



# 6

RETIREMENT QUESTIONS  
**GOVERNMENT  
EMPLOYEES**  
SHOULD BE ASKING

---

Making the transition from the workforce to retirement can be demanding. As financial professionals, we understand the challenges that may lie ahead and present this special report to answer some of your most pressing retirement questions.

North Light  
Financial Services

**P**ublic-sector employees face many of the same challenges as their private-sector counterparts when it comes to retirement. They are concerned about whether their retirement accounts will cover the length of their retirements and what role Social Security will play in their investment strategies. Then there's the added component of a pension and whether they should branch out into any other traditional retirement accounts to supplement it.

Here are six questions to consider as you plan ahead for your retirement. As always, it's best to work with a financial professional to help ensure that you've covered all your bases.

### **DO I WANT TO RETIRE?**

If you look closely at your community, you'll notice people of retiree age still in the workforce, from the docent at your local museum to your medical professionals to the person making and serving your coffee. These older folks wouldn't be working if they didn't have to, right?

Well, maybe.

They could be working because they want to work. After all, many retirees have said that they truly enjoyed retirement—for the first 24 hours. After that, they found that they missed their careers, the regular schedule that a job brings, or being with people on a daily basis.

Or they could be working because they don't have a choice. Their retirement savings fell short of what they need to survive. Social Security income isn't adequate, and their other investments just don't seem to fill the gap.

There's the retiree who never thought about retirement. Then retirement happened—and the retiree's bottom line had the final word: get back to work!

Then there's the retiree who is happy to explore retirement. This retiree doesn't work for two reasons: they don't have to, and they don't want to.

So, which one are you, and how will you reach your personal retirement goals?

There are three principles to follow to help make your retirement a success:

**PREPARE:** Preparing provides the impetus for most other endeavors in life: building a business, getting fit, taking control of your health, or learning a new language. The same principle applies to your retirement. Preparation can help ensure that you're on a suitable path to meet your goals.

**PROTECT:** It took hard work, sometimes decades of sacrifice, and careful provisions to build your retirement. One wrong move, one bad investment, and you've lost it all. Taking risks has its place, but protecting your investments, especially if they've been built over a lifetime, must take priority. Stay the course; don't get distracted by whatever is new and shiny.

**PROSPER:** Usually, those who carefully plan their retirements and maintain disciplined investment strategies end up prospering in retirement. Start early, stay smart, and watch your money continue to grow.<sup>1</sup>

As a public employee, you're ready to start thinking about the decision of what you want to do next.

*Schedule time to meet with your financial professional to create a roadmap.* Identify your income streams and your projected expenses. How much will you have in Social Security, pensions, retirement investment returns, and other income sources? Match your income with your expected expenses to get a rough idea of where you're headed. Working with a financial professional helps you develop a long-term and pliable strategy that can change with you as needed.

*Determine your retirement strategy.* How much income will you need to maintain the lifestyle you want? Are you looking to travel? Do you want to move to a warmer state or downsize your home?

Consider your healthcare expenses. You're eligible for Medicare at 65, so you'll need medical insurance, which may be available from your present employer, to cover the difference if you're retiring early. Additional insurance to fill the coverage gaps might be wise.

*What about your legacy?* How much do you want to leave your family? Do you have adequate life insurance to cover ongoing living expenses for your spouse if you die first?

## CAN I AFFORD TO RETIRE?

Retirement at a certain age or after a number of years may be compulsory for public-sector workers. However, contrary to misconceptions, the average retirement age (62) for public-sector employees is still about the same as for those in the private sector.<sup>2</sup>

Government workers on the verge of retirement have the same anxieties and questions as their private-sector peers. The average retirement length is between 14 and 17 years, depending on the age you retire. Many retirees want to make sure that they have enough saved should they live beyond the average life expectancy of 79 years.<sup>3</sup>

Budgets foster a more disciplined outlook on retirement living, which helps alleviate stress over money matters. Once you generate some numerical projections for your personal budget, you'll be better equipped to decide how you want to spend your retirement.

A simple, conservative way to estimate your monthly retirement spending levels is to multiply your current working numbers by 75% to 85%. For example, you spend \$3,000 a month while you're employed. You can expect to spend \$2,250 to \$2,550 during retirement.<sup>4</sup>

Once you've determined your spending levels, take a look at your income to get the big picture. This includes your Social Security benefits, pensions, and any other retirement vehicles. If you've been able to generate retirement savings or investment income, you can use the money to supplement your lifestyle, make up any income shortfalls, or cover excess expenditures.

You'll need to track retirement withdrawals closely over time to help ensure your retirement money lasts. While the U.S. Census Bureau projects retirees today will live nearly 20 years past retirement, and a healthy and active lifestyle can add more than five years to that expectancy.

Of course, one problem with these life-expectancy formulas is the "x" factor: your mortality. You can't precisely generate that number to determine your budget. While your lifespan depends on a variety of factors, including your lifestyle, your health, and your genetics, the data suggests that you can count on living longer than your parents or grandparents. It's estimated that by 2060, the average American's life expectancy will go from 79.7 years to 85.6 years.<sup>5</sup>

An earlier formula—the 4% rule—was used in the past to calculate percentages of withdrawals retirees could take annually from retirement accounts. The rule may not be as applicable in today's rockier market.<sup>6</sup>

A financial professional can help guide you through the confusion of an intimidating investment marketplace.

While you may not be able to alter the "x" factor, you can exert some control over the other factors in the formula.

Here are four ways you can tweak your retirement formula to help you pursue a more comfortable and confident retirement:

1. While you're still working, you can increase your contributions to your retirement savings. Contribute the maximum amount to your tax-deferred retirement plan. If you're 50 or over, you can do the catch-up provision for your retirement contributions.
2. If you can, delay taking your Social Security benefits. If you're under 70, you can increase your Social Security benefits by delaying when you take them and supplementing your income with a second career.
3. Take a look at your current living expenses. With the children grown and living on their own, that large house may not be necessary. You might consider moving into something smaller and cozier. To cut expenses, you can delay big purchases in the early years of your retirement. That way, you can maintain a robust retirement account for longer.
4. Many government jobs have a compulsory retirement age, but that doesn't mean you have to stop working. Retirement can be a great time to explore the career you've always wanted or to try something new. Many public employees take advantage of the opportunity to retire early from the public sector to seek part-time work or a second career.

With your years of experience, your options are open. Part-time employment may allow you to set your own schedule and pursue hobbies or activities you've long wanted to participate in. Employment income may affect how much you collect in Social Security—at least until you reach your full retirement age.

## WHAT WILL MY RETIREMENT LOOK LIKE?

An ancient wise man once said, “Where there is no vision, the people perish.” The same is true for retirement. Deciding when and how you’ll retire is important, but envisioning your retirement may be the single most important part of your strategy.

Numbers and timelines don’t mean anything if you don’t have a supporting dream to drive them forward. Your retirement vision becomes the foundation for your later years.

Your vision has to be carefully crafted—detail by detail. Once you start imagining what you’ll do, how you’ll spend your time, and where you’ll go, put it in writing. Don’t leave out any parts. How will you spend your days? What are your short-term and long-term goals?

Chart it out. Lay out your ideal retirement, day by day, month by month, year by year. Do you plan to take a vacation? When and where? How often? What will you do during the day? Where will you go, and what exactly will you do? Do you want to travel, visit family and friends, or join social or recreational groups? Writing out your answers can make transitioning to retirement much easier.

Once you’ve laid the foundation of your vision, start building upon it. You’ve already assembled the numbers. You’ve already determined the income flow. Shape your retirement vision to suit the financial reality you’ve built during your working years.

For example, how much money will you have available to travel? Overlay your budget onto your retirement vision and begin making adjustments to make your vision fit into your financial reality.

You may have to alter your vision slightly or rearrange some of your priorities but merging the practical and idealistic sides may lead to a more confident and fulfilling retirement.

Here are several tips to help you with the visioning process:

### WHO ARE YOU?

This may be the most important question in creating your vision. This is a kind of personality index. Recall what you do—or what you used to do—during your off time when you were working. What did you do for recreation? What did you wish you had more time to do? Imagine how you will spend your retirement time differently.

### WHAT ARE YOUR PRIORITIES?

This gets back to imagining. Create a list of your favorite activities. The list could include volunteering, starting a business, gardening, spending time with your grandchildren, or even going back to school. Put the items in order of priority. What’s most important? Your aim is to make retirement satisfying and rewarding.

On the flip side, make a list of pet peeves and annoyances. What do you want to avoid doing? It may be driving in city traffic or having to get up early. Create a kind of reverse priority list.

### WHAT DO YOU WANT TO DO EVERY DAY?

Describe your typical day. What will you be doing? Retirement offers at least one precious commodity: freedom. You determine your daily schedule. To avoid the doldrums, establish a schedule to add anticipation and order to your day. Of course, you can change your schedule any time. It’s the idea that counts.

Developing your day should go beyond wishful thinking. What do you really plan to be doing on a typical day one year after you retire? How about in five years?

### LOOK AT EXAMPLES

Are you struggling with some of the steps in the brainstorming process? You’re not exactly sure what you want to do every day; you’re just glad you’re retiring. You may also be interested in doing something completely different or a change of pace. After all, after several decades of living life one way, you might be eager for a switch.

Read stories about retirees living unusual or exciting lifestyles you might enjoy. What do they do, and how do they plan their lives?

It doesn’t have to be all about skydiving and winery hopping in the south of France. Local newspapers and magazines occasionally feature profiles on outstanding retirees who are making an impact on their communities. Some find having a part-time job to be an invigorating pastime that keeps them engaged and connected with other people while retaining a degree of freedom from the demands of full-time work.

### DON’T SET LIMITS

Don’t set limits on your expectations, at least initially. Let your imagination run wild and run along with it to see where it goes. What have you always wanted to do but never had the opportunity to pursue? Maybe your busy career in the public sector or the demands of raising a family prevented you from exploring the outer edges of life. Maybe now is the time.

It doesn’t have to be a fantasy. The idea of climbing Mount Everest may have stirred your inner adventurer a few decades earlier, but your aspirations may have matured somewhat over the years. You could decide to do something as simple as learning to play the guitar, improving your golf game, renovating classic cars, taking sculpture classes, or visiting the Grand Canyon.

Don’t worry about making changes. In fact, expect to make changes later. Lifestyles do change. Your health or circumstances may alter your retirement strategies. Your retirement plans aren’t set in stone.



RETIRING COUPLES MAY NEED  
**AT LEAST**  
**\$295,000**  
TO COVER MEDICAL BILLS...

### HOW WILL I PAY FOR MY HEALTH CARE?

Better treatments for cardiovascular and infectious diseases have extended life expectancy and improved quality of life. Today's retirees can expect to live for nearly two more decades.<sup>7</sup>

Although retirees are living longer, healthier lives with better access to health care, costs remain their primary challenge, especially against the backdrop of changing political perspectives on the government's role in insurance coverage and health care.

Analysts estimate that retiring couples will need at least \$295,000 to cover medical bills, which doesn't include care costs. That figure also doesn't include costs for early retirees whose Medicare coverage hasn't taken effect.<sup>8</sup>

The estimate does include costs for deductibles and copayments, premiums for additional coverage for physician visits, prescription drugs, and other expenses not included in Medicare. Medicare recipients should expect to spend 15% of their household budgets on health care.<sup>8</sup>

Public-sector employees should investigate the availability of extended benefits coverage from their employers, which may cover the difference. Here's a review of options available to retiring government workers:

- Employer retiree health plans provide the bulk of supplemental coverage for one-third of those on Medicare, but that number continues to decline.
- Medicare Supplement Insurance may provide supplemental coverage to Medicare recipients. The insurance fully or partially fulfills Medicare Part A and Part B's cost-sharing requirements.<sup>9</sup>



## WHAT ARE MY PLAN OPTIONS?

Evaluating your different retirement plan options can get intimidating and sometimes overwhelming. Your aim is to choose a beneficial plan to suit your vision. As your retirement approaches, you should have all the details and arrangements in place to make the transition smooth and stress-free.

A financial professional can help you overcome obstacles and clear unexpected hurdles on your path to retirement. We can help direct you to areas in your plan that may need attention and that you may have overlooked in the last few years of your employment.

As a public employee, you want to know your choices and the options available for a prosperous retirement. Here is a list of the top plans:

**DEFINED BENEFIT PLANS** provide guaranteed benefits to participants based on age, years working, and salary range. Employers oversee contribution investments in pension funds; retirement benefits do not depend on investment performance.<sup>10</sup>

The Windfall Elimination Provision and other federal rules may affect your Social Security benefits. Public agencies and employers have looked for ways to reduce or modify their pension obligations. Consult with a financial professional to learn more about the potential risks to your benefits.<sup>11</sup>

**DEFINED CONTRIBUTION PLANS** allow the employee to designate specific amounts or percentages of income to be set aside by the employer for the employee's benefits. The employer-sponsored plans, which are the most common, restrict how

and when employees can withdraw funds without incurring penalties.<sup>11</sup>

The most common types are 401(k)s, 403(b)s, 457s, and Thrift Savings Plans (TSPs). Employees determine their levels of contributions from their paychecks based on the investment choices the employer provides.<sup>12</sup>

Employees retain control of the invested money in their accounts, which is tax-deferred. Once retired, the holder of the fund may choose to transfer the money into an IRA or similar fund.

**HYBRID RETIREMENT PLANS** include elements of both the defined benefit (based on the employee's final average salary) and the defined contribution savings plans. An employer may offer a cash balance plan, for example, that gives employees the opportunity to contribute in the same way as in a defined benefit plan. But employees also have the option of receiving regular payments or a lump-sum distribution at retirement.<sup>13</sup>

The hybrid plan typically yields lower returns than the defined benefit and the defined contribution plans. The plan's lump-sum provision, which allows holders to roll the money into IRAs or new plans, makes it popular. However, the lump-sum provision also makes it the riskiest. Holders retain complete responsibility for their investments.<sup>14</sup>

## **WHAT DO I DO BEFORE RETIRING?**

While retirement paves the way for a fuller lifestyle with more opportunities for recreation and leisure, it also poses a few challenges for those who enter into it unprepared. Here is a summary of tips:

- Paint a vision of your retirement future. Dream big. Use your imagination.
- Carefully calculate your retirement expenses. The more exact you are, the better equipped you'll be later on when facing unanticipated expenses.
- Examine your anticipated income sources. This may include pensions, retirement savings accounts, and Social Security benefits.
- Take a look at your healthcare coverage options. Watch Medicare and insurance deadlines.
- Read wills, trusts, medical directives, beneficiary information, powers of attorney, and other legal documents.
- Contact your pension sponsor to get information about retirement requirements, distribution options, and pertinent documents.
- Talk with a qualified financial professional who specializes in clients like you.

## **WHAT DO I DO NEXT?**

You've created your retirement vision; you've painted the picture of your new life. Retirement empowers you with the liberty and hopefully the resources to retire in style.

However, employing the services of a financial professional can instill a sense of clarity and confidence and help ensure your retirement plans remain securely on track.

## **WHO DO I CALL?**

We hope you've found this retirement guide interesting, informative, and reassuring. We want to show you some simple steps you can take to make your retirement more secure. We're ready to encourage and support you as you move into the next phase of your life.

We offer ourselves as a resource to you and your family. We are happy to answer any questions you may have about your personal financial situation and future goals. If you have any questions about the information in this report, contact us today. We would be delighted to talk.

## FOOTNOTES, DISCLOSURES, AND SOURCES

Registered Representative, Securities offered through Cambridge Investment Research, Inc., a Broker/Dealer, Member FINRA/SIPC. Investment Advisor Representative, Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. Cambridge and North Light Financial Services are not affiliated. Cambridge does not offer tax advice. Office of Supervisory Jurisdiction: 46 Accord Park Drive / Norwell, MA 02061 Phone: 781-878-4063 Due to various state regulations and registration requirements concerning the dissemination of information regarding investment products and services, we are currently required to limit access of the following pages to individuals residing in states where we are currently registered: CA, FL, GA, HI, KY, IL, LA, MA, ME, NE, NM, OR, RI, SC, VT, WV. If we are not currently registered in your state please email us at [info@northlightfinancialservices.com](mailto:info@northlightfinancialservices.com). We may be able to refer you to a representative in your area, or we may become registered in your state, at which time we could further discuss our services with you.

Before deciding whether to retain assets in a 401(k) or roll over to an IRA, an investor should consider various factors including, but not limited to, investment options, fees and expenses, services, withdrawal penalties, protection from creditors and legal judgments, required minimum distributions and possession of employer stock. Please view the Investor Alerts section of the FINRA website for additional information.

Distributions from traditional IRA's and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59 ½, may be subject to an additional 10% IRS tax penalty.

Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. This material is for information purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Fixed-income investments are subject to various risks, including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications, and other factors. Opinions expressed are not intended as investment advice or to predict future performance. Past performance does not guarantee future results. Consult your financial professional before making any investment decision. These are the views of FMG Suite, LLC, and not necessarily those of the named representative, broker/dealer, or investment professional and should not be construed as investment advice. Neither the named representative nor the named broker/dealer nor the investment professional gives tax or legal advice. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Please consult your financial professional for further information.

1. GovExec.com, May 7, 2020
2. BLS.gov, March 12, 2020
3. MarketWatch.com, March 4, 2020
4. TheBalance.com, May 26, 2020
5. United States Census Bureau, 2020
6. BusinessInsider.com, May 13, 2020
7. BLS.gov, March 12, 2020
8. Fidelity.com, August 3, 2020
9. Medicare.gov, June 15, 2020
10. IRS.gov, January 9, 2020
11. Social Security Administration, January 2, 2020
12. TaxPolicyCenter.com, May 28, 2020
13. NASRA.gov, June 15, 2020
14. NASRA.gov, June 15, 2020

North Light Financial Services

81 Samoset Street, Ste. 1  
Plymouth, MA 02360  
774-773-3104

[NorthLightFinancialServices.com](http://NorthLightFinancialServices.com)

