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> "The stock market is a device for transferring money from the impatient to the patient."
>
> *Warren Buffett*

A Different Set of Retirement Calculations

I'm not sure how it all got started, but we in the financial advice community have played a big part in brainwashing savers into thinking about retirement in one dimension: dollars and cents. Without much prompting, financial advisors will pull out fancy projection tools designed to show you exactly how much you need to save and when you'll be able to retire. If you come in asking *What's my number?*, you can be certain that any self-respecting financial professional will soon have an answer for you.

It's not surprising, considering that investment firms are the caretakers of your assets (and of course, they benefit from your retirement obsession). But it's not just advisors—the number fixation is also reinforced by countless personal finance publications, websites, and bloggers.

Retirement preparedness is naturally a hot topic among baby boomers, who, according to AARP, are retiring at a rate of 10,000 per day. But lately it's starting to resonate with younger workers as well. The "financial independence, retire early" (FIRE) movement has gained a following from young adults with a burning desire to get out of the rat race long before the conventional age of 65.

How does saying, "I'm outta here!" at 40 sound to you? Plenty of folks are drawn to the idea, and they are willing save at a remarkable rate and watch expenses like a hawk to get there.

To me, the notion of living a near-miserly existence to become financially independent at such a young age sounds exhausting. Most of us aren't cut out to live so frugally for that sole purpose. And though some folks will do whatever it takes to get out of a miserable job and claim their independence, for many people, it may not be such a good idea.

Consider this: a recent Yale study showed that working one extra year can increase life expectancy by as much as 11%. In addition, speaker and retirement expert Mitch Anthony cites British studies showing that workers suffered a 30 percent decline in short-term memory within their first year of retirement.

In addition to potential cognitive effects, retirement has a strong impact on your social life. Many people become isolated and lonely

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What's Your Number?

We just spent an entire column downplaying the financial aspects of retirement planning, so forgive us while we backtrack a bit. The numbers *are* important, of course. We just want to make certain you're aware of other essential factors to consider.

Getting to the right savings number is always an individual affair. After all, we each have our own goals, lifestyles and spending patterns. Though there's no one-size-fits-all formula, determining what your number should be isn't as complicated as it's sometimes made out to be. In fact, overcomplicating the process can undermine investors' motivation to save.

A recent Gallup survey found that just 51% of working Americans expect to achieve financial comfort in retirement. In a similar survey by Prudential, which asked people to rate their retirement preparedness, respondents gave themselves an average grade of "C."

Many people don't prepare because they simply don't know how. There was a time when retirement planning was based on a three-legged

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Inflation-shifted Savings Limits and Social Security Benefits

"In 2019, Social Security beneficiaries will receive their biggest cost of living adjustment in seven years, up 2.8% from last year's benefits."

Every year, the U.S. government changes a variety of investment and benefits thresholds based on the inflation rate. But since inflation has been pretty tame, most of the changes have been modest these past ten years.

That changes this coming year.

Start with tax-deferred savings thresholds. The limit for 401(k) or 403(b) contributions will rise from $18,500 to $19,000—and employees 50 and older will continue to be able to contribute an additional $6,000 as a 'catch-up' provision. The overall limit for defined-contribution plans increased from $55,000 to $56,000.

Meanwhile, the IRS has raised the contribution limit for IRA accounts—that is, the maximum amount that can be contributed—for the first time in six years, from $5,500 to $6,000. Traditional IRA contributions are tax-free (you get a deduction on your tax return) if you aren't contributing to an employer-sponsored plan. If you are, then the deduction for making a contribution is phased out starting at $64,000 in income (single) or $103,000 (filing jointly)—or $10,000 for someone married filing individually.

Roth contributions are also now capped at $6,000, but your ability to contribute phases out completely at $137,000 of income (single) or $203,000 (filing jointly—or, once again, $10,000 for someone married filing individually.

Also in 2019, Social Security beneficiaries will receive their biggest cost of living adjustment in seven years—up 2.8% from last year's benefits, which handily beats the 2.0% increase given out last year. In 2019, a retired worker reaching full retirement age would receive a maximum of $2,861 a month—an increase of $73 a month, or $876 a year. On average, Social Security beneficiaries will receive an additional $39 a month.

The age that Social Security defines as "full retirement age" will also increase by two months, to 66 years and six months for people who will turn 62 in 2019. The full retirement age will increase in 2-month increments over the next two years until it reaches age 67 for everyone born in 1960 or later.

People paying into the Social Security system will also see an adjustment. Next year, earned income up to $132,900 (up from $128,400) will be subject to the 6.2% Social Security payroll tax—which basically means an increase of $279 for people who earn the maximum. (Income above this amount is exempted from Social Security's payroll tax—an estimated $1.2 trillion altogether.)

- Robert Veres,
Inside Information

Sources:

https://www.fool.com/retirement/2018/10/28/7-changes-to-social-security-in-2019.aspx

https://www.marketwatch.com/story/you-can-contribute-more-to-your-401k-and-ira-in-2019-2018-11-01

https://money.usnews.com/money/retirement/articles/social-security-changes-coming-next-year

Retirement Calculations…

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when their daily connection to coworkers and customers is lost. While some recognize their needs and find new outlets, others do not.

I met with a retired couple recently and asked the husband how things have been going since he sold his medical practice. Jumping right in with a bemused look on her face, his wife said he recently talked the ear off a fellow restaurant patron—decidedly out of character for him. They both agreed that he missed the day-to-day engagement with patients and needed another outlet to fill that void. While this energetic couple are involved in many activities to fill their days, they are also self-aware enough to recognize that the social adjustment into retirement will take some effort.

An oft-used adage in financial planning circles is that people often spend more time planning a two-week vacation than they do for a retirement that will last over three decades. There is some truth in that. More than a few of us experience a deer-in-the-headlights look soon after retiring. Collectively, we are energized by the prospect of getting there—always focused on The Number—but we pay little attention to what we will do once we arrive.

For couples in particular, good communication is crucial. Consider how you will spend your time together, and apart. If one of you loves to travel and the other is a homebody, how will you work out an acceptable compromise?

The same applies for things you enjoy doing together. Do you both golf? Have similar community service interests? Enjoy tooling around in the garden together?

These questions may sound trivial, but if you don't plan your activities, one partner may begin to feel untethered. Watch for a tendency towards increased social and emotional dependence on the other partner, which brings its own set of problems.

Another matter worth discussing is the transition *into* retirement. Many working couples take a "when you go, I go" approach, but that may not be the best course for everyone. Consider having one of you transition out first to stagger the adjustment period. Or perhaps phase out together, slowly, over several years. Learning to manage unstructured time can be a challenge for anyone, and struggling through it as a couple can be doubly complicated.

For younger retirees, a significant challenge is disconnection from friends and social contacts who remain working. Many early retirees who have the luxury of doing what they want, when they want end up losing touch with friends and family who adhere to work constraints.

In addition to considering your social life, early retirees should seek meaningful goals to pursue after achieving financial independence. What's your higher purpose? What will define you for the next 40-plus years?

While some early retirees do consider these issues, most learn the lesson the hard way. Hard-charging careerists, who define themselves in large part by their work, often have a difficult time responding to a simple "What do you do?" with an equally simple "I'm retired."

Finally, whether you leave the workforce early or at a normal age, consider what will happen if you change your mind about retirement. If in three years you decide to go back to work, will there still be opportunities for you in your chosen field? That's not always the case.

Please understand, we certainly don't want to dissuade you from dreaming about retirement. We just want to make sure you know that it can come with pitfalls, many of which are magnified by retiring early.

- Mitch Conlon

"…People often spend more time planning a two-week vacation then they do for a retirement that will last decades."

Your Number...

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social contract including government, employers, and individuals, each with its own set of expectations. The three-legged tool is less stable today, in part because the pension system no longer plays a vital role for most folks. Additionally, Social Security continues to push the normal retirement age further out as life expectancy increases. And in the meantime, healthcare costs continue to climb.

Changes in the work world have also made planning more difficult. People change jobs much more frequently than they used to, making it harder to predict future income. Employers have reciprocated in kind, making job security and benefits a bit of a wild card.

Meanwhile, financial experts continue to prod pre-retirees to save more. Without proper coaching, this tactic is about as effective as prodding a weight-challenged person to just lose 20 pounds. It's easier said than done.

It's no wonder pre-retirees feel pressured and stuck. Far too many rules of thumb are bandied about by financial "experts." Many are applied incorrectly, giving investors either an excessive sense of fear or overconfidence.

When you look at those who have already retired, however, a more encouraging picture emerges. In the Gallup survey, 78% of retirees said they had enough money to live comfortably.

There are many reasons retirees are reporting better outcomes than those projected by pre-retirees. For starters, more retirees have pension plans than the workers coming behind them. They have also benefitted from collecting full Social Security benefits at an earlier retirement age than those still in the workforce.

But the retirees' rosier outlook may also be because they have made the adjustments they needed to make without too much pain. Many have found they can live comfortably on less money than the rules of thumb or fancy software suggested.

Maybe there's a lesson here for those of us in the financial industry. While we do need to encourage people to save, perhaps we should be less dogmatic about it. Instead of insisting that people attain 'The Number,' we can help them find a few practical steps to take each year to move closer to financial freedom. Even those who don't achieve their ultimate goal may find that they can live comfortably after retirement.

- Mitch Conlon

Stat Bank

85...Percentage participant rate for 401(k) plans with auto-enrollment feature versus 63% for plans that do not have auto-enrollment.

(Alight Solutions LLC)

40...Projected percentage of student loan borrowers who will default on their loans within 20 years of entering the repayment phase of their loans.

(Department of Education)

5,503...Amount in dollars Medicare beneficiaries spend annually in 'out of pocket' health-care expenses.

(Kaiser Family Foundation)

10,400...Number of Americans expected to turn 65 years old each day in 2019. An estimated 11,500 Americans will turn 65 each day in 2029.

(Government Accountability Office)

46...Percentage of retirees amongst 1,025 surveyed who own their home free of any debt. 54% of retirees still have a mortgage or they rent.

(SOA 2017 Risks and Process od Retirement Survey)

29.5...The median age for American males who got married for the first time in 2017, compared to 27.4 years of age for women.

(Census Bureau)

33.3...Average percentage tax rate for the top 1% of US taxpayers in 2015, down from 38.5% in 1979.

(Congressional Budget Office)

108...The number of failed pension plans taken over each of the last 15 fiscal years by the Pension Benefit Guaranty Corporation (PBGC).

(PBGC)

Finding Clarity in the Complex.

Conlon & Dart LLC
720 Olive Way
Suite 1850
Seattle, WA 98101

Phone: 888-777-4015
Fax: 206-728-1255
info@conlondart.com

www.conlondart.com