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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

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Hello FF readers! Now that tax season is over (mostly), please relax & enjoy this month's issue of The Financial Formula. Any questions, please let us know - thanks!

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In This Issue

Delaying Retirement May Provide the Financial Boost You Need

Americans are living longer, healthier lives, and this trend is affecting how they think about and plan for retirement. For instance, according to the Employee Benefit Research Institute, the age at which workers expect to retire has been rising slowly over the past couple of decades. In 1991, just 11% of workers expected to retire after age 65. Fast forward to 2014, and that percentage has tripled to 33% -- and 10% don't plan to retire at all.[1]

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Working later in life can offer a number of advantages. Many people welcome the opportunity to extend an enjoyable career, maintain professional contacts, and continue to learn new skills.

A Financial Boost

In addition to personal rewards, the financial benefits can go a long way toward helping you live in comfort during your later years. For starters, staying on the job provides the opportunity to continue contributing to your employer-sponsored retirement plan. And if your employer allows you to make catch-up contributions, just a few extra years of saving through your workplace plan could give your retirement nest egg a considerable boost, as the table below indicates.

A Few Extra Years Could Add Up

Year	Maximum Annual Contribution	Catch-Up Contribution for Workers Age 50 and Older	Total Annual Contributions
2015	$18,000	$6,000	$24,000
2016-2020	Indexed to inflation	Indexed to inflation	$??,???

Delaying Distributions

In addition to enabling you to continue making contributions to your employer's plan, delaying retirement may allow you to put off taking distributions until you do hang up your hat. Typically, required minimum distributions (RMDs) are mandated when you reach age 70½, but your employer may permit you to delay withdrawals if you work past that age.

Keep in mind that if you have a traditional IRA, you are required to begin RMDs by age 70½, while a Roth IRA has no distribution requirements during the account holder's lifetime -- a feature that can prove very attractive to individuals who want to keep their IRA intact for a few added years of tax-deferred investment growth or for those who intend to pass the Roth IRA on to beneficiaries.

A Look at Social Security

Your retirement age also has a significant bearing on your Social Security benefit. Although most individuals are eligible for Social Security at age 62, taking benefits at this age permanently reduces your payout by 20% to 30% or more. Waiting until your full retirement age -- between 66 and 67 -- would allow you to claim your full unreduced benefit. And for each year past your full retirement age you wait to claim benefits, you earn a delayed retirement credit worth 8% annually up until age 70.[2] Consider researching your options to continue working past the traditional retirement age. By remaining on the job, your later years may be more secure financially and more rewarding personally.

[1]*Employee Benefit Research Institute, 2014 Retirement Confidence Survey, March 18, 2014.*

[2]Social Security Administration. The benefit increase no longer applies when you reach age 70, even if you continue to delay taking benefits.

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Retirement Planning for Dual-Wage Earning Households

With job changes so prevalent throughout our society, it is likely that a couple may have multiple retirement accounts, including 401(k), 403(b), or 457 plans, rollover IRAs, and possibly defined benefit plans. Because of the variety of investment options offered under such plans, it is important for couples to understand the possible detrimental effects that an uncoordinated retirement nest egg can have on reaching financial goals. Potential red flags include:

Inappropriate investment strategy

Like any investment portfolio, retirement accounts should work as a unit to help you pursue a specific accumulation goal. Success requires a coordinated investment strategy. Is the overall asset allocation appropriate for a couple's objectives and risk tolerance? Are the portfolios adequately diversified? Are they overweighted (or underweighted) in any one asset class or individual security? Do the portfolios complement a couple's taxable investment accounts, real estate, and other assets?

Poorly timed distribution strategy

Couples nearing retirement or already retired must consider the timing of their distributions in light of their income needs, tax situation, and market dynamics. For instance, should they begin taking distributions earlier than the required age to avoid a potentially higher income tax hit later? Should they take periodic distributions; annuitize; or take a lump sum and pay the taxes, then reinvest the proceeds elsewhere? Might it make sense to convert a traditional IRA to a Roth IRA to put off distributions as long as possible and/or receive tax-free income? Which accounts should they tap first, and in what order should the others follow? What if the market is in the midst of a downturn when required distributions must begin?

Fees

Couples should consider the fees associated with all of their retirement accounts and how they might affect returns. Would it make sense to consolidate some accounts to help minimize fees?

Estate planning

Couples planning their estates will face a number of questions surrounding their retirement plans. A key concern centers on the naming of beneficiaries and the income and estate tax treatment of the proceeds. Should the spouse be the beneficiary, or would naming children or a trust as beneficiary be more appropriate?

These are just a few of the questions that couples must grapple with when managing their individual retirement plan accounts. Yet no two couples' financial situations are alike. There is no set formula or mathematical equation that can be applied easily to all circumstances. Keeping track of the range of investments involved is necessary to successfully pursue long-term financial goals -- but doing so is no simple task. It often requires objectivity and professional insight. If you are part of a dual-income family, speak with your financial advisor about how you and your spouse can review and coordinate your separate retirement investments to create an effective, comprehensive plan.

This communication is not intended to be tax advice and should not be treated as such. Each individual's tax situation is different. You should contact your tax professional to discuss your personal situation.

Rising Longevity and Your Retirement

Individuals who are already retired might need to scale back their annual withdrawal amounts in order to create reserves for those extra two years.

New research conducted by the Society of Actuaries (SOA), a leading membership-based organization for actuaries in the United States and Canada, revealed that older Americans are living longer than previously estimated. Specifically, SOA's data showed that since its last report published in 2000 the life expectancy of men age 65 has risen two years from age 84.6 to age 86.6 in 2014. Similarly, among 65-year-old women, longevity rose 2.4 years, from age 86.4 in 2000 to age 88.8 in 2014.[1]

Commenting on the findings, Dale Hall, managing director of research for the SOA stated, "The purpose of the new reports is to provide reliable data that actuaries can use to assist plan sponsors and policy makers in assessing the financial implications of longer lives."[1]

What about individuals? How might this news affect the financial lives of retirees and/or the retirement planning strategies of those nearing retirement age? Those additional two years could mean that the time the typical person might expect to spend in retirement could increase by 10% or more than he or she originally anticipated. As a result, the values associated with a retirement accumulation and/or distribution plan may need to be adjusted accordingly.

For example, individuals still accumulating retirement assets who had previously determined they needed a $1 million nest egg, would now need $1.1 million to finance those two added years. For someone who is in mid-stream on a retirement savings plan, increased longevity could mean boosting contributions by 20% or more to catch up. Similarly, individuals who are already retired might need to scale back their annual withdrawal amounts in order to create reserves for those extra two years.

Making Your Money Last

Because of increased longevity, managing cash flow in retirement is more critical than ever. As a starting point you will need to clarify your current financial situation, as well as any significant changes you expect. Two sources will provide this information:

- A net-worth statement, which provides a snapshot of your assets, debt, and cash reserves.
- Your monthly or annual budget, with itemized breakdowns of your income and expenses. If you haven't retired yet, it's a good idea to prepare a projected budget of your retirement income and expenses.

Even with reasonable assumptions about investment returns, inflation, and retirement living costs, it is likely you will encounter numerous changes to your cash flow over time. Experts often recommend a monthly review of your budget, as well as a comprehensive annual review of your financial situation and goals.

As you monitor your finances keep the following factors in mind, as any one of them could affect your cash flow and necessitate adjustments to your plan.

- Interest rate trends and market moves may result in an increase or decrease in income from your savings and investments.
- Changes in federal, state, and local tax rates and regulations.
- Changes in Social Security or Medicare benefits or eligibility, as well as new rules affecting employer-sponsored retirement benefits and private insurance coverage.
- Inflation and health care costs.
- Life events such as marriage, the death of a spouse, or the addition or loss of a dependent may also affect your cash flow.

It is worth paying close attention to cash flow, making sure you budget carefully, monitor income and expenses frequently, and take action whenever you believe that significant changes may be necessary.

[1]*Society of Actuaries, press release, "Society of Actuaries Releases New Mortality Tables and an Updated Mortality Improvement Scale to Improve Accuracy of Private Pension Plan Estimates," October 27, 2014. The calculations presented are based on public mortality tables, which were developed with certain populations in mind, and reflect probabilities based on averages in large populations.*

College Costs Are Still Rising, But at a Slower Pace

The latest annual report on college costs published by The College Board indicted that, although costs still increased more than general inflation in the past year, the increase in tuition and fees for the 2014-2015 academic year will be lower than the average annual increases in the past five-, 10-, and 30-year periods across all types of institutions included in the study.[1]

Specific increases, as published in "Trends in College Pricing 2014," are as follow:[1]

- Public, in-state, four-year institutions: Average tuition and fees increased by $254 (2.9%), from $8,885 in 2013-2014 to $9,139 in 2014-2015. Average total charges (including room and board) are $18,943.
- Public, out-of-state, four-year institutions: Average tuition and fees rose by $735 (3.3%), from $22,223 in 2013-2014 to $22,958 in 2014-2015. Average total charges are $32,762.
- Private, nonprofit, four-year institutions: Average tuition and fees rose by $1,100 (3.7%), from $30,131 in 2013-2014 to $31,231 in 2014-2015. Average total charges are $42,419.
- Public two-year colleges: Average tuition and fees increased by $106 (3.3%), from $3,241 in 2013-2014 to $3,347 in 2014-2015.

The report points out that the increases in in-state tuition and fees at four-year public institutions of 2.9% for the 2014-2015 academic year and 2.8% for the 2013-2014 academic are the only increases since 1974-1975 that have been less than 3% (not adjusted for inflation).

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While the data showed that college price increases are not accelerating, the report's authors affirmed that, in real terms, college costs have been rising for decades. The report offers the following example: "The inflation-adjusted average published price for in-state students at public four-year universities is 42% higher than it was 10 years ago and more than twice as high as it was 20 years ago. In the private nonprofit four-year sector, the increases were 24% over 10 years and 66% over 20 years."[1]

[1] *The College Board, "Trends in College Pricing 2014," November 13, 2014.*