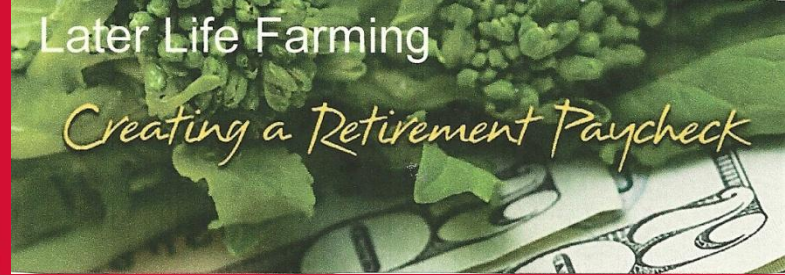


RUTGERS

New Jersey Agricultural  
Experiment Station



# Identifying Retirement Income Sources

Barbara O'Neill, Ph.D., CFP®  
Rutgers Cooperative Extension

[oneill@aesop.rutgers.edu](mailto:oneill@aesop.rutgers.edu)

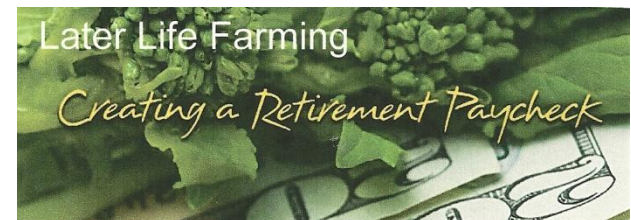
Twitter: @moneytalk1

Retirement

NEXT EXIT ↗

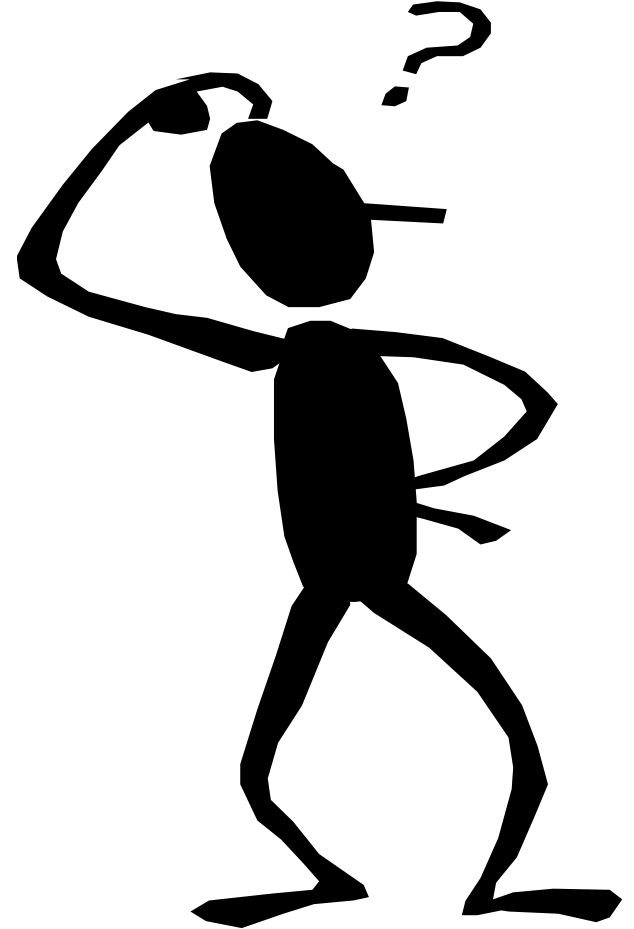
# Disclaimer

- The intent of this presentation is to provide accurate, research-based information
- It in no way purports to render legal, financial, or other professional services
- Consult an advisor who specializes in small business retirement transition planning if expert assistance is required



# Retirement Questions?

- Personal finance topics that you want covered?
- Resource materials that you want to know more about?



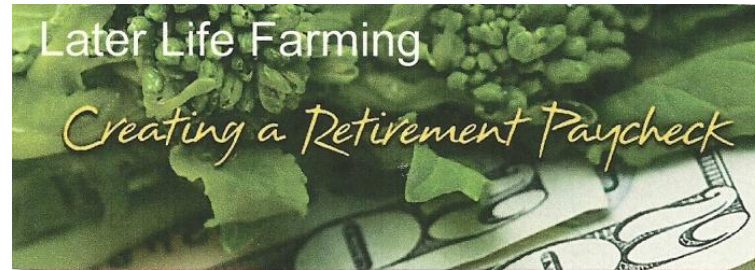
# Later Life Farming Nightmare

- 70-ish couple still milking cows [or growing crops]
- Not enough cows [crops] to justify full-time labor
- Children moved away; have own families/careers
- Farmers never had or reported much profit
- Therefore, Social security benefits are low
- Capital gains on sale of home/farm would leave little money because there is still a mortgage/debt
- Can't afford to move away and can't afford to stay
- Started using "0% APR" credit cards for shortfall



# Many People Can Expect to Spend What Percentage of their Lives in Retirement?

**Answer: 25% or more**

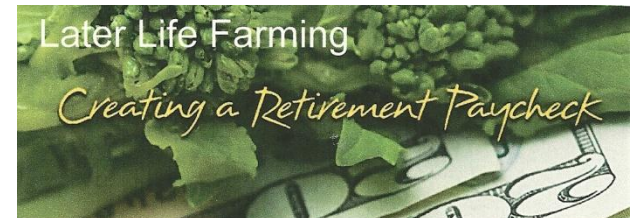
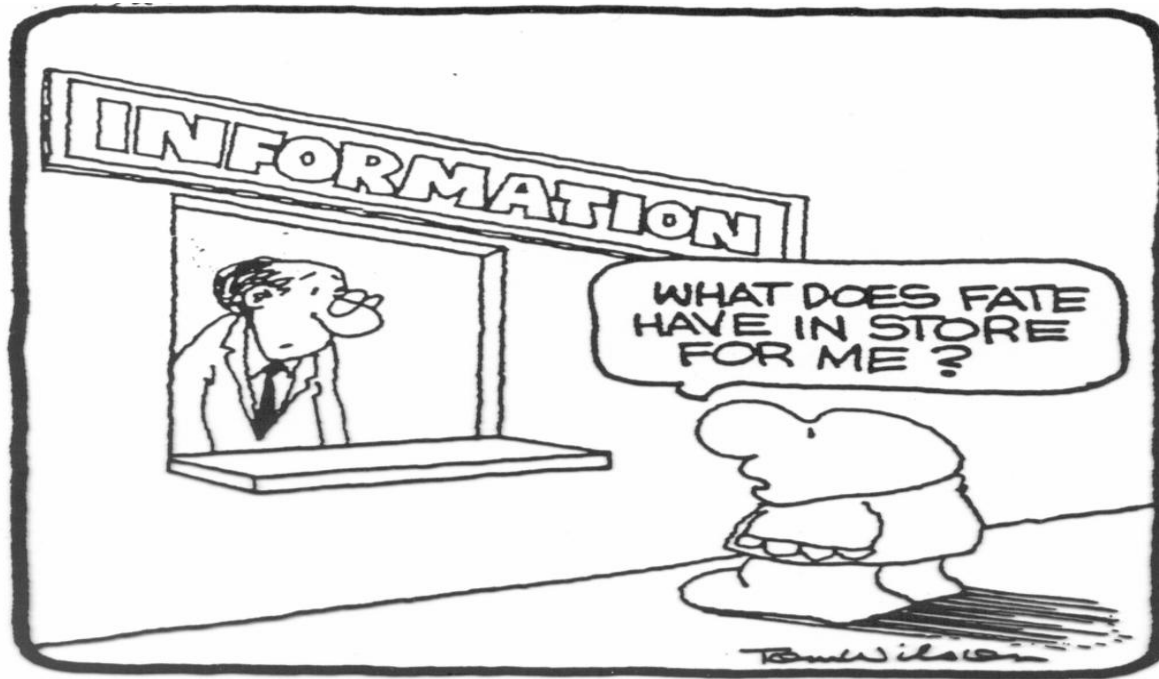


Average American life expectancy at age 65 (2014):

Age 86.6 for men and 88.8 for women (Society of Actuaries)

[http://www.bankrate.com/financing/senior-living/the-new-mortality-tables-are-here/?ic\\_id=News1](http://www.bankrate.com/financing/senior-living/the-new-mortality-tables-are-here/?ic_id=News1)

# Two Choices

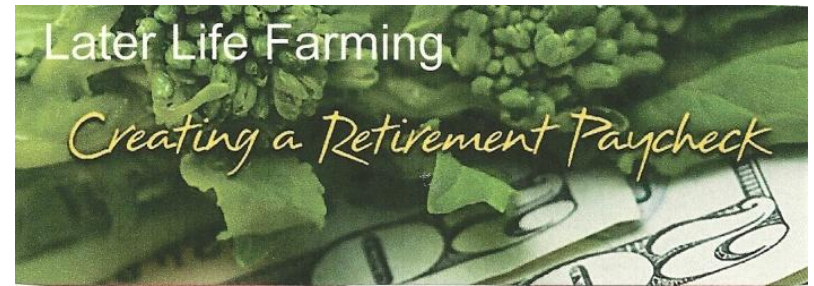


OR

**“If it is to be, it is up to me”**

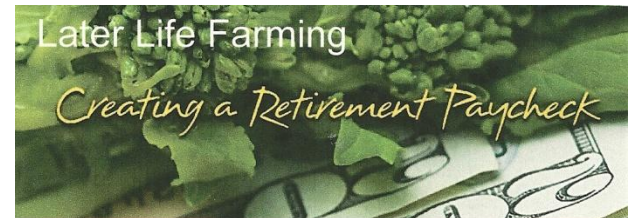
# Common Retirement Planning Errors

- RPS (**R**etirement **P**ostponement **S**yndrome)
- Banking on unsure things
  - Profit on sale of a home or business
  - A certain investment account balance
  - An inheritance
- Counting on an “econo-retirement”
  - Spending by retirees often increases
  - Go-go, Slow-go, and no-go phases
- Not getting help, when needed



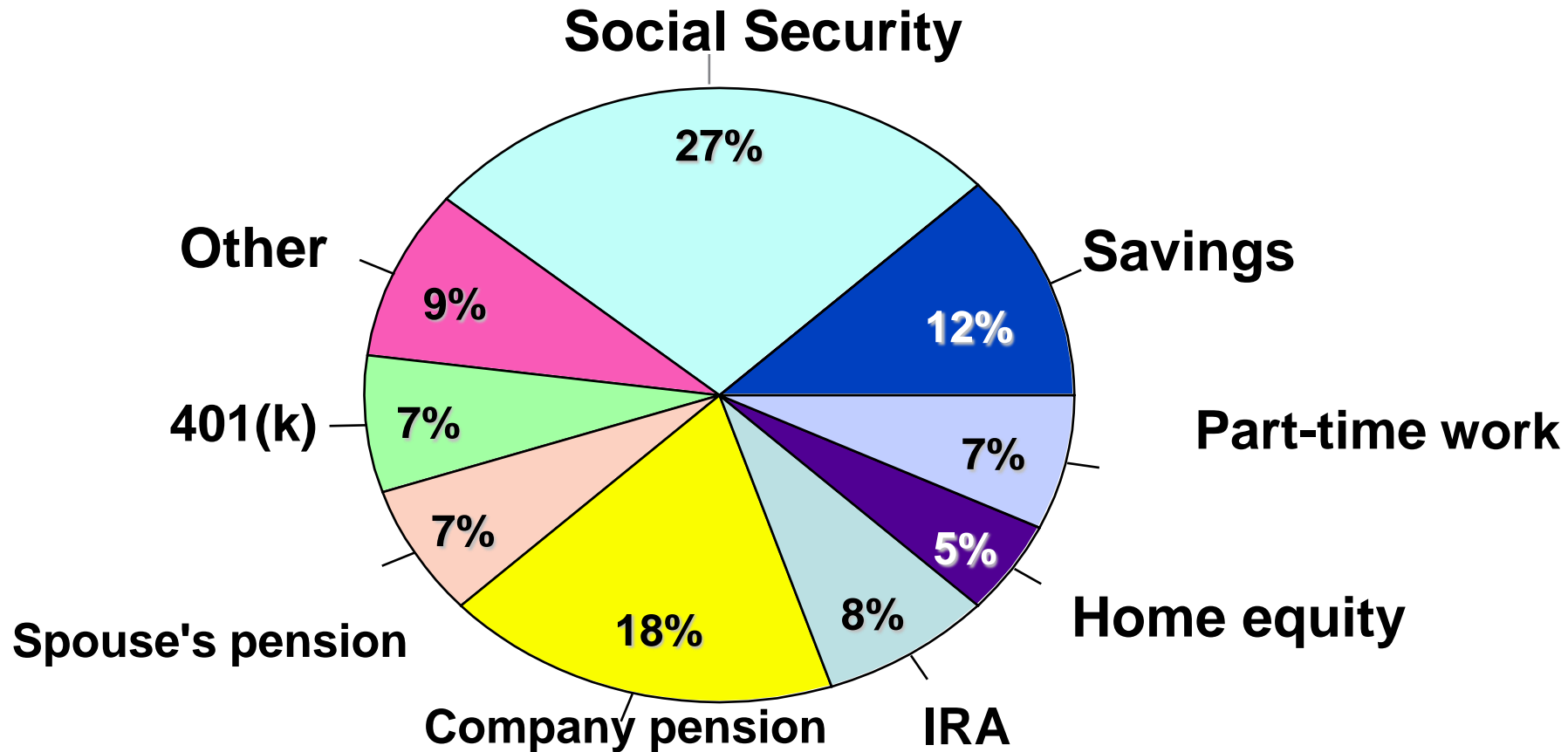
# Sources of Retirement Income

- Social Security
- Employer retirement plans (off-farm employment)
  - Defined benefit (DB) pension plans
  - Employer salary reduction plans (e.g., 401(k), 403(b) plans)
- Personal retirement plans (e.g., Roth and Traditional IRAs)
- Other personal savings (e.g., taxable accounts)
- Annuities
- Employment
- Other (e.g., rental income, family support, reverse mortgage)



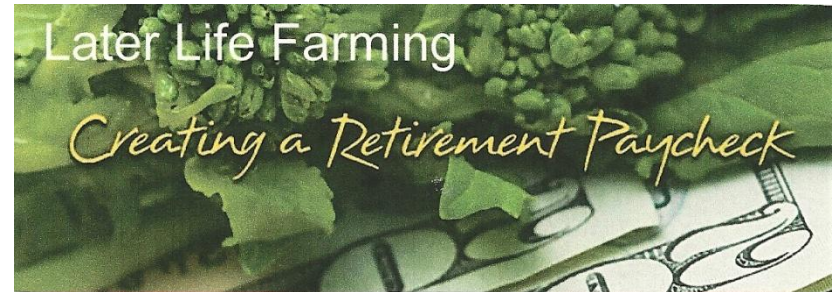


# Sources of Retirement Income



# Unique Income Sources for Farmers

- Land rental
- Machinery rental
- Selling assets
- Hunting land leases
- Agritourism
- Consulting agreements
- Other?



<http://laterlifefarming.rutgers.edu/module05/unique+sources+of+retirement+income+for+farm+families.html>

# About Social Security

- Based on lifetime earnings (35 highest years)
- Must meet 10-year (40 quarters of coverage) work requirement or be married to eligible worker for 10 years; 1 quarter = \$1,220 of income in 2015
  - Must be work “on the books” and not “money under the table”
- Most widely used source of retirement income
  - Covers 97% of U.S. workers
- Meant to be *part* of retirement income, *not* sole source



# More About Social Security

- FRA is increasing

- Born in 1938- age 65 + 2 months
- Born 1943-1954- age 66
- Born in 1960 and later- age 67



- Review SS benefit estimate

- Can correct for up to 3yrs, 3 months, 15 days
- <http://www.socialsecurity.gov/myaccount/>
- Mailed estimates sent at 5 year intervals (age 25 to 60)



- Over a third of recipients pay tax on SS

- Single: \$25K-\$34K (50%); \$34K+ (85%)
- Married: \$32K-\$44K (50%); \$44K + (85%)

# Still More About Social Security

- Can earn delayed retirement credits up to age 70
  - 8% for every year delayed if born in 1943 +
- “Break-even” age is generally late 70s
  - Age at which someone earns more benefits by waiting until FRA than by claiming reduced benefits at 62



# Last Slide About Social Security

- Comprehensive Web Site: <http://www.ssa.gov/>
- Paid for by FICA tax withheld from wages
  - 7.65% of pay for employees and 15.3% of net income for self-employed
- Benefits may begin at 62 but are *permanently* reduced
  - **Born 1937 or Earlier-** Benefit is 75% of FRA amount; then pro-rated
  - **Born 1943-54-** Benefit is 70% of FRA amount; then pro-rated
  - **Born 1960 or Later-** Benefit is 65% of FRA amount



<http://www.ssa.gov/oact/quickcalc/earlyretire.html>



# 401(k), 403(b), 457 Plans, TSP From Off-Farm Employment

- **Tax Advantages-** Tax-deferred earnings on deposits made with pre-tax dollars; \$18,000/\$24,000 max (2015)
  - **Example:** \$40,000 gross income; \$3,000 contribution; \$37,000 federal taxable income
- **Automation-** Deposits deducted from paycheck
- **Matched Savings-** % of workers' pay up to a cap
- **Portability-** Can take money when leaving a job
  - **Example:** Rollover IRA



# Small Business Retirement Savings Accounts

- **Simplified Employee Pension (SEP-IRA)**
  - Funded by freelancers and small business owners
  - Annual contributions up to \$53,000 (2015)
  - Simplest retirement plan for the self-employed
- **SIMPLE Plans**
  - \$12,500 worker contribution + \$3,000 catch-up (2015)
- **Keogh Plans**
  - Annual contributions up to \$53,000 (2015)
  - Most difficult plan to administer





# Individual Retirement Accounts (IRAs)

- Regular (Traditional, Classic)

- Roth



- Rollover

- Spousal



# Individual Retirement Accounts



## Regular (a.k.a., Traditional or Classic) IRA

- Maximum \$5,500 deposit in 2015 from earned income
- Worker must select own IRA investment products
- Contribution may be tax-deductible depending on tax filing status and income (**2015**: \$61k - \$71k singles; \$98k - \$118k mfj)
- Interest accumulates tax-deferred until withdrawal
  - **Must** begin taxable withdrawals at age 70½ (RMDs)

# Individual Retirement Accounts

## Roth IRA

- Maximum \$5,500 deposit; \$1,000 catch-up (2015)
- Contributions are NOT tax deductible
- Maximum income limits to make contributions
  - \$116k - \$131k singles; \$183k - \$193k mfj in 2015
- Withdrawals are tax-free and penalty-free, if:
  - You are at least age 59 ½ **AND** IRA account is open at least 5 years
- Can convert a Regular IRA to Roth IRA; must pay taxes due



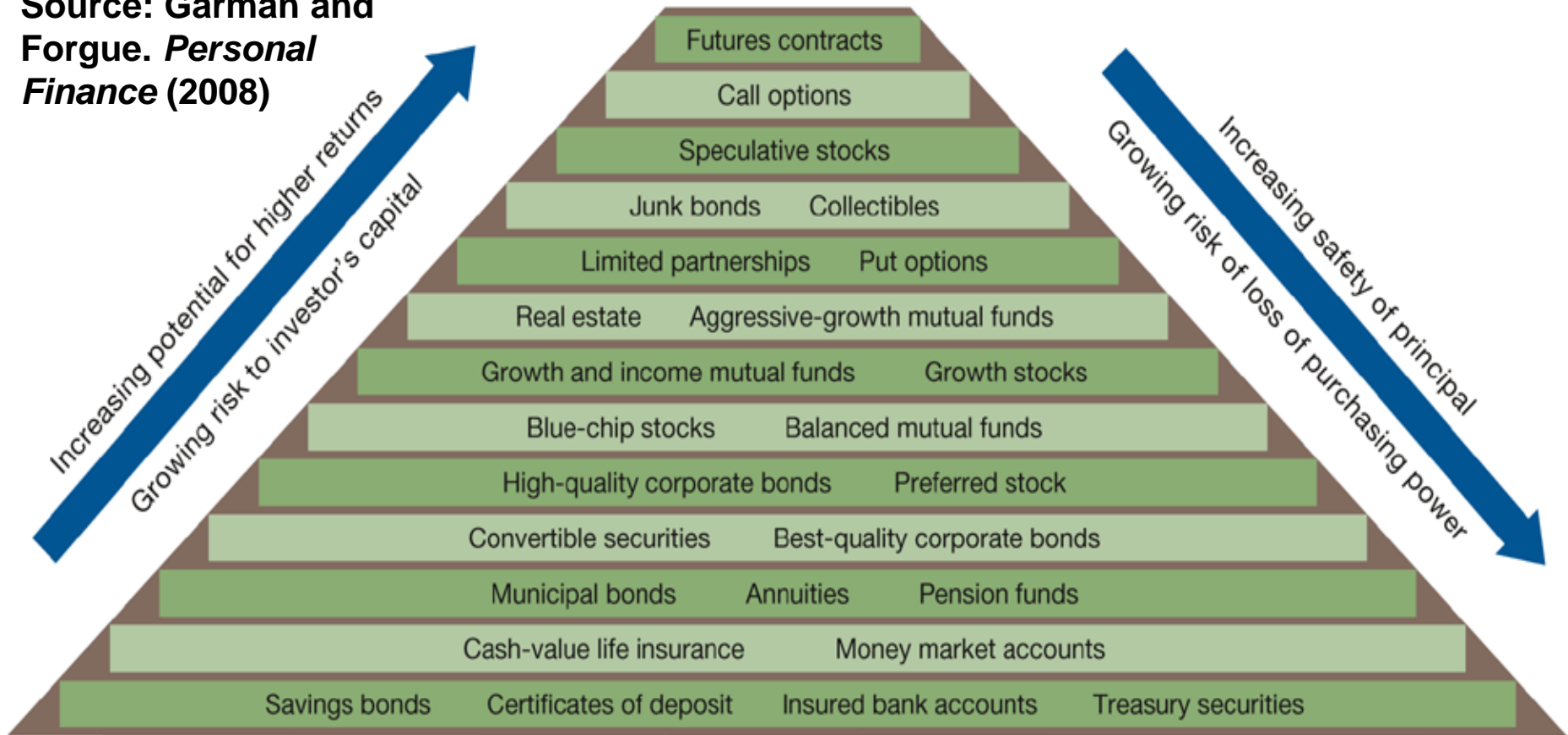
# Key Question: How Long Will Retirement Savings Last?

- “It depends” on two key factors:
  - Rate of return earned on retirement savings
  - Percentage of portfolio assets withdrawn
- Nest egg will deplete faster if withdrawal rate  $>$  rate of return
- **Worst case scenario:** Retiring during a severe market downturn and selling stocks/growth mutual funds for income
  - Nest egg is severely eroded by market losses
  - Withdrawals deplete it further
  - Should have a 3-5 year cash “cushion” to avoid this



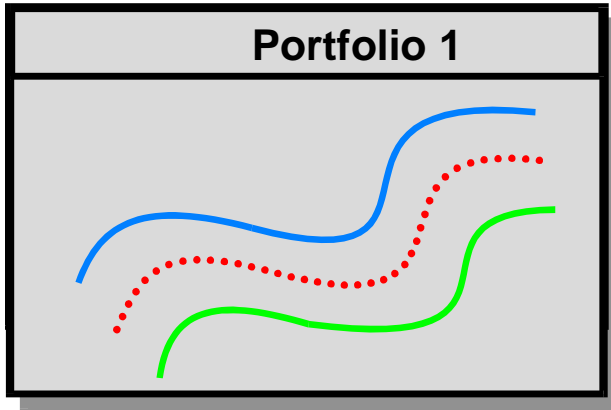
# The Risk-Reward Trade-Off

Source: Garman and  
Fogue. *Personal  
Finance* (2008)

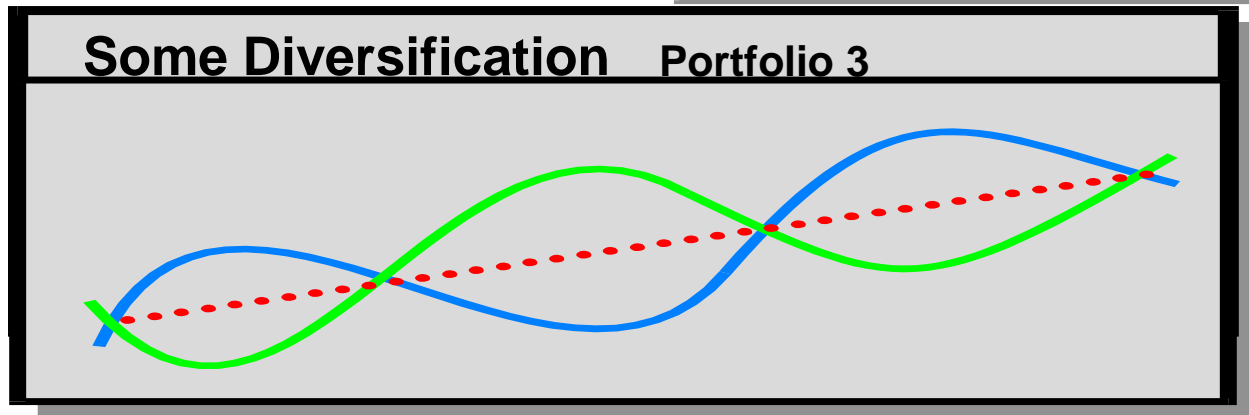
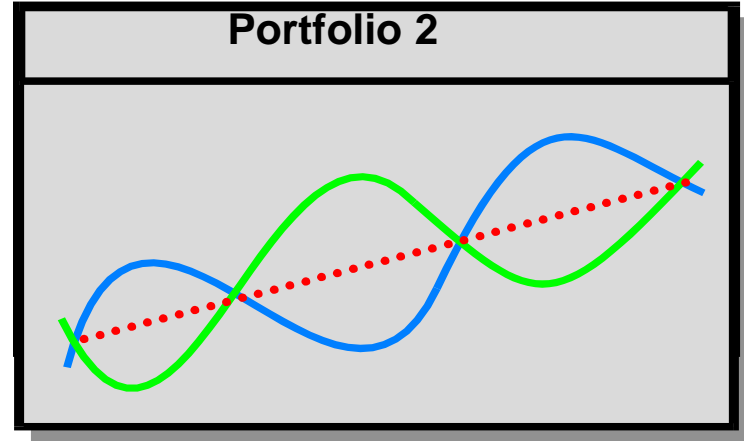


# Diversification from Combining Investments

No Diversification



Complete Diversification



For illustrative purposes only. Not indicative of any specific investment.

# Categories of Investments

- **Ownership (Equity):** Own something
  - Stocks and stock funds
  - Real estate and REITS (real estate investment trusts)
  - Land
  - Collectibles
  - Commodities
- **Loanership (Fixed-Income):** Lend money
  - Bonds and bond funds
  - Certificates of Deposit (CDs)



# Investment Characteristics

Type of Investment	FACTORS TO BE EVALUATED				
	Safety	Risk	Income	Growth	Liquidity
Common stock	Average	Average	Average	High	Average
Preferred stock	Average	Average	High	Average	Average
Corporate bonds	Average	Average	High	Low	Average
Government bonds	High	Low	Low	Low	High
Mutual funds	Average	Average	Average	Average	Average
Real estate	Average	Average	Average	Average	Low

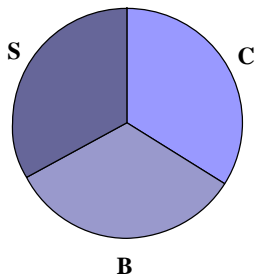
**Source: Focus on Personal Finance, Third Edition, McGraw-Hill**



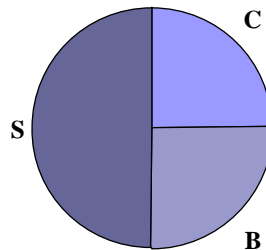
# Asset Allocation

- Percentage of portfolio in different asset classes
- Important factor in overall investment success
- The more stock, the more aggressive the asset allocation
  - One guideline:  $110 - \text{Age} = \% \text{ of portfolio in stock}$
  - Conservative portfolio: less stock % in portfolio

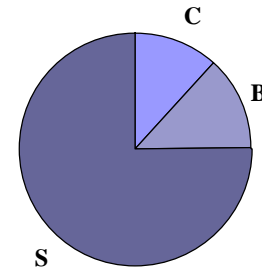
**Conservative**



**Moderate**

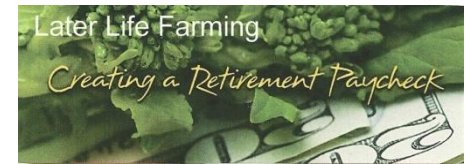


**Aggressive**



# Investment Returns

- **Rent** – Payment received in return for use of your land or real estate, such as a building
- **Interest** – “Rent” for the use of your money
- **Dividend** – Portion of a company’s earnings that the firm pays out to its shareholders
- **Capital Gain** – Occurs only when investment is sold; results from increase in value of initial investment.



[http://www.aarp.org/money/investing/investment\\_return\\_calculator/](http://www.aarp.org/money/investing/investment_return_calculator/)

# Retirement Savings Withdrawals

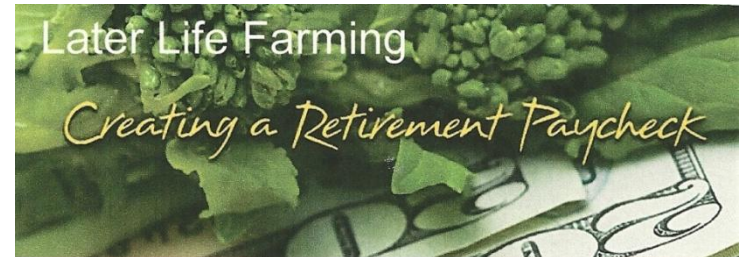
- Backed up by 2 decades of research
  - <http://www.moneysmartsblog.com/4-percent-withdrawal-rule-for-retirement/>
- Withdraw 4% of retirement assets annually with annual inflation adjustment
- High probability of money lasting 30 years
- **Example:** \$200,000 of savings
  - \$8,000 in year 1 ( $\$200,000 \times .04$ )
  - \$8,240 in year 2 ( $\$8,000 + \$8,000 \times .03$  [\$240])
- Assumes that 50% of portfolio is in stock
  - Older retirees (70s and 80s) can withdraw  $> 4\%$
  - More conservative investors should withdraw  $< 4\%$



# The 4% Rule With Numbers

For every \$1,000 of desired monthly income (above SS and/or a pension), you need \$300,000 saved

- $\$300,000 \times .04 = \$12,000$
- $\$12,000 \div 12 = \$1,000$



- \$2,000/month = \$600,000
- \$3,000/month = \$900,000
- \$4,000/month = \$1.2 million
- \$5,000/month = \$1.5 million



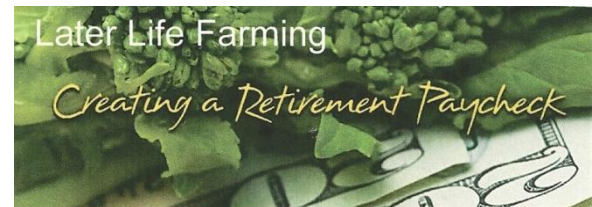
# RMD Tax Rules Trump Any Percentage-Based Guidelines

- Must begin required minimum distributions (RMDs) from tax-deferred retirement plans no later than April 1 of the year after the year that you reach age 70 ½
- “Still working exception” for tax-deferred plans with current employer
- Use IRS uniform distribution table to determine RMD: <http://njaes.rutgers.edu/money/ira-table.asp>

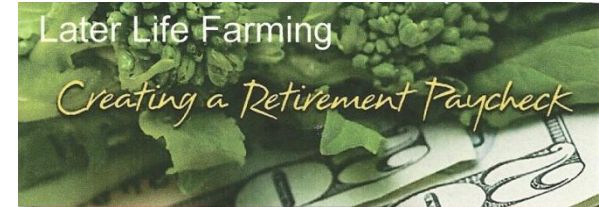


# Retiree Health Insurance

- Find out if you have access to retiree health insurance
  - If so, compare the cost to a supplemental Medicare plan
  - Will spousal coverage end if covered employee dies?
- If no employer benefit, develop a plan
  - Affordable Care Act/private policy before age 65
  - Medicare at age 65
  - Medicare supplement plan
  - Medicare Part D (prescription drugs)
- Contact local SHIP office ([www.shiptalk.org](http://www.shiptalk.org))



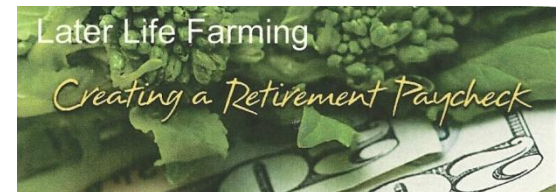
# Medicare



- Eligibility at age 65
- 7-month window to enroll in Part B (Medical Insurance)
- Delayed enrollment increases premium 10% per year of delay: <http://www.medicare.gov/your-medicare-costs/part-b-costs/penalty/part-b-late-enrollment-penalty.html>
  - **Example:** Your Initial Enrollment Period ended **September 30, 2012**. You waited to sign up for Part B until **March 2015**. Your Part B premium penalty is **20%** (while you waited 30 months to sign up, there were only 2 full 12-month periods.) You'll have to pay the penalty for as long as you have Part B.

# More About Retiree Health Insurance

- People with better health habits will eventually spend MORE on health care than those with poor health:
  - More years of medical expenses (e.g., age 93 versus 73)
  - Likelihood of a chronic condition in advanced old age
  - Likelihood of a need for long-term care (LTC)
- >50% chance that even healthiest retirees may need LTC
- Consider LTC insurance or have a good alternative:
  - Adequate annuity
  - Self-insurance (assets and income)?





# Steps To Take Between Now and Retirement

- **Plan to get out of debt before you retire**
  - Pay off mortgage (prepay principal, biweekly payments, refinancing)
  - Eliminate consumer debts
- **Assess available retirement benefits**
  - Employer savings plan and health insurance (self and spouse)
  - Social Security (age 62, FRA, age 70)
- **Review your insurance needs**
  - May not need life insurance if kids grown, mortgage repaid
  - Disability insurance while working
  - Consider LTC insurance with freed-up premium dollars



# More Steps to Take Before Retirement

- **Save aggressively (until it hurts!)**

- Up to 5,500 in an IRA and up to \$18,000 in employer plan (+ catch-up savings if 50+)
- Up to 20% of business net earnings in a SEP

- **Educate yourself about pre-retirement issues**

- NEFE: <http://www.myretirementpaycheck.org/>
- CFP Board: <http://letsmakeaplan.org/>



- **Invest broadly**

- Multiple asset classes including international investments
- Low-cost index funds and ETFs

- **Consider working longer than originally planned**

- Boosts Social Security benefit; more time to save in IRAs, 401(k)s, etc.
- Fewer years to withdraw money from savings

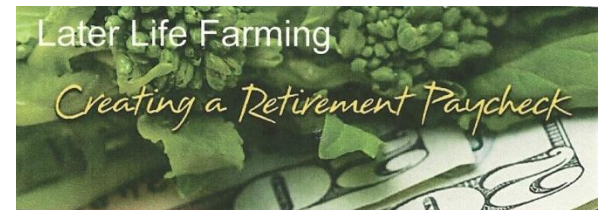
# Action Steps

- Do one or more retirement savings calculations
- Get an online Social Security benefit estimate
- Visit retirement planning Web sites
- Start or increase retirement savings
- Consider non-financial retirement decisions
  - Example: How will you spend your time?
- Consider hiring an “hourly” financial advisor



# Beware: Retirement Frauds

- Walk away from solicitations that “guarantee” consistently high returns
- Don’t be rushed into legal or investment decisions
- AARP study: “At risk” activities” associated with fraud
  - Opening and reading junk mail
  - Attending free lunch seminars
  - Entering drawings to win a free prize
  - Inviting salespeople into your home



# In Summary

- It is possible to calculate your retirement savings need
- Retirement decisions depend on many individual factors
- Social Security benefits are a base to build on
- All investments have risks and trade-offs
- Retiree health insurance is a key factor
- The "4% Rule" is a guideline for withdrawing money
- Tax laws dictate savings limits and required withdrawals



# Iowa Extension Fact Sheet: *Retirement Planning for Farm Families*

- <https://www.extension.iastate.edu/agdm/wholefarm/pdf/c4-56.pdf>

***Evaluating Your Estate Plan:***

***Ag Decision Maker***

**Retirement Planning for Farm Families**

File C4-56

**F**arm families face challenges related to retirement planning and implementation similar to other small businesses. This document addresses two primary challenges. They are the visualization of a retirement lifestyle and confidence in funding that lifestyle. Fear of a retirement with no interests outside of farming or a simple lack of those interests may be a primary motivator for some operators to use a phased retirement approach.

Farmers are uniquely situated to implement subtle variations of retirement allowing for individualized alternatives. There isn't a "turning in the keys" moment. Changes in enterprises, increased use of off farm labor sources, custom operations, custom farming, crop share and

are gifted artists, but all of us can draw basic sketches. Starting with a blank sheet of paper, make a sketch of what you want to be doing in retirement without financial, geographical, health or other limitations.

A next step is to start with another blank sheet of paper and write the words you want to use to describe your retirement. In a nearby column write the words you do not want to be used to describe your retirement. For some, retirement is viewed as a time of opportunity, and for others it's a time of fear and uncertainty. This exercise can illustrate the positive and negative expectations an individual has regarding that phase of life.

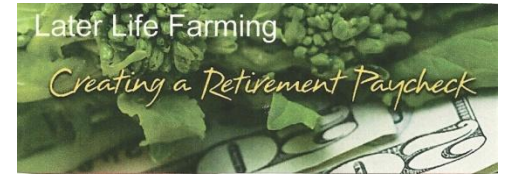
# Other Online Resources

- Planning For a Secure Retirement (Purdue Extension)
  - <http://www.ces.purdue.edu/retirement/>
- Center For Retirement Research (Boston College)
  - <http://crr.bc.edu/>
- Retirement Confidence Survey (EBRI)
  - <http://www.ebri.org/surveys/rcs/>
- Retirement Readiness Rating (R<sup>3</sup>) (EBRI)
  - [http://www.ebri.org/surveys/rcs/2000/dis\\_rrr.cfm](http://www.ebri.org/surveys/rcs/2000/dis_rrr.cfm)



# Comments? Questions? Experiences?

*Money Magazine (October 2008):*



*"The 10 years before retirement and five years after make up the riskiest period of your financial life."*

- Decisions made can impact you for 30-40 years
- Many perils outside of your control (aging parents, boomerang children, health issues, etc.)

**Control what you can with a solid plan!**