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Retirement pickle: Too young to retire, too old to hire

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Thursday, March 18, 2010

Advisors working in the retirement arena have long dealt with gaps in clients' expectations, often because clients want to leave work before they have created a sufficient principal to fund their retirement years.

In October, a study by MetLife delivered some good news: Current workers ages 55-70 expected to work until age 70, and those over 66 planned to work until age 76. More years working usually means more earned income to save and invest and fewer non-working years to deplete that nest egg.

Of course, the current recession forced some retirees to consider at least a part-time job to supplement their portfolio drawdown, and some near-retirees decided to continue working a few more years to allow their portfolios to recover from the market declines.

The labor market, however, has put a monkey wrench into those admirable plans. Seniors hoping for even part-time work may have difficulty finding a job, and those who planned to stay in their current job may find it no longer exists.

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Over three-quarters of employers responding to a 2009 survey from Families and Work Institute said they had cut costs in response to revenue declines over the past year. Of those, 90 percent have done so by laying off employees (64 percent), freezing hiring (61 percent), reducing or eliminating salaries or bonuses (69 percent); or eliminating nonessential travel (57 percent).

Employers that choose to lay off workers or offer early retirement packages often select employees with more years of service, as wages and benefits are typically less expensive for workers with less tenure. An employee who started working with a company in his early 20s and with 30 years of service is only in his early 50s -- a decade or more short of full retirement age.

With life expectancies reaching into the 80s, those who choose retirement at this point could potentially face another 30 years or more of life -- nearly as long as they spent working.

The Social Security Administration said applications for retired worker benefits grew 21 percent during the fiscal year ended Sept. 30, 2009, although the agency had expected an increase of only 15 percent. Of course, Social Security often doesn't cover the entire gap between retirement income needs and the potential for the principle to generate that amount of income, and for those under 59 1/2, there will be penalties to pay in addition to the taxes.

Even those who accept an early retirement package and plan to find another job will have a tough time. According to the Labor Department, it takes older job seekers an average of 7.5 months to find a new position; for younger workers, the average is about six months.

The Wall Street Journal reported on Dec. 8, 2009, that the number of jobless workers ages 55-64 had almost tripled since the beginning of the recession, based on Labor Department figures, while the total number of unemployed workers had only doubled. Finding a job in this economy may require relocating, which has pros and cons. Someone moving from the East or West Coast to the Midwest may find that the cost of living, including significantly lower home prices, can help them save more and stretch their dollars further in retirement. Not everyone is willing or able to relocate, but those who are give themselves some additional alternatives.

On the surface, declining an early retirement offer and staying on the job may seem a like a safer idea than leaving and hoping to find another job. Depending on the employer's pension plan, however, they may actually be reducing their pension amount by remaining in their job. And current low interest rates force down the pension's buying power as inflation eats away at it.

Severance and early retirement offers come quickly and end quickly, often with a window of just 15 to 45 days. Ideally, employees faced with those offers would already have an in-depth analysis of their retirement cash flow needs and income resources to help them make that decision. Unfortunately, most don't.

In 2009, Wells Fargo conducted a survey of pre-retirees ages 50-59 and retirees ages 55-77. Of the more than 2,100 responses, nearly two-thirds had no formal plans for retirement saving or spending. Only 25 percent of the pre-retirees had a written retirement plan and of those, only 52 percent reported updating their plan during the market downturn.

Clearly, many older workers are finding themselves in a pickle -- too old to avoid the layoff boom and too young to retire. They need a solid investment plan that helps them avoid eating into the principle they've accumulated but at the same time has the potential to grow enough to cover inflation. Many advisers have recognized the opportunity in such a market for doing 401(k) rollover and pension analyses for clients and prospects.

Those discussions should go hand in hand with an income analysis showing cash flow projections for the rest of their life.

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Seeing the amount of principle needed to generate a specific cash flow and mitigate taxes can be an eye-opener for those who thought they had another five to 10 working years left before retirement.

Coghlan founded Coghlan Financial Group Inc. 2002 and extended financial planning and risk management services to California retirees. Natalie Hadley, of Securities America, co-wrote this article.

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