THE Wealth REPORT

The COVID-19 pandemic was a period of adjustment. Some people delayed retirement; others accelerated it. It's now time to re-evaluate when you should retire – and if you did so too soon.

WHEN SHOULD YOU RETIRE?

Overview

The three record-setting market drops in March 2020 illustrated just how dangerous the notion of "sequence of returns risk" is for a retirement portfolio. This risk has to do with when you retire as it relates to recent stock market performance.

For example, let's say one retiree had already moved his assets out of the stock market into more conservative holdings before the crash. But another retiree – or near-retiree – hadn't quite gotten around to doing that yet. The former would have avoided substantial losses, while the latter – especially if he ducked out of the market quickly just after the crash – may have permanently reduced the amount of retirement income his portfolio would produce for the rest of his life.

However, if either retiree stayed the course or re-invested in the stock market after March 2020, they could have reaped the benefits of its remarkable recovery.[1]

People who retired in late 2019 or early 2020 may have wished they hadn't. After all, there has been more at stake than just investment challenges and opportunities. There is also the change in workforce dynamics. Perhaps you hated the office environment and couldn't wait to retire. The pandemic sent many white-collar employees to work from home, which might have solved your problems and kept you in the workforce longer.

Wherever you are, right now, in regard to retirement planning, remember that nothing has to be permanent. You can re-evaluate your present circumstances and chart a new course. Here are some things to think about.

Has Your Career Stalled?

A recent study by BambooHR, titled "COVID-19 & Careers: The Effect of the Pandemic on Career Progression," found that the average remote worker may have lost nearly $10,000 in promotions that were delayed or denied during the last year. Moreover, by not being in the office, their contributions in terms of overtime worked, covering for sick or caregiving colleagues or the fact that they haven't taken a vacation in nearly two years may have gone unnoticed. These are the kinds of things that normally gain positive exposure in the workplace that can lead to advancement.

The BambooHR report concluded that COVID-19 didn't just suspend travel and social interactions; it also may have wreaked havoc on careers and household finances. The following are some additional findings from the study:[2]

- 78% of remote workers think their career development has been negatively affected over the past year due to the following factors:
  - Burnout (25%)
  - Having to balance home and/or family life (25%)
- 36% of remote workers feel as though their career progress has stalled or gone backward in the last year due to the following factors:
  - Promotion freeze (21%)
  - Expected promotion was delayed or denied (30%)

The good news is that the pandemic recovery has produced a robust employment market. Not only can people who lost their jobs find new ones, but employees who are unhappy at their place of work, feel underpaid or who simply want to rejoin the workforce after a brief retirement now have a wide range of jobs from which to choose. Many can even dictate terms – such as the ability to live elsewhere or work from home at least part time.

This can help people who are previously retired or near retirement regain a foothold in their career in order to increase household income, retirement savings, untapped Social Security benefits and give their investments more time to grow.

Social Security Benefits

If you started taking Social Security benefits any time during the past 12 months but have since changed your mind and decided to go back to work, you may have a retroactive card you can play.

The Social Security Administration allows you to cancel your application to draw retirement benefits for up to 12 months after you've begun receiving them. This process is called a withdrawal. Be aware that you will have to return all payments already issued. However, you can reapply for benefits in the future and your payout amount will continue to accrue until that time. Note, however, that you can make this withdrawal decision only once.[3]

Canceling Social Security is a viable option should you decide that you retired too soon and could benefit from going back into the workforce and allowing your benefits more time to increase. You may even take advantage of the delayed benefit credits earned up to age 70.

Do You Have Enough Retirement Savings?

Losing a job or not receiving an expected promotion may have derailed your financial savings plans. If you had to withdraw money from investments to make ends meet, it may be doubly hard to pay that money back and ramp up your savings efforts between now and retirement.

Research from Fidelity found that 82% of U.S. adults believe events caused by the pandemic affected their retirement plans, with a third estimating it will take as long as three years to get back on course. The CARES Act permitted investors to temporarily make penalty-free withdrawals from their retirement accounts. Fidelity reports that around 1.6 million of its clients made withdrawals totaling $32 billion between April and December 2020. While the average withdrawal was $9,400, more than 50,000 investors withdrew the full $100,000 limit allowed by the CARES Act.[4]

People who took advantage of this penalty-free option would do well to continue working to pay back that amount before retiring. Be aware that if a coronavirus-related distribution came from a retirement plan eligible for tax-free rollover treatment, the withdrawal is not considered taxable as long as it is repaid within three years. The account owner can claim a refund for any income taxes already paid once the amount is subsequently recompensated.[5]

The following guidelines can help you determine if you have enough savings to think about retiring:[6]

- Some financial professionals recommend having saved 10 to 12 times your last full year of working income by the time you retire.
- Fidelity suggests having enough savings to sustain withdrawing no more than 4% to 5% each year to supplement retirement income.
- Drawing Social Security benefits any time before full retirement age (FRA) can lock in a permanent reduction in monthly income. Be sure to research your FRA, because it varies based on the year and month you were born.

Health Care

Fidelity projects that the average 65-year-old couple who retired last year would need $295,000 for premiums and out-of-pocket medical expenses in retirement, excluding long-term care. However, it's a good idea to view this amount as an annual expense, which is more like $11,400 per couple or $5,700 per person.[7] If this amount would exceed what your monthly income can cover, consider how much would be covered via required minimum withdrawals from retirement accounts as part of your retirement planning.

Long-Term Care

Long-term care (LTC) expenses are the most difficult to gauge. The spectrum ranges for none at all to an exorbitant amount for 24-hour in-home care over many years. That's why it's such a challenging savings goal. One industry expert recommends planning for at least three years of long-term care costs with the last year or two potentially requiring 24/7 care.[8]

You may want to consider combining your LTC plan with your estate plan. That way any amount you don't use can be left for your heirs. However, if you do wind up needing to pay for LTC, make sure your estate plan is flexible enough that you can tap those assets for yourself. Your children may not receive as much, but they'll be happy you are able to pay for long-term care out of your own funds instead of relying on them.

Can You Earn More Income During Retirement?

Another perk of retiring these days is that there are many opportunities to supplement a fixed income. Once you qualify for Medicare, employment decisions don't have to revolve around benefits. You can work part time or start your own venture. Here are some ideas to generate income during retirement:

- Uber or Lyft driver
- Seasonal retail worker
- Become a freelance or temp worker
- Turn a hobby into a business
- Help out a child/grandchild who owns her own business
- Rent out spare rooms on Airbnb (seniors host more than any other demographic[9])

"A global survey of our hosts found that close to half of those aged 60 and over say that hosting has helped them afford to stay in their homes, and 41% say they rely on their Airbnb income to make ends meet."[10]

Final Thoughts

Deciding when to retire – or when to stop being retired, and then retire again – can involve more than just financial planning. Some people find they prefer staying on the job longer because it keeps their mind engaged and gives them a sense of status, daily structure and a social network they may not be able to replicate outside of work.

It's important to consider what will give your life meaning and purpose once you retire. If you value the opportunity to have more free time to travel, spend time with friends and family and pursue hobbies, you may be ready. If you want the flexibility to have all that as well as the structure and stimulation of a job, consider phasing down to part-time employment. But if you need to save more money for retirement and/or you love your job and can't imagine what you would do with yourself without it, you may be better off putting retirement on the back burner.

Discuss your goals, your options and your financial picture with a trusted financial professional. After all, advisors help people decide when and how to retire all the time. It helps to have an objective, third-party perspective from someone who knows the ropes.

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[10] Ibid.