TALON
WEALTH MANAGEMENT

Retirement Questions

Government Employees Should be Asking

As financial professionals who specialize in helping government employees transition from work to retirement, we understand that you may have questions about when and how you can retire. This special report addresses some common questions and presents some strategies to help you prepare for a more comfortable retirement.

Preparing for a more comfortable retirement

INTRODUCTION:

In today's volatile markets and uncertain economic conditions, the retirement dream can seem elusive. Many Americans are worried about whether they can afford to retire and want to know how to ensure that their savings last. Government workers have the added challenges of evaluating complex retirement benefits and making the most of their options when they retire. When taxes, healthcare, survivor benefits, and other options are taken into consideration, the right strategy could be worth hundreds of thousands of dollars over the course of a lifetime.

For those who have spent their careers in public service, retiring may involve a mix of emotions. You may be worried about the financial aspects of retirement, you may feel ambivalent about leaving a job you love and losing the camaraderie of your profession, and you may wonder about what you will do when you're no longer working.

These complex feelings are a normal part of the retirement process, but you shouldn't allow them to put off developing strategies for the future. You have very important decisions to make about retirement; the most prudent course is to start thinking now about your retirement needs so that you can evaluate your options and make the right decisions when the time comes.

We developed this special guide to help government employees understand their options and ask the right questions when developing their retirement strategies. We also recommend outlining your retirement goals and creating a retirement budget to help you think about the future. We strongly recommend that you sit down with your loved ones to read through this guide and work through the questions we pose. When you're ready to discuss your thoughts with a professional, simply call us for a complimentary, no-obligation review.

Retiring with Debt?

Statistics from the Employee Benefit Retirement Institute (EBRI) show that many Americans in or nearing retirement are carrying high levels of debt.

If you have significant mortgage, student loan, or credit card debt, your retirement expenses may go up considerably. A financial professional can help you develop debt reduction strategies while still living a comfortable lifestyle.

ONE: *When Can I Afford to Retire?*

If you're worried about being able to retire, you're not alone. Millions of Americans are concerned about whether their retirement savings will be enough to keep them comfortable. In fact, many Americans fear running out of money more than they fear death.[1]

Though Americans in public service have historically relied on comfortable pensions and retirement benefits, unfunded liabilities and major changes to the retirement landscape mean that government employees must carefully evaluate their financial options.

The decision to retire is a very personal one that depends on a number of important factors like your age, years of service, financial circumstances, health, and family situation. It's also important to understand the particulars of when you may be entitled to collect a retirement benefit from your pension or sponsored retirement plan. Each plan is different with respect to service requirements and retirement eligibility. A professional can help you understand the conditions under your specific retirement system.

If you're evaluating the decision to retire, there are a few important steps that you can take now to determine whether you are on-track financially. While a financial professional can help you explore your personal situation in greater detail, you can get started by doing some simple calculations on your own.

Start by estimating your expenses in retirement. By adding up all of your basic living expenses and desired discretionary spending, you can develop a better idea of how much money you'll need each month. To make it easier for you to accurately estimate your expenses in retirement, we will outline your retirement budget. This way we can accurately understand your financial picture and what options are available to you.

Another quick way to evaluate your retirement expenses is to take a flat percentage of your current spending. We recommend using 85-90 percent of your current pre-retirement monthly spending to arrive at a conservative projection.

The second step is to identify any sources of income from Social Security benefits, a pension, and other sources. Any gap between your income and your expenses will need to be covered by withdrawals from your retirement savings. Understanding how much can be safely withdrawn each year during retirement without running out later in life is a complicated process.

What are my projected retirement expenses?

Basic expenses: housing, utilities, food, debt service, & other living expenses

Lifestyle expenses: travel, philanthropy, gifts, & entertainment

What sources of income do I have?

- **Social Security benefits**
- **Defined benefit pension income**
- **Other income: rental properties, inherited IRA's, & part-time work**

How much do I need to cover through withdrawals from retirement savings?

Unfortunately, there is no simple formula or approach that you can use to determine a safe withdrawal rate. The "4 percent" rule became popular in previous decades and meant that retirees could safely take out 4-4.5 percent of their portfolio each year. In an environment of historically low interest rates and volatile markets, this rule no longer applies. It's important that you take a personalized approach to your retirement income strategies. There are many online calculators that you can use to estimate how much you may be able to withdraw in retirement. A financial professional can help you understand how different factors affect your calculations and develop a strategy designed to balance your cash flow against the long-term preservation of your nest egg.

If you've run the numbers and think that you may have a retirement income shortfall, don't panic. There are several strategies that can help increase your potential retirement income or reduce your expenses.

- **Increasing your savings rate** can help you make up a savings shortfall. Contribute as much as you can to your tax-advantaged retirement plans and consider opening a Roth IRA. If you are 50 or over, use catch-up provisions to boost your retirement contributions.
- **Delaying retirement** by working and adding to your savings can help your nest egg grow larger, increase your Social Security benefits (if you are under age 70), and shorten the amount of time your savings must last.
- **Downsizing your home and living expenses** is another option. Many retirees are empty nesters who can reduce their expenses by moving into a smaller home. Putting off major expenses in the early part of retirement can help you avoid depleting your savings too soon.
- **Working during retirement** can create extra income while keeping you active and doing something you love. Many public workers retire when they are still young and active, making a second career or part-time work attractive. While some take the skills they have developed into follow-on careers, others pursue passions for teaching,

speaking, or take part-time jobs. Keep in mind that working while collecting may impact your Social Security benefits if you are younger than your full retirement age.

A financial professional can take a look at your overall circumstances and help you design strategies to maximize your income in retirement. He or she can help you maximize your Social Security benefits, protect your income, and develop an investment approach that helps balance the need for growth against your risk appetite, time horizon, and future goals.

> ***We analyze your retirement income needs and create a strategy based on factors like age, health history, longevity, inflation, historical market returns, income sources, and total savings.***

TWO: *What Does My Retirement Dream Look Like?*

Take a moment to think about what an ideal retirement looks like. Does it mean spending more time with loved ones or enjoying your passions? Are you interested in a second career? Do you want to travel?

Everyone's retirement dream is different and an important part of developing a retirement strategy is thinking about how you want to spend your time. Today's retirees can expect to live long, active lives, making retirement more like the beginning of a new chapter of life rather than its sunset. Increasing numbers of energetic Americans are redefining retirement for themselves in new and interesting ways. We'll work with you to outline how you want to spend your retirement years. We also recommend sitting down with your spouse and loved ones and going over the details for your retirement.

THREE: *How will I Pay for Healthcare in Retirement?*

Healthcare expenses are a major concern for today's retirees and those who aren't thinking ahead may find themselves in trouble down the road. Life expectancy is rising, and many of today's retirees can expect to live well into their 80s. Medical advances are expensive and healthcare costs can go up fast during a serious illness.

A 2014 AARP survey found that though the majority (62 percent) of Americans over 50 have set aside money for their out-of-pocket medical expenses, more than half are worried about their ability to afford healthcare.[2] This is concerning because healthcare will very likely become a significant part of your expenditures when retired. Research shows that Medicare covers only about 60 percent of healthcare costs for those over 65.[3]

In terms of dollars and cents, estimates vary. One study found that a 65-year-old couple would need an average of $220,000 to cover total healthcare expenses in retirement.[4] Another report put that number as high as $360,000.[5] Those who retire earlier may spend even more on healthcare before they are eligible for Medicare; a couple retiring at 62 could be adding an additional $17,000 to their annual budget in insurance and other expenses.[6]

Everyone's healthcare needs are different, which is why it's important to consider how factors like your age, health, and family medical history affect your potential expenses.

Fortunately, there are strategies that you can use to help tame healthcare costs in retirement. Determine whether you are eligible for any employer-sponsored healthcare benefits once you retire. Any assistance you receive could reduce your out-of-pocket costs and thus, the amount you need to save for medical expenses.

Retirement healthcare plan accounts like a Retiree Health Savings Plan may be available through your employer and can help provide a tax-advantaged way to save for future healthcare expenses. A financial professional can help you determine whether this option is available to you and show you how it may fit into your overall retirement strategies.

Median Out-of-Pocket Health Care Spending by Medicare Beneficiaries Age 65 and Older (2010)

AGE	Out-of-Pocket Spending	Out-of-Pocket Spending As % of Income
65-69	*$2,768*	*11.80%*
70-74	*$3,779*	*16.80%*
75-79	*$3,665*	*18.90%*
79-84	*$4,028*	*22.10%*
85+	*$4,317*	*24.80%*

Source: AARP Public Policy Institute[7]

For most retirees, Medicare will form the backbone of their healthcare plan. Medicare has gone through some significant changes due to the Affordable Care Act (ACA) and there's no way to predict how it may change in the future. Talk to your financial professional about things like eligibility, coverage, deductibles, and benefits to make sure that you understand all of your options.

> ***Healthcare costs have risen and average of 4.5% per year since 1965.***
>
> *Source: Trends In Healthcare Cost Growth, 2013*

It's also important to think about how you will pay for services to help you remain independent if you need assistance with daily living later in life. An annual study of healthcare costs found that a part-time home health aide cost a median of $20/hour in 2014 while the median annual cost of a nursing home ranged from about $77,000 to over $87,000.[8] Generally, Medicare and employer-sponsored insurance don't cover long-term care, which is why it's important to think ahead about how you will cover costs. A financial professional can help you consider your current health, family medical history, and other factors and evaluate your options for funding your long-term care needs.

FOUR: What are My Retirement Plan Options?

As a government employee, you may have multiple retirement plan types and distribution options available to you. While the best way for us to answer your specific questions is to meet with you personally, we've developed a list of common retirement plan types and discussed some special concerns you may want to think about.

Defined Benefit (DB) Plans [9] provide guaranteed retirement benefits to participants based on factors like age, years of employment, and salary. If you are enrolled in a DB plan, your employer takes care of investing all contributions to the pension fund and your retirement benefits do not depend on investment performance.

If you participate in a Defined Benefit Pension Plan, you may be able to choose among different retirement payout options and schedules. As you near retirement, you will want to consider questions like the following:

- ➔ How much income do you need in retirement? What other sources of income do you have?
- ➔ What retirement payout options are available?
- ➔ If a Deferred Retirement Option Program (DROP) is available to you, is it worth continuing to work while your retirement benefits accumulate?
- ➔ Do you need survivor benefit options for your spouse or a child? For how long?
- ➔ Who is eligible to be named as your survivor?
- ➔ Do you expect to work after retiring?
- ➔ How great is the age difference between you and your spouse?
- ➔ What are your healthcare insurance options?
- ➔ Do you have life insurance?

Participants in DB plans have some special financial issues to consider. Federal statutes like the Windfall Elimination Provision (WEP) mean that your Social Security benefits may be affected by your pension income, depending on certain regulations. Because of budgetary issues, some employers have sought to reduce or modify their responsibilities to pensioners. If you are concerned about possible reductions in your benefits, you should speak with a financial professional about strategies to help mitigate your risk.

Defined Contribution (DC) Plans [10] are the most common type of employer-sponsored retirement plans available today. **The most common types are 401(k)s, 403(b)s, 457s, and Thrift Savings Plans (TSP)**. Many employers offer DC plans in addition to a defined benefit pension plan.

As a plan participant, you decide how much to contribute from each paycheck, allocate your money between the available investment choices, and assume all investment risk. Oftentimes, your employer will match some of your contributions. Your money grows tax deferred since contributions are made with pre-tax income. Once you retire, you retain control over your assets and can choose to roll them over into an Individual Retirement Account (IRA) or another type of account.

Hybrid Retirement Plans [11] combine features of both defined benefit and defined contribution plans. For example, your employer may offer a cash balance plan in which employers contribute to the plan as though it were a defined benefit plan but give employees the option of receiving either a stream of payments or lump-sum distribution at retirement. Lump sums are popular because they can be rolled over into an IRA or new retirement plan, allowing your retirement savings to potentially continue growing; however, by receiving a lump sum, you will be taking on all the risk associated with investing it for the future.

Supplemental Retirement Plans may be provided by your employer to allow you to save more for retirement beyond what's contributed to your primary retirement plan. These plans may have higher contribution limits than IRAs though tax deferral provisions vary according to your personal situation.

Contribution limits, early withdrawal penalties, and other details can vary a great deal by retirement system, and it's a good idea to review your options with a qualified financial professional to help ensure that you are making the most of this very valuable retirement resource.

FIVE: *What do I Need to do Before Retiring?*

As you prepare for retirement, there are a number of things that you need to consider. The following checklist will help you:

1. Sit down with your spouse or loved ones to think about the future.
2. Estimate your expenses in retirement by creating a retirement budget.
3. Review your income sources, including guaranteed benefits and Social Security. Evaluate your retirement savings and determine whether additional savings are necessary.
4. Review your healthcare coverage options and note important Medicare and insurance deadlines.
5. Review legal documents like wills, trusts, medical directives, beneficiaries, and powers of attorney.
6. Contact your plan sponsor to request information about your retirement requirements, distribution options, and necessary documents.
7. Speak to a qualified financial professional who specializes in working with clients like you and can help you make the most of your options.

5 Questions You Should Ask Your Retirement Plan Sponsor:

What are the age and service requirements for full retirement?

What are my distribution and payout options?

Who can I name as a survivor or beneficiary?

Do I have any healthcare benefits?

Are Social Security benefits affected by my retirement plan?

SIX: *How Can a Financial Professional Help Me?*

Regardless of what your dream retirement looks like, prudent financial preparation can help you achieve it by helping you build retirement strategies to maximize your income while managing risk. A financial professional can help you understand your current financial circumstances and develop strategies to take you toward your future goals. We believe strongly in the value of experienced guidance and objective advice when navigating the transition to retirement.

Many Americans have complex financial situations and it's very common to have questions and concerns about meeting your obligations in retirement. As financial professionals, we have helped hundreds of clients follow their dreams of a more comfortable retirement.

> ***You may retire only once, but we have helped many clients like you successfully transition to retirement.***

Next Steps

We hope you've found this retirement guide interesting, informative, and, most of all, reassuring. While retirement preparation is complex, we wanted to show you some simple steps you can take to begin answering important questions about your own retirement journey. Most of all, we want to encourage and support you as you prepare for retirement and think about the next stage of your life. We also want to present ourselves as a resource to you and your family as you navigate the transition from work to retirement. We are happy to answer any questions you may have about your personal financial situation or future goals, and we provide free reviews at any time. If you have any questions about the information presented in this report, please contact us at (352) 751-3200.

We would be delighted to be of service,

Mike Lester, CEO, and Everyone at
Talon Wealth Management

Footnotes, disclosures and sources:

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