RETIREMENT QUESTIONS

FOR EDUCATORS

We understand that as an educator contemplating the transition from work to retirement, you may have several questions about when and how you can retire. This report addresses common questions and offers strategies to help you prepare for a comfortable retirement.

North Light Financial Services

The retirement landscape is not what it was, and for many people, the ability to retire can seem elusive. Many Americans are worried about whether they can afford to retire and how to ensure that their savings will last as long as needed.

Retirees and pre-retirees in the education field have the added challenge of dealing with complex and ever-changing retirement benefits, and they often need help understanding their choices. For educators who have spent a lifetime helping others achieve their best, deciding to retire may involve a mix of emotions. You may be worried about whether you can afford to retire. You may feel ambivalent about leaving colleagues and a beloved profession. You may also wonder about what to do when you are no longer working.

The combination of mixed emotions and financial worries may lead you to delay implementing your retirement strategy. However, we believe that the most prudent course is to start thinking now about your retirement needs. By looking ahead today, you can develop informed perspectives and strategies about your retirement choices and make adjustments where necessary.

We've developed this special guide to help teachers, administrators, and other professionals in the education field to strategize for a comfortable retirement.

1 WHEN CAN I AFFORD TO RETIRE?

If you are concerned about being able to retire, you are not alone. In the education sector, retirement concerns are compounded by complicated retirement programs, student loan debts, and universities' budgetary issues. The good news is that Americans are becoming increasingly optimistic about their retirement prospects. In 2021, 72% of workers feel either confident or somewhat confident that they will have enough money to retire comfortably, compared with just 60% in 2017.[1]

The decision to retire is a personal one that depends on a number of important factors, such as your age, financial circumstances, health, and family situation. You also need to know whether you are eligible to collect a retirement benefit from your pension or sponsored retirement plan. Be aware that many traditional pension plans have both age and service requirements that you must meet before you can start collecting a retirement benefit. If you have questions about your eligibility, be sure to speak to a financial professional about your specific circumstances.

RETIRING WITH DEBT?

Debt is most heavily concentrated among people between the ages of 40 and 74.[2]

GET AHEAD TODAY

If you are evaluating when to retire, take time today to address a few important steps and determine whether you are on track financially.

Know Your Unique Needs

Today's retirement culture demands that retirees develop personalized retirement strategies that reflect their unique financial life. From using online calculators for estimating withdrawals to creating a retirement strategy with a financial professional, you can approach retirement strategizing in many ways. As you look ahead, you need to understand how various factors, such as life expectancy, wealth, income needs, risk, and market environment, affect your calculations.

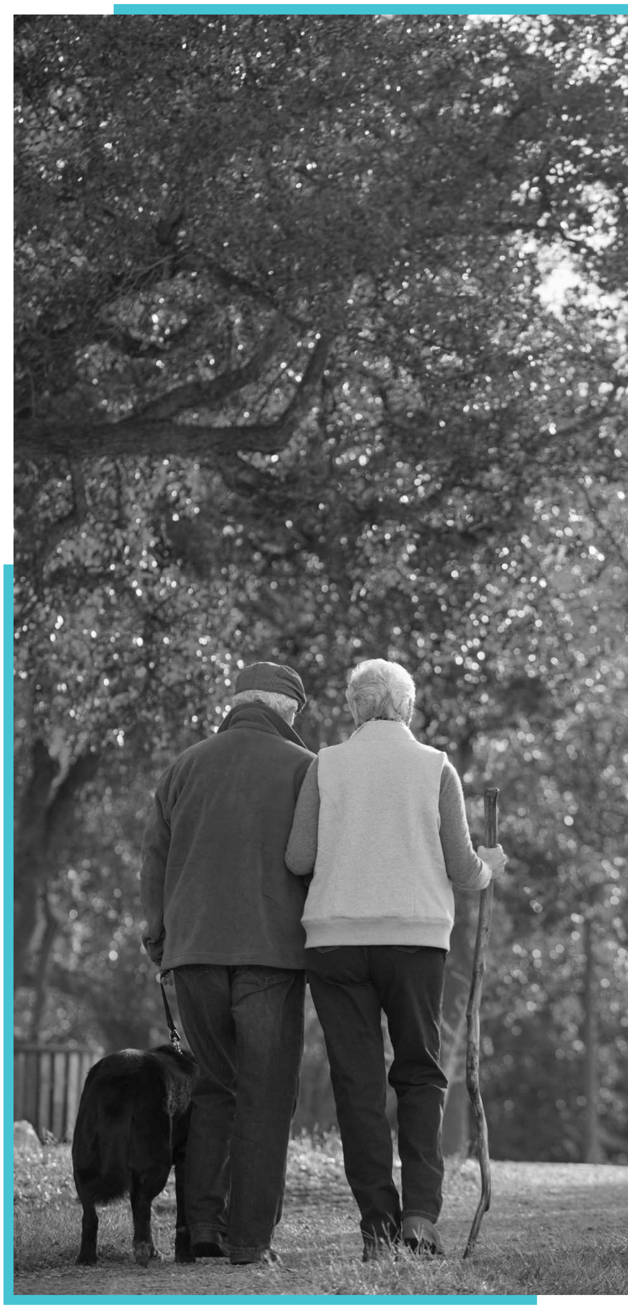
If you have run the numbers and think you may have a retirement-income shortfall, do not panic. Several strategies can help you increase your potential retirement income or manage your expenses.

Know How to Address Any Retirement Gaps

- **Increasing your savings rate** may allow you to make up your retirement shortfall. Consider making contributions to tax-advantaged retirement plans, such as a Roth IRA. If you are 50 or older, it's possible to use catch-up provisions to boost your retirement contributions. Roth IRA contributions are phased out for taxpayers with an adjusted gross income (AGI) above a certain amount. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawal can also be made under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to make minimum annual withdrawals.[3]
- **Delaying retirement** may work for some people. By working longer, you may add to your savings and increase your Social Security benefits (if you are younger than 70 and qualify to receive these funds in your state), as well as shorten the amount of time your savings must last.
- **Working during retirement** can create extra income while keeping you active and doing something you love. Many educators retire but continue teaching part time. Senior administrators become consultants and professionals in related fields. Other retirees pursue their passions for gardening, lecturing, or writing. However, keep in mind that working while collecting payments may affect your Social Security benefits if you are younger than your full retirement age.
- **Managing Social Security and Pension limitations** can help you prepare to have the retirement income you need. Some states do not offer Social Security benefits to teachers, and not every teacher qualifies to receive pension benefits. Additionally, if you work in public education and do not pay Social Security taxes at the government job that provides your pension, the Government Pension Offset (GPO) may reduce your Social Security spouse, widow, or widower benefits by two-thirds. Furthermore, if you do receive Social Security benefits and are eligible for a pension based on earnings that your Social Security does not cover, the Windfall Elimination Provision (WEP) may reduce your benefits. To manage your retirement gaps, you need to know your specific restrictions and opportunities. [4,5,6]

2 HOW WILL I PAY FOR HEALTHCARE IN RETIREMENT?

Healthcare expenses are major concerns for today's retirees, and those who aren't thinking ahead may find themselves in trouble down the road. With life expectancies rising, today's retirees can expect to live well into their 80s. Combine longer life spans with rising medical costs — and the fact that healthcare expenses can increase during a serious illness — and retirees have pressing needs to prepare for.[7,8]



Most retirees can expect to spend about a quarter of their Social Security benefits on healthcare expenses. For people aged 65 and older, the average health savings account (HSA) balance for accounts is only $6,297.[9,10]

Not being adequately prepared for your healthcare expenses could jeopardize your ability to retire comfortably. Those who retire earlier may need even more assets to cover their healthcare costs before becoming eligible for Medicare. Fortunately, with adequate preparation and personalized strategies, you may help manage healthcare costs in retirement.

Everyone's health care needs are different. For this reason, it's important to consider factors such as your age, health, and family medical history when estimating your potential expenses.

You should also determine whether you are eligible for any employer-sponsored healthcare once you retire. Any benefits you receive could reduce your out-of-pocket costs and, thus, the amount you need to save for medical expenses.

Additionally, retirement healthcare plan accounts, such as a Health Savings Plan may be available through your employer and can help provide a tax-advantaged way to save for future healthcare expenses. A financial professional can help you determine whether this choice is available to you and how it may fit your overall retirement objectives.

Once you start Medicare, you can no longer contribute pre-tax dollars to your HSA. If you have to withdraw money from your HSA for a non-medical reason, that money becomes taxable income, and you face an additional 20% penalty. After age 65, you can take money out without the 20% penalty, but it still becomes taxable income.

It is also important to consider how you might pay for services to help you remain independent if you need help with daily living. According to a recent Genworth study, having an in-home health aide for 44 hours each week costs an average of $54,912 per year, and the national median annual cost of a private room in a nursing home topped $105,850. Generally, Medicare and employer-sponsored insurance do not cover extended care.[11]

Today's average 65-year-old couple can expect to pay $300,000 on healthcare costs during retirement.[12]

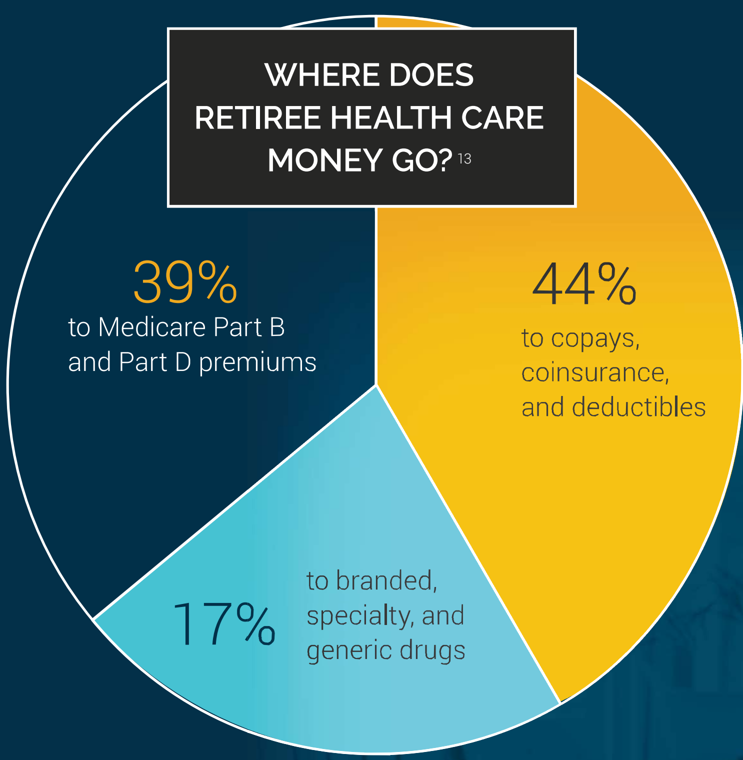
3 WHAT SHOULD I KNOW ABOUT MY RETIREMENT PLAN?

Many different retirement plans exist, providing an array of choices for creating retirement income that may help you support your desired lifestyle. While the best way for us to answer your specific questions is to meet with you personally, we've developed a list of common retirement plan types and some specific concerns you may want to think about.

Defined-Benefit (DB) Plans are also known as "pension plans." They are designed to provide a lifetime retirement benefit to participants based on factors such as age, years of employment, and salary. Though DB plans are disappearing, they are still common among public school systems across the United States. If you are enrolled in a DB plan, your employer takes care of investing all contributions in the pension fund and bears the risk of providing the retirement benefits. Participants in DB plans have some special financial strategizing issues. Federal rules, such as the Windfall Elimination Provision (WEP), mean that your pension income may reduce your Social Security benefits, depending on the rules in your state. DB Plan participants may be able to choose among different retirement income choices and schedules. Because of budgetary issues, some employers have sought to manage their responsibilities to pensioners.[14]

Defined-Contribution (DC) Plans are the most popular employer-sponsored retirement programs available today. The most common types are 401(k)s, 403(b)s, 457s, and Thrift Savings Plans. As a program participant, you decide how much to contribute to your plan from each paycheck and allocate your money among the investment choices available to the program. In some instances, your employer will match a portion of your contributions. Your money grows tax deferred because contributions are made with pre-tax income.[15]

Under the SECURE Act, once you reach age 72, you must begin taking required minimum distributions from your 401(k), 401(b), 457, or other defined-contribution plans in most circumstances. Withdrawals are taxed as ordinary income and, if made before age 59½, may be subject to a 10% federal income tax penalty.



5 WHAT DOES MY DREAM RETIREMENT LOOK LIKE?

Knowing how much money you need for retirement also depends on what lifestyle you desire after your career. Take a moment to think about what a relaxing retirement means to you. Do you want to spend more time with loved ones? Do you want to pursue your passions and hobbies? Do you want to travel?

Everyone's retirement dream is different, and an increasing number of active Americans are redefining retirement for themselves in new and interesting ways. Today's retirees can expect to live long, active lives, making retirement more like the dawn of a new chapter of life rather than a sunset. Knowing what this lifestyle means to you requires taking the time to thoughtfully brainstorm your vision.

4 SHOULD I CONSIDER A "BUYOUT" OR EARLY-RETIREMENT PACKAGE?

An increasing number of employers are offering early-retirement packages to professors and other employees. Typically, they will give you a lump-sum distribution based on your age, service, and contract. The decision about whether to keep working or accept a buyout is complex. You may want to consider all of your choices before making a decision. Some factors to address include the following:

- How will early retirement affect your pension benefits and other retirement incomes?
- Is Social Security a choice for you, and if so, should you take it immediately or allow your benefits to grow?
- Does the buyout come with low-cost or no-cost health insurance until you are eligible for Medicare?
- Do you have enough money saved for retirement, or do you need to keep working to save more?
- What are the tax implications of taking a lump-sum distribution?
- Is there a risk of future layoffs by your employer?

Ultimately, many factors may affect your decision to accept an early-retirement package. A financial professional may help you understand your options and the benefits and the drawbacks of each choice.

6 HOW CAN A FINANCIAL REPRESENTATIVE HELP ME?

Regardless of what your dream retirement looks like, financial preparation and actionable strategies can help you manage your income and bring your visions to life. We believe in the value of guidance and objective information when navigating your transition into retirement. Many Americans have intricate financial situations, and it's common to have questions and concerns about meeting your obligations in retirement. A financial professional can help you understand your current financial circumstances and develop strategies to take you toward your future goals and help you live the life you imagine.

NEXT STEPS

We hope you've found our retirement guide interesting and informative, as well as a helpful starting point for details to consider. While retirement strategizing is complex, you can prepare for retirement by taking the steps you need today. Most of all, we want to encourage and support you as you get ready for this next stage of your life.

Remember, as you navigate your transition from work into retirement, we are here to serve as a resource for you and your family. We are happy to answer any questions you may have about your personal financial situation or future goals.

If you have any other questions about the information presented in this report, please don't hesitate to contact us. We enjoy and appreciate the opportunity to help you pursue your retirement goals and live your best life.

Sincerely,

North Light Financial Services Team

Footnotes, disclosures, and sources:

[1] EBRI.org, 2021

[2] Debt.org, October 19, 2021

[3] Roth IRA contributions cannot be made by taxpayers with high incomes. In 2021, the income phaseout limit is $140,000 for single filers, $208,000 for married filing jointly. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawal also can be taken under certain other circumstances, such as a result of the owner's death or disability. The original Roth IRA owner is not required to take minimum annual withdrawals.

[4] NCES.ed.gov, 2021

[5] SSA.gov, 2021

[6] SSA.gov, 2021

[7] SSA.gov, 2021

[8] Fidelity.com, August 31, 2021

[9] SeniorsLeague.org, November 10, 2020

[10] EBRI.org, November 12, 2020

[11] Genworth.com, 2021

[12] Fidelity.com, August 31, 2021

[13] Fidelity.com, August 31, 2021

[14] Investopedia.com, April 24, 2021

[15] Investopedia.com, April 11, 2021

North Light Financial Services
NorthLightFinancialServices.com

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