KEEN ON
RETIREMENT

Welcome to Episode 5
With Bill Keen and Steve Sanduski

Hitting These Ages Triggers Critical Financial Planning Decisions

Steve Sanduski: Hello, everybody, and welcome back to another episode of Keen on Retirement. I'm your host, Steve Sanduski, and here with me today is Bill Keen. Hey, Bill. Welcome back.

Bill Keen: Hey, Steve. Good to be back again with you here.

Steve Sanduski: Let's jump into what we've got today. Today, we want to talk about some important retirement planning deadlines. We've got some ages, some ages that when people hit these particular ages in their stage of life that there are some important retirement planning ramifications or at least some potential ramifications of these ages.

Bill Keen: That's right.

Steve Sanduski: Let's go into that. Bill, why don't you start off? What would be one of the first ages that would require us to think about some potential retirement planning strategies?

Bill Keen: The first stage that jumps out is age 50. Age 50, you are allowed to make what are called "catch-up provisions" to your 401(k)s, and your IRAs, and Roth IRAs. The government says, "Boy, if you've gotten now to age 50 and you feel like you're behind," which unfortunately the numbers show that the data is coming in that most people are behind, they do allow you to add a little bit more than what they normally allow. For instance, an IRA in 2015 and 2016, by the way, allows you to put into it $5,500 per year, and that would be an IRA traditional or a Roth, but if you're over 50, you can put an extra $1,000 in.

Steve Sanduski: That's awful nice of the government.

Bill Keen: You run the numbers on that. I don't know how much that adds up, but …

Steve Sanduski: Yeah. Every little bit helps though, right?

Bill Keen: I guess so there, and we should be aware of it. I guess it maximize it. In some cases, that thousand would be deductible. If it's in a traditional IRA and in a Roth IRA, it would not be deductible on income taxes, but that's another factor to understand about. In a 401(k), the maximum limits this year are $18,000 that an employee can contribute. Now, if you're over 50, you can put in an extra $6,000. That's a little more meaningful at least, Steve.

Steve Sanduski: Okay. Bill, let's take a step back, and how about before 50, is there an age? Maybe we could say, "Gosh, when you're 21 or when you get your first job, you should be thinking about retirement planning." But in your experience, what have you found is the time or the age that people decide, "Okay. It's time for me to get serious about making sure I'm saving money for retirement?" Is there a common age that you find that with your clients?

Bill Keen: Yeah. It's interesting to see when the light bulb comes on first for most, and in doing this almost 2-1/2 decades, I've gotten to see that when folks hit 50, I think they realize, "Wow, okay. The focus is now being able to retire at some point. Maybe in a decade, or so, or a little longer." Where I see people getting interested in this is definitely in their 40's though. We deal with a lot of our clients' children, and part of the reason we did this podcast, Steve, was to be able to present our information, and education, and thoughts, what's working to our clients' children who might be out of state or unable to see us.

Believe it or not, I have some kids in their 20's, late teens and 20's that have expressed an interest in all this and that are wanting to understand compound interest and saving for the future, deferring gratification, so that at some point down the road, they're more secure and stable, and so there's a small percentage that are in their late teens, early 20's, and it picks up again when you get closer to the 40's.

Steve Sanduski: Yeah, and I have … one of my daughters is in her early 20's. She's out of college. She's working, and she's saving money, so I'm really, really proud of her, and so I do see. Right. There are some percentage of these younger folks that do save, and my gosh, what a great thing that if they can start saving in their 20's and have 40, 50, 60 years to let that money compound, that's just incredible.

Bill Keen: My goodness. Absolutely, it's what happened to me when I was in high school and got with my mentor. It's not taught in high school. Most of these concepts are not taught in even college.

Steve Sanduski: For all the parents and perhaps grandparents that are listening to this, please tell your children and your grandchildren that this podcast can be their mentor.

Bill Keen: That's right.

Steve Sanduski: Okay.

Bill Keen: That's right.

Steve Sanduski: Okay. Bill, we talked about in their 40's is when people typically start to be thinking about retirement, when they hit 50 is when they start getting serious about it, when they hit 50 is also when you are allowed to have some catch-up contributions to certain types of retirement plans, so what would be the next age that gives us some things we need to be thinking about from a retirement standpoint?

Bill Keen: Most people don't realize that at age 55, if you retire, quit, or are laid off from your job in the calendar year you turn 55 or later, you can take 401(k) withdrawals and even from a pension fund. If you have lump sum ability, you can take withdrawals from those accounts without paying the 10% early withdrawal penalty, and that's … it's a bit deal. It's something that most people don't know about, but it is a strategy that folks should know about.

Actually, I have an example for you that we had a fellow retire at 58, and he wanted to take a little bit of money out, and pay down some consumer debt, and to get enough money to get him out to 59-1/2, so that he could then begin withdrawing money without that 10% penalty. Now, there's always income tax on what you pull out of an IRA if it's a pre-tax account, but just not having to deal with that 10% penalty was of interest.

Since he left his firm after he was 55, he was able to … in his case, 58, he was able to … we did a calculation. We're able to take enough money from his company plan directly to him in that year he retired that would get him through that consumer debt and through the next year and a half or so until he was able to access his account at 59-1/2. He made a one-time distribution, avoided the 10% penalty, then he rolled his 401(k) to his IRA account because once that money is in an IRA account, now it's almost solved by the 59-1/2 rule and we're naturally just rolling into that next age.

Steve Sanduski: Good. All right, so let's talk about … move right into 59-1/2. What's the key thing about that age?

Bill Keen: Steve, we need to have, and we will, a whole episode on IRA rules and regulations. We've talked about that, of course, in the past, so we'll go deeper into these things. Fifty-nine and a half, we you just hit on, and 59-1/2 is the age a lot of times people will say … I'll say, "When are you thinking of retiring?" People will say, "Fifty-nine and a half." "Okay. What's the relevance of that date?" They say, "Well, it's because we can get to our money without paying the tax, the 10% early withdrawal penalty.

Now, I want to be clear on this. You still have income taxes to be paid on your money when you pull it from your IRA account if it's pre-tax money, and in most cases and almost all cases, it's pre-tax money that's coming out of the IRAs, so still going to pay income taxes at your bracket in the current year that you're pulling money out, but you won't pay the 10% penalty once you're over 59-1/2.

Steve Sanduski: Okay, okay. That's an important date. What would be the next date?

Bill Keen: Age 60 is a date that I just wanted to bring up because I think I see a lot of people unaware of this or miss it. It's not usually thought of as a social security date, but it is. It's when you can qualify for the widow's benefit for Social Security, Steve.

Steve Sanduski: Okay.

Bill Keen: Age 60.

Steve Sanduski: Okay. Explain that.

Bill Keen: If you're a widow or widower, and you've lost a spouse, and you turn age 60, you're able to go down to the Social Security administration. I always recommend that. You can do this all online now, and the websites are actually really good. We refer people to the Social Security website, ssa.gov and irs.gov. Believe it or not, the … all these websites, they've really done a good job with them.

There's something about going down in person to the offices, and they do a good job. I recommend going down, and getting your information, and just laying it out, and looking at it, and finding out what would the widow's benefit be. It's a benefit that is payable at 60. Most people think 62 is the date that you … the earliest time to start, but 60 if you're a widow.

Steve Sanduski: Okay.

Bill Keen: If you just simply look at what the numbers and you make a decision whether you want to start that or not, you are able to start the widow's benefit, and then switch back to your own later, and it's pretty complicated, some of these nuances, so we will do an episode just on Social Security where we get into a little bit more of this. As you know, Steve, Social Security's influx this week, which we'll talk about little bit too here today.

Steve Sanduski: Yes. Yeah. Okay, good. I'm glad you brought up 60. That's not one that I typically hear people talking about, so that's a good one to know if you're a widow that age 60 is an important date related to Social Security. Okay. What would be the next stage?

Bill Keen: The next one would be age 62 for me. Sixty-two is, like we just said, the earliest that you can take Social Security other than the widow's benefit, and it will be discounted, so there's a … we all have what's called a "full retirement age" for taking Social Security. Although, we can take it as early as 62, when you take it at 62, it will be discounted. It's discounted approximately 30% or so, 25% to 30% if you take it at 62. The reason I say "approximately" is because it's based on what your full retirement age is. Full retirement ages are being laid in over time now, so for someone retiring today at 66 … I think, Steve, before we went live, you mentioned yours was 67, right?

Steve Sanduski: Right.

Bill Keen: Mine is 67 as well, so the relevance of that full retirement age is … and this was something that changed a number of years ago. One, they use it to calculate your discount, so if you take it early, there's going to be a discount. It's a personal decision here in some cases, but the relevance to that full retirement age has to do with income that you're able to earn as a retired person taking Social Security, and some of the penalties are associated with that situation. I don't know if you wanted to get into that at this point, or not and let our talk play out here today.

Steve Sanduski: Yeah. What I want to get into is … I did a little research here before we got on live, and since we're talking about early retirement, I'm going to throw a little quiz at you here.

Bill Keen: Oh, no.

Steve Sanduski: I know how much you love those.

Bill Keen: Steve. I did this to you one time early, and now, it seems like this is a … every time, you're doing this to me.

Steve Sanduski: What is it? Turnabout is fairly play or something like that?

Bill Keen: Yes. Okay. All right. I better watch out.

Steve Sanduski: Okay. Bill Keen, you are on the hot seat here. Bill, what are some of the most common reasons people retire early?

Bill Keen: Okay. Can I request clarification or further information?

Steve Sanduski: Yes, sure. Sure. You have one phone a friend or … type thing.

Bill Keen: Okay. You're nuts.

Steve Sanduski: You have a lifeline.

Bill Keen: All right. Very good, very good. When you say "retire early," the question would be, are you talking about from a Social Security standpoint, or are you just talking about generally speaking someone retires?

Steve Sanduski: I'm going to say … when I say "retire early," I mean they do it prior to their full Social Security retirement age.

Bill Keen: Okay. All right.

Steve Sanduski: Here, we're talking prior to 65 to 67, depending on where you fall in that.

Bill Keen: All right. Now, are we talking about this in relation to Social Security, or are we just talking about it in general?

Steve Sanduski: Just in general.

Bill Keen: Okay.

Steve Sanduski: Why people retire before … let's say, why people retire before age 65?

Bill Keen: Okay. All right. I can think of … the first thing that comes to mind is they have a crossover point where they've done the work, they've looked at the number, they realized that they are able to retire, and they made that decision that the time, doing things that are important to them is more important than making and saving more money. We talked about that in prior episodes.

Steve Sanduski: Okay, and the survey says you're correct. Survey says it's freedom to pursue interests, so they've got enough money, and they're ready to go do some other stuff. Okay? That's one.

Bill Keen: Okay. All right. I was waiting for the buzzer. I thought you might have some buzzer, Steve.

Steve Sanduski: That's a good idea. I'm going to have to get some sound effects for future episodes.

Bill Keen: Okay. You better … okay. You better watch out, so I might have a few myself. I would say number 2, it's not as exciting, but you know what? It could be. I was thinking health. Now, when I say "health," one, health could have deteriorated, or in all cases I guess, whether it has or not, people want to take the time to focus on their health, realizing that none of this … we can do all the planning and have the resources, and assets, and all that, but if we lose our health, yeah, it's not … it's something that's super, super important. Is that something on your list?

Steve Sanduski: It is. Definitely, so you're two for two.

Bill Keen: Okay. All right. Very good. How about …? There's five. Okay. How about just stress? Stress on the job, not liking their work anymore. Would that be one of them?

Steve Sanduski: It is. Yeah, dissatisfaction with their career, their job, their boss. Yup. They just had enough. I quit. Okay?

Bill Keen: Okay.

Steve Sanduski: You're three for three. Now, do you want to keep going and risk your 100%?

Bill Keen: I'm not sure. What do I actually get for having three for three as opposed to five for five or losing it all it sounds like?

Steve Sanduski: Three for three, you get an "attaboy," and five out of five, you get a virtual pat on the back.

Bill Keen: All right. Based on my evaluation of their upside here, I think I'll just go for three … my three for three and be done.

Steve Sanduski: Okay. Okay. I'll give you the other two. The other two would be they got laid off.

Bill Keen: Okay, okay.

Steve Sanduski: I know you've situations like this. I've seen situations like this. A couple of my friends right now are going through this situation in their 50's and having to think about what are they going to do for the remaining few years of their career, so that can be a difficult spot to be in. Then, the fifth one was caring for family, and we know that is a big issue as well. People in their mid 50's, their early 60's have parents that are elderly, and there may be the need to take care of an elderly family member, so that's an important issue as well and a reason why some people retire early. Yeah, so those would be 5 of the most common.

Bill Keen: Yeah. It makes total sense, and I would say my experience supports that. It surely does.

Steve Sanduski: Okay. All right, so we're up to age 62. What would be the next age after that?

Bill Keen: Age 65. There's a couple things here, but really, the one that I'm thinking of is when Medicare kicks in. We're eligible to file for Medicare at age 65. Again, another entire episode could be devoted to this, but that's a big number. It's big age because if you've retired early, you're pretty much self-funding 100% of your insurance depending on what your company plan looks like.

Most of the companies we work with will allow you to stay on their plan, but they allow you to … but you have to pay the full amount, and so for a married couple, you're talking $1,100, $1,200 a month, $1,300, $1,400 a month. Now, it's something that's … it's a known. You're able to plan for it, and budget for it, and know that that's there.

It's not a surprise, but when Medicare kicks in and covers a good portion of your healthcare, you still have to provide and purchase what we call the "gap coverage" in addition to Medicare and be conscious of the Medicare premiums.

Steve Sanduski: Okay. Bill, I know we had talked I think in an earlier episode about the most popular age to retire, and some other research I was looking at said that the number 1 age, the most popular age for people to retire is age 62, and that … as you were just saying here a minute ago, that's the age when people can first claim Social Security, and just under a half of men at age 62 claim Social Security. Then, the second most popular age is 65, and so between 62 and 65, the vast majority of people are claiming Social Security.

Bill Keen: Yes. I would say that definitely on the 62. I'm not sure. I would say in my experience, 65 to 66. That's 62. When you say the majority of the people are taking it, there is a real … I see this thought permeate out there, and this is that we're going to take it while we can, take it while we can get it. A lot of people have an opinion about … or a fear, "Will it be there?" I believe it will be there for these generations retiring today, and I believe it will be there long-term. It definitely will be probably changed and amended like it has been recently, even as recently as this week. Some of the claiming strategies, but I do believe it will be there.

I still see that even if you run the numbers, you get … if you take it early, you're getting 25% to 30% less monthly, but you are getting it all those years, so if you … 66, that was 4 years. You received something you otherwise would've received nothing, and so folks are looking at that saying, "Gosh, when you pass away, it's gone." I'll tell you what. There are some factors to it besides just the math. It's health, it's your family history, and it's personal as well, so what I want to do is just make sure people are evaluating these things, and getting out ahead of them, and thinking about the … making informed and educated decisions.

Steve Sanduski: Right, and I think that's the key, and that this isn't something that you should just plug into an online Social Security calculator type thing that … sure, you can know what the math says, but there are so many other factors that go into, "When is the best time for you, you personally to take Social Security depending on all the factors that you're just describing as well as others?"

It's really good to talk to someone who's familiar in this area, knows the kind of questions to be asking, so that the client, the consumer can make a very informed decision. Then, as far as these early retirement dates, while 62 and 65 are very popular, those ages, particularly the 65, it's getting pushed out as the rules faced in here in full retirement goes to 66 or 67, depending on the year you were born, so those numbers are going to be changed in a little bit over time.

Bill Keen: That's right. That's right.

Steve Sanduski: Okay, so we got 65, Bill. What would be the next stage we should be thinking about?

Bill Keen: Age 70 would be an age that says … it speaks to what we were just talking about. You would not wait any longer to take Social Security than age 70. We call it the “delayed retirement credit,” so by waiting past your full retirement age, they will give you more, and it’s about 8% a year more. It’s an environment where interest rates at the bank are virtually zero when you think about, “Wow, I have this in essence a pension, if you will, in Social Security, and it will increase by 8% a year every year I wait.”

There are people that look at that and make the decision based on their health, family history, opinions, and things that they should wait until … accept as much of that 8% a year growth as they can in their pensions. Seventy though is the year that it does not increase anymore. There is no reason to wait past age 70 to go ahead and turn on Social Security.

Steve Sanduski: Okay. Bill, are there any ages after 70 that we should be thinking about related to retirement planning?

Bill Keen: Steve, when was the last time that you told somebody your age in halves? It was 10?

Steve Sanduski: Probably when I was like 3, 3 or 4.

Bill Keen: Okay, for whatever reason, and it’s funny because folks in our industry banter this and joke about it. We don’t know why, but the … we have rules that talk about these half years, 59-1/2, and then this now is the 70-1/2. It creates a little confusion that’s probably unnecessary, but at age 70-1/2, you’re required now to take distributions from your IRA accounts. You’re required to take a certain amount out based on a formula, based on the account balance as of the end of the prior year and your life expectancy.

Depending on … again, another episode on this. Depending on who the beneficiaries are, there’s a table that we go to come up with what the minimum distribution is. It must be taken, and the tax must be paid on that minimum. The government said, “Hey, you’ve been saving this money tax … before taxes. It’s grown without taxation because it’s been deferred in an IRA. At some point now, we’re wanting our tax on this money.” Seventy and a half is the year that starts.

It can be complicated. If you don’t take the minimum distribution that you’re required to take in a given year, the penalty is 50%, so you definitely don’t want to be caught off guard with this and look up. Five or 6 years goes by and you just claim that you didn’t know or you were uninformed, the penalty is 50% on the distribution, so we highly recommend people get out ahead of that and have a way of tracking those things.

I might just add to this. Again, not to complicate it, but if you have a multitude of IRAs that are scattered about, you have to total the IRAs, and you could take the "RMD," we call it, from either … any combination or even from just one of those to satisfy the collective or Required Minimum Distribution. If you have a 410(k) still in an employer though, you have to take the RMD from that specific account. All right. Again, another episode, but it's important to just understand these things and not get caught off guard.

Steve Sanduski: Okay. All right. Bill, good. I think that's a great wrap up there, and as we talk about retirement planning, we talked about the numbers frequently, and today, we're talking about ages, so there are some very important ages, milestones that people reach in their life where retirement planning issues come to the forefront. We've got a good list of those here in today's episode. We'll have a transcript of the episode as well, so for those of you that want to have this front and center, you can certainly download the transcript on the website keenonretirement.com. Bill, as we wrap up, anything, any final thought here you want to add?

Bill Keen: I always like to just wrap up summarizing. There's a lot of things out there that are beyond our control. No question, but there are many, many things like this that we do know how to get out ahead of. I've talked to you in the past about the fact that I'm a pilot, and I can tell you in the aviation world, we use checklists. We exhaustively use checklists. We have a phrase, and the phrase says this, "Always stay out in front of the airplane. Always be thinking about what's coming next."

There's many, many things that we can't control up there, but there are most things we can get out ahead of and know about whether it's weather, other airplanes, airspace, the frequencies we need to be talking on course, altitude, these things that happen, not to mention what happens if there's an emergency, and you can … Steve, you can narrow down almost every type of emergency and be trained on what to do when it happens and know it ahead of time.

Just like retirement planning, the stakes, there's a lot of moving parts. The stakes are really high, and I liken that … you'll have to bear with me because I'm going to be comparing that aviation journey to this retirement plan and financial journey because there's so many things that are analogous, if you will, but the idea, do not be caught off guard by things that shouldn't catch you off guard. Eliminate the unnecessary surprises and control the controllable, and that's what I'm trying to do here today.

Like today, we just shared a bit of our checklist that we cooperate with the clients, and I always just tell folks, "Find a good advisor. Interview two or three. Get comfortable with somebody that has a quality checklist-driven process, and then be willing to go through the process, and stay engaged with it."

Steve Sanduski: There's a reason why they call it "financial planning" and "retirement planning." The importance of having that plan, being prepared, anticipating what could go wrong, what could happened down the road, and having a plan in place to do that. Bill, great.

Bill Keen: That's right.

Steve Sanduski: Perfect wrap up there. Appreciate that, and thanks for another great episode. We'll look forward to catching you on the next episode.

Bill Keen: Thank you, Steve. I really appreciate your engagement, sir. Thank you.