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in this issue:

Entrepreneurship and the New Retiree

For an increasing number of people, retirement does not signal the end of a career, but the beginning of a new phase—entrepreneurship. Many Baby Boomers see retirement as an opportunity to start a new chapter in life, and plan to use their hard-earned knowledge and skills to create their own independent businesses.

With increased longevity, retirement often comprises 25%–30% of a person's life. According to the *2015 Retirement Confidence Survey* conducted by the Employee Benefit Research Institute (EBRI), 67% of the workers surveyed planned to work in retirement. Certainly, financial reasons, such as paying bills and keeping health insurance or other benefits, are primary considerations in the decision, but retirees who work most often say they do so because they want to stay active and involved (79%) or enjoy working (83%).

Regardless of motivation, retired workers have many advantages when starting their own business ventures. By retirement, mortgages have often been paid and children have graduated from college. With fewer financial obligations—and perhaps a cushion from a lifetime of saving—retirees may have the opportunity and time to develop a strong business plan and concept. They also have the benefit of tapping into a seasoned network of business contacts and skills acquired throughout their working years to enhance product development, marketing, and sales.

Many Boomers may find the opportunity of their dreams during their golden years. For example, prior to retirement, David and Janet had thriving careers in accounting and travel services, respectively. After retiring, the couple quickly discovered that they were not content to stay at home and thought that combining their skills would serve them well in their own business endeavor. Drawing upon David's bookkeeping expertise and Janet's years in customer service, the couple opened a Bed and Breakfast, which has allowed them to use their many talents in a new and challenging way.

If you want to use your years of experience and wisdom to create your own company, here are some questions to consider:

- **Are you personally motivated?** Building a business requires intense dedication. You will need to develop your own ideas, set your own schedule, and manage a variety of responsibilities.
- **Are you a "people" person?** Running your own business will likely involve interaction with various professionals and personalities. If you can harness the interpersonal skills you gained from your decades spent in

continued on page four

Taxes and Your Retirement Destination

How would you like to spend your "golden" years? Do you want to live in an affordable condo on a golf course with extra room for visiting grandchildren? Would you like to remain in your community surrounded by friends and family? Or would you prefer a fresh start in a new locale that offers different cultural activities and recreational opportunities? Is easy access to certain medical providers and facilities a priority?

Besides considering these lifestyle choices, you may also want to research the effects of state tax structures on your projected retirement income as you decide where to live in retirement.

Let's take a look at some key tax issues:

Earned and unearned income taxes. Do you plan to continue working during retirement? If so, it is important to know that some states treat senior citizens like everyone else on their income tax rolls; some give seniors special tax breaks on earned income, and others do not tax earned income for any residents. Tax rates on unearned income may also vary from state to state. If you move, you may be required to file income tax returns in *two* states due to individual state residency requirements. Also, be sure to research any local income taxes that would apply to your circumstances.

Pension income taxes. In many cases, seniors receive important income from military, government, and private pension plans. Some states exempt all pension income from taxation, while others exempt certain types and/or amounts of pension income. Be sure you understand the applicable tax rules.

Social Security benefit taxes. Some states do not tax Social Security benefits at all, while others follow Federal tax formulas for determining the tax on such benefits. Still others have developed their own formulas to determine the income tax on Social Security benefits. Again, research the rules that will apply to your circumstances.

Property taxes. This is another area where some states and localities may offer advantages to seniors. Familiarize yourself with the relevant personal property tax laws, especially for cars and boats.

Sales taxes. Many states—and sometimes localities within each state—tax clothing, gas, household goods, and sometimes even food and prescription drugs. When you consider your retirement budget, remember to add state and local sales taxes, if applicable.

Estate taxes. While they do not ***directly*** affect your cost of living as a senior, do not overlook estate taxes when determining the feasibility of settling in one state over another. In some states, your spouse may be taxed on a portion of his or her inheritance that, in another state, would pass to him or her free of state estate tax. Be sure to monitor changes in state estate tax codes as states seek ways to attract seniors.

While no ***single*** tax consideration will determine the most favorable environment for your retirement years, an analysis of your *overall* financial situation and options can help you choose a retirement destination that best suits your needs and interests, allowing you to enjoy your "golden" years. ■

Thinking Ahead for a Secure Retirement

Since Americans are now living longer than ever before, many into their 80s and 90s, retirement resources may need to last 20 years or more.

Nearly everyone has financial challenges of some sort. As a result, many put off planning for the future. Some people assume that Social Security will take care of them when the time comes. Then, when they reach retirement age, they find that Social Security will not provide enough income to maintain the quality of life they enjoyed during their working years.

In past decades, many retirees depended on pension plans to provide a major portion of retirement income. However, current trends find businesses offering more **defined *contribution* plans**, which rely on employee contributions, and fewer **defined *benefit* plans**. In addition, acquiring sufficient retirement resources to last has turned into a necessity in an unpredictable economic landscape.

Today's retirees may require 60% to 80% of their pre-retirement income in order to maintain their current lifestyles during non-working years. What about inflation? Living expenses

continued on page three

Shift to 401(k)s Not Linked to Reduced Wealth

American workers do not appear to have lower levels of retirement wealth as a result of the shift away from traditional pensions to 401(k) and other defined contribution plans, but savings levels have declined slightly and the balance of risk assumed by employees and employers has changed, according to a study released by the Center for Retirement Research at Boston College.

"How Has Shift to Defined Contribution Plans Affected Saving?" by Alicia H. Munnell, Jean-Pierre Aubry, and Caroline V. Crawford, was published in September 2015. The study's findings are based on an analysis for the period 1984-2012 of data on contributions to, as well as accruals within, defined benefit (DB) and defined contribution (DC) plans from the National Income and Product Accounts (NIPAs); and data on contributions to DC plans from the U.S. Department of Labor.

When they analyzed the contributions of employers to retirement plans, the researchers found that contribution levels held steady, but were gradually redirected away from DB plans and toward DC plans between 1984 and 2012. The results further showed that, after various adjustments, the percentage of total salaries going to retirement saving fell slightly during this period. "On balance, the decline in defined benefit plan accruals has not been fully offset by rising contributions to defined contribution plans, leading to a slight overall decline in retirement saving," the study's authors said.

The analysis also showed, however, that when returns on accumulations were added to contributions, the annual change in pension wealth appears to have remained relatively steady between 1984 and 2012. The study's authors observed that this pattern, which contrasts with the decline in pension contributions, reflects the large DC accumulations as a result of the prolonged bull stock market during the 1990s and the strong rebound since the financial crisis. They observed that over the period studied, the individuals covered by 401(k) plans took more risks than participants in DB plans, and that the high returns associated with risky investments produced substantial asset accumulation.

Thus, Munnell and her co-authors concluded, while the shift to DC

plans has not led to less total retirement wealth in the period studied, what has changed is that individuals, rather than plan sponsors, now bear all of the risk. "The nature of the accumulation process and the distribution of risks have shifted dramatically," they said. "The effect of these shifts, however, can be identified only by looking at data on individuals as opposed to those from our national accounts."

thinking ahead for a secure retirement

continued from page two

are likely to cost more in the future, because over time, the purchasing power of the dollar generally decreases as a result of inflation. Therefore, it's important to factor inflation into your retirement plan. Remember, it's never too early to start saving for your retirement.

When thinking about retirement, consider the following three steps:

1) Set your retirement goals.

2) Determine your sources of retirement income.

3) Devise strategies to address any shortfall and manage your money in retirement.

Determining *how much* income you will need at retirement and deciding among various savings options are the keys to your long-term success. Be sure to consult a qualified financial professional for a retirement plan to fit your unique circumstances.

entrepreneurship and the new retiree

continued from page one

the working world, you will be better prepared to handle difficult clients or professionals.

- **Do you have the ability to think quickly?** Owning your own company may mean that you will have to provide answers and make decisions quickly, and sometimes under pressure.
- **Do you have passion and stamina?** It is often said that you must love what you do. Realize at the start of the enterprise that a good deal of time and effort will be required.
- **Are you organized?** Organizational and planning skills can lead to continued business success. Finances, invoices, and schedules are just a few of the tasks at which you must be or become proficient.
- **Is your energy level high?** A business requires a lot of work, and it can be physically and emotionally stressful. Those who are energetic often do well because they are propelled by their desire to succeed and have the energy to follow through.
- **Will your family be supportive?** A new business can consume a lot of your time, mental energy, and sometimes, capital. Make sure to tell your family what they can realistically expect from your business venture, and gain their support and trust.

There are many advantages to entrepreneurship, and many retirees are embracing the challenge. The chance to be your own boss and reap the rewards of your own hard work can make business ownership an exciting and educational adventure. Because a lack of experience can often account for many small business failures, decades of your work experience may put you ahead of the game—before it even begins. ■

What Is Vesting?

V**esting** refers to an employee's entitlement to funds contributed to a qualified, employer-sponsored retirement plan. An employee's contributions—and any earnings on these contributions—are fully vested from his or her start in the plan. An employer's matching contributions, on the other hand, may vest according to a schedule set by the employer, as specified in the plan document and following applicable regulations. Therefore, an employer can arrange his or her contributions to follow a vesting schedule that rewards loyalty by fully vesting plan participants after a specified number of years.

For plans established after 2002, employer contributions must vest 100% after three years of service, or within six years, beginning at 20% after two years of service and then increasing 20% annually. Plans begun before 2002 must permit 100% vesting after five years of service, or within seven years, beginning at 20% after three years and then increasing 20% annually. Different vesting requirements apply to certain "top-heavy" plans. While minimum vesting requirements must be met, an employer may choose to allow employees access to their full benefits on an accelerated schedule. Further, an employee who reaches normal retirement age (NRA) is generally entitled to 100% vesting. ■

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