HAAS | Fydroski Financial Services, Inc. | IPE Insights

Investments - Planning - Education

MARCH 2018 — JIM'S JOURNAL

James H. Fydroski CFP®
President, Haas Financial Services Inc.

Thinking About Retiring In Your 50s?

It's been a hard day's night, and I've been working like a dog
It's been a hard day's night, I should be sleeping like a log
But when I get home to you I'll find the things that you do
Will make me feel alright
– Beatles Lyrics – A Hard Day's Night

It's been a terrible day at work. The customers have been difficult, the boss chewed your rear end out and they want you to work this weekend when you already have tickets for the big game. You stop for a moment and think to yourself, "It's been a hard day's night and is it really worth it to keep working? After all, I am over fifty. Maybe I should just tell them to take this job and shove it – I'm going to retire."

Did you ever have thoughts like this cross your mind? Most people do at one time or another. Even if you love your job, most people look forward to the day when they don't have to listen to an early morning alarm clock, fight rush hour traffic or brave a snow storm to get to work on time. But is it really wise to retire in your fifties? The real problem is that you are only in your fifties and maybe your retirement savings are not quite where they should be. To retire or not retire, that is the question. Let's look at a few reasons why it may not make sense for you to retire in your fifties:

1. You do not have enough retirement savings

If you stop working and start enjoying the good life, where does the money come from to pay the bills? Sure, you could win the lottery or inherit a large sum of money from a relative but how often does that happen? It comes down to retirement savings. What type of retirement lifestyle do you have planned? Did you prepare a retirement budget that covers all your expenses and did that budget take into account inflation for the next 30-40 years. Many people entering retirement think that they need and can count on a specific stock market return during their retirement. It has been my observation over the last twenty-three years in the financial services business that the stock market does not really care what return we need – the market follows its own path no matter what we think or want.

What is a reasonable withdrawal rate from our retirement savings? A rule of thumb set forth many years ago is that a reasonable retirement withdrawal rate should be no more than 4% (plus inflationary raises) of the retirement balances if you want your nest egg to last for 30 years. Recent studies are now saying the withdrawal rate should actually be less than 4%. However, if you retire in your fifties, based upon current life expectancies, you could reasonably expect to live into your nineties. That could be a retirement lasting over forty years. So where does the rest of the money come from?

2. The rules regarding retirement savings plans

Most individuals save for retirement through tax-deferred savings plans such as an IRA, 401(k) or 403(b). These plans are great vehicles for retirement but they do have specific rules and regulations associated with them. The problem for a fifty year old retiree is that you must be at least 59½ to take a distribution from your tax deferred accounts without a penalty. If you are under 59½ there will be a 10% penalty on the amount you withdraw unless it qualifies as an exception (example- first time home buyer, medical expenses etc.). There is one exception to the rule known as 72(t) (substantially equal periodic payments) that allows payments before 59½ but it has very specific parameters that need to be followed and might not be a good fit for many early retirees. Consequently, if you do retire before age 59½, you will likely need another source of income to get you through the early years of retirement before the tax-deferred savings plans kick in.

3. Social Security retirement benefits begin at 62

The original idea behind Social Security retirement benefits was that it would be part of a three-legged retirement plan to include: personal savings, a work pension and Social Security benefits. Today, many people have very little savings, no company pension and primarily live only on Social Security payments. For the fifty year old retiree, the bad news is that the earliest you can collect Social Security retirement benefits is at age 62. If you decide to start collecting Social Security at age 62, you will receive a reduced benefit. That reduced payout percentage will not increase the rest of your life other than possibly a potential cost of living increase. All fifty year olds would have been born after 1960 so your Full Retirement Age for collecting a 100% Social Security benefit would be age 67. Retire in your early fifties and you could wait over a decade before you could even collect a reduced benefit at age 62.

4. What about healthcare?

A recent Fidelity Benefits Consulting Study noted that if a couple retires at age 65, it is likely that they will spend about $275,000 in healthcare related costs before they die. Medicare becomes our primary healthcare provider at age 65 and certain specified healthcare procedures and costs are covered at that point. It should be pointed out that Medicare does not cover all healthcare procedures and costs so a Medicare supplement policy is needed for those services not covered. Not all drug costs are covered either. As a fifty year old retiree, you would need to cover your own healthcare expenses until Medicare starts at 65. Is there enough money in your retirement savings to cover your healthcare needs for the next 40+ years?

5. Retirement lifestyle

You could probably think of a million things that you would like to do if retired; however, unless you are content to live a simple, quiet lifestyle, many of your activities will cost money. Some of the most popular retirement activities, such as travel and golf, can cost a lot of money. In retirement, a lot of free time will need to be filled and many of your peers will still be working so that could be a problem. Thirty or possibly even forty years without any structure or schedule can create a lot of empty hours in your life. Approach retirement with open eyes. The younger you retire, the more careful you need to be.

In summary, although it is not impossible, retirement in your 50s can be challenging. Whatever age you choose to retire, you must plan for it. The ultimate key for a fulfilling retirement is to determine the type of retirement lifestyle that will make you happy. Having enough retirement savings to cover your basic needs and then adding some additional enrichment to your life will go a long way toward a happy and satisfying retirement.

'I wish we had a retirement plan that didn't require matching six numbers.'

This month's guest article is from The Gaggos Law Firm in Troy, Michigan. I attended an outstanding presentation on estate planning given by Bill Gaggos late last fall and asked if he would be willing to write an article for this newsletter. He graciously agreed. Since many of us may be asked at some point in time to administer an estate, understanding the liabilities that can be associated with those duties is a very important concern. Bill's article on a trustee and executor's liability for taxes is something we should be aware of. As a final comment, the stock market continues to be very volatile and has experienced a sharp downturn as I write this newsletter. The April newsletter will review what has occurred in the market during the first quarter.

Think spring and take good care!!!

Trustee and Executor's Liability for Taxes

Serving as the trustee or executor for a family member is a big responsibility. It is a time consuming process and like anything, accepting the responsibility potentially exposes you to personal liability.

There are numerous ways of minimizing issues that can arise from a decedent who leaves poor records or outstanding debts. Addressing any unpaid taxes may be the trickiest of all liabilities because the taxing authorities have special laws that give them rights far greater than ordinary creditors. This means that if you are handling an estate or trust for a deceased loved one who has left tax liabilities behind, you need to be especially careful.

If a decedent leaves unpaid taxes the law imposes personal liability on the trustee/executor and potentially anyone else involved in handling or who receives assets. As trustee/executor you have a duty to ascertain if there are any such liabilities, and to pay them before you pay any of the heirs. That duty arguably includes verifying that already filed returns do not have any outstanding liabilities in the event of a subsequent audit.

To protect yourself from the decedent's tax problems, we recommend that you have a qualified CPA independently review the prior three years' returns to determine if there are any outstanding taxes or potential issues that might arise in the event of an audit. Obtaining a "tax transcript" from the federal and state taxing authorities is a good way to confirm that all required returns have been filed and taxes paid. Contacting the local real estate tax assessor is also important to make sure property taxes are paid.

If you don't take appropriate steps to ascertain outstanding liabilities, you can be held personally liable for them. If there are outstanding taxes, you have options for paying them. Our firm can help with the entire process.

This article is authored by Gaggos Law Firm, P.C. 2250 Butterfield Drive, Suite 240
Troy, MI 48084. Telephone: (248) 646-7700.