals born between 1943-1959, normal retirement (the age at which a recipient is entitled to 100% of his or her SSI benefits) is 66 years of age and is 67 years of age for individuals born after 1960 (please refer to the chart on the next page for further details on individuals born between 1955-1959). For each month you choose to collect social security income before the "normal" retirement age, your monthly benefit is reduced by .555%. The earliest you can collect is age 62 and the benefit would be 75% of your "normal" SSI.

For individuals born in 1955 or after, the reduced benefit becomes a bigger percentage each year, and the normal retirement age increases. See the table on the next page showing the differences in benefits and retirement ages depending on the year of your birth.

Full-retirement age is the age at which you may receive an unreduced retirement benefit. Full-retirement age had been 65 for many years. The full retirement age has increased to age 67. However, beginning with people born in 1955 or later, the age will gradually increase until it reaches 67 for people born after 1959. The 1983 Social Security amendments included a provision for raising the retirement age beginning with persons born in 1938 or later. Congress cited improvements in the health of older people and increases in average life expectancy as primary reasons for increasing the normal retirement age.

> NOTE: People born on January 1 of any year should refer to the full-retirement age for the previous year.
>
> The earliest a person can start receiving Social Security retirement benefits will remain age 62.
>
> *Source: Social Security Administration: http://www.socialsecurity.gov/retire2/agereduction.htm*

Year of birth	Full-retirement age
1943-1954	66 years of age
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 & later	67 years of age

My wife and I both worked under Social Security. Her *Social Security Statement* says she can get $850 a month at full-retirement age and mine says I would get $1,450. Do we each get our own amount? Someone told me we could only get my amount, plus one-half of that amount for my wife.

Since your wife's own benefit is more than one-half of your amount, you will each get your own benefit. If your wife's own benefit were less than half of yours (that is, less than $725), she would receive her amount plus enough on your record to bring it up to the $725 amount.

Source: Social Security Administration FAQs: http://www.ssa.gov/planners/faqs.htm

Required Minimum Distributions

When am I required to withdraw money from my Traditional or Rollover IRA?

By the end of the first quarter of the year following the year that you become 73 years of age, you must make your first “Required Minimum Distribution” (RMD) withdrawal from your IRA. *Source: IRS Publication 590*

How do I calculate the amount of the RMD that I must withdraw?

The Internal Revenue Service has issued proposed regulations substantially simplifying the calculation of minimum required distributions from qualified plans, IRAs, and other related retirement savings vehicles.

The calculation is based on the following factors:

1) The value of your IRA account at the end of the previous year.
2) Your age and a single table based on the concept of a uniform lifetime distribution period.

Consulting with a tax and/or estate planning advisor and financial professional is extremely important for many investors when determining who should be named as your beneficiary and what methods should be elected in calculating the required minimum distribution. Additional information can be found on the web at www.irs.gov. *Source: Internal Revenue Service Publication 590*

Do the required withdrawals apply to single-premium deferred annuities, too?

Usually not, if not in an IRA. Typically, you can leave money in annuity contracts to compound tax-deferred until age 85.

What if I forget to withdraw the minimum amount at age 73 or I make a mistake on my minimum distribution and do not withdraw enough?

The penalty is 25% of the “under-withdrawal,” the difference between what you withdrew and what you should have taken out to meet the Required Minimum Distribution.

Your IRA custodian firm should have systems in place to assist you in determining the dates and amounts you should withdraw from your IRA. *Source: IRS Publication 590*

I have a $180,000 IRA rollover and I need $1,500 in monthly income from the IRA. If I make an average return of 6% on my investment portfolio, how long will my money last? What if I can increase the return to 8% or even 9%?

Generally, earning 6% interest and withdrawing 10% from the account each year would deplete the principal in approximately 15 years. At 8% interest, the portfolio would run out in approximately 20 years; at 9% return, in approximately 27 years.

Obviously, a portfolio earning more than the rate of withdrawal will never be depleted and can actually be used to provide increasing income in retirement to offset the rising cost of living. See following table.

These figures are for illustrative purposes only and do not represent the performance of any actual investment. Actual investment results may vary; past performance is no guarantee of future performance.

Will You Run Out of Money Before You Run Out of Time?

In the chart below, the figures show how many years it will take for your principal and earnings to become fully depleted if you spend more money than your portfolio is actually earning.

Withdrawal	Expected Rate of Return										
Rate	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
6%	37	*	*	*	*	*	*	*	*	*	*
7%	25	33	*	*	*	*	*	*	*	*	*
8%	20	23	30	*	*	*	*	*	*	*	*
9%	16	18	22	29	*	*	*	*	*	*	*
10%	14	15	17	20	27	*	*	*	*	*	*
11%	12	14	15	17	20	25	*	*	*	*	*
12%	11	12	13	14	16	19	24	*	*	*	*
13%	10	11	11	12	14	15	18	23	*	*	*
14%	9	10	10	11	12	13	15	17	22	*	*
15%	8	9	9	10	11	11	13	14	16	21	*
16%	8	8	8	9	10	10	11	12	14	16	20
17%	7	8	8	8	9	9	10	11	12	13	15
18%	7	7	7	8	8	8	9	10	10	11	13
19%	6	7	7	7	8	8	8	9	9	10	11
20%	6	6	6	7	7	7	8	8	9	9	10

Years Until All Capital Is Depleted

Taxes

Now that I'm going to stop working, won't my taxes be lower?

Many retired workers are surprised to learn that they will still be paying income taxes, often with little or no reduction in tax payments from their working years. You can consider using some tax-advantaged strategies. Start by determining your taxable retirement income and your marginal tax bracket.

Is there a way for me to safely and legally reduce my income taxes during retirement?

Most investors should consider many alternatives. For example:

1) Proper use of IRAs, Roth IRAs, and annuities can offer tax-deferral of earnings and tax-advantaged income.
2) Quality common stocks that appreciate with tax-deferred growth and pay advantaged dividends.

Life Insurance

Should I keep my life insurance or cash it in?

One of the uses of life insurance is the cash benefit it provides to offset the loss of income that an individual's family would realize in the event of death of the insured person. This is the reason many people own life insurance.

But what about in retirement? Ask yourself this question: Who loses financially as a result of your death? One very good reason to keep life insurance after your "non-working" years is to compensate for the loss of pension benefits. Perhaps you cannot roll over your pension account and must take payments for life. Many retirees choose to take the higher benefit based only on their life (rather than a reduced payment based on joint life payments) and use the extra income to pay for existing or new insurance to make up the lost payments in the event of their death before their spouse's death.

Life insurance policies are subject to underwriting and acceptance of the issuing company.

Isn't life insurance a bad investment?

While some argue that life insurance can be a poor investment, there are many advantages. Most insurance companies are highly regulated and carefully monitored, and therefore are usually very reliable. Often the tax advantages are overlooked. The proceeds of a life insurance policy are normally tax-exempt. While many other investments are taxed on the difference between the cost and the payoff, the death benefit from life insurance owned by an individual is usually not taxable. However, "cashing in" a policy can lead to a taxable event.

A financial professional who is knowledgeable about life insurance should be consulted before terminating your life insurance.

I already own life insurance; can I give this insurance to my children or a life insurance trust?

An insurance policy can be gifted to a trust or heirs, but the donor must survive that transfer by three years or it will be included in the value of the donor's estate. New purchases of life insurance by a trust or children on the life of a parent or donor may not be subject to this three-year rule. You should consult with a competent professional before purchasing for applicability to your situation.

What are my biggest financial risks in retirement?

For many retired Americans the largest financial risk is the cost of health care, either in a hospital or long-term care provided in a facility or at home.
A number of insurance companies offer contracts that can reduce these risks, but the cost of the insurance coverage can be very high. Prior to retirement the risks and the cost of the insurance should be considered within the total financial strategy.

Estate Planning

What about estate planning?

You should review your wills, trusts, and related documents regularly with your attorney, at least every three years. You may discover that you need to update your estate plan because of changes in your family and/or changes in laws that affect estate planning. "Titling" of your accounts (who the owners named on them are) is also a very important consideration.
It is sensible to spend a modest sum on good legal advice for this purpose. If you do not have an attorney, get a referral from a friend or someone that you trust. If your attorney does not specialize in estate planning work, he or she may be able to refer you to an attorney who does.

Are there tax-wise ways to transfer wealth to my heirs?

There are several provisions in the current estate tax laws that allow individuals to pass wealth to their survivors without estate taxation.
One of the primary deductions for married decedents is usually the marital deduction. This may vary by state and individual situation.
To a non-spouse heir, each individual may leave an amount that is not subject to estate taxation; how much depends on the year of death with indexed inflation. Assuming death was in 2020, the amount is limited to $5.70 million per person. The lifetime gift tax exemption has also been indexed for inflation with the same amounts.
Additionally, while living there is a gift tax annual exclusion, which is the amount that can be given away each year by an individual without using up any part of the lifetime exemption.
See your estate and tax advisors for more detailed information on estate planning. Source: Internal Revenue Service Publication 950. You may find this at: http://www.irs.gov/pub/irs-drop/rp-14-61.pdf

Is there a way to give more than $18,000 per year to my children?

One method of leveraging gifts is often used by individuals who are concerned about the amount of estate tax their heirs may have to pay.

By giving cash each year to an irrevocable trust (or directly to heirs) that purchases life insurance on the life of the donor, gifts can be multiplied. While life insurance owned by an individual is considered part of that individual's estate, life insurance that is owned by an irrevocable trust is (subject to meeting certain requirements) not included in the deceased's estate. Therefore at the death of the donor, the beneficiary/heir(s) receive the proceeds income tax-free and estate tax-free, effectively increasing the value of the annual gifts.

Making the Transition to Retirement

I'm concerned about the change that retirement will bring to my daily routine. What can I do to prepare myself for this change?

Carefully consider what you will do with your time, who you will see, and what is important to you. Make a weekly schedule of activities and events that you intend to pursue in retirement. Talk things over with your spouse and family and get involved in retirement activities prior to actually retiring.

Consider a "dress rehearsal" by taking a two-week vacation at home and pretending you have retired. Many pre-retirees have found this to be a practical way to find out if they are ready (or not) to retire.

The idea of not working makes me uncertain about my (our) financial future. How can I know that the resources I have accumulated will help me meet my needs for the rest of my life?

This is the purpose of financial strategies for retirement. Remarkably, many individuals work for up to forty years accumulating wealth, and then spend only a minimal amount of time analyzing and projecting their income at retirement.

Because of the number of retirees today, many financial professionals focus on retirement strategies. Additionally, many software programs are available at little or no charge.

What are the biggest mistakes retirees make?

Unfortunately, some retirees just don't have a financial strategy, which can lead to over-spending or under-spending as a result.

Ironically, many newly retired workers are too conservative. Our experience has been that some retirees should spend more money in the first few years of retirement and enjoy their health and high energy. They also have a backlog of "to-dos" that they have been desiring to experience like travel, golf, volunteer work, or even a second career. Often, we find that, unless prompted to start enjoying life, some retirees settle into an attitude of "we have to save the money for later."

Choosing a Financial Planner

I hear and read about people who do their own investing at lower cost than those who use a financial professional. Why should I pay more to invest?

Some individuals should take the "do it yourself" approach. Others should not.

Ask yourself these questions:

- Am I knowledgeable about the investment markets?
- Can I do my own financial strategy?
- Do I have the extra time that I want to commit to these tasks?
- Will I enjoy handling my own investments and financial strategy?
- Is the potential savings worth the risk of going it alone?

If you answered "yes" to these questions, you might want to take your retirement strategy into your own hands. Answers of "no" suggest that you may want to use the services of a financial professional to assist you with these important tasks.

Assuming I decide to work with a financial professional, how can I get started? How can I find someone to help me with my retirement and investment?

An experienced professional that you like, trust, and already know is the first way you might consider dealing with this issue. Next ask friends and other financial professionals for recommendations based on their experience. Also consider attending retirement seminars. It's likely that you will pick up at least one useful idea and in the process, you might make contact with a financial consultant who can assist you in developing your retirement ideas and continue to work with you for many years.

What does it cost to work with a financial professional?

At most major investment firms, financial professionals are compensated by commissions and in some cases on an annual percentage of the amount invested in other "fee-based" investment accounts. Some also charge annual or hourly fees. Your total charges will vary based on your needs and the services required to meet your objectives. Be wary of those who avoid answering questions on this subject. Also, be sure to ask for a description of what services will be provided for the fees you expect to pay.

Is there a way that I can simplify my investing during retirement?

Over the course of their working years, many investors develop numerous investment accounts at banks, brokerages, mutual fund companies, etc. If you can select one investment firm or financial professional that meets your needs and you are comfortable working with, it is possible and actually quite easy to consolidate your investment holdings. Many investment firms can transfer your existing investments into your account(s) at that firm, greatly simplifying your situation, your tax preparation, and your future estate distribution, not to mention making it easier for your financial professional to properly advise you.

Please be sure to speak to your representative to carefully consider the differences between your company retirement account and investment in an IRA. These factors include, but are not limited to changes to availability of funds, withdrawals, fund expenses, fees, and IRA required minimum distributions