

The New Place to Spend Retirement? At Work

Submitted by Sean Gross

Despite the image that marketers portray of contented retirees lounging on the beach, there are more older workers in the labor force than ever before.

According to the Employee Benefit Research Institute:

- Forty-five percent of people age 55 and older are still in the workforce.
- Twenty-nine percent of people ages 65–69 are also still working.

Americans of retirement age opt to stay in the work world for many reasons:

- Transitioning their career to part-time
- Wanting to make extra money
- Wanting to start their own companies

In addition, as we live longer and take better care of ourselves, we don't feel like slowing down. In today's world, **retirement can last 20 years or longer**, so we want something meaningful to do to fill that time.

For some people, however, working into the retirement years is not a matter of choice. These individuals may need to keep working to:

- Add to savings
- Retain insurance coverage
- Attain full retirement age to receive full social security benefits

And, from the employers' standpoint, it's becoming increasingly important—almost necessary—to hang on to older workers. Nearly 80 million baby boomers are facing retirement, but there are only 50 million Gen-Xers to fill the boomers' jobs. Companies are discovering that they need to keep experienced employees as long as possible and are more amenable to part-time, consultative, or job-sharing arrangements to retain skilled workers.

The financial implications of continuing to work

Regardless of your reasons for continuing to work, you'll want to consider these financial implications:

- **You can make more money.** According to the Congressional Budget Office, if you are 62 or older, for each year that you postpone retirement, you reduce the need to increase retirement savings by about 5 percent. Postponing retirement also gives you more time to earn interest on the assets you've already accumulated. And continuing to get health coverage through an employer—even if the employer only partially subsidizes it—can save you hundreds of dollars per month.

- **Your social security benefits may be affected.** Depending on your financial situation, you may find it best to wait until your full retirement age before you begin collecting social security. If you start receiving social security earlier, you'll find that your total benefits may be drastically reduced: for every \$2 you earn over \$13,560, you reduce your social security benefits by \$1. (This applies to work income, not to income from investments, pensions, annuities, capital gains, or interest.)
- To reduce your total income for tax purposes and to provide a future income stream, your spouse may also want to delay receiving benefits.

The good news is that once you reach full retirement age, you can work as much as you want without reducing your social security benefit. Visit www.socialsecurity.gov/retire2/agereduction.htm to find your full retirement age.

- **Being your own boss may have certain advantages.** If you set up your own incorporated business, you may be able to deduct everyday expenses like work-related phone usage, a new computer, office space rentals, and travel expenses. Plus, you can open a new retirement plan and contribute to it.

Simplified Employee Pensions (SEPs), Savings Incentive Match Plans for Employees (SIMPLEs), and qualified plans such as Keoghs are designed to benefit small businesses and sole proprietorships. They have the same advantages as tax-deferred growth plans like 401(k)s and 403(b)s, and contributions are tax-deductible. Your own business could match the contributions you, as an employee, might make.

- **Working might result in certain penalties or income reduction.** Take care that your extra income from working doesn't bump you into a higher tax bracket.

Chances are, you're probably paying for your retirement from several sources of income, including:

- A pension
- A 401(k) plan
- An IRA
- Social security

If you are older than age 70½, you are likely taking the required minimum distribution (RMD) from your retirement plan accounts as well. Add a paycheck to that mix and you might be making more money than you thought. This can also expose more of your social security benefits to income tax.

In addition, if you are or were a state or public employee, check with your retirement board to determine whether you are subject to income restrictions or if working will impact how much pension money you receive.

Does all this mean that working in retirement is pointless? Of course not; it just requires forethought and careful planning on your part—and the guidance of your trusted financial advisor to address your particular questions and concerns.

