# RUTGERS

New Jersey Agricultural Experiment Station Later Life Farming Creating a Retirement Paycheck

# Identifying Personal Financial Needs

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Retirement







### Farm Household Demographics

• Average age of principal farm operators: 57.1 in 2007 and 58.3 in 2012 (59.5 in NJ)

– Continues a 30-year trend of steady increases

- Farmers work longer than people in many other occupations (work and home are intertwined)
- 7.5:1 ratio of median net worth: farm families to U.S. families (2010): <u>http://www.usda.gov/oce/forum/presentations/Ahearn.pdf</u>

– Much of farm households' wealth is illiquid



### **Important Retirement Factors**

- Worker's and spouse's health
- Family considerations (e.g., aging parent)
- Employment options
- Access to and cost of health insurance
- Status/amount of investments
- Personal choice





# **Sobering Statistics**

- Chances of a 65-year old living to ages 85 and 90
  - 20% and 41% for men and 53% and 32% for women
  - <u>https://personal.vanguard.com/us/insights/retirement/plan-for-a-long-</u> <u>retirement-tool</u>
- EBRI: A retiring couple can expect to spend living to average life expectancy could need as much as \$295,000 for health insurance and out-of-pocket medical expenses
  - <u>http://www.ebri.org/pdf/briefspdf/EBRI\_IB\_07-20061.pdf</u>
- NEFE: "About 50 million at-risk middle American households" (*Journal of Financial Planning*, July 2009)

<sup>- &</sup>lt;u>http://www.nefe.org/what-we-provide/primary-research/retirement-decumulation-key-concepts.aspx</u>



### Retirement Decision-Making: 4 Key Questions

- Can I afford it?
- Is this the right time?
- How will my spouse and family be affected?
- Do I want to retire?







# #1: Can I Afford It?

- Most current bills will keep coming whether you retire or not
- There may be some new expenses
- Physical assets (e.g., car) will wear out
- Ditto for body parts (e.g., knees)





## **#2: Is This The Right Time?**

- The "best time" to retire is a very personal decision
- Some key factors:



- Ability to perform up to job requirements
- Economics of working (e.g., SS earnings limit)
- Personal health status
- Other job options and/or life passions
- Ability to transition the farm to others



## #3: How Will Spouse and Family Be Affected?

- Forgone income (e.g., scaled back enterprise)
- Farm transfer decisions
- Spouse's retirement dreams
- Spouse's retirement savings





# #4: Do I Want to Retire?

• Do I like what I do (job)?



- How central is work to my life?
- Do I know what I want to do next?
- Can I smoothly transition to something else?
  - New job or small business
  - Volunteer work (boards, clubs, politics, etc.)
  - Spending more time with family and friends



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# Retirement Calculation Process





NEXT EXIT 🗾



### Five Key Variables in Retirement Savings Calculations

- Age at retirement
- Amount of money currently saved



- Amount of annual income needed (percentage of pre-retirement income)
- Rate of return on investments



Number of years in retirement (life expectancy)



# 1. Age at Retirement

- Early retirement is desirable to some people...
- ...But you lose the tremendous resource of time (compound interest)
- Rule of 72: it takes 9 years to double to any sum of money at an 8% average return
- Lower Social Security benefits before full retirement age
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# 2. Amount of Money Currently Saved: Your Net Worth

- Assets (what you own) -
- Liabilities (what you owe)
- = Net worth



http://njaes.rutgers.edu/money/pdfs/networthcalcworksheet.pdf



# 3. Amount of Annual Income Needed in Retirement

- 50%? 100%? Each case is different!
- Active phase of retirement is expensive
- Replacement % depends on retirees'
  - Goals (e.g., travel)



- Lifestyle choices (e.g., smaller home, work, location)
- Resources (e.g., off-farm employer-provided health insurance, inheritances)



# 4. Rate of Return on Investments

- Large company stock compound annual return (1926-2013): 10.1% versus 6% for long-term corporate bonds and 3.5% for Treasury bills
  - <u>https://www.plannersfinancialservices.com/918764.pdf</u>
- \$5.9 trillion sitting in passbook accounts (2011)
  - <u>http://www.e-wisdom.com/news/banking/money-market/report-record-amount-of-money-sitting-in-savings-accounts-110210026/</u>
- About half of U.S. households have no stock investment exposure





# The Rule of 72





### 5. Number of Years in Retirement (Life Expectancy)

- Life expectancy: average number of years of life for people who have attained a given age
- 65-year old couple: 72% chance of at least one spouse living to 85; 45% chance to age 90

- https://personal.vanguard.com/us/insights/retirement/plan-for-a-long-retirement-tool

 Good health habits = higher expected life expectancy = need to save more money



### Life Expectancy Reality Check

- Enter "Life Expectancy Calculator" into an Internet search engine (e.g., Bing, Google)
- Try at least 3 different calculators
- Look for calculators with lifestyle questions
- Social Security calculator is very basic; based on averages







### Strategies to Make Up for Lost Time or Money (or Both)

#### **Before Retirement**

- Increase retirement savings
- Spend less and pay off debt
- "Moonlight" for more income
- Invest more aggressively to try to earn a higher return
- Work longer before retiring



#### **After Retirement**

- Trade down to a smaller home
- Move to a less expensive location
- Work after retirement
- Reverse mortgage or saleleaseback of home
- Make tax-efficient asset withdrawals



# Resources For Making Retirement Savings Estimates









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### www.ces.purdue.edu/retirement



#### Explore the following modules ....

<u>Are You Ready to Retire?</u>

- 2 <u>How Much Will Your</u> <u>Expenses Be in Retirement?</u>
- 3 <u>When Can You Collect</u> <u>Social Security?</u>
  - <u>Would You Like a Quick</u> <u>Estimate of Income Needed</u> <u>in Retirement?</u>
- 5 <u>Are You Eligible for</u> <u>Medicare and Other Health</u> <u>Benefits?</u>

- 6 <u>Do You Have a Retirement</u> <u>Plan that Your Employer</u> <u>Funds?</u>
- 7 Are You Self-Employed & <u>Responsible for Your Own</u> <u>Retirement?</u>
- 8 <u>Do You Have an Individual</u> <u>Retirement Account?</u>
- 9 What is a Lump Sum <u>Retirement Distribution?</u> What Should You Do With <u>It?</u>
- 10 <u>Do You Have Other</u> <u>Concerns?</u>



### The Ball Park Estimate

- Six easy steps; can do online or download paper worksheet
- Can do online at <a href="http://www.choosetosave.org/ballpark/">http://www.choosetosave.org/ballpark/</a>
- Flexible annual retirement income and life expectancy figures
- Assumes a 3% constant real rate of return

Choose to Save. <sup>®</sup> About CTS   Sign up for future Updates   Site Map   EBRI.org   Ballpark En Español		
Brochures Calculators PSAs Resources Media Savings Tips ASEC Search site search		
BALLPARK ESTIMATE Ballpark FAQ Tips for Completing Ballpark Interactive Ballpark Interactive Ballpark Non-Interactive Ballpark	Ballpark E\$timate®	
	1.	Enter your age:
	2.	Enter current annual salary/wage:
		\$
	з.	Enter planned retirement age:
	4.	Enter the desired replacement rate (the percentage of your current income you would like to receive during retirement):
		96
	5.	Enter expected age of death:
	6.	Input inflation assumption:
		96
	7.	Input wage growth assumption:
	8.	Input the rate of return you assume you will earn on your investments BEFORE you retire. (Note: we need you to enter a nominal rate for this calculation, in other words, do NOT subtract out the rate of inflation to produce a real rate of return.)
		%
	9.	Input the rate of return you assume you will earn on your investments AFTER you retire. (Note: we need you to enter a nominal rate for calculation in other words, do NOT subtract

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#### How Much Do I Need to Save for Retirement?

- Available online at <u>http://njaes.rutgers.edu/pubs/publication.asp?pid=FS431</u>
- Downloadable "paper and pencil" worksheet
- 20 steps with choice of time value of money factors





## Monte-Carlo Analyses

- Use historical investment performance data to estimate the probability of not running out of money
- A CFP® can provide analyses or people can use an online calculator (Search "Monte Carlo Calculator")
- Check assumptions and beware of GIGO



regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.



# Later Life Farming Course

• Course URL:

http://laterlifefarming.rutgers.edu/

- 10 modules related to retirement planning for farm households.
- Topics are areas of concern indicated by two focus groups of NJ farmers age 50+:
  - Conducted in the Summer of 2008





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#### Modules

- Creating a Retirement "Paycheck"
- 2. Farming in Later Life
- 3. Where am I Financially?
- How Much Do I Need to Save?
- Sources of Retirement Income
- 6. Investing and Investment Diversification
- 7. Making Your Money Last
- Farm Transfer Decisions
- Regulation and Tax Issues
- 10. Getting Help

#### **More Information**

#### Where Do I Go From Here?

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#### Module 1: Creating a Retirement "Paycheck"

This module will introduce you to the concept of a retirement "paycheck." You'll learn about strategies to receive income on a regular basis in later life, whether you decide to continue farming or not. You'll also learn about tools to estimate your life expectancy and how retirement in the 21st century differs from that of previous generations. Finally, you'll learn about some unique retirement issues and challenges faced by farm families such as illiquidity and farm succession decisions.

- a. What is a Retirement "Paycheck"?
- b. How Long Will You Live?
- c. Retirement in the 21st Century
- d. <u>Retirement Issues and Challenges for Farm</u> <u>Families</u>



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Where Do I Go From Here?

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#### Summary: Where Do I Go From Here?

Later Life Farming: Creating a Retirement Paycheck includes information and tools to help farm families make important retirement planning decisions. The rest is up to you! Below is a list of specific actions to consider to improve your financial security in later life.

#### Module 1 Action Steps

- · Estimate your life expectancy using one or more online calculators
- Make a list of viable strategies for you to create a regular income stream in retirement

#### Module 2 Action Steps

- Take the What is Your R3-Retirement Readiness Rating? quiz
- · Make a list of viable post-retirement employment options other than farming

#### Module 3 Action Steps

- Calculate your net worth using the Net Worth Spreadsheet for Farm Families
- Calculate your household income and expenses using the Spending Plan
  Worksheet
- Complete the *Financial Goal-Setting Worksheet* (7k PDF)
- Take the Financial Fitness Ouis.