

Getting Closer to Retirement

6-step action guide to help you secure a future 'paycheck'

Written by the Editors of *Kiplinger's Personal Finance*



WHEN I'M

65

A public television documentary and community engagement program

Learn more at www.WI65.org



Investor
Protection
Trust



Investor
Protection
Institute



pennsylvania

DEPARTMENT OF BANKING
AND SECURITIES

Making Your Savings Last

6 STEPS YOU CAN TAKE TODAY

As you approach retirement age, the road ahead is filled with exciting choices. You could choose to begin an encore career, start a new business, or continue your education. Alternatively, your dream could involve traveling to exotic locales or spending your days volunteering.

Whatever new chapter you're looking to launch, you can't afford to lose sight of an important goal: boosting your nest egg's longevity.

The reason? Life expectancy has risen steadily over the decades; about one out of every three 65-year-olds today will live past age 90. You can estimate your own life expectancy by using the Social Security Administration's calculator, at www.ssa.gov/planners/lifeexpectancy.html, but the odds are good that your savings will need to fund a retirement that could span 20 or even 30 years.

A key part of your plan will be sizing up your guaranteed income, preserving the savings you've built, and exploring supplemental retirement-income options. The good news is that each move you make today will go toward supporting the retirement you deserve.

That's what this booklet is all about. It's an action guide that walks you through six of the most important steps you can take now to help create a more secure financial future:

- Shift investing and withdrawal strategies.
- Get trustworthy advice to stay on track.
- Plan for Social Security and Medicare.
- Understand the pros and cons of annuities.
- Get more value from your home equity.
- Explore a phased retirement.

Now let's take a closer look at the six steps.

STEP 1: Shift investing and withdrawal strategies

The closer you are to retirement, the more you'll want to shift your investment focus from growth to wealth preservation. With less time to recover from market downturns, a move toward less volatile holdings will help keep your portfolio steady.

REALLOCATE YOUR ASSET MIX

When you're just a few years away from retirement, it's prudent to bump up the percentage of safer investments in your portfolio. By increasing the amount of more secure, conservative holdings (such as bonds and cash) and reducing your riskier holdings (such as stocks), you'll add a layer of protection to your retirement portfolio. That helps reduce your risk of loss while still offering moderate returns.

That doesn't mean you should shun all growth-focused investments. You'll want to keep a healthy portion of higher-return investments (such as more stable income stocks) in your portfolio to sustain your nest egg over the long term.

Here's a common rule of thumb: To set the percentage of your portfolio to invest in stocks, subtract your age from 120. For example, if you're 60, your portfolio would hold 60% stocks and 40% bonds.

CONSIDER TARGET DATE FUNDS

To simplify things, one option is to transfer your retirement investments into a target date fund (with the target date based on the year you plan to retire). These funds automatically adjust their holdings toward more conservative investments as retirement approaches. Mutual fund companies include the

target date in the name of the fund, such as Retirement 2030.

Be aware, however, that target date funds may charge higher fees than do other types of funds. It's also important to know whether it's a "to" fund or a "through" fund. "To" funds aim for a more conservative portfolio mix on your retirement date and then stop making asset adjustments. "Through" funds are designed to take investors through retirement, continuing to shift the asset mix over a predetermined number of years. Either way, target date funds are designed to be the only investment in your retirement portfolio; holding other funds defeats their purpose.

KEEP MAKING CATCH-UP CONTRIBUTIONS

Continue to stash the maximum in your retirement accounts by using special tax-advantaged "catch up" contributions.

- In employer plans, including 401(k) and 403(b) plans, you can contribute an *extra* \$6,500, for a total annual contribution of \$26,000 in 2020.
- For both Roth and traditional IRAs, you can contribute an extra \$1,000, for a total annual contribution of \$7,000 in 2020.



Be aware that the IRS may change annual limits on contributions and benefits for a range of retirement plans; you can find the current year's limits at [IRS.gov](https://www.irs.gov).

MINIMIZE THE TAX IMPACT OF WITHDRAWALS

When you start taking money out of your retirement accounts, or start receiving pension payments, income taxes will come into play. The best way to minimize that tax bite is to time withdrawals strategically.

First, take all required minimum distributions (RMDs) for traditional IRAs and 401(k) plans. You'll avoid a steep IRS penalty that's equal to 50% of the amount you failed to withdraw. Here are the basic rules as of 2020:

- With traditional IRAs, you must take your first RMD by April 1 of the year after you turn 72. In subsequent years, RMDs must be taken by December 31.
- Reaching age 72 also triggers RMDs for most 401(k) owners. But you don't have to take RMDs from a 401(k) account until you leave the job. One exception: If you own more than 5% of the company, you must start RMDs at age 72 even if you're still on the job.

THE RMD CALENDAR

JAN

1

Turning 72 between January 1 and June 30? You must take your first required distribution from your traditional IRAs by April 1 of the following year.

JUL

1

Turning 72 on July 1 or later? Your first RMD will come a year later.

Second, take withdrawals from any taxable accounts. Since you pay taxes on the earnings in regular savings and investment accounts every year anyway, it makes sense to withdraw from them next. That way, you won't be accumulating any additional taxable income and increasing your tax bill.

Third, take any withdrawals (beyond those required) from tax-deferred and tax-free accounts last. This allows your money the most uninterrupted time to keep growing. Draw down these funds only when the combination of RMDs and taxable account withdrawals falls short of your monthly expenses.

TAKE-AWAY ACTION STEPS

Determine how much you are required to withdraw. Calculate your RMDs using the following tools:

- RMD Worksheets at [IRS.gov](https://www.irs.gov)
- RMD Calculator at [AARP.org](https://www.aarp.org)
- RMD Calculator for IRAs at [Kiplinger.com](https://www.kiplinger.com)

STEP 2: Get trustworthy advice to stay on track

Financial planning can get more complex as you approach retirement, so you may need additional professional guidance. A trusted financial adviser can help navigate the best choices for your situation, without jeopardizing the assets you've built up so far. For example, you can count on your adviser to help you:

- Shift toward a wealth preservation strategy.
- Pull money out of retirement accounts in the most tax-efficient way.
- Create a sustainable budget.
- Manage and organize crucial financial accounts and documents.
- Plan for the possibility of long-term care.



Check out descriptions for some common adviser credentials, such as CFP® or CFA®, at www.fma.org/finance-certifications.

LOOK FOR A FIDUCIARY

For the most reliable service, you'll want to work with a *fiduciary*. Fiduciary professionals are legally and ethically obligated to put you first and avoid any conflicts of interest. A fiduciary financial adviser can help you ensure that your financial plan fits your retirement goals. Since these advisers work for fee-only compensation, their pay is the same no matter which investments you make.

CONSIDER LESS-COSTLY 'HYBRID' ADVISERS

Your most critical financial planning needs may require a personal touch. But for managing longer-term retirement holdings—money you won't be using for 10 to 25 years—you may be able to rely on a less-costly hybrid service of automated or “robo” investment advice combined with periodic input from financial planners.

Many traditional adviser networks and brokerage firms now offer this alternative. Just don't expect to develop an ongoing relationship with a dedicated adviser, as you would at a traditional money-management firm. When you call, you'll talk to the first person available.

TAKE-AWAY ACTION STEPS

- **Find a fee-only adviser.** The National Association of Personal Financial Advisors (NAPFA.org) offers a “**Find an Advisor**” **search tool** for identifying fee-only professionals.
- **Verify a specific adviser.** Your State Securities Regulator can confirm an adviser's licensing and education. Find your state regulator on the North American Securities Administrators Association website at NASAA.org.
- **Investigate hybrid robo advisers.** Subscribe to The Robo Report (theroboreport.com) for a free report rating the largest services by performance in equity, fixed income, and total portfolio.

STEP 3: Plan for Social Security and Medicare

As retirement draws closer, it's crucial to understand the rules for the Social Security and Medicare programs. This includes learning about how and when to apply for benefits.

TIME YOUR SOCIAL SECURITY CLAIM RIGHT

Once you reach age 65, you have a one in three chance of living past age 90, according to the Social Security Administration. That means there's a good chance your retirement could last 30 or more years. And it makes the decision about when to start collecting a Social Security benefit even more important.

You can sign up for Social Security retirement benefits as early as age 62. But if you do, your annual benefit will be cut by 25% to 30%, compared with what you'd receive at your full retirement age (see chart below). The reduction reflects the reality that you'll likely be receiving benefits for a longer period of time.

Conversely, if you postpone taking benefits until after your full retirement age, the amount you receive could increase—by as much as 8% per year up to age 70. So for someone whose full retirement age is 66, holding off until age 70 means receiving 32% more every year in retirement!

This substantial “bonus” might lead you to believe that most people wait; but you'd be mistaken. In fact, nearly 70% of people claim benefits prior to full retirement age, and only about 4% wait until age 70 to get the biggest possible benefit.

Of course, many who claim earlier have no real choice; they need the money. Others subscribe to the theory that “a bird in the hand is worth two in the bush.” But just as certainly, many are simply unaware of the lifetime consequences of claiming benefits sooner rather than later.

Figuring out when to claim benefits can be more challenging for married couples. Not only do you have two life expectancies to consider, but the opportunity to claim spousal benefits can complicate your decision making.

To take the guesswork out of this critical decision, online calculators can help uncover the most advantageous time to claim benefits. Check out the free tools offered by AARP and the Social Security Administration. Go to www.aarp.org or www.ssa.gov and search for “Social Security calculator.”

FULL RETIREMENT AGE

*Birth year	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960+	67

*Born on January 1? Refer to the previous year.

APPLY FOR MEDICARE

When you reach age 65, you should sign up for Medicare Part A, which covers hospitalization costs. There is no charge for Part A, so in most cases you should enroll even if you continue to work and are covered by an employer's health insurance plan. Note that if you are already receiving Social Security retirement benefits, you will be enrolled automatically.

If you're retired, you should also sign up for Medicare Part B, which covers doctor visits and outpatient services. For most beneficiaries, Part B costs \$144.60 per month in 2020—although surcharges for high-income earners can push the monthly premium higher. Find the current year's costs at www.medicare.gov/your-medicare-costs/part-b-costs/part-b-costs.html.

The initial enrollment period for Medicare Part B runs for seven months, starting three months before your birthday month and continuing for three months after it.

Warning: Miss this seven-month window and you could incur a penalty. Your premiums may go up by 10% for each 12-month period you could have had Part B but didn't enroll. Plus, you'll have to wait until the next Part B general enrollment period, which runs from January 1 to March 31 each year, to sign up for benefits beginning the following July 1.

Special rules do apply if you're still working. If you have health insurance through an employer, you are not subject to the 10%

THE MEDICARE ALPHABET

- Part A, hospital insurance, covers inpatient stays and hospice care.
- Part B, medical insurance, covers some doctors' services, outpatient care, and medical supplies.
- Part C, private medical insurance (sometimes called Medicare Advantage), delivers medical services in an HMO-like setting.
- Part D, the prescription drug plan, covers most prescription medications.

late-enrollment penalty, as long as you sign up for Part B within eight months of losing that coverage.

Finally, be aware that you can purchase supplemental Medicare policies (often called Medigap insurance) through private insurance companies to cover deductibles and other holes in your Part A and Part B coverage. You also have the option to purchase Medicare Part C and Part D coverage.

TAKE-AWAY ACTION STEPS

- **Create a "my Social Security" account at www.ssa.gov/myaccount.** You'll be able to review estimates of your future retirement, disability, and survivors' benefits, plus verify your earnings record to ensure that the amounts posted are correct.
- **Apply for Medicare** and learn more about the range of plans offered at Medicare.gov.

STEP 4: Understand the pros and cons of annuities

Annuities have a reputation for being expensive and confusing. But the trick is to understand available options and determine if they're right for your situation.

In simple terms, an income annuity works like a DIY pension plan. You give an insurance company a pool of money and get back a guaranteed “paycheck” either for a set number of years or for the rest of your life. Immediate annuities let you start receiving distributions right away; deferred annuities hold your money for a period before withdrawals begin.

One type of deferred annuity (called a variable annuity) is a hybrid product: part investment and part insurance. Because they are invested in mutual-fund-like accounts, the future income stream can vary based on investment performance.

CONSIDER THE PROS

An annuity can benefit you in some important ways. Fixed income (either immediate or deferred) annuities provide *predictable* income. You can count on your monthly income to always be the same. And all annuities (both fixed income and variable) let you defer taxes on your earnings until you make withdrawals.

Many people also buy annuities to help them manage their investments during retirement. They don't want to worry about market fluctuations. And they appreciate the ability to customize the income stream—for example, continuing payments for a surviving spouse, adjusting payments for inflation, or leaving a lump sum to heirs.

TAKE NOTE OF THE CONS

Variable annuities, in particular, have come under scrutiny by industry

regulators in the last decade. Due to their complexity—which has led to cases of questionable sales practices—variable annuities are a leading source of investor complaints. That's why you'll want to avoid some common pitfalls:

Not identifying all the costs. As with any insurance product, a sales commission is built into the price paid to the financial intermediary who sells you the annuity. And for variable annuities, you'll pay annual expenses associated with the underlying investments.

Failing to consider lost liquidity. When you buy a deferred annuity, that money is locked away. You can't get it back without paying high surrender fees, typically during the first six to eight years. And purchase of immediate annuities is generally irrevocable, meaning you can't cancel or get your money back at all.

What's more, even the simplest annuity contracts can come with extras you may not need. One example: long-term care riders, which may increase payments if you meet certain health-related conditions.

DECIDE WHAT'S RIGHT FOR YOU

Annuities may be a sound investment for some people but not for others. Some retirees think annuities are too expensive, but others appreciate the added ease and peace of mind that an annuity can provide. To them, the guaranteed, ongoing income stream is worth some additional cost.

TAKE-AWAY ACTION STEP

Learn more about the risks and benefits of annuities by searching “Annuities” at the U.S. Securities and Exchange Commission site at www.investor.gov

STEP 5: Get more value from your home equity

Your home may be your biggest source of wealth, and tapping into that equity can help fill in any retirement-savings gaps.

One way to take advantage of this asset is to downsize your empty nest and sell the home in exchange for less expensive housing. Not only might you realize a price appreciation gain, but smaller digs also mean lower property taxes, insurance, upkeep, and utilities. Such a move frees up some extra money for retirement, which can be used to cover expenses or to bolster savings.

Another way to capitalize on your home equity in retirement is through a modern take on an old idea: communal living. Sharing your empty nest with friends or relatives under carefully outlined and agreed-upon expectations could provide you with greater supplemental income than if you lived alone. In addition, the benefits of shared housing go beyond financial. It also provides social companionship, security, and mutual support.

CONSIDER A REVERSE MORTGAGE

You could also consider drawing money from your house through a federally insured reverse mortgage, formally known as a home equity conversion mortgage, or HECM. Available to homeowners ages 62 and over, HECM loans are accessible yet complex products.

The basic idea of every HECM is the same: You borrow against the equity in your home, but don't have to repay the loan or the interest on it until you leave the house. At that point, you or your heirs could sell the home to cover the debt.

ASSESS BENEFITS AND DRAWBACKS

The benefits to the right reverse mortgages seem straightforward. Typically set up either as a line of credit, fixed monthly payments, or a combination of the two, HECMs can be used to:

- Pay off a mortgage and other debts.
- Cover ongoing living expenses, either now or down the road.
- Provide a reserve for medical or care expenses.

But there can be drawbacks. For some, the fees and closing costs can be steep, taking a bite out of your home's value and ultimately your long-term equity. In addition, some reverse mortgages require full payback of the loan if you move out of your house for more than a year—say, to a full-time care facility.

That's why it's important to thoroughly understand how these loans work, and the potential consequences if circumstances change. If you plan to live in your house for a long time and can comfortably cover house-related expenses, however, a reverse mortgage can provide extra retirement income when you need it.

TAKE-AWAY ACTION STEPS

- **Talk with an HECM counselor.** As part of the HECM process, a government-approved professional is required to meet with you to review the benefits and drawbacks, compare the fees and costs of different loans, and help you understand all the terms and conditions of any loan you're considering. Find a counselor by using the Federal Housing Administration's search tool, available at [HUD.gov](https://www.hud.gov).
- **Find out more about home sharing.** Explore resources and home-sharing program directories by state at [NationalSharedHousing.org](https://www.NationalSharedHousing.org).

STEP 6: Explore a phased retirement

As you envision your ideal retirement, have you considered keeping one foot in the workforce? Here are three reasons it may make financial sense to transition gradually into full retirement.

- 1 A fatter nest egg.** Not only will you have fewer years in which you'll be drawing down savings, but, while you're working, you can keep feeding your retirement accounts. And even if you don't add a penny, the money in the accounts will continue to benefit from tax-deferred growth.
- 2 A bigger pension.** If you're lucky enough to have a pension, you may get a bigger payout by working a few more years. Note: Pension formulas often more heavily weight earnings during the final years of employment, so you'll want to investigate how a reduced salary for the last few years of employment would affect your benefit.
- 3 A heftier Social Security check.** While you're still earning, it's more likely you can afford to delay claiming Social Security to maximize your benefit in later years. Your monthly payments will increase by 8% for each year you delay taking benefits after your full retirement age, up to age 70.

Helpful resources: Tap into jobs-in-retirement resources at the "Working at 50+" portal, available at [AARP.org](https://www.AARP.org). And find an array of workforce services at American Jobs Centers; go to [CareerOneStop.org](https://www.CareerOneStop.org) to find services in your area.

Key Retirement Milestones

50

Begin making catch-up contributions to your retirement accounts

If you leave a job during the year you turn 55 or after, you can take penalty-free withdrawals from that employer's retirement plan (taxes still apply)

55

59

Make penalty-free withdrawals from all traditional IRAs and employer retirement plans (taxes still apply)

¹/₂

Earliest age at which you can claim Social Security retirement benefits

62

65

Enroll in Medicare Part A even if you have workplace coverage; also enroll in Part B if you don't

66

Full retirement age for Social Security, depending on the year you were born

67

70

Claim the maximum benefit from Social Security

Check out these websites for more information: [Medicareinteractive.org](https://www.medicareinteractive.org); [SSA.gov](https://www.ssa.gov); and [IRS.gov](https://www.irs.gov).

Begin taking required minimum distributions (RMDs) from traditional retirement accounts

72

KEEP YOUR PLAN ON TRACK

Now that you've discovered more about making your nest egg last, you're ready to begin a new chapter, whenever that makes sense for you. Taking a few important steps now will help you preserve your financial security and create the future you deserve.

ABOUT **WHEN I'M**

How we live and thrive in retirement is changing dramatically in the 21st century. **When I'm 65** is a groundbreaking documentary, produced by Detroit Public Television, and community engagement program that examines the choices all Americans must make today to plan for a financially secure and fulfilling future.

"When I'm 65 offers jargon-free explanations and can-do action plans for all ages—Millennials, Gen Xers and Baby Boomers alike."

—Don Blandin, CEO and President of Investor Protection Trust

Watch the documentary and find upcoming workshops and conferences at www.WI65.org, facebook.com/WI65project, or twitter.com/WI65project.



THE INVESTOR PROTECTION TRUST (IPT) is a nonprofit organization devoted to investor education. More than half of all Americans are now invested in the securities markets, making investor education and protection vitally important. Since 1993, the Investor Protection Trust has worked with the states and at the national level to provide independent, objective investor education.

- ◉ www.investorprotection.org ◉
- ◉ facebook.com/InvestorProtectionTrust ◉ twitter.com/IPT_Info ◉



THE INVESTOR PROTECTION INSTITUTE (IPI) is an independent nonprofit organization that advances investor protection by conducting and supporting unbiased research and groundbreaking education programs. IPI carries out its mission through investor education, protection, and research programs delivered at the national and grassroots levels in collaboration with state securities regulators and other strategic partners. IPI is dedicated to providing innovative investor-protection programs that will make a meaningful difference in the financial lives of Americans in all walks of life and at all levels of sophistication about financial matters.

- ◉ www.invest.org ◉
- ◉ facebook.com/InvestorProtectionInstitute ◉ twitter.com/IPI_News ◉



THE PENNSYLVANIA DEPARTMENT OF BANKING AND SECURITIES (DoBS) helps investors protect and grow their money through its Investor Education and Consumer Outreach Office. If you have a question, concern or complaint about financial services or products, simply call 1-800-PA-BANKS. Visit www.dobs.pa.gov or email us at informed@pa.gov for more information about our programs or to schedule a presentation.

- ◉ facebook.com/PABankingAndSecurities ◉ twitter.com/PABankingDept ◉