

## Money and You: Retirement - not so simple anymore

by *Carrie\_Schwab\_Pomerantz*

Retirement. Today's economic turmoil has changed the equation for many who are either nearing retirement age or who have recently left the workforce. Millions of Americans are finding that their savings aren't adequate or that they miss the challenges and rewards of the workplace. Whatever the reason, the financial and psychological implications of that decision can be significant. Here are some things to think about as you decide if you are going to stay on the job or go back to work.

### Good for Your Bottom Line

If you're still in the workforce but nearing retirement, think about working longer particularly if you enjoy your work. Or think about going after that new job you've always dreamed about the one that might pay less but be more rewarding. The personal benefits can be immense. It's important to feel needed and engaged, and that you're making a contribution. But working longer can also give a real boost to your financial health.

Obviously, working longer helps you build assets: You won't need to tap your retirement assets as early, which means you'll have more opportunities for your existing assets to grow. That might be especially important for folks around retirement age now with a lot of assets tied up in the stock market. And, of course, you can continue to put assets away for future use. As long as you're working, you can contribute to workplace retirement plans regardless of your age. (Note that although there is no age limit for contributing to a Roth IRA, you are no longer allowed to add to a traditional IRA starting in the year you turn 70 1/2.)

And that raises an interesting issue for people working in their 60s and beyond: Should you contribute to a tax-advantaged 401(k) or an IRA, or should you just invest in a traditional i.e., taxable-account? If your employer offers a plan with a match, definitely contribute enough to capture the maximum match. But beyond that, you'll need to think about your current and anticipated tax situation to decide how to proceed.

A Roth IRA or Roth 401(k) might be a good choice if you're eligible and expect to be in a higher income tax bracket when you take withdrawals or expect to leave the balance to your heirs (no tax break now, but qualified withdrawals are free from income tax). Otherwise, a tax-deductible traditional IRA or regular 401(k) is a great choice if you expect to be in a lower tax bracket when you start taking withdrawals. If you're not eligible for either a Roth or a tax-deductible traditional option, saving and investing in a regular taxable brokerage account could be a better choice than making a non-deductible IRA contribution. There's no upfront tax deduction, but you'll give yourself the ability to eventually withdraw funds (that you've held for over a year) at the long-term capital gains rate rather than your ordinary income rate.

Of course, tax law is subject to change! Under current law, taxes on long-term capital gains are considerably lower than taxes on ordinary income. But these rates are scheduled to expire after 2010. Also realize that you're required to begin taking minimum distributions from an IRA account once you turn 70 1/2, but there

are no such requirements for taxable accounts (or, for the record, for Roth IRAs).

Given the myriad of choices, if you keep working, you'll want to do some comprehensive financial and tax planning to determine the optimal approach to your retirement savings. The main thing to keep in mind is that by postponing your retirement you are able to continue saving and investing.

### Increasing Social Security Income

The other tremendous benefit to postponing retirement is that it allows you to increase or possibly maximize your Social Security benefits, which for many people represent a key component of retirement planning.

You can begin to take Social Security benefits as early as age 62, but your benefits will be higher if you wait at least until you reach what the Social Security Administration defines as your "full retirement age" (FRA; it's from 65 to 67, depending on the year you were born). Wait until you're 70, and you'll collect even more. Here's an example. Assume you were born in 1949 and your FRA is 66. Let's say that your monthly benefit at age 66 will be \$2,100 (the actual figure would depend on how much you've worked and earned over the years, of course). If you took benefits early, at age 62, you'd get just \$1,550/month, about a 25 percent reduction. And if you waited until age 70, you'd get \$2,900/month, an increase of almost 40 percent over your FRA benefit (and almost double the 62-year-old figure)!

Of course postponing is more beneficial to those with a long life expectancy; if you're in ill health, you might be better off taking the earliest payment you can get. You can run some scenarios for yourself at [www.ssa.gov](http://www.ssa.gov) (the Social Security Administration's website).

Here's another reason to postpone taking Social Security benefits: You'll get penalized for working until you've reached your full retirement age. In fact, your Social Security benefits will be reduced by \$1 for every \$2 you earn above \$14,160 if you reach your FRA after 2009. If you reach your FRA in 2009, benefits will be reduced at a rate of \$1 for every \$3 in earnings above \$37,680. However, if some of your retirement benefits are withheld because of your earnings, your benefits will be increased starting at your FRA to account for those months of reduced benefits (in other words, you'll be "paid back"). (Your benefits will also likely be taxed, at different levels depending on your income. Check with your tax planner or the Social Security Administration for more details.)

### Save on Health Insurance

If you are 65 or older, and your new job offers health insurance, compare the cost and coverage to your Medicare coverage. It's possible to suspend Medicare while you have private insurance and then resume it

later. Or you might decide that the Medicare coverage is a better value. Check with Medicare to see if your extra income bumps you to a higher premium. In fact, it's always smart to compare coverage based on your individual health and medication needs; coverage varies, and you might find a better deal for yourself.

## Money Isn't Everything

It should be obvious that working longer or going to back work can be great for your financial health. But that's not the only reason to consider staying in or returning to the workforce. For many people, a job can be a great way to stay engaged and energized, especially if that work offers new challenges and new opportunities. (My dad is still going strong at 71, and I know his work keeps him energized. And my grandfather still goes to the office at age 95!) "Retirement" might just be a great chance to reinvent yourself while bolstering your savings at the same time.

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