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Wilmarth PWM Monthly

Streamlined Solutions for a Lifetime of Needs

Three Regrets of Retirees

A recent survey found that more than half of retirees have retirement planning regrets. Unfortunately, many of these retirees had to cut back on their lifestyles to compensate for financial shortfalls.[1]

Considering their most common regrets may help you avoid making the same mistakes.

Not saving enough

More than one-third of retirees wish they had saved more.[2] How much is enough? The amount you need depends on your other sources of income and your anticipated retirement lifestyle.

It might be helpful to consider the 4% rule, a traditional guideline for the percentage of savings that you may be able to withdraw each year without depleting your nest egg over a 30-year retirement. For example, $100,000 in savings would provide only $4,000 in annual income. If you will need $20,000 from your savings each year, you should have $500,000 socked away by the time you retire. Withdrawing $40,000 annually might require $1 million in savings.

The longer you have before retirement, the more time you have to take advantage of long-term savings and compounding of potential returns.

If you have a workplace plan, you might start by saving enough to receive any employer match and then increase your savings percentage by 1% each year until you reach 15% or more. You may need to target a higher percentage if you get a late start. Even if retirement is coming soon, you might be surprised by how much you can save if you focus on that goal.

Relying too much on Social Security

Social Security was never meant to meet all your retirement income needs. The average 2019 monthly benefit of $1,461 for a retired worker and $2,448 for a couple would hardly provide a comfortable retirement. The 2019 maximum worker benefit of $2,861 at full retirement age would be better, but that would require maximum taxable Social Security earnings for at least 35 years. If you postpone claiming Social Security after reaching full retirement age, your benefit increases by 8% annually. For example, if you were born in 1960 or later, your full retirement age will be 67 under current law, so working until age 70 would increase your benefit by 24%.[3]

According to the most recent trustees report, Social Security may be able to pay out only 77% of scheduled retirement benefits beginning in 2034, unless Congress takes action to strengthen the program.[4] Considering the importance of Social Security, it seems unlikely that benefits will be reduced to that level, but this is another reason not to count too much on Social Security benefits for retirement income.

Not paying off debts

Carrying heavy debt can be a strain at any stage of life, but it can be especially difficult for retirees living on a fixed income. Paying off your home before you retire not only reduces your monthly expenses but also provides equity that could be tapped if necessary for future needs. Before paying off your mortgage, however, it might be wise to pay off credit cards and other high-interest loans.

The road to retirement can be challenging, but avoiding the mistakes made by those who have traveled before you may help you reach your destination with fewer regrets.

1-2 National Association of Plan Advisors, December 8, 2018

3-4 Social Security Administration, 2019

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Although there is no assurance that working with a financial professional will improve investment results, doing so can help you focus on your overall financial objectives, identify sound strategies, and consider opportunities that could have a substantial effect on your long-term financial situation.

FIRE: Four Things You Need to Know About This Hot Retirement Movement

Many workers look forward to the day they can finally retire, and for some, an early retirement would be a dream come true. Others are turning this dream into a reality by retiring in their 30s or 40s. But how are they able to do it?

A hot retirement trend called Financial Independence, Retire Early (FIRE) has gained momentum among younger workers who are taking steps to leave traditional career paths and enjoy an early retirement. While an early retirement sounds ideal, it requires careful planning, savvy saving and investing habits, and potentially big sacrifices.

1. FIRE means implementing an aggressive retirement plan

The goal of FIRE is to save and invest aggressively so that retirement is possible at a younger age — even decades earlier than the traditional retirement age. Individuals who pursue FIRE aim to increase their income as well as keep expenses extremely low. The higher an individual's income is and the lower his or her expenses are, the faster that person may be able to accomplish FIRE. Typically, the following steps are part of the process.

- **Calculating estimated retirement expenses.** A general guideline of FIRE is to save 25 times the annual amount the individual will spend in retirement. This number comes from the 4% rule, which suggests an annual withdrawal rate of 4% from an individual's savings. It sounds simple, but this formula doesn't account for a number of different factors, such as existing debt and inflation.
- **Cutting expenses.** This often means making major lifestyle changes. Some FIRE followers give up owning a car or move to an area with a lower cost of living. Others practice a number of frugal habits, such as cooking at home instead of dining out, shopping at discount stores, and cutting cable and mobile phone services.
- **Saving and investing wisely.** FIRE followers carefully monitor their portfolios and update them periodically. They might also increase savings by maximizing contributions to applicable retirement plans.
- **Boosting income.** Selling unneeded/unwanted items and pursuing a side hustle/additional part-time work are some ways FIRE followers might try to increase monthly income.

2. It has fervent supporters...

The main ideas behind the FIRE movement originated in the 1992 book *Your Money or Your Life* by Vicki Robin and Joe Dominguez, as well as the 2010 book *Early Retirement Extreme* by Jacob Lund Fisker. In the years since, many blogs, podcasts, and online forums have cropped up to share information about FIRE and popularize the concept as a whole.

Many FIRE supporters are attracted to the movement because they dislike their jobs or feel that they work too much. Those who follow FIRE believe that it encourages a more meaningful life because it provides freedom to pursue true passions. FIRE creates flexibility in retirement because people can still work and/or earn a passive income, but with the luxury of determining what type of work to do, when it's done, and for how long.

3. ...as well as outspoken critics

Many vocal critics have expressed doubts about the FIRE movement. Some believe it's an unrealistic approach to retirement because it's impossible to know how an individual's financial needs will change over time. Life (and the markets) can be unpredictable, and critics argue against embracing the unknown.

Other critics maintain that FIRE simply isn't attainable for the average worker. Those who don't earn a large enough income may struggle to save so aggressively, particularly if they are caring for one or multiple dependents.

4. There's more than one way to practice FIRE

There are multiple approaches to FIRE. Some may choose to abide by Fat FIRE rules, which means living a more traditional lifestyle but saving more than the average retirement investor. Conversely, others stick to minimalist living and extreme saving, resulting in a much more restricted lifestyle in a practice known as Lean FIRE. Other styles include Barista FIRE (quitting a traditional 9-to-5 job in favor of part-time work to help boost income as well as obtain health insurance or other benefits) and Coast FIRE (working part-time to cover expenses after having saved enough to fund retirement).

No matter how FIRE is practiced, it requires a long-term commitment that might not be suitable for everyone. A financial professional can help you review all your options for pursuing an early retirement.

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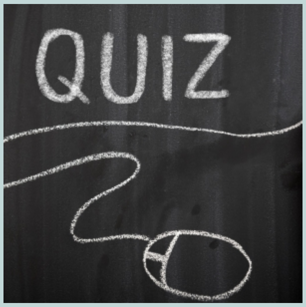
Take This Quiz: The Social Security Retirement Earnings Test



This quiz covers only some basic rules. For more information about other retirement earnings test rules, visit the Social Security Administration website, [ssa.gov.](ssa.gov)

Can you work and receive Social Security retirement benefits at the same time? Yes, but the Social Security Administration (SSA) will apply an earnings test. Part or all of your monthly benefit may be withheld if you earn too much.

To help avoid surprises, take this quiz to find out what you know — and don't know — about Social Security earnings test rules.

Questions

1. The retirement earnings test applies only if you are receiving Social Security benefits and are...

a. Under age 62

b. Under full retirement age

c. Full retirement age or older

d. Age 70 or older

2. Which of the following types of income count toward the earnings test?

a. Wages earned as an employee and net self-employment income

b. Pension and retirement plan income

c. Interest and dividends

d. Both a and b

e. All of the above

3. Benefits that are withheld are lost forever.

a. True

b. False

4. The earnings test may affect family members who are receiving which types of benefits?

a. Disability benefits

b. Spousal benefits

c. Dependent benefits

d. Both b and c

5. What special rule applies to earnings for one year, usually the first year you claim Social Security retirement benefits?

a. A monthly earnings limit applies to any earnings after you claim retirement benefits.

b. Earnings during the first year after you claim retirement benefits can't be counted if you retired after 40 years of continuous employment.

c. Earnings during the first year after you claim retirement benefits will not reduce your Social Security benefit if you retired from a government job.

Answers

1. b. If you have not yet reached full retirement age (66 to 67, depending on your year of birth), your Social Security retirement benefit may be reduced if you earn more than a certain annual amount.

In 2020, $1 in benefits will be deducted for every $2 you earn above $18,240. In the calendar year in which you reach your full retirement age, a higher limit applies. In 2020, $1 in benefits will be deducted for every $3 you earn above $48,600. Once you reach full retirement age, your earnings will not affect your Social Security benefit.

The SSA may withhold benefits as soon as it determines that your earnings are on track to surpass the annual limit. The estimated amount will typically be deducted from your monthly benefit in full, so you might not receive benefits for one or more months before they resume.

2. a. Only earned income, such as wages from an employer and net self-employment income, count toward the earnings limit. Unearned income — such as other government benefits, investment earnings, interest, pension and retirement plan distributions, annuities, and capital gains — doesn't count.

3. b. Benefits that are withheld are not really lost. Your benefit will be recalculated at full retirement age to account for the months benefits were withheld. You'll receive the higher benefit for the rest of your life, so assuming you live long enough, you'll eventually recoup the total amount you previously "lost."

4. d. Benefits paid to family members (such as your spouse or dependent children) based on your earnings record may also be reduced if you're subject to the earnings test. The earnings test does not apply to disability insurance benefits.

5. a. Many people retire mid-year and have already earned more than the earnings limit. So in the first year you claim retirement benefits, a monthly earnings test may apply, regardless of your annual earnings.

For example, let's say that you claim benefits at age 62 on September 30, 2020 and have already earned more than the 2020 earnings limit of $18,240. Then, you take a part-time job that pays you $1,000 per month for the rest of the year. You'll still receive a Social Security benefit for October, November, and December because your earnings are less than $1,520, the monthly limit that applies in 2020.

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What health services aren't covered by Medicare?

Original Medicare — Part A hospital insurance and Part B medical insurance — offers broad coverage, but many services are not covered.

Some may be fully or partially covered by a Part C Medicare Advantage Plan, which replaces Original Medicare, or a Medigap policy, which supplements Original Medicare. Both are offered by Medicare-approved private insurers. (You cannot have both a Medicare Advantage Plan and a Medigap policy.)

Whether you are looking forward to Medicare in the future or are already enrolled, you should consider these potential expenses.

Deductibles, copays, and coinsurance. Costs for covered services can add up, and — unlike most private insurance — there is no annual out-of-pocket maximum. Medicare Advantage and Medigap plans may pay all or a percentage of these costs and may include an out-of-pocket maximum.

Prescription drugs. For coverage, you need to enroll in a Part D prescription drug plan or a Medicare Advantage plan that includes drug coverage.

Dental and vision care. Original Medicare does not cover routine dental or vision care. Some Medicare Advantage and Medigap plans may offer coverage for either or both of these needs. You might also consider private dental and/or vision insurance.

Hearing care and hearing aids. Some Medicare Advantage plans may cover hearing aids and exams.

Medical care outside the United States. Original Medicare does not offer coverage outside the United States. Some Medicare Advantage and Medigap plans offer coverage for emergency care abroad. You can also purchase a private travel insurance policy.

Long-term care. Medicare does not cover "custodial care" in a nursing home or home health care. You may be able to purchase long-term care (LTC) insurance from private insurers.

A complete statement of coverage, including exclusions, exceptions, and limitations, is found only in the LTC insurance policy. It should be noted that LTC insurance carriers have the discretion to raise their rates and remove their products from the marketplace.

Could you survive a no-spend month?

Would you take on a 30-day challenge to spend money only on necessities such as rent, utilities, and groceries? During a no-spend month, many common activities — including dining out, buying movie or concert tickets, and shopping for clothes — are avoided at all costs.

The idea behind a 30-day challenge is that the time period is just long enough to help change bad habits without seeming intolerable. If frugality isn't normally your forte, closely scrutinizing your spending could reap hundreds of dollars in savings. More important, it could help identify ways you might be wasting money on a regular basis.

Start by setting a positive goal for the money. Will you use the extra savings to pay down credit card debt or build up your emergency fund?

Here are some other ways to prepare for a successful challenge.

Time it right. Periods that include major holidays, planned vacations from work, and family birthdays are probably not the best for taking on this type of household experiment.

On the other hand, it could be ideal to begin the new year with a "fiscal fast."

Establish rules. Take your fixed expenses (i.e., rent/mortgage, utilities, phone bill, insurance payments) into account when planning your no-spend month. Evaluate your typical monthly discretionary spending to figure out where you can reduce or eliminate your spending for the month.

Plan to break patterns. Fill up your freezer and pantry with groceries and collect ideas for easy homemade meals. Steer clear of your personal spending triggers, which could mean staying off the Internet or waiting until later to meet up with friends who are big spenders.

Seek out free and fun entertainment. You don't have to stay home for an entire month. Spend the day visiting a public park or beach, or look for free concerts, outdoor movies, art festivals, workshops, and other special events hosted by community groups.

Stay focused. When you get tempted to spend, remember your goal for the money you've saved. Keep a record of your progress to have a tangible reminder that your efforts will pay off.

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