

Chapter 8: Retirement

Seven Retirement Strategies to Secure Your Financial Future

OK, stand back... retirement planning, let's do this!! It's going to be fun! No, really!

Yo, who wants to talk about Social Security solvency?!!



crickets chirping

It seems that every day, we hear another doom and gloom report that Americans are not adequately preparing for retirement and that Social Security solvency is becoming an issue.

Unfortunately, the unhappy truth of such reports is that they're right.

Because, according to the committee in charge of the Social Security trust fund (we're talking the Old-Age and Survivors Insurance Trust Fund here), the Social Security retirement fund will be depleted sometime between 2029 and 2059, most likely in 2034. After that point, Social Security benefits will not go away entirely, but they will reduce significantly – to about three quarters of scheduled benefits. Meanwhile, in middle America and out to each coast, as well, due to the rapid decline of public and private pension plans, more Americans than ever are using the Social Security safety net as their primary source of retirement income. (Tip: This is a really bad idea!)

According to the Social Security Administration (SSA), 23% of married couples and about 43% of unmarried persons receiving Social Security retirement benefits rely on Social Security for 90% or more of their income in 2015. Yes, 90% of their retirement income! A full 50% of married couples and 71% of unmarried beneficiaries relied on Social Security for 50% or more of their income. By the way, the average SSA retirement income for retired workers in January 2018 was \$1,406 per month — not a retirement to envy, but more on that later.

So, today, the trust fund balance currently stands at about \$2.9 trillion and still takes in more revenue than it pays in benefits. However, these numbers are rather misleading.

Issue #1: Since 2010, SSA has actually paid out more in benefits each year than it has received from its share of payroll taxes. The difference is that the trust fund continues to earn interest, making up for the tax shortfall. See, in 2016, SSA received \$957 billion in total receipts versus \$922 billion in expenditures for a net increase in \$35 billion. However, only \$839 billion came from tax revenue while the other \$88 billion was interest income on 2016's original \$2.85 trillion in Social Security trust funds.

Issue #2: The number of workers contributing to the system is declining relative to the number of beneficiaries. A decade ago, there were 3.3 workers paying into the system for every beneficiary drawing from it. The ratio today is around 2.8, and it's projected to drop to 2.1 by 2036. A better way to illustrate this is that today, the day you read this, 10,000 Americans turn 65 years old. And, wait for it — for the next 15 years or so, 10,000 Americans will turn 65 every single day! That is a lot of folks leaving the workforce who are no longer paying Social Security taxes and instead, beginning to draw benefits (source: Social Security Administration). With this in mind, SSA estimates that the trust fund will peak in 2021 at \$3 trillion and begin declining each year after.

So, we have a problem. But don't panic; there are several ways to shore up Social Security. The idea of forcing Millennials to have lots of children has been dismissed as impractical, but from raising the age of retirement to changing taxation schedules to eliminating benefits for billionaires, options do exist. The fact is that every few decades, Social Security has been tweaked, and, even given Washington's current record levels of dysfunction, it is likely some accommodations will be reached. However, even when Social Security is placed on more solid ground, the reality of living one's golden years on around \$1,400 per month is not particularly appealing.

It appears that Americans are not doing a good job of saving for their own retirement either. According to a 2015 report from the [National Institute on Retirement Security](#), a full 45% of working-age households in 2013 did not "own any retirement account assets, whether in an employer-sponsored 401(k) type plan or an IRA." For all working-aged households, including those without retirement savings, the median retirement account balance was only \$2,500, and the median retirement account balance among near-retirement households was only \$14,500. A 2013 study from the same organization indicates that, depending on which methodology one uses, the collective retirement gap for all working U.S. households is somewhere between \$6.8 trillion and \$14 trillion!

So, well, that's not good — and all the more reason to get your own personal retirement savings in order. Now, let's talk about a few bulletproof retirement strategies to consider adding to your Social Security safety net. Think about what even another \$1,000 per month could mean in retirement!

Here's the thing, seriously. There really are just a few rules to follow to build a solid retirement. These behaviors, choices, decisions, or actions (call them what you will) aren't easy, but stick with them. And we guarantee your future self will thank you.

Now, before we get started, let's figure out where you're at right now. Planning for the future is best when you know where you're starting, so it's time to crunch the numbers and see where you're going. EQUITY has a handy-dandy retirement calculator that lets you enter your beginning savings, monthly contribution, your investment's interest rate, and how many years you save, to see how much you'll have once you retire (you can find this on the Retirement page of our website). So, plug in those numbers and check out what your savings and retirement income will be, come retirement... Then, write them down and remember them for the end. We'll use our strategies to see how much more you could have by taking a few easy steps.

So, what are the steps? They're coming right up! Let's check them out...

Stop Worrying about Asset Limits! ABLE Act to the Rescue!

Now, if you're on benefits (SSI or Medicaid), there's that profoundly stupid \$2,000 asset limit for single people and \$3,000 for married couples — and if you have more in the bank, you lose your benefits. Perhaps, no other benefits rule in history has made it more difficult to actually save for one's future. But many of us don't have to worry about this issue much longer. In December of 2014, Congress passed and President Obama signed a little piece of legislation called the Achieving a Better Life Experience (ABLE) Act.

Under this new law, a person with a disability and that person's family may put money into a special tax-advantaged account (which means that any account interest grows tax-free). The first \$100,000 in an ABLE account will not count against the \$2,000 [Supplemental Security Income \(SSI\) resource limit](#), nor will it count against resource limits in other programs, such as Medicaid. Actually, some state programs have set the savings limits for retaining Medicaid at over \$300,000! This new [work incentive](#) is a big deal. It means that if you get a job, you can start saving up some money without losing your benefits. ABLE programs also feature investment options using stocks and bonds, so money in an account will continue to grow in the future. (Retirement planning anyone?!)

As with other types of tax-advantaged accounts like retirement accounts and [529 educational expense accounts](#), ABLE accounts have restrictions:

- They are only for people whose disabilities began before they turned 26 (no matter how old they are now).
- They can only be opened through specific programs or institutions.
- A person with a disability and that person's family may not contribute more than a combined total of \$15,000 per year, as of 2018 (that number will go up a bit each year or two, adjusting for inflation and the federal "gift tax").
- An account-holder who is earning money from a job can contribute the amount of their income, up to the federal poverty limit for a single person (\$12,060 in the contiguous 48 states and Washington D.C., \$13,860 in Hawaii, and \$15,060 in Alaska) *on top of* the existing \$15,000

limit. This means that an employed person living in the lower 48 states could contribute a total of \$27,060 per year to their ABLE account!

- Money in an ABLE account can only be used for “qualified disability expenses” (QDEs). This might sound limited, but QDEs can actually include a lot of things, such as:

- Education
 - Housing
 - Transportation
 - Help getting and keeping work
 - Health care
 - Assistive technology, and
 - Other approved expenses.
- A person can only have one ABLE account.

[Learn more about the ABLE Act.](#)

So, now, finally, people with disabilities have a tool to start building savings and a real financial future.

Delay Your Social Security Payments.

Did you know that for every year you delay receiving Social Security, the monthly amount you receive once you start increases? The exact amount varies by age, but you can generally expect to receive at least 6% to 8% higher payments for every year that you wait. More than half of all retirees take Social Security benefits at age 62, as soon as they are eligible. Only about 20% wait at least until full retirement age of 66, with only a small portion of those waiting beyond 66. The people that start early are missing out. Someone with a \$1,000 benefit at full retirement age gets only \$750 by claiming it at age 62 and can get as much as \$1,320 by waiting until age 70 (source: SSA)!

For fun (yes, this is what I think is fun) I just ran a colleague’s numbers. At her current salary, if she retires at age 62, her benefit will be \$1,212 per month. However, at her full retirement age of 67 (“full retirement age” goes up gradually, and it’ll be 67 by the time she retires), she would receive \$2,000. But if she could delay retirement to age 70, her monthly check would grow to \$2,600 according to SSA calculations! Check out SSA’s handy-dandy [retirement calculator](#); it’s even mostly accessible to screen readers by tabbing and using “forms mode”! This calculator uses some of your personal information, and you will need to have worked for a certain number of years for the calculator to give you an estimate of your check.

If someone has not worked or doesn’t have enough Social Security credits to receive Social Security; is married to someone receiving Social Security; is over 62 years old; and is caring for a child who is under 16 or disabled, he or she may be able to receive “spousal benefits.” These are a certain percentage of his or her spouse’s Social Security benefit.

Spouses who claim spousal benefits before full retirement age will receive reduced benefits compared to the amount received at full retirement. However, spouses aren't entitled to retirement credits above those received at full retirement age, so there's no benefit to waiting

beyond age 66 to take spousal benefits. Still, if you are entitled to spousal benefits, wait those extra few years until full retirement age if you can!

A related retirement maximization strategy for anyone on Social Security Disability Insurance (SSDI) is to delay their retirement date to age 70. Normally, disability benefits automatically convert to retirement benefits at the individual's full retirement age. The beneficiary does not need to notify SSA for the conversion to occur. However, the conversion can be prevented with a letter to SSA prior to conversion requesting that retirement benefits be suspended (delayed). This allows the disabled worker to earn delayed retirement credits worth 8% per year for every year benefits are postponed beyond full retirement age up to age 70, increasing the ultimate retirement benefit by up to 32%! Better yet, it would also result in a larger survivor benefit for the remaining spouse if the recipient passes away. There are two huge increases just by writing a simple letter!

Pay Off Your Home.

OK, first, we recommend that you buy a home. Check out our home buying overview in Chapter 6 to get you started and then, pay off that home prior to retirement. That's because, generally speaking, the largest expense for retirees — and non-retirees — is the cost of housing.

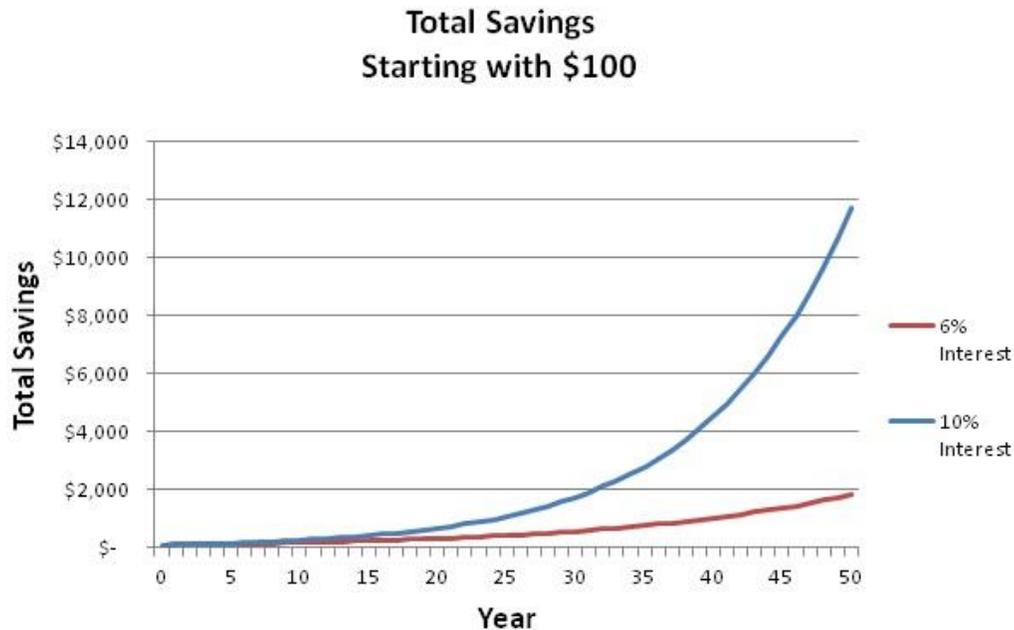
According to a report by Harvard's [Joint Center for Housing Studies](#), the older you get, the more rent and mortgage costs affect your ability to live comfortably. According to the Harvard study, the percentage of homeowners over 65 still paying a mortgage increased by one half between 2001 and 2013, from 24% of homeowners to 36%.

In 2015, Social Security conducted a [study of expenses](#) for folks at or near retirement age (age 55 or older). According to the study, the largest chunk of expenditures for Americans 65 or older went to housing, for an average of 35%. In expensive areas, we have seen lots of folks spending half or more of a Social Security check on their home or ever-escalating rent. Now, if you can't pay off your house as you are moving toward retirement, consider getting a roommate to share expenses or maybe even generate some extra income with your home, for example, by using that extra room as an AirBnb or something similar. Here's one woman's experience with AirBnb: [The AirBnb Experiment: How I Impulsively Started a Vacation Rental Business](#).

Start Saving Early!

We hear this all the time, right? Start saving early... you will be amazed how compound interest will start to add up... just put away a few dollars every month, and it's amazing! OK, well the thing about this is that it is absolutely true — totally weird but true. Here's how compound interest works. If you start with \$100 and get a 6% return, after one year you'll have 106% of your original amount or \$106. The next year, it'll be 106% of that or \$112.36. So, it grows a little bit more than the year before. It might not seem like that much over a couple years, but if you wait out 50 years, it'll be growing at \$98 a year, and that original \$100 will have turned into \$1,842. Higher interest rates make a huge difference, too. A 10% return over those 50 years will give you \$11,739 or over six times as much as you'd have with 6% a year!

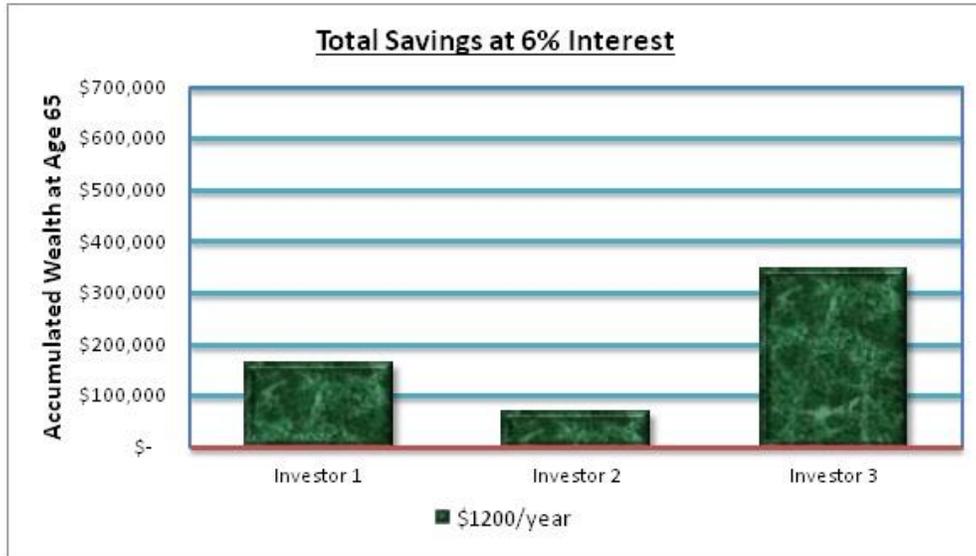
Check out this graph to see the huge difference between 6% interest and 10% interest over a 50-year timeframe!



Now, I have another little story. Once upon a time, there were three people saving for retirement. The first person was only 16 years old (can you imagine that? only 16!), but this 16 year old started contributing \$100 a month into a savings account. He continued to do this until he was 26, at which point he stopped making any further contributions and just let his money grow with compound interest. When he turned 65, the account had grown to \$162,689. Now, let us consider someone else, someone who didn't quite get the memo on starting early. Let's say that this person started contributing that same \$100 per month to a retirement account on her 40th birthday. But (and watch this carefully), she faithfully made contributions for a full 25 years. And at age 65, she had \$69,787. That is less than half of what the early saver accumulated and really highlights how compounding interest adds up! Of course, the best example is the person who starts contributing to a retirement account at age 16 and continues making that contribution to age 65. That person at age 65 will have accumulated \$347,203!

	Investor 1: Starts at age 16 Stops at age 26	Investor 2: Starts at age 40 Stops at age 65	Investor 3: Starts at age 16 Stops at age 65
Accumulated earnings at age 65*	\$162,689	\$69,787	\$347,203

*\$1,200 invested per year with a 6% return



These outcomes assume \$1,200 invested each year with a 6% return:

Investor 1: starts at age 16, stops at 26, accumulated earnings at 65: \$162,689

Investor 2: starts at age 40, stops at 65, accumulated earnings at 65: \$69,787

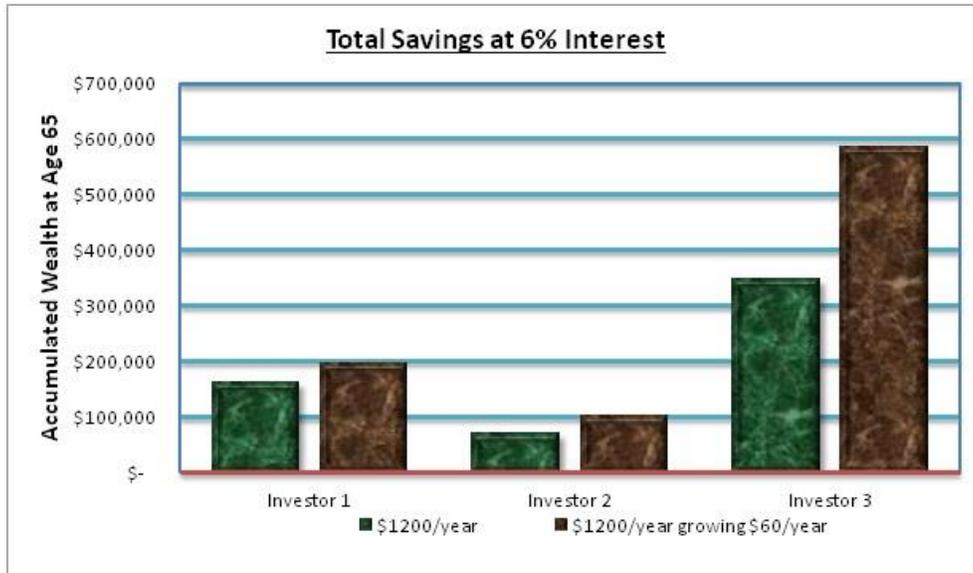
Investor 3: starts at age 16, stops at 65, accumulated earnings at 65: \$347,203

All these numbers are based on saving \$100 per month. But what if, every year you increased your contributions by as little as \$5 per month — so \$105/month in year two, \$110/month in year three, etc.? Well, the person who starts at 16 and makes contributions until age 26 would have \$195,405 or \$32,716 more than the original scenario. The person who starts at 40 would have \$101,444 or \$31,657 more than the original scenario. And the person who goes from 16 all the way up to age 65 would have \$584,599 — a full \$237,396 more than the original scenario!

	Investor 1: Starts at age 16 Stops at age 26	Investor 2: Starts at age 40 Stops at age 65	Investor 3: Starts at age 16 Stops at age 65
Accumulated earnings at age 65*	\$195,405	\$101,444	\$584,599
Increase over the original scenario**	\$32,716	\$31,657	\$237,396

*starting at \$1,200 per year and increasing \$60 per year, at 6% interest

**contributing \$1,200 per year (without any annual increase) at 6% interest



These outcomes assume \$1,200 invested in the first year, growing by \$60 per year with a 6% return:

Investor 1: starts at age 16, stops at 26, accumulated earnings at 65: \$195,405 (\$32,716 more than staying at \$1,200 per year)

Investor 2: starts at age 40, stops at 65, accumulated earnings at 65: \$101,444 (\$31,657 more than staying at \$1,200 per year)

Investor 3: starts at age 16, stops at 65, accumulated earnings at 65: \$584,599 (\$237,396 more than staying at \$1,200 per year)

So, remember, increase your annual contributions every year, even if it's only a little; it adds up over the long term!

OK, want to amaze and astonish your friends at parties? There's a super cool little trick called the Rule of 72. Ever wonder how to figure out how quickly compound interest can double your money? Take the interest rate and divide it into the number 72. The resulting number is the number of years it will take for an amount to double. So, if an investment makes 6% interest, we have 72 divided by 6 to get 12 years! Money in an account earning 6% interest will therefore double every 12 years!

Now, what if you had an investment that tended to do even better?

The historical return of the stock market in the U.S. is about 9%. So, 72 divided by 9 equals 8 years to double one's money. Think about that 16 year old for a second. That first \$100 he saved could double five times over 40 years. So, the \$100 becomes \$200 in the first 8 years. The \$200 becomes \$400 in 16 years. That \$400 becomes \$800 in 24 years, \$1,600 in 32 years, and \$3,200 in 40 years.

See! Told you compound interest was cool! Even Einstein called compound interest the most powerful force in the universe — and he was like a genius!

Next time you're going to spend \$100 on something, remember that you're potentially losing out on \$3,200 (or more) in compounding interest. Is it really worth it? Well? Is it? And stop looking at me that way, I'm not your mother!

There's one more trick for saving that can really help, come tax time. Did you know that the IRS helps low- to moderate-income Americans save toward retirement? It's true! With the Retirement Savings Contributions Credit, you can receive a tax credit of between 10% and 50% of the first \$2,000 you contribute to a qualifying retirement account like an IRA or 401K.

To qualify, you have to earn less than \$31,500 if you're a single filer or \$63,000 if you're married filing jointly. The credit can put another \$200 – \$1,000 in your pocket at tax time. About 7.9 million American taxpayers took advantage of the credit in 2014, and their credits amounted to more than \$1.37 billion — roughly \$174 per return.

2018 Saver's Credit			
Credit Rate	Married Filing Jointly	Head of Household	All Other Filers
50% of your contribution	AGI* not more than \$38,000	AGI not more than \$28,500	AGI not more than \$19,000
20% of your contribution	AGI: \$38,001 - \$40,000	AGI: \$28,501 - \$30,750	AGI: \$19,001 - \$20,050
10% of your contribution	AGI: \$41,001 - \$63,000	AGI: \$30,751 - \$47,250	AGI: \$20,501 - \$31,500
0% of your contribution	AGI: more than \$63,000	AGI: more than \$47,250	AGI: more than \$31,500
*AGI: Adjusted Gross Income		Source:IRS	

2018 Saver's Credit

CREDIT RATE ONE: 50% of Your Contribution
 Married Filing Jointly: AGI* not more than \$38,000
 Head of Household: AGI not more than \$28,500
 All Other Filers: AGI not more than \$19,000

CREDIT RATE TWO: 20% of Your Contribution
 Married Filing Jointly: AGI* \$38,001 – \$40,000
 Head of Household: AGI \$28,501 – \$30,750
 All Other Filers: AGI \$19,001 – \$20,050

CREDIT RATE THREE: 10% of your contribution
Married Filing Jointly: AGI* \$41,001 – \$63,000
Head of Household: AGI \$30,751 – \$47,250
All Other Filers: AGI \$20,501 – \$31,500

CREDIT RATE FOUR: 0% of your contribution
Married Filing Jointly: AGI* more than \$63,000
Head of Household: AGI more than \$47,250
All Other Filers: AGI more than \$31,500

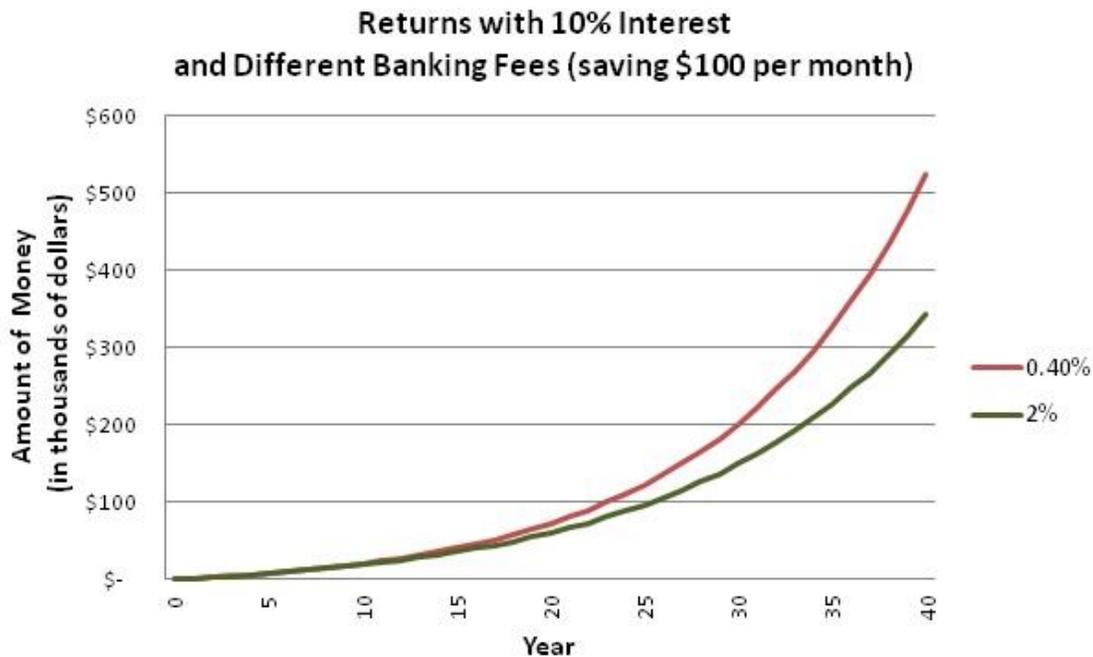
*AGI = adjusted gross income
Source: IRS

Avoid Fees.

So, fees are kind of like an anti-compounding evil force in the savings and investment world. Seriously, we think of them as the Darth Vader of building savings and investments.



Here's another great graph to make the point.



For those who can't see a graph, good news. I have another story. There were two people saving for retirement, and each of them saved \$100 per month over a full 40-year career. Investor number one did very well in his retirement account, earning a 10% average rate of return resulting in a \$335,000 nest egg after a 2% management fee. Investor number two also did very well in her retirement account, earning a 10% average rate of return resulting in a \$522,000 nest egg after a 0.4% management fee. But look at that difference, those fees can really add up! Try thinking about fees like this. When you invest \$100 with a 2% management fee, those fees come off the top, so you're not really investing \$100 but rather, \$98.

Similarly, never be willing to pay a sales fee for an investment. In fact, all the independent research indicates that simple no-load S&P 500 index funds outperform about 85% of all managed investments. Oh yeah, an index fund is just a type of mutual fund with a portfolio constructed to match or track the components of a market index, such as the Standard & Poor's 500 Index (S&P 500). An index mutual fund is said to provide broad market exposure, low operating expenses, and low portfolio turnover according to [Investopedia](#). So, keep it simple; avoid those fees, and start saving now! For more information about investing and avoiding fees, check out the education center on [Vanguard](#)'s website.

Don't Panic! Patience Is Action.

A few months ago, a friend mentioned that she had sold out of her retirement investments after the stock market had declined by 10%. She was convinced that the market was going to continue to decline, and she didn't want to lose more of her hard-earned and invested dollars. I talked with her just last week, as the stock market was setting new all-time highs and asked how things were

going. She was still waiting for the right time to start investing again, even though the market had more than recovered.

So, here's the thing. When the stock market goes down, people get understandably nervous and feel like they need to do something and end up locking in a loss. Then, folks do nothing for a while as the market starts to rise again and often push past previous highs. Feeling more confident with the direction of things, people start to buy until the next pullback when...the process begins anew! Simply put, investors have a tendency to buy high and sell low, according to research published by the Federal Reserve Bank of St. Louis. Investors tend to buy into mutual funds after their performance rises and sell out as performance drops. This is affectionately known as "participation in the downside" while being out of the market during the rise. So, basically, don't do that!

And here's why. Significant stock market pullbacks are about as common as Christmas. According to [Morgan Housal of The Motley Fool](#), since 1928, the stock market has declined 10% or more from a recent high 89 times or about once every 11 months, with just a handful of years escaping a 10% dip. And 20% market drops have occurred 21 times since 1928 or about once every four years. As some of the other staff at The Motley Fool explain:

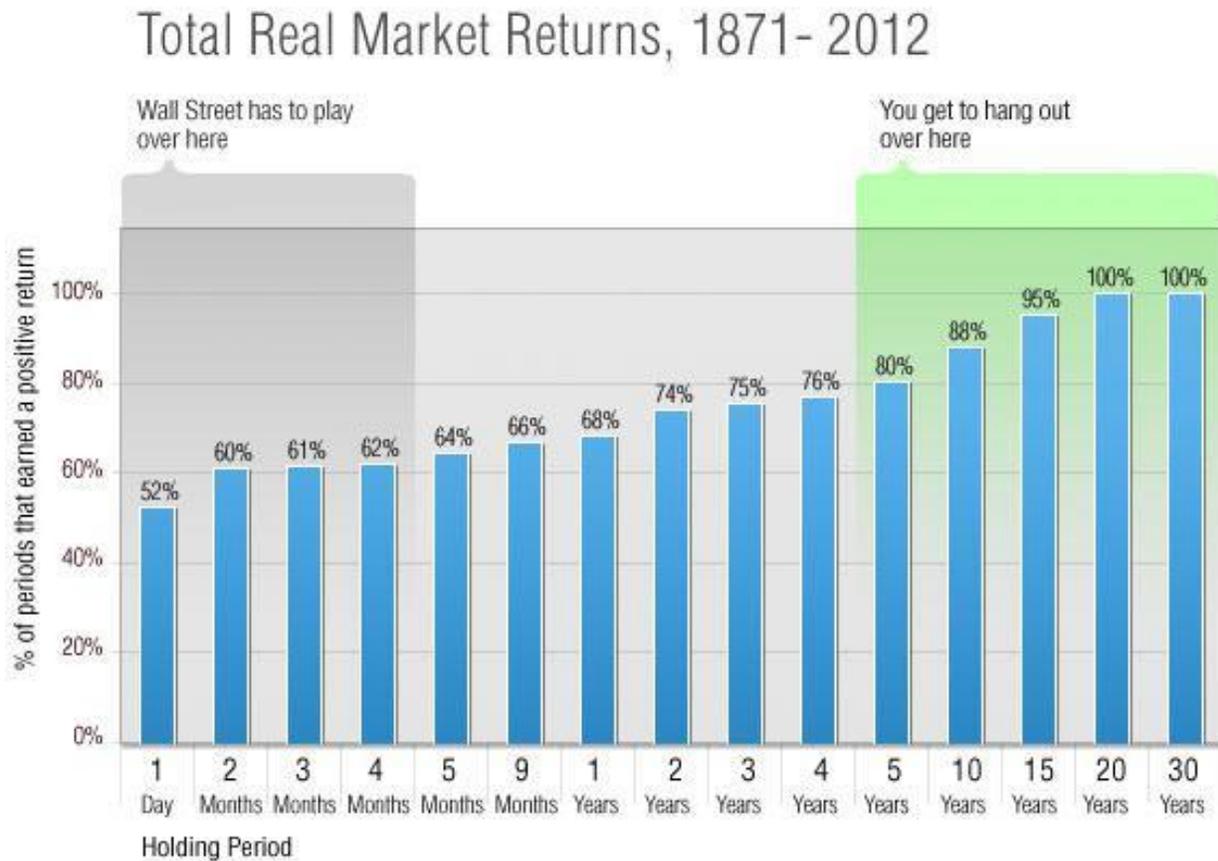
"In retrospect, buying at the lows was the smart way to go. This is not cherry-picking a particular historical example, either, as every single major stock market decline in U.S. history has been a buying opportunity for investors with a longer investment horizon – a trend that stretches from the Great Depression in 1929 to the subprime financial crisis in 2008.

When you are investing for the long-term, time is on your side, so you should capitalize on short-term volatility to make opportunistic purchases, as opposed to running away and selling at the worst possible moment."

[-The Motley Fool](#)

So, we know there will be market declines, but what to do? Well, we have some very cutting-edge advice when it comes to savings and investment and market fluctuations. Ready? This is earth-shattering stuff: OK, so, do nothing! No, really, if you were investing \$100 per month, just keep doing that. Don't sell. Don't panic. Just keep doing what you have been doing, and the market will rebound. It may take some time (or it may not), but just keep investing. Your money will be fine. People always want to take action, but hear this clearly. In life, and particularly in investing, patience is action!

Oh look, another fantastic graph!



[-The Motley Fool](#)

This graph doesn't really lend itself to a good story, but it's super important. Now, let me describe it. It's a bar graph with the left-hand axis being the likelihood of an "up market," and the bottom axis is the length of time one stays invested, using historical data from 1871 to 2012. The graph shows, rather convincingly, that the longer you stay invested in the stock market, the more likely you will have a positive outcome. For example, if an investor was in the market for only one month at some random point from 1871 to 2012, they'd have a 52% chance of a positive outcome if they cashed out at the end of the month. If they stayed in for one year, they'd have a 68% chance of making money. Better yet, 88% of 10-year investments gave positive returns, and a full 100% of investments held for over 20 years had positive returns! This data only goes through 2012, and the market is even higher in early 2018 than it was in 2012, which means that long-term investments are that much more likely to end up positive if you look at the data through today!

1. Stay Invested.

Wouldn't it be great if we all utilized, starting as that 16 year old, every above-outlined retirement strategy? If you're in your teens or twenties, please follow this savings advice, and believe me, your future self will thank you. For folks who maybe didn't get the savings memo 'til later in life, it's never too late. Start saving, pay down that mortgage, avoid fees, and don't panic when the next downturn arrives. Make a plan, stick to your plan, and don't get distracted by short-term results.

Remember, you get to control what you spend and what you save and what your future looks like. Don't sell your future self short. Sacrifice a little today; it will really add up in the future!

Get Started Today!

A solid retirement starts with early action, so take all these tools and start using them today! And you can even see the benefits of that action with online resources and more. Remember that awesome retirement calculator you checked out at the beginning? Go back to it and plug in some numbers, but enter what you could achieve given this toolset. See how much more you could have in savings and retirement income, just from working hard and using money wisely?! So, go ahead and take these steps... Your future self will thank you!



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