Savings Strategies in Retirement

Retirement once meant a gold watch, a fat pension and a few years in a dream house along the 18th fairway. Today's watches are more likely to be "smart" than gold, pensions are almost non-existent in the private sector, and seniors are opting for biking and travel over golf.

Change is accelerating everywhere around us, including how we plan for retirement. People turning 65 today can reasonably expect to live another 20 years (married couples can count on an additional five to ten).

Living longer requires more capital. How much? A good rule of thumb is 70 to 80 percent of pre-retirement income.

Let's look at some factors that may impact your retirement.

Social Security: When Should I Take It and Is it Enough?

An average earner should rely on Social Security to replace about 40% of their working income, according to the Social Security Administration. The average check as of January 2020 was $1,503.

- **When Can I Collect?** Earliest retirement age is 62, full retirement is 65 to 67, depending on the year you were born, and additional benefits are available if you wait until 70. Taking early retirement will reduce you monthly benefits by around 20% to 30% compared to full retirement.

- **Early Retirement or Not?** Everyone's situation is unique, but you might visit the Social Security Administration website and check out the many calculators available.

Is a Reverse Mortgage Right for Me?

A reverse mortgage is a loan that converts equity in a residence to cash. You can receive a lump payment, take monthly installments or establish a line of credit to draw on as needed.

- **Am I Eligible?** You must be age 62 or older and own most of your primary residence. If you have an outstanding mortgage on your home, it should be less than 50% of the home's value.

- **The Upside.** It's income that in most cases does not have to be paid back until the homeowner is deceased. If you pass away before your spouse, he or she can remain in the home if they are 62 and older, named on the title and continue to make this their primary residence.

- **The Downside.** The borrower, or spouse, has to remain living in the home. The homeowner continues to pay taxes and insurance, and failure to do so could place the home in default.

I'm Retiring. Is This a Good Time to Downsize My Home?

In most cases, the answer is a resounding "Yes!" A recent Merrill Lynch survey of retirees age 50 plus shows that 51% of them downsized after exiting the workplace. Reasons why:

- **More Mad Money**. Selling a $250,000 home and buying a $150,000 home will put an extra $6,250 annually in your pocket (interest on the $100k gain, plus lower maintenance costs of a smaller home).

- **Less Work**. Smaller homes usually reduce your to-do items for the house and yard.

- **Less Clutter & Safer Environment**. Moving forces you to let go of those accumulated must-haves that have been hidden away in boxes for 20+ years. If moving from a two-story to single-story, you'll reduce the risk of falling.

- **More Choice**. Living within commuting distance to work often determined where you made a home. Now you're free to choose a neighborhood that better suits your lifestyle.

Watch Out for the Unexpected Expenses in Retirement.

The unexpected could upend your best-laid plans. Keep an eye out for these oft-overlook expenses.

- **Healthcare**. Supplemental insurance premiums, co-pays, deductibles, dental care and prescriptions not covered by Medicare can add up.

- **Travel & Entertainment**. More time on our hands means more time doing the things we enjoy, however, they often add up to 20% more than is budgeted by most retirees.

- **Taxes**. As much as 85% of Social Security income is taxable. Withdrawals from tax-deferred retirement accounts such as IRAs and 401 (k) are also taxable.

- **Maintenance**. Let's face it, we may not be able to shovel the snow or climb 15-foot ladders to clean the gutters. Plan on paying someone to take care of the common maintenance jobs we can no longer handle.