Health & Retirement Services of Illinois
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OUR NEWS LETTER

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3 Retirement "Rules of Thumb" That Are Probably Wrong

Thumbs down on these often-cited retirement rules.

Christy Bieber (ChristyB) Sep 21, 2017

Making decisions on retirement can be overwhelming, but certain "rules of thumb" have become so widely quoted that they're often accepted as gospel. These basic "truths" about retirement may guide your efforts to save for retirement and may impact the ways you use your retirement savings. Since they're so widely repeated and considered conventional wisdom, it must be safe to rely on these basic rules when making important decisions, right?

Unfortunately, like much "common knowledge" often proved wrong as more information becomes available and as circumstances change, some of the most basic and widely accepted rules for retirement may actually be very wrong. And, these "rules" can be wrong in ways that make it difficult to build a big enough nest egg and make it last.

Here are four of the key retirement rules you should definitely *not* rely on if you want to be confident that your retirement savings will be there to see you through.

1. You need to save 10% for retirement

For decades, the 10% rule was touted by financial planners and money managers as an easy way to decide how much income you should save for retirement. The theory is, if you set aside 10% of what you make throughout your career, this money can be invested, grow, and turn into a big pot of cash you can live on when you leave the working world. The reality, however, is quite different.

If you save 10% of an average salary of around $51,000, you'd set aside around $5,100 each year or $425 monthly. The amount you'd end up with will vary dramatically, depending on the age when you started saving and the performance of your investments. This table shows the likely amount you'd end up with at age 65 under different circumstances, if you invest in a tax-deferred account .

Age You Begin Investing	5% Return	6% Return	7% Return	8% Return
20	$814,470.00	$1,080,000	$1,460,000	$1,970,000

Age You Begin Investing	5% Return	6% Return	7% Return	8% Return
30	$460,633	$568,317	$705,008	$878,815
40	$243,408	$279,809	$322,570	$372,840
50	$110,050	$118,707	$128,158	$138,475
60	$28,180	$28,748	$29,328	$29,919

The problem quickly becomes clear: Most people don't begin investing when they're 20, many 20-year-olds don't make $51,000 so they can't invest $510 monthly, and many investors don't earn an 8% return.

If you begin investing at 40 and earn just 7%, your retirement savings of $322,570 will allow you to withdrawal no more than $12,900 each year. And that's only if the inflation rate is 3%, you earn a 3% rate of return during retirement, and you live 25 years during retirement.

When combined with the average Social Security benefit for someone who retires at 65, you'd have an annual income of around $26,700 -- well below what you earned while working. Your savings likely won't even be enough even to cover the costs of healthcare as a senior. If you've started late or your returns are less, you'll need to be much more aggressive in how much you save, since 10% simply won't be enough.

2. You can withdraw 4% annually from retirement funds

The 4% rule is another oft-repeated maxim, but this "rule" is designed to determine how much you can withdraw from retirement savings without worrying about spending your investment balance too quickly. The 4% rule, for example, says if you have saved $322,000, you can withdraw 4% (or $12,880) during your first year of retirement.

The problem is, this rule is based on a lot of assumptions, some of which may be outdated. The 4% rule dates back to a time when bonds paid higher rates and when people didn't love as long as they do today. In the 80s and 90s, a 10-year government bond could yield more than 8% compared with just over 2% today. In 1980, life expectancy at birth was 73.7 years. Ten years later, it was 75.4 years. As of 2015, life expectancy was 78.8 years.

If you earn less in bonds than you did in the past and if you live longer, living by the same old 4% rule could result in you running out of money well before your retirement has come to an end.

3. Seniors shouldn't invest in stocks

Because seniors don't have time to wait for market recoveries, most seniors switch to a conservative investment portfolio. Unfortunately, the problem with being too conservative is that your investment returns may not keep pace with inflation and may not provide you with enough gains to make withdrawals from retirement funds without drawing down your savings too quickly.

If you invest only in bonds and earn a return of around 2%, a $322,000 investment would produce a return of $7,000 -- which isn't enough to cover even the $12,880 that you'd withdraw from your account under the 4% rule. You would continue to reduce your retirement account balance quickly each year. Worse, inflation -- which is often higher than 2% -- would eat away at your savings.

You don't want your entire retirement nest egg invested in stocks, because the risks of a down market are too great. However, it's a good idea to dedicate a portion of your savings to stocks that is equal to at least 100 minus your age. This would mean if you were 70, no less than 30% of your investments would be invested in stocks. Some financial experts advise investing even more in stocks -- say, subtracting your age from 110 or 120 -- to give yourself more of a cushion over down markets or a longer-than-expected life span.

By updating your rule book to make sure you're investing enough, investing smartly, and not withdrawing as much as you had previously believed you could, you can make certain you don't run out of money when you're far too old to return to work.

The $16,122 Social Security bonus you could be missing

If you're like most Americans, you're a few years (or more) behind on your retirement savings. But a handful of little-known "Social Security secrets" could help ensure a boost in your retirement income. For example: one easy trick could pay you as much as $16,122 more... each year! Once you learn how to maximize your Social Security benefits, we think you could retire confidently with the peace of mind we're all after.

Than Ever Before. Here's How to Avoid a Similar Fate

A disturbing number of retirees aren't enjoying their golden years. And that's really a shame.

Maurie Backman Sep 20, 2017

Many workers look forward to retirement and the ability to break free from the stress of their jobs. But new data from the Employee Benefit Research Institute reveals from pretty unsettling news: More seniors are completely dissatisfied with retirement today than ever before.

Granted, the overall number of retirees who truly aren't happy is hovering just above 10%, which means most seniors *are* at least somewhat content with their lifestyles. But what's more concerning is that the percentage of seniors who'd describe their retirement as "very satisfying" dropped from 60.5% back in 1998 to just 48.6% in 2012. That's the first time that number has ever dropped below 50%, and it means most seniors are experiencing at least *some* degree of disappointment with retirement.

What's making seniors so unhappy? Though the report doesn't specify, it's no secret that countless retirees experience financial troubles as a result of not having ample savings. Others, meanwhile, struggle with health issues that can turn retirement into one extended period of disappointment. And then there are those who just plain find themselves bored and frustrated with the lack of routine.

Whether you're close to leaving the workforce or still have a few years to go, you deserve to enjoy retirement to the fullest. Here's how to avoid some of the issues that are plaguing so many seniors today.

1. Have a plan

The idea of having your days to yourself might seem appealing in theory. In practice, however, it can be a pretty rough adjustment. If you're the type who needs structure and thrives on keeping busy, retirement could end up throwing you for a loop. In fact, you're 40% more likely to suffer from clinical depression once you retire, according to research from the Institute of Economic Affairs.

To avoid this fate, come up with a plan during your working years that outlines how you'll fill your days in retirement. This might entail a combination of taking classes, traveling, and dividing your time between family. It might also mean working in some capacity, if not for the money, then for the sense of accomplishment involved. No matter how you choose to spend your time, don't just go into retirement blindly. Otherwise, your lack of purpose might quickly bring you down.

2. Save adequately

Money worries cause countless seniors a serious load of stress. Besides, it's hard to enjoy all that downtime if you don't have the money to keep yourself occupied. That's why it's critical to evaluate your savings and determine whether you really have enough to fund the lifestyle you're looking for.

Contrary to what many workers are led to believe, the typical American can't survive on Social Security alone. In a best-case scenario, those payments will cover about 40% of what you used to earn, whereas you'll need ***a minimum*** of 80% of your previous earnings to maintain a reasonably comfortable lifestyle. Want to travel extensively? Then you'll need to save even more.

While there's no magic savings number to aim for, if you're not confident you've amassed enough, then it often pays to work a few extra years and pad your nest egg. Doing so will also help you avoid dipping into your

savings sooner, thus allowing them to stretch. Workers 50 and over can contribute up to $24,000 a year to a 401(k) and $6,500 a year to an IRA. Max out the former for three more years, and you'll have a $72,000 cushion on top of what you've already put away.

3. Adopt a smart Social Security filing strategy

Though Social Security shouldn't be your *only* source of income in retirement, it's a key income stream nonetheless. That's why it's important to understand the ramifications of claiming Social Security at various ages. For example, if you wait until your full retirement age (which is 66, 67, or somewhere in between for today's older workers) to file for benefits, you won't have to worry about a reduction. If you file early, you'll get your cash sooner, but at a reduced rate. And if you wait until you turn 70, you'll get an 8% boost for every year you hold off past full retirement age.

Of course, there's no right or wrong decision when it comes to Social Security. It would, however, be a mistake *not* to develop a well-thought-out strategy so you wind up getting the most from your benefits.

4. Invest in long-term care insurance

An estimated 70% of seniors can expect to need some form of long-term care at some point in time. Yet many don't plan for this major expense, and as such, wind up suffering financially.

Without long-term care insurance, for example, you might pay as much as $225 a day to live in a nursing home, and that's if you're willing to have a roommate. On the other hand, if you have a policy in place, you'll get a decent amount of relief that will not only minimize the financial burden, but help ensure that you get the services you need.

But don't wait till you're retired to apply for long-term care insurance. The younger you are, the greater your chances of not only getting approved, but snagging a discount on what could otherwise be some pretty hefty premiums.

No matter how many years you worked during your career, you deserve a satisfying and fulfilling retirement. If you come up with a plan for how you'll spend your time, do a good job of saving, read up on Social Security, and protect yourself with long-term care insurance, you'll be more likely to identify as a happy retiree down the line.

Social Security Changes Coming in 2018

The average Social Security check will increase by $27 per month next year.

By Emily Brandon,

People who will turn 62 in 2018 will need to wait until an older retirement age to claim their full retirement benefit than existing Social Security beneficiaries. (Getty Images)

Social Security beneficiaries will get 2 percent bigger payments in 2018. The Social Security program will also be tweaked in several important ways that affect how much you pay in and will receive in retirement. Here's a look at the Social Security changes you can expect to see in 2018.

Bigger payments. The average monthly Social Security payment is expected to increase by $27 to $1,404 in January 2018. Couples who are both receiving benefits will see their payments climb by an average of $46 to $2,340. The maximum possible Social Security benefit for a worker who begins collecting benefits at full retirement age will be $2,788 in 2018, up from $2,687 in 2017.

Social Security payments are adjusted every year to keep up with inflation as measured by the Consumer Price Index for Urban Wage Earners and Clerical Workers. Social Security benefits were increased by only 0.3 percent in January 2017. Previous cost-of-living adjustments have ranged from zero in 2010, 2011 and 2016 to 14.3 percent in 1980.

A higher tax cap. Workers will contribute 6.2 percent of their earnings to Social Security until their income exceeds $128,700 in 2018, up from $127,200 in 2017. The Social Security Administration expects about 12 million people to pay higher taxes as a result of this change. Those who earn more than the taxable maximum will not have those earnings taxed by Social Security or used to calculate retirement benefits.

Larger earnings limits. Retirees who work and collect Social Security benefits at the same time will be able to earn slightly more in 2018 before part or all of their benefit is temporarily withheld. Beneficiaries who are younger than their full retirement age can earn up to $17,040 in 2018, $120 more than in 2017, before they will lose a benefit dollar for each $2 earned above the limit. The earning limit will grow by $480 to $45,360 for those who will turn their retirement age in 2018, and the penalty decreases to a dollar withheld for every $3 earned above the limit. Once you turn your full retirement age there is no penalty for working after claiming retirement benefits and your benefit will be recalculated to give you credit for any withheld earnings.

An older full retirement age. People who will turn 62 in 2018 will need to wait until an older retirement age to claim their full retirement benefit than existing Social Security beneficiaries. The full retirement age for those born in 1956 is 66 and four months, up from 66 and two months for people born in 1955 and 66 for everyone born between 1943 and 1954. The full retirement age will further increase in two-month increments in subsequent years until it reaches age 67 for everyone born in 1960 or later. Those who sign up for Social Security before their full retirement age will receive a reduced payment. Workers with an older full retirement age also have less opportunity to boost their payments through delayed claiming. "There are fewer months between the ages of 67 and 70 to earn delayed retirement credits, meaning the maximum benefit is lower with a full retirement age of 67 versus 66," says William Meyer, founder and managing principal of Social Security Solutions, a company that analyzes Social Security claiming strategies.

No more paper statements. The Social Security Administration stopped mailing paper Social Security statements to everyone under age 60 in 2017. If you want to check your earnings history and get a personalized estimate of your future benefit, you will now need to create an online my Social Security account. "Then you can check your Social Security status anytime, anywhere, just like you do with your other accounts," says Andy

Landis, author of "Social Security: The Inside Story." "Try to check your Social Security at least annually, say around the first of the year, tax time or your birthday."

More security features. New security features have recently been added to the Social Security website. My Social Security account holders now need to enter a one-time security code sent to their phone or email address in addition to a username and password each time they log in. "Two-factor authentication is safer than just a username and password," says Susan Grant, director of consumer protection and privacy at the Consumer Federation of America.

The Centers for Medicare and Medicaid Services will mail out new Medicare cards without Social Security numbers printed on them beginning in April 2018. Instead, the new Medicare card will contain a unique combination of numbers and letters. But other printed materials may still list your number. "Don't forget that your Social Security number is not just kept on a card. Social Security numbers may exist on bank account statements, tax documents and other forms of hard copy documents," says David Almonte, a certified public account and member of AICPA's National CPA Financial Literacy Commission. "Be sure to properly dispose of these documents and not just blindly throw them away."

How to Keep Your Social Security Number Safe

Here's how to prevent other people from accessing your Social Security online account.

By Emily Brandon, Staff Writer

When you create a my Social Security account, you can check the accuracy of your earnings and correct errors. (Getty Images)

Millions of Social Security numbers have been compromised due to a data breach at the credit reporting firm Equifax. And once your number has been viewed by potential identity thieves, there's no way for your Social Security number to be secret again. However, there are things you can do to keep your Social Security number safe and limit the risk that a stolen Social Security number can be used against you. Here's how to keep your Social Security information secure.

Create a my Social Security account. Workers age 18 and older are eligible to create a my Social Security account and get a personalized estimate of future Social Security payments. Establishing a my Social Security account allows you to check the accuracy of your earnings and correct errors, so that you will receive the maximum possible benefit you qualify for. The Social Security Administration points out that creating an account prevents someone else from using your Social Security number to set up an account in your name and gain access to your benefit and earning information.

Set up two-factor authentication. You can further protect your Social Security account by setting up two-factor authentication. This means that in addition to a username and password, you use a second method of identification, such as a code sent to your cellphone or email address. The Social Security Administration says using two methods of identification each time you log in better protects your account from unauthorized use and identity fraud.

"Once your information is in the hands of a business or organization or agency, there really is nothing you can do to protect it. You have to trust to them to protect it, and sometimes they don't do a good job," says Susan Grant, director of consumer protection and privacy at the Consumer Federation of America. "What you can control to some extent is the ease with which an impostor will be able to use it." Two or more forms of identification makes it more difficult for impostors to break into your account.

Block electronic access to your Social Security account. If you don't want to use a Social Security online account, consider blocking electronic access so that no one else can set up an account using your compromised Social Security number. You can stop all electronic and automated telephone access to your Social Security information. If you later change your mind about interacting with the Social Security Administration remotely, you can unblock your account.

New Medicare cards coming soon. The Centers for Medicare and Medicaid Services will begin mailing out Medicare cards without Social Security numbers printed on them beginning in April 2018 and hopes to replace all cards within a year after that. Instead, the new cards will contain a unique combination of numbers and letters. The change is intended to "prevent fraud, combat identify theft and safeguard taxpayer dollars," according to a statement from Seema Verma, a CMS administrator.

Until the new cards arrive, Medicare beneficiaries need to take steps to avoid revealing their Social Security number every time they use their Medicare card. "Do not carry your Medicare card with you unless you absolutely need it that day because you are going to the doctor or a pharmacy," says Amy Nofziger, regional director of the AARP Foundation. "You can make a photo copy of your Medicare card and cross out the first five

numbers so you have proof that you are Medicare-eligible. Most hospitals and doctors don’t ask for it at every visit you go to.”

5 Costly Medicare Mistakes to Avoid

A little knowledge about Medicare's ins and outs could save you a lot of money.

Keith Speights (TMFFishBiz)

It's that time of year again. Medicare open enrollment runs from Oct. 15, 2017, through Dec. 7, 2017, for the 2018 calendar year. If you're age 65 or over or meet one of several other Medicare eligibility criteria, now is the time to make your Medicare choices.

The process isn't complicated. However, there are some common mistakes that many Americans make. Here are five costly Medicare ones to avoid.

1. Not reevaluating your Medicare Part D plan each year

One of the most important components of Medicare is the prescription drug program, known as Medicare Part D. Even if you like your current Medicare Part D plan, it's a smart idea to take a fresh look at all your options.

First of all, the costs of each plan can change dramatically from year to year. The prescription drugs that you take could be less expensive with another Medicare Part D plan in 2018. In addition, some insurers might present more coverage hurdles to jump than others. Reevaluate your prescription medication needs against what different Medicare Part D plans offer to make sure you're getting the best deal.

2. Automatically enrolling in your spouse's Medicare Part D plan

You might think it would be simpler for you and your spouse to choose the same Medicare Part D plan. That's probably true, but it could also cost you significantly more.

Unless you and your spouse take the exact same prescription medications, there's a good chance that the plan best for you isn't the best option for your spouse. Remember that different plans can have better coverage for certain prescription drugs than others. Don't automatically enroll your spouse in your Medicare Part D plan. A little extra research could save you money.

3. Not checking Medicare Advantage plans' provider networks

Medicare Advantage plans have become increasingly popular. There are some distinct advantages to going with a Medicare Advantage plan rather than a traditional Medigap plan, although there are also some disadvantages. If you choose a Medicare Advantage plan, there's one potentially costly mistake that you don't want to make: not checking the plan's provider network.

It's quite possible that your doctor isn't in a given Medicare Advantage plan's network. If you sign up for such a plan, it means that you'll either need to change doctors (something most people don't want to do) or pay a lot more. And some Medicare Advantage plans don't cover out-of-network costs at all except for emergency services. Even if your existing Medicare Advantage plan's network includes your preferred providers, make sure there haven't been changes from 2017 to 2018.

4. Forgetting to sign up for Medicare

You'll automatically be enrolled in Medicare Part A and Part B when you turn 65 if you're already receiving Social Security benefits. But's that not the case for many Americans. If you're not currently receiving Social Security benefits, you need to sign up.

Also, many individuals who are still employed when they turn 65 opt not to obtain Medicare Part B coverage (which covers most medical services and supplies outside of hospital stays) and instead stay on their employer's health plan. If you took this path but left your job more than eight months ago, make sure that you sign up for Medicare Part B during the current open enrollment period.

5. Not watching your adjusted gross income

Medicare Part B monthly premiums vary based on your adjusted gross income. In addition, high-income beneficiaries must pay higher premiums for Medicare Part D prescription drug plans.

This is important to remember, especially when you're making withdrawals from tax-deferred retirement accounts. If you take out too much money in the same year, it could boost your adjusted gross income to a higher bracket that makes your Medicare premiums higher. If this applies to you, spreading withdrawals across multiple years could save you a lot of money on Medicare premiums.

What the 4% Rule Means to You

The 4% rule is a great guideline to help you build and execute your retirement plan.

Chuck Saletta (TMFBigFrog)

The 4% rule is a key rule-of-thumb guideline in retirement planning. It helps you estimate how large a nest egg you need to have to cover your costs throughout retirement. Having a good handle on the 4% rule means you can map out the lifestyle you can expect in your golden years and make adjustments in your plan between now and then to better suit your needs.

To get started with the 4% rule, start by estimating the annual expenses you need your nest egg to cover once you stop drawing a paycheck. Divide that amount by 4%, and the result is the size your portfolio probably needs to be to cover those expenses over a 30-year retirement. For example, if you need your portfolio to cover $20,000 per year, you'd need to have $500,000 saved by the time you retire. In retirement, you can then spend that $20,000 in your first year and adjust based on inflation after that.

Why the 4% rule matters

Drawing down assets too quickly can easily force you to run out of money well before the end of your retirement. Over time, the stock market has provided annualized returns around 9.5%. The problem is that those returns aren't guaranteed and certainly don't come smoothly. The market can and does lose value from time to time. Once you retire and you need to start taking money out of your accounts to fund your costs of living, you can't wait for a bad market to recover to pay your bills.

On top of the risks that come from a bad stock market, retirees also have to deal with the risk that inflation will eat away at the purchasing power of their money over time. Over the past 30 years, inflation has eaten away over half the value of every dollar. An income that might seem perfectly fine today might be woefully short of what you need near the end of your retirement -- when you can no longer work to make up the gap.

How the 4% rule handles those risks

To address the risk of a bad stock market, the 4% rule indicates that your portfolio should be diversified between stocks and bonds. The original authors of the rule used a 50% stock-50% bond split. That way, when stocks were performing well, you could draw more of your costs from your stocks. When stocks weren't performing well, you could draw more of your costs from your bonds, which are generally around only one-third as volatile as stocks.

Unfortunately, bonds also typically carry with them lower overall expected returns. For instance, in today's low-interest-rate environment, U.S. Treasury bond investors need to look out 30-years to get long-term returns near 3%. Once you load up your portfolio with assets with lower expected returns, your overall expected return will drop as well. Consider that the price you pay for the higher certainty of actually having your money available to you when you need it.

To address the risk of inflation, the 4% rule has you spend a bit less than the overall expected return rate of your portfolio. For instance, if your stocks earn 9% and your bonds earn 3% and you have a 50% stock-50% bond portfolio split, your overall return rate would be around 6%.

If you expect to earn 6% on your money and only spend 4% of it along the way, you'd have a good shot of winding up with a little more money at the end of the year than you started with. That gives you a fighting chance to keep up with inflation over time. Granted, some years will be better and others will be worse, but all in

all, over the course of a 30-year retirement, you'd still have a very strong chance of seeing your purchasing power last.

The downsides of the 4% rule

While the 4% rule has been time-tested, it still provides no absolute guarantees of success. Some argue that due to today's low interest rates, retirees are at a greater risk of running out of money because their bonds can't provide enough income to keep up. Others indicate it's probably too conservative a withdrawal rate, as people following the rule would typically wind up with twice as much as they had at the start of their drawdown period.

Despite the unknowns and the risks, the 4% rule is still an excellent guideline to plan around. After all, if you do amass the $500,000 nest egg it would take to provide $20,000 a year in inflation-adjusted income, you would still retire with far more than the typical American does.

Once you retire, if your money does grow faster than you need it to, you can always ratchet up your spending or your charitable giving. And if it does turn out that the 4% rule is too aggressive for today's market conditions, you're still likely to be able to live comfortably on that money during the younger, more active days of your retirement.

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If you're like most Americans, you're a few years (or more) behind on your retirement savings. But a handful of little-known "Social Security secrets" could help ensure a boost in your retirement income. For example: one easy trick could pay you as much as $16,122 more... each year! Once you learn how to maximize your Social Security benefits, we think you could retire confidently with the peace of mind we're all after.

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