

The Road to Retirement: Understanding the Basics & Avoiding Costly Mistakes

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May 31, 2018

Virginia Coalition for the Prevention of Elder

Abuse Annual Conference



About WISER

- Provides women with basic tools and financial information aimed at helping them take financial control of their lives
- Topics include:
 - Saving & Investing
 - Social Security
 - Retirement Planning
 - Divorce & Widowhood
 - Caregiving
 - Health and Long-Term Care
 - Financial Fraud & Abuse
- Operates the National Resource Center on Women & Retirement Planning with the U.S. Administration on Aging



What We'll Cover

Women's unique challenges

Retirement income needs

Sources of retirement income

Important Things to Know and Costly Mistakes to Avoid:

- Employer Plans and Investments
- Social Security
- Medicare

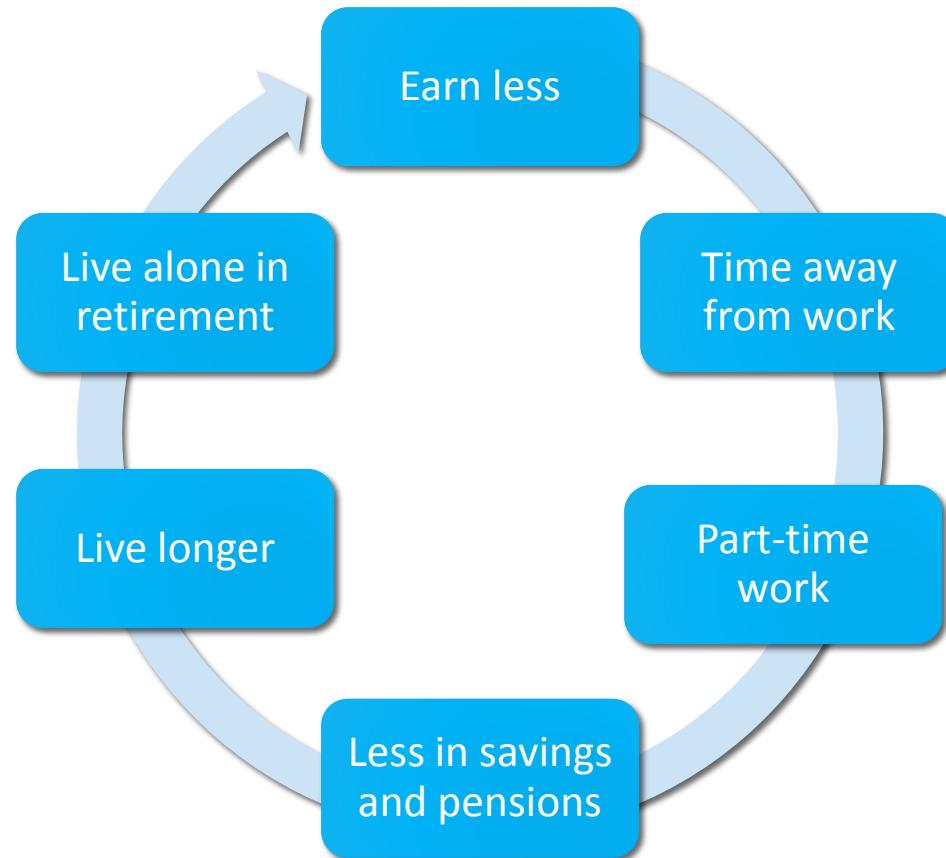
Wrap-up and Q&A



Why Women?

- There are many more older women than men!
- At age 65+, there are 5.6 million more women than men
- Women make up 65% of the 85+ population
 - This age group expected to double, even triple over the next 3 decades
 - This is the group most likely to end up in poverty
- Many women who have never been poor end up in poverty in old age

Women's Unique Challenges



Common Financial Mistakes



- Not planning to live a long life - a woman age 65 today is expected to live to 87 *on average* so half will live beyond that.
- Not saving
- Failing to make a plan/take action
- Not knowing how much you will need
- Avoiding getting involved in finances and discussing them with spouse/knowing family financial planner
- Not understanding implications of being caregiver
- Spending too much money on kids and grandkids

Retirement Income Needs

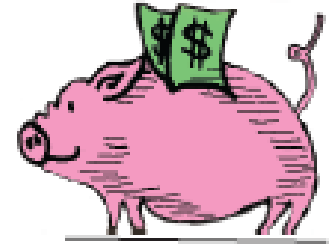


Know your **needs** in retirement:

- **Income** - to cover day-to-day expenses
- **Health and prescription coverage** – this will become a bigger part of your budget as you age
- **Long-term care** – there is a good chance you will need some long-term care services at some point

Women generally need more than men because they live longer

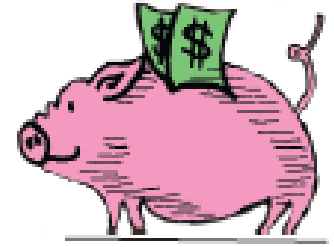
Sources of Retirement Income



Know where the \$\$ will come from - common sources include:

- Work-based pension
- 401(k) or 403(b)-type plan at work
- IRA
- Other personal savings/investments
- What do you have/what does your spouse or partner have?
- Social Security

Sources of Retirement Income



Make a list of each source of income you (and your spouse) have and be able to answer these basic questions for each:

- Where is the account based (bank, financial company, etc.)?
- How much is in the account now?
- How are contributions to the account being made and for how much?
- If married, what happens to the account if one spouse dies?

Financial Impact of Caregiving

Women average 12 years out of the workforce to provide care

Lifetime impact for women caregivers was \$324,000 due to lost wages, retirement benefits and Social Security benefits

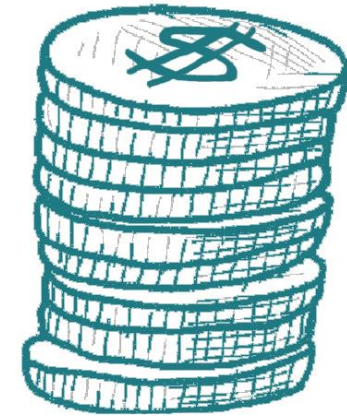
Caregiving options that look expensive can be more attractive when you consider “hidden” costs

- Reduction/loss of employer –provided medical and retirement benefits
- Difficulty in returning to workforce/replicating prior wages/catching up on lost savings opportunities
- Do “what-if” scenarios

Caregivers also pay estimated \$7,000 annually in out-of-pocket costs for caregiving expenses



Employer Plans & Investments



IMPORTANT THINGS TO KNOW & COSTLY MISTAKES TO AVOID

Pension & Retirement Plans: Decisions You Have to Make

Different decisions depending on type of plan

- Traditional “defined benefit” (DB) pension
- 401(k)-type “defined contribution” (DC) retirement savings plans

For both:

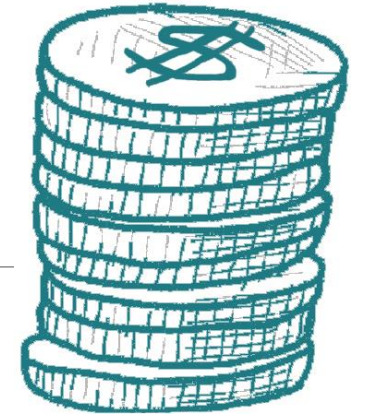
- After you leave, keep address current
- Take advantage of any retirement calculators/education sessions that are provided
- Make beneficiary elections carefully
- For DB plan, if you are vested and die before taking your benefit, only your spouse is entitled to benefit
- You can select anyone to be your beneficiary but if married, spouse must approve

If you are looking for a new job or considering time off/reducing hours:

- Make sure you understand what other benefits you may be walking away from
- Ask prospective employer about their benefits and factor that into your decision along with pay comparison
- Carefully consider all financial trade-offs and options



Defined Benefit Plan



Employer:

- Funds the plan and determines benefit level
- Makes investment decisions
- Pays premiums, so federally guaranteed
- Requires certain # of years to vest/keep benefit after you leave

You:

- Are automatically enrolled if full-time
- Sometimes part-timers are eligible – check your plan

Defined Benefit Plan

Your Decisions:

- Don't leave until you are vested – know how many years are needed
- At retirement:
 - Think about best time to start collecting your pension – benefits usually reduced if start before age 65 and increased if start after age 65
 - Think about the form of pension benefit you take:
 - Payable during your life only, or a reduced benefit continues on to spouse/beneficiary
 - If you are married (even if separated), your spouse must agree to any form of payment that does not include benefits continuing to them upon your death
 - You can't change your beneficiary once you start collecting benefits



Defined Contribution - 401(k)/403(b) Plan



Employer:

- Can automatically enroll you or more common – you must make decision to enroll
- Decides years needed to be vested in employer contribution
- Decides matching % on your contribution; such as 50 cents for every \$1 up to 6% of pay

You:

- Contribute through paycheck deduction
- You may have choice between before tax or after tax (Roth)
- Decide what % of pay to invest – don't leave \$ on the table and consider “catch-up” contributions if over 50
- Decide in what funds to invest – consider target date fund



Defined Contribution/ 401(k)/403(b) Plan

What to do with your account when you leave your employer?

You can leave your account with your employer

- Stays in same investments you have chosen
- Fees usually lower due to large size of plan
- Move it when it makes sense

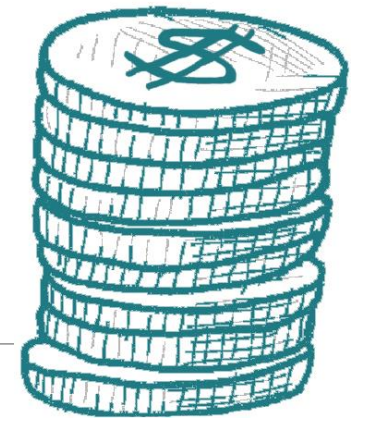
If you decide to move it

- Make sure you follow rules to not incur taxes
- See if you can roll it over to your new employer's plan
- If you decide to move it to retail provider (bank/investment firm) IRA – ask about fees you will be charged – not obvious since embedded in funds

You must begin distributions by April 1st after you turn 70 ½ (RMD date)



IRAs



Individual Retirement Accounts

Meant for retirement savings –better than taxable accounts/savings accounts

Accessible through small employers or directly through financial institutions

Two types: Traditional and Roth

If you are saving for retirement – do it in an IRA!

Check beneficiary designations – yours and spouse's, especially if in second marriage



Traditional IRAs

Tax deduction on contributions

- Based on income (you have to have income to contribute) and whether you/your spouse are in a plan at work

IRA distributions received in retirement are taxed

If you take money out before age 59 ½, you will owe taxes and a penalty

Must start taking money out by RMD or pay a penalty

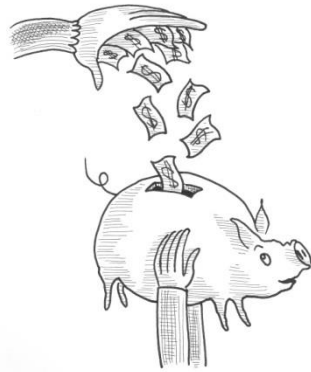
Roth IRAs

You contribute after-tax money – the amount you can contribute depends on income

Pay no taxes when you withdraw your funds; the earnings are never taxed

If you are less than 59½, you can make tax-free and penalty-free withdrawals 5 years after opening your account for certain medical expenses, higher education expenses or to buy your first home

Yearly IRA contribution limits – per person



	If you are under 50	If you are 50 or older
2018	\$5,500	\$6,500

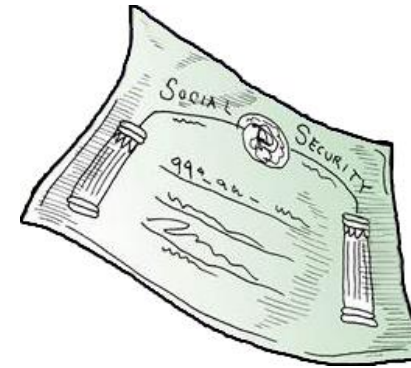
Social Security



IMPORTANT THINGS TO KNOW & COSTLY MISTAKES TO AVOID

Social Security Benefit Types

- Retirement
- Spousal
- Survivor
- Disability Insurance
- Supplemental Income



Social Security Retirement Benefit

- Retired worker benefit
- Full benefit replaces about 40% of your pay on average
- Full Retirement Age (FRA) – get benefit with NO reduction

- * **Age 66**

- if born between 1943-1954

- * **Age 66+ 2 months**

- if born between 1955-1959 add 2 months each year until 1960

- * **Age 67**

- if born in 1960 or later



What impacts your Social Security benefit

First, you must be “fully insured” – 40 credits/10 years

- You get 4 credits/yr. if you earn over \$5,200/yr.

Size of your earnings (taxes of 6.2% on earnings up to \$128,700)

How many years you have worked before you start your benefit

Qualifying for spouse/divorced spouse/survivor benefit

Age you start your benefit

Starting your benefit while you are still working or during a calendar year that you worked



Impact of number of years worked



SS uses highest 35 years of earnings to calculate your benefit –if you did not work 35 years, zeros are used for those years

- Zeros bring down average

Your earnings are indexed to reflect changes in average wages

- \$10,000 earned in 1980 is indexed to \$38,000 today; \$10,000 earned in 2000 is indexed to \$15,000 today

Can you extend your work years – to get to 35 years or to replace higher earning years for lower ones?



Collecting Social Security While Working

If you are over FRA, no limit to how much you can earn and not impact your benefits

If you are under FRA and earn more than \$17,040/yr., \$1 of benefits is withheld for every \$2 earned over limit

- Ex: If you earn \$25,000, you lose \$3,980 in SS benefits
- BUT, your SS benefits increase when you reach FRA for any month you didn't get full benefit

While working, you still pay SS tax regardless of age

Social Security Claiming Age Example

At full retirement age of 66: receive full benefit amount

Claim at 62 (earliest): – 25% reduction in benefit

Claim at age 70 (latest): + 32% increase (8% each additional year)

Retirement Age	Monthly benefit
62 (early retirement)	\$758
66 (full retirement)	\$1,000
70 (latest)	\$1,320

Qualifying for Spousal Benefit



You may be entitled to spousal benefit if you worked less years/had lower earnings than your spouse, are at least 62 and married for at least 1 year

If you wait until your FRA, you get one-half of what your spouse would get at their FRA. Reduced at earlier ages.

Spousal benefit only payable after spouse claims – before that you can collect your own worker benefit if you have one

Joe's retired worker benefit: **\$800**

Kim's retired worker benefit: **\$300**

Kim takes the spousal benefit at **\$400** a month

If Kim's worker benefit was **\$500** a month, she would not receive a spouse benefit



Qualifying for Divorced Spouse Benefit

If marriage lasted 10 years and you are now single, you can claim their spousal benefit:

- If it is more than your worker benefit
- If you are unmarried (can be married if over age 60)
- Even if spouse has not claimed benefit yet, as long as they are at least 62 and 2 years past divorce

Receiving benefit on ex-spouse record, does not impact their benefit or any current spouse benefit

Another consideration on divorce – your/your spouse’s *pension* is joint asset

- Consider “QDRO” – court order to split spouse pension

Qualifying for Survivor Benefit

Very important to coordinate when you and your spouse start to collect your benefits:

- Delaying claiming can impact survivor benefit – if your spouse is higher earner and likely to die first, delaying their benefit to get interest credits may make sense
- Widow's benefit will then be higher when most needed at older ages

Survivor benefits payable at 60 if married for at least 9 months

- Generally receive the larger of your two benefits, not both, so household SS earnings may decline significantly

May be eligible for survivor benefits if divorced and ex-spouse is deceased
(you can be remarried if marriage was after age 60)

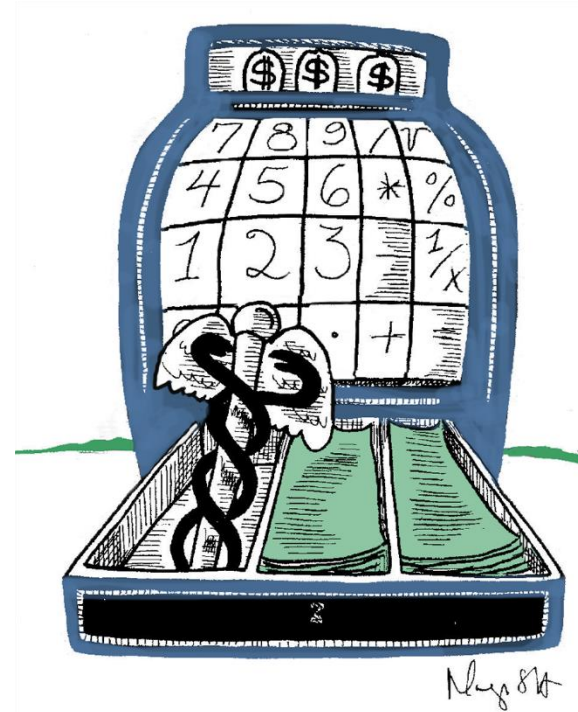


Social Security: What you need to do



- Learn the facts
- Look at “worse” case financial scenario – you live a long life
- If over 60, review SS estimates which they send
- Call 800-772-1213 or go to ssa.gov to get an estimate of your future Social Security benefits. Set up an online account at ssa.gov/myaccount
- When you are ready to retire, leave plenty of time to get questions answered and understand your options – if it doesn’t sound right, ask again

Medicare



IMPORTANT THINGS TO KNOW & COSTLY MISTAKES TO AVOID

The Many Parts of Medicare

Part A – Hospital Insurance (“free”)

Part B – Medical Insurance (pay premium)

- Part A and Part B together are called “Original Medicare”
- With just OM, you pay 20% co-pay on all covered Part B services - no limit on this co-pay amount
- Medigap supplemental insurance policy available to close this gap

Part D – Prescription Drugs (pay premium)

- Optional – can be added to OM

Part C – Medicare Advantage (pay Part B & C premiums)

- Alternative to OM + Medigap, usually has a Part D plan bundled in



2018 Premiums & Deductibles



Part A – no premium, annual deductible is **\$1,340**

Part B:

- Part B monthly premium is automatically deducted from your Social Security benefit
- If Part B premiums were already being deducted in 2016: **\$109/month**
- If you became eligible for Medicare in 2017 (or premiums were not deducted from SS): **\$134 for most**
- Annual deductible: **\$183**
- Co-payments also apply to most Part B services

Medigap – average nationwide premium is **\$183**

Part D – average nationwide premium is **\$34**; pay for 25% costs; deductible can't exceed **\$400**

Part C – average premium is **\$31.40**, but may vary significantly between plans



Medicare Enrollment

When you are about to turn 65...

- You have a 7 month *initial enrollment period*: 3 months before your birth month, birth month, and 3 months after
- Separate *six month enrollment period for Medigap*: time starts from when you enroll in Part B
- There is a penalty for delaying Part B enrollment – 10% premium increase for each full year you were eligible
- Part D is optional, but will pay a 1% increase for each month you were eligible
- Medicare Advantage – if you sign up during initial enrollment, you have 12 months to drop it

General Enrollment Period for Parts A and B: January 1 – March 31

Open Enrollment Period to select new MA and drug plans: October 15 – December 7



Medicare Enrollment & Employer Plans

If you have health insurance through an employer when you turn 65...

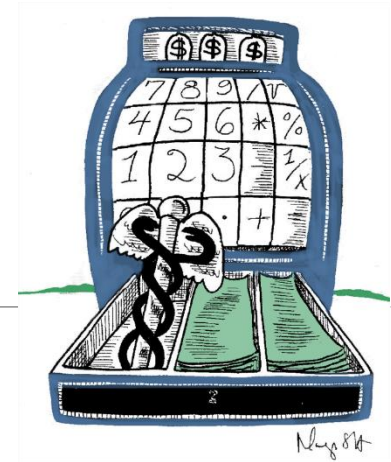
- Medicare is *not* necessarily mandatory at 65
- There is a penalty-free, *special enrollment period* – you have up to 8 months after employer insurance ends to sign up for Parts A and B
- You will automatically be signed up for Parts A and B if already receiving SS when you turn 65 but you don't have to accept it

HOWEVER make sure your employer plan does not consider Medicare the primary insurer once you turn 65. This is likely the case if:

- You work for an employer with fewer than 20 employees
- You are not an active employee and instead have a retiree health plan from your employer
- You have COBRA



Other Important Medicare “Fun” Facts



- Medicare is an individual plan, not a family plan
- Supplemental plan costs and coverage change (as do your health care needs), so re-evaluate your plan each year during open enrollment
- Original Medicare does not cover benefits outside the U.S.
- Medicare does not cover most long-term care services
- Medicare does not cover routine dental care, eye care, or hearing aids

Additional Resources

- **MedicareInteractive.org**: Get answers to Medicare questions. Find help with paying for drug coverage, drug costs, and Medicare premiums by clicking on [Get Answers > Programs for People with Limited Income](#)
- **Medicare Rights Center**: National Help Line - 1-800-333-4114. Callers living on low or fixed incomes also screened for additional programs to help pay costs. [medicarerights.org](#)
- **SHIP** (Senior Health Insurance Assistance Program) provides free Medicare counseling and can assist with applying for Medicare Savings Programs. Find SHIP in your state at [shiptacenter.org](#)
- **Medicare Plan Finder**: Compare plans and costs. [medicare.gov](#)
- **MyMedicareMatters.org**: User-friendly decision-making tools



Key Takeaways



- The systems we rely on in retirement are complicated, but it's worth taking the time to understand them.
- Decisions we make can have long-lasting financial implications. Mistakes can be costly!
- Take ownership over your future! Figure out your options for claiming Social Security & enrolling in Medicare BEFORE you turn 65.
- Does this make your head spin? – You are not alone!
- Follow through on what you learned today!



Thank you!

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