

21st century retirement



Andy Barkate
President

800-914-6837
661-631-4355 Bakersfield
760-371-2115 Ridgecrest
661-631-4350 Fax
abarkate@calretirement.com
www.calretirement.com



in this issue:

Are You Realistic
About Retirement?

Plan Sponsors Should Offer
Personalized Guidance

Easing into Retirement

Are You Planning an Early Retirement?

As your 62nd birthday approaches, the dream of early retirement may be a possibility. From that day on, you may qualify for Social Security retirement benefits. But as attractive as monthly checks may be, seriously consider your financial position to be sure you can afford to walk away from the nine-to-five routine.

When reviewing your retirement income, incorporate accurate Social Security figures into your financial equation. Keep in mind that Social Security benefits paid at an early retirement age will be less than the benefits paid at full retirement age (65–67, depending on your date of birth). To estimate your Social Security benefit amount, go to the Social Security Administration's website at www.ssa.gov to use the agency's online calculator.

Go Beyond Social Security

Beyond your Social Security benefits, however, are other major factors, such as your overall financial situation, prospects for future income, and satisfaction with your job. If early retirement seems a reasonable goal, determine how much income you can count on from savings to supplement your Social Security benefits. Remember to include income from employer-sponsored retirement plans, such as **401(k)s**, **Individual Retirement Accounts (IRAs)**, or **annuities**.

Once you have determined your retirement resources, add up your current living expenses and calculate a rough estimate of how much income you may need during retirement. It is possible to live on less than your pre-retirement income, depending on your lifestyle. If you find that your retirement funds will be insufficient, explore the possibilities of selling your home, and moving to an area with a lower cost of living, or finding part-time employment where compensation is within allowable Social Security limits to avoid benefit reduction.

Other Considerations

Another critical point to consider is whether retiring from your job would leave you without **life** and **health insurance** or other necessary benefits. You may want to investigate the cost of private health coverage until you reach the age that you will be eligible for **Medicare**. It is also important to prepare for medical costs in retirement, including potential long-term care needs. Typically, many people underestimate the cost of long-term care and overestimate the funding that will be available through public programs

continued on page two

Are You Realistic About Retirement?

Everyone has certain expectations and dreams about retirement. Will your current plan meet your ultimate objectives? Today, more than ever, planning for retirement is a *necessity*. Proper planning and follow-through can help you avoid shortfalls in your income needs and assure you a smooth, secure transition from the world of work to the world of retirement.

Keeping Pace with Change

Planning ahead means setting goals and deciding *how* they will be met, within the framework of a changing financial picture. Many retirees find themselves torn between a satisfying lifestyle and one lacking many comforts that make life easier. Without a solid financial foundation, you may face some hard choices throughout your retirement years. A successful financial plan, executed faithfully, will help make many of those choices easier.

As retirement approaches, consider these factors to best position yourself for an enjoyable retirement:

1. **Strategies Change.** Regardless of your age, you should *maximize* contributions to your 401(k), IRA, or other retirement savings vehicle, bearing in mind that you should gradually shift your assets to more conservative, income-producing investments as you near retirement.
2. **An Aging America.** These days, it's not uncommon for Americans to spend one-third of their lifetime in retirement. People live longer and healthier, therefore, lifestyle options have changed. Your retirement assets must last longer and be able to accommodate cost of living increases. As a result, you may need to return to the workforce to help supplement your retirement income.

3. **Lifestyles of the Rich and Famous?** Some individuals think they will be able to enjoy the same lifestyle they had during their working years. The likelihood, however, is that you may have to adjust living arrangements and unnecessary expenditures. It's not uncommon to spend 25 to 30 years in retirement. Thus, it's important to ensure your retirement assets will be sufficient over a long period of time.

Regardless of *when* you plan to retire, it is important to be sure your goals and expectations are realistic. Reviewing your retirement savings versus your objectives with your financial advisor can be a good first step in ensuring you're on the right path. ■

are you planning an early retirement?

continued from page one

and private health insurance. In reality, Medicare only covers short-term care. It may also cover some nursing home or assisted living costs, but only for skilled care that is deemed medically necessary for the duration of an illness, usually limited to 100 days following a three-day hospital stay.

Consequently, Medicaid has become the primary source of public funding for long-term care. But, because it is a government program designed to help those in financial need, individuals must “spend

down” their personal assets and meet the Federal poverty guidelines before qualifying for assistance.

However, **long-term care insurance** is an alternative that can help cover extended care expenses before you or a loved one become eligible for Medicaid. Policies vary, but in general, they provide a daily, set amount of coverage that can be used in a number of ways. This type of insurance may help cover the expenses of nursing homes, assisted living facilities, adult day health programs, and/or at-home care. The cost of coverage

is typically based on your age, current health status, and specific policy features, such as scope of coverage, levels of care, and duration of benefits.

Retirement Checklist

To begin preparation for retirement, read the following statements. If you have given careful consideration to the task, check it off.

I have completed an assessment of my current financial situation, including income, expenses, assets, and liabilities.

continued on page three

Plan Sponsors Should Offer Personalized Guidance

Rather than simply communicating with employees about their workplace retirement plan, employers should seek to offer participants personalized guidance on how to save for retirement, and make the process of contributing to and managing their retirement accounts easier and more effective, a report by Broadridge Financial Solutions recommended.

The report, “The Experience Revolution: Latest Trends in Participant Experience Design,” was prepared in association with Oculus Partners, and published on March 11. Researchers observed that growing numbers of retirement plan sponsors are seeking to build an infrastructure that supports sustainable, consistent, and predictable participant experiences across their entire business base. Some of these platforms are built internally, while others are constructed through external partnerships and outsourcing arrangements.

The report identified a number of practices and plan features that are being used by leading providers across the industry to create better participant experiences. First, many plan sponsors are completely overhauling the participant experience related to automatic enrollment, contribution escalation, QDIA investing, reenrollment, reinstatement, and other types of automatic features. The authors recommended that plan sponsors eliminate steps and potential confusion, rethinking when and what information is provided, and what other decisions should accompany the “automatic” transaction.

In addition, the report recommended that plan sponsors offer interactive calculators and tools to allow the participant to personalize the projections with more information by, for example, answering true profiling questions, the responses to which are stored for future use. The report also suggested that employers

use a multi-channel participant experience design with a balance of person-to-person and digital interactions.

Moreover, researchers advised plan sponsors to generate personalized retirement income projections for each participant that take into account all of the known information from the employer’s plans, the participant, and other purchased information. Based on this information and predictive analytics, each participant can then be offered a series of personalized “next best step” messages to guide him or her through every interaction, and be sent targeted campaign materials supplemented with life stage and life event content and messaging. To help participants stay on track and find out where they stand relative to peers in similar situations, plan sponsors can offer them access to “people like me” benchmarks and comparisons within plans or across plans.

The report also advocated providing participants with access to financial wellness and investment advice programs that go beyond third-party partnerships, and offer truly integrated experiences across select partners by sharing data, offering integrated access, and presenting unified guidance and perspectives.

Finally, the report recommended that plan sponsors use dashboards and digitally delivered analytics to help them assess how the plan is performing against these new participant experience metrics. These platforms have drill-down capabilities that allow sponsors to track participant activities, engagement, enjoyment, and outcomes. Researchers observed that by harnessing the power of data from their platforms, sponsors can more accurately and completely measure channel usage at a participant level across channels and by type of interaction. ■

are you planning an early retirement?

continued from page two

- I have determined which of my expenses may be lower after I retire and which may be higher.
- I have determined how much I can expect from Social Security, veterans benefits, and pension plans.
- I have estimated how much I expect to receive from interest on my savings, real estate rentals, etc.
- I have reviewed my insurance policies to ensure that they meet my present and future needs.
- I have organized a strategy to pay off my large bills and debt before retirement.

Final Assessment

If you have any doubts about being able to make ends meet, working for a while longer may help improve your financial situation. If, however, income from savings, rents, royalties, or other non-employment sources, combined with Social Security benefits, is enough to meet your projected retirement expenses, you may want to focus on making your dream of an early retirement a reality. ■

Easing into Retirement

For many people, crossing the bridge into retirement is a big step. If you're approaching retirement, it's time to develop a strategy to facilitate a smooth transition from the more structured world of work to one of leisure.

After spending years building your professional career, you've accumulated assets along the way.

While retirement planning usually focuses on preparing for your financial future, *nonfinancial* matters may also need to be addressed. When retirees feel dissatisfied, it's often the lifestyle changes that accompany retirement living that tend to create difficulties with self-esteem and identity associated with ending one's profession.

Staying Active

One possible solution for managing these challenges may be to ease into retirement. Some individuals may welcome the opportunity to continue some form of work, such as consulting, job-sharing, mentoring, or back-up management. Mentoring, in particular, enables you to transfer a lifetime of learning and experience to a friend, relative, or younger colleague. Phased-in retirement provides an "anchor," allowing new retirees to explore other activities while also maintaining their role at work.

Since some people may have more of an emotional reaction to the separation and disengagement

from working than they expected, taking between two to five years to "decompress" may be an appropriate option.

Maintaining a Healthy Perspective

While "retirement" suggests the end of your working life, a more positive perspective to take could be that it's the beginning of a new phase of life—when you can do all the things you never seemed able to find the time for while you were working. For example, volunteer work can allow you to make a valuable contribution to a charitable cause and meet new people. Taking courses in subjects that interest you can sharpen your intellect and help maintain your cognitive abilities. If chosen thoughtfully, these activities can be enjoyable and fulfilling.

Obviously, it's a lot easier for a retiree to consider other pursuits if financial considerations are secondary. People may think that it costs less to live in retirement. However, it's actually common for retirees to increase, rather than decrease, their expenditures, especially in the first few years of transition. Without working full-time, retirees may have more energy and time to enjoy entertainment, dining out, travel, and recreation.

On Spending and Inflation

During the working years, it's common to take a certain lifestyle



for granted. In retirement, however, you may need to change your priorities or consider budgeting depending on your circumstances. On the other hand, you may find that you no longer need or want to do some of the things that seemed so important when you were working.

Additionally, be sure to keep an eye on the effects of inflation after retirement. For example, an item costing \$100 when you are age 65 will cost \$180 at age 80, assuming a 4% inflation rate compounded annually. Therefore, it's important that your retirement plan be not only a plan "at" retirement, but also a plan continuing "through" retirement, which may require revision on a regular basis.

If you view retirement as your opportunity for growth and exploration, you can make this transition exciting and enjoyable. Your horizons are limited only by your imagination. After all of your hard work, you've earned this opportunity—enjoy the freedom! ■

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