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The New Retirement

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Many Boomers will need to work in retirement; advisers can help them plan for it

For many Americans, the definition of "retirement" is changing to include work—at least part time. "You've got 10,000 Baby Boomers turning 65 every day, and yet many remain in the work force," says Edmund Murphy III, president of Empower Retirement, headquartered in Greenwood Village, Colorado. "Some of that is by choice, but some of it is not. There's definitely a trend of people needing to work longer."

Among Baby Boomers, more than half (52%) plan to continue working after they retire, according to a report released last December by the Transamerica Center for Retirement Studies, "Baby Boomer Workers Are Revolutionizing Retirement: Are They and Their Employers Ready?" Dreams of retiring to a life of leisure early, or even at 65, will be unrealistic for many of them. "The dream that dies is [that] retirement is not that you are going to jump on a cruise ship and go around the world six times," says adviser Jason Chepenik, managing partner at Chepenik Financial in Winter Park, Florida. Many will work part time because of "the economics of their situation."

The earlier that people understand that reality, the better. "These conversations are typically taking place when people are in their mid-60s," Chepenik says. "Nobody seems to plan early enough." Advisers can take an active role in helping 401(k) participants ages 50 and older to prepare for this, he says. "It's tough, but it's very important for people to be realistic and not super-optimistic," he says. "You have to connect the dots between their hopes and dreams and [more] realistic expectations."

A Changing Picture

Many retirement-age Americans continue to work and seek jobs now. An AARP study released a year ago January, "Staying Ahead of the Curve 2013: The AARP Work and Career Study," found 54% of workers ages 65 to 74 classify themselves as retired and working. Among those labor-force participants, 34% say they work full time, 35% work part time, 19% are self-employed, and 13% are looking for work.

The Great Recession hit many Baby Boomers hard, says Sara Rix, senior strategic policy adviser at AARP, in Washington, D.C. Many experienced job loss and financial pressures that caused them to withdraw money from their 401(k) account, take a loan or increase credit card debt. In 2010, when AARP surveyed 5,027 current or recently working and job-seeking Americans ages 50 and older for its study "Boomers and the Great Recession: Struggling to Recover," it found that 17% of them were jobless and looking for work, another 13% had jobs but had been involuntarily unemployed at some point in the previous three years, and 10% had left the labor force within the previous three years and were not looking for work. Even those who were able to keep their jobs frequently saw declining home values and stock market fluctuations that spooked them. "All these things heightened insecurity about retirement preparedness," Rix says. Working later than originally anticipated is "one of the best ways to prepare for a secure retirement," she says.

A 2014 study, "Work and Retirement: Myths and Motivations," also reveals a changing picture of life after 65: Nearly half (47%) of today's retirees either have worked or plan to work during retirement. The study was conducted by Bank of America Merrill Lynch in partnership with Age Wave, an Emeryville, California, research and consulting company focused on the aging population and its implications.

The American concept of leaving the work force to enjoy years of leisure "already is changing, like it or not," says Maddy Dychtwald, co-founder and senior vice president at Age Wave, citing two prominent reasons. "One is that people are living longer than ever before. The average life expectancy in the United States is 79." Just in the 20th century, she says, average American life expectancy grew by 30 years. "This is a longevity bonus, and it changes everything. The idea we have stuck in our minds that 65 represents 'old'—and when you're old you're not supposed to be working—doesn't work anymore."

Second, Dychtwald points to the Baby Boomers, who make up about one-third of the U.S. population. "They are hitting their traditional retirement years, and, frankly, they're not well-prepared for retirement," she says. "Studies have shown that only about one-third of Boomers have saved enough for retirement; one-third have saved something but not enough; and one-third have not saved at all."

Most Americans approaching retirement need help understanding the fundamentals. Just 20% of Americans ages 60 to 75 could pass, with a score of 61 or higher, a basic quiz on how to make their nest eggs last throughout retirement, according to the RICP [Retirement Income Certified Professional] Retirement Income Literacy Survey. The American College of Financial Services, in Bryn Mawr, Pennsylvania, released the results this past December.

Only 30% of respondents understand that it would be more helpful for them to work two years longer or defer Social Security for two years than to increase retirement contributions by 3% for five years. Just 53% of respondents know that for someone with a long life expectancy, it is best to wait until age 70 to claim Social Security.

How Advisers Can Help

Simply developing a PowerPoint presentation tailored for a group meeting of participants ages 50 and older does not help them enough, adviser Jordan Gelb has learned. Working with people individually, and giving them the necessary tools, allows them to come up with a personalized plan, says Gelb, a managing director at Bank of America Merrill Lynch in Northbrook, Illinois.

“Everybody has a different road map,” Gelb says. “It’s just about customizing it.” Participants need to start by understanding where they stand now on retirement savings, and he encourages participants to use the Merrill Advice Access retirement calculator, which tells them the probability that they can replace sufficient income in retirement. “We tell people, ‘If you see an 80% probability of being able to replace your income in retirement, you can retire. If you see a 60% probability, you cannot retire yet,’” he says.

Advisers can help those age 50-plus participants plan for an extended career by focusing on these areas:

• **Assessing longevity and health issues.** Pre-retirees need to consider how long they likely will live, a tough topic. Encourage people to start comprehending it by asking about their family history, Chepenik suggests. “I start by asking them, ‘How long did your parents live?’ Often, they haven’t thought about [that connection] until I have that conversation with them. Then they start to realize [the implications of], ‘My parents are still alive and well.’ Or ‘My mother is in a nursing home,’” Chepenik says.

People can use the Life Expectancy calculator on the Social Security Administration (SSA) website’s calculators page to get a ballpark estimate. For example, a 55-year-old man born January 1, 1960, will live an estimated 82.8 years. If that same person lives to age 62, the life expectancy rises to 84.3 years; at age 66 and 10 months, it increases to 85.5 years; then, at age 70, it goes up to 86.4.

Pre-retirees also need to think about their health issues in terms of how long they realistically can work. “Studies have consistently shown that 40% to 50% of retirees report that they retired earlier than planned,” says David Littell, a professor at The American College. “A frequent misconception is that you’re going to work longer than you actually are.” Even when people work into retirement, the primary reason they ultimately stop “is because of health issues,” Dychtwald says.

• **Understanding Social Security.** Advisers can help make it clear how much people can gain by continuing to work in retirement, Rix says. “If you delay collecting Social Security, your monthly Social Security benefit will increase,” she says. “For each year you delay Social Security, your benefits will increase by 8%” up to age 70, she explains. People can use the Retirement Estimator tool, available from the main page of the Social Security Administration website, to project their benefit. For instance, someone with a full retirement age of 66 who would receive $1,000 a month if he started claiming the Social Security benefit at 66 would see that benefit reduced to $750 if he were to claim at 62, but increased to $1,320 if he were to claim at 70.

It often makes sense financially to work part time, and even to start drawing on a 401(k) balance as well, in order to delay taking Social Security. “There is this sense among people that if they’re going to retire, and they have some 401(k) assets and Social Security, it’s pretty scary to start spending down their 401(k) balance. So people start taking Social Security early,” Littell says. “But research shows that the opposite is often better: to start spending down your 401(k) now and take Social Security later.”

Additionally, people thinking about working in retirement should remember that if they begin Social Security during that time, they may owe taxes on part of their benefit if they exceed certain income thresholds, Littell says. The amount subject to taxation varies based on income level and whether someone files individually or with a spouse. For example, if a couple files a joint return and have a combined income—defined as adjusted gross income plus nontaxable interest plus half of their Social Security benefits—of between $32,000 and $44,000, up to 50% of their Social Security benefits are subject to income tax.

• **Setting a realistic budget.** Many retirees will make less than they would like working part time, so they need to downsize their lifestyle by reducing post-retirement expenses. Tower Rock Advisors – Pensionmark Retirement Group of Bakersfield, California, hosts plan group meetings for pre-retirees ages 50 and older that focus on reducing debt and closing the retirement income gap. Pre-retirees need to think about demands such as paying off their mortgage, funding their children’s college education and eliminating any other debt, Tower Rock Managing Director Tom Ming says. Tower Rock uses the guideline that people who have paid off their debt can safely live off of 70% to 75% of their pre-retirement income in retirement.

Pre-retirees also need to plan for how they will pay for health care, which, Empower Retirement’s Murphy says, many do not consider. “If you look at the cost of health care in retirement, in some cases, it can be a third of someone’s discretionary income,” he says. “It is important to incorporate the cost of health care in retirement, so that when savers put together a plan, they can look at it holistically.” His firm has a health cost estimator that gives 401(k) participants a personalized assessment of how large a portion of their expected future monthly income will be needed to cover their health care costs in retirement.

Many pre-retirees fear going into the “black hole” of dealing with these sorts of nuts and bolts of retirement, says Ming. This is where an adviser’s guidance on what steps to take to meet these needs can be instrumental. “These aren’t fun sessions,” he says. “I tell sponsors, ‘I’m going to tell your participants where they are, and where they need to be, and I’m not going to sugarcoat it,’” he says. “We want participants to know where they stand.”

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