# Thinking About Retirement? Information You Need to Know!

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**ABSTRACT**

**The number of postsecondary faculty who are eligible for retirement represents a significant percentage of the higher education faculty workforce. This article examines several factors that contribute to a faculty member's intent to retire, informs administrators about the processes surrounding their faculty and the intent to retire, and provides suggestions on how an institution can prepare for the ramifications that retirement of a significant percentage of faculty will produce, and provides suggestions for assisting faculty during their transition to retirement.**

**In addition, this article suggests ways to avoid financial pitfalls, especially as you work to fill in the gaps you may have between you and retirement. It gives retirement advice from experts in the financial field, how to calculate your retirement benefits, and where to go for additional help while making retirement decisions. Americans are waking up to the reality that each of us is responsible for preparing for retirement. You will work hard over the years to build your nest egg and protect your family. It takes planning and a strategy to produce a guaranteed income one can live on for 25 to 30 years of retirement.**

## Introduction

Research has revealed that in the next five to seven years there will be significant turnover in faculty positions. Approximately 25% of the respondents in a study conducted by Bain (2006) indicated their intent to retire from the workforce in the next three years. So what do faculty members need to know when it comes to retirement. As a faculty member who plans to retire within the next five years, I have found most of the information mentioned below the hard way and hope this research helps you be prepared when the time comes for your retirement.

If you elect to retire, plan to engage in some transition planning activities as you prepare for the next portion of your life cycle. Planning for financial security during retirement can be assisted through working with an investment and portfolio professional which we will discuss below. Asking oneself and others questions related to individual retirement goals will help with the planning stages of retirement. Do not however, solely rely on information from colleagues. Each retirement situation is individual, and your individual case may not be the same as others. It is suggested that when one begins their preparation for retirement they contact representatives of their retirement plan and receive guidance and confirmation on what they can and cannot achieve toward their retirement goals. This forethought and guidance is especially true as it pertains to social security. It is further suggested that as a faculty member prepares for retirement they thoroughly review their retirement savings, including 401K, IRA, Roth IRA savings plans, their holdings of taxable accounts such as stocks, bonds, CD’s, mutual funds, and personal interest bearing savings. In addition any current or previous pension plans and social security benefits should be reviewed to determine their current and future value.

## Outside Consultants

### Some Guidelines for Maximizing Individual Financial Security during Retirement

The following provides a summary of suggestions to prepare for retirement from a number of expert professionals dedicated to assisting faculty during their transition to retirement. The following guidelines and suggestions for maximizing individual financial security during retirement are provided by a personal retirement consultant, the Social Security Administration, the American Association of Retired People (AARP), a University Human Resources Office, and representatives from a State Retirement System. The Texas Retirement System is used as an example to aid faculty by describing a bona fide state retirement system. While individual state systems may vary, the information provided below offers guidelines that can be generally applied across the United States. It should be noted that faculty who have worked in more than one state during their careers may be able to take advantage of combining their total years of service into one state system to best effect one’s entire retirement benefit package. Often, states will allow former employees to return to the state, work for the equivalent of one year’s service, and then “buy back retirement” from the postsecondary institution where the employee currently works. It has been documented that this scenario can be accomplished by taking six months of a leave of absence or a sabbatical and then applying the leave/sabbatical time toward the retirement plan of the state in which one eventually wishes to receive benefits.

Case Scenario

A university professor worked twenty years in the Texas Public School System. S/he then moved to a university in which fifteen years of service was accrued. The Texas

Retirement System (TRS) would allow the professor to “buy back” fifteen years of out of state service from Missouri if he returned to Texas and worked for the equivalent of one year (which amounts to one academic semester). Although the professor had to pay a large fee for buying back the years of experience into the Texas System, the effort resulted in increasing the total monthly retirement income by nearly $1,000 for the rest of his life. It is estimated that it will take approximately seven years to regain the money spent to “buy back” the years of experience. However, because of the formula used by TRS, the professor could begin drawing his combined retirement through the TRS system while still working in the current university system. Note that while the long-term benefits could potentially realize the retiree tens of thousands of dollars, the actual cost expended in the use of a financial consultant knowledgeable in the Texas retirement laws totaled less than $1,000. Money well spent in the eyes of the university professor

The following information provides suggestions from various sources regarding information and activities when planning for retirement.

## Words of Wisdom from a Financial Services Consultant

Most retirees and baby boomers often say that their number one concern is outliving their assets and incomes. People are not interested in trying to live with a shortage of income, especially during their retirement which could last 25 to 30 years. Trends for baby boomers (those born between 1946-1964) reveal that few are covered by a defined benefit pension plan. Most baby boomers preparing for retirement will need to rely on their personal savings and investments. There are various strategies and solutions to help one as they guide themselves through the difficult maze of decisions that they will face while planning their retirement years.

What do men and women want from their retirement finances? A recent survey indicates that women value a “steady stream of income and guarantees of principal” while men focus on “survivor benefits and estate for heirs” (Colson, 2007, p. 2). In addition, men want to hit a home run with their investments even though there is a limited time horizon and retirement is quickly approaching.

An investment account with living benefit features such as the “guaranteed minimum accumulation benefit” or the “guaranteed minimum income benefit” addresses both concerns. When you retire the game changes from accumulation to preservation and income. Having a nest egg work for you, not against you, takes planning. The following are offered as suggestions of ways to secure your assets and protect your financial legacy for your children and heirs. Your plan should contain the following:

- A durable power of attorney. This document directs who handles your finances if you are unable to make decisions.
- A well-constructed will gives instructions, names an executor, and names a guardian of your children.
- A health care proxy to assign someone to make medical decisions.

- A living will provides the measures you want taken to prolong your life.
- A living or "revocable" trust can help avoid probate.
- An incentive trust links an inheritance to a certain age or goal.
- Retirement accounts, such as 401K and IRA assets can be passed on and kept tax-deferred, which will avoid the probate process.
- Homes and life insurance policies can be big assets when considering net worth for estate tax purposes.

Taking time now to discuss your retirement aspirations and plans can help you make better decisions for the future. Questions that Steven Colson, my financial advisor, recommends you ask yourself are: When do you plan to stop working? In two-career households, will both spouses stop working at the same time? Do you expect to spend more or less money during retirement? Do you envision traveling or spending more time at home? Have you developed an investment plan to help support the retirement lifestyle you desire?

## Social Security and Your Retirement

Personnel representing the Social Security Administration (SSA) are very willing to offer assistance. There are two ways to obtain valuable resources regarding Social Security's programs. One may either access the SSA Website by using the Internet to access www.socialsecurity.gov or, access to SSA personnel may be reached via telephone by telephoning (800) 772-1213.

A major issue concerning retirement decisions, and one which many people would benefit by through acquiring additional information, concerns the issue of continuing employment while receiving social security. This is an area where one may expect to receive misinformation. A person can continue to work and still receive Social Security retirement benefits. Your earnings in (and after) the month you reach your full retirement age will not affect your Social Security benefits. However, your benefits will be reduced if your earnings exceed certain limits. There are two excellent brochures available which may be obtained free of cost. They are:

What You Need To Know When You Get Retirement or Survivors Benefits
Social Security Administration
SSA Publication NO. 05-10077
ICN 468300
Unit of Issue – Case of 400
January 2006

and,

Social Security and Your Retirement
American Express
Financial Advisors Inc.
50159 AXP Financial Center
Minneapolis, MN 55474

These brochures cover issues such as beginning your benefits, retirement security for surviving spouses; delaying your benefits; how working may affect our benefits; income taxes on benefits, safeguarding your social security; five ways to boost your retirement savings; and protecting you and your family in case of illness.

## American Association of Retired People

AARP has a number of services available for faculty who are over 55 years of age. The best way to receive information about this organization is to address a request for information to the following address:

AARP Membership Center
3200 East Carson Street
Lakewood, CA 90712
1-800-424-3410
TTY: 877-434-7598
E-Mail Address: member@aarp.org

## Suggestions from a University Human Resources Officer

According to Ms. Joann Westbrook, Employee Benefits Officer, University of Missouri, St. Louis the following are suggestions she feels employees should think about prior to retirement:

a) The earlier you can plan for your retirement, the better. Most of us are concerned about our financial situation and that is only one factor.
b) Employees wanting to maintain their current standards of living in retirement will need to receive between 70 to 75 percent of their active employment income.
c) Employees need to be informed about retirement in terms of wellness, sources of income, financial planning, psychological factors and legal matters. Retirees do not need to wait until retirement to look at their anticipated expenses. You have to keep in mind the emergencies that could occur (appliances that may need replacing or an automobile that needs to be replaced.

d. While working, we are around people and if you do not have a life outside of work, it can become very lonely even depressing. You may need to broaden your contacts perhaps through church or social clubs, and
e. Statistics show that most married women will spend at least 13 years as widows. The level of poverty is greatest among single retired women.

## State Retirement Systems

Each state that provides a retirement system for state employees manages its particular state system for retirement benefits. Some states, like Missouri and Texas, have more than one system that is correlated to the employee's service at the university, state, or public school level. It is suggested that when seeking retirement information associated with a state retirement system that the soon to be retiree contact their state retirement system directly. As mentioned above, the earlier you can do this, the better.

## Independent Plans

TIAA-CREF provides retirement plans at more than 15,000 colleges, universities, schools, research centers, medical organizations and other nonprofit institutions. VALIC is another company associated with educational institutions. It is advisable that you make inquiry into who in your area is most knowledgeable about retirement planning and who can help you set up the best plan to meet your individual needs. The sooner you seek assistance; the better off you will be when it comes time to retire. And believe me; it comes more quickly than you think.

## Calculating Your Retirement

There are several programs on the web to help you calculate your retirement. I have personally found the following informative helpful. This website will give you an idea of where you are financially:

College Savings Plan Calculator – Mind Your Finances Calculators

http://www.mindyourfinances.com/calculators/college-savings

## Concluding Remarks

Americans are waking up to the reality that each of us is responsible for preparing for retirement. You can no longer rely on social security as a safety net. You have many choices to make regarding how to best save for your retirement. Each state plan has unique characteristics and you must consider whether the state in which you reside or have taxable income has a plan that offers favorable state income tax or other benefits that are only available in that state's plan. You must consider the investment objectives, risks, charges and expenses before investing in any plan.

You will work hard over the years to build your nest egg and protect your family. It takes planning and a strategy to produce a guaranteed income one can live on for 25 to 30 years of retirement. Getting there takes some effort. This article is designed to spread light on why faculty is choosing to retire and how administrators in higher education can prepare for this loss of faculty. It also suggests ways to avoid financial pitfalls, especially as you work to fill any gaps you may have between you and retirement. All you need to do now is sit back and dream about what you want in retirement and when you want to start enjoying it. Have fun exploring all the possibilities the next part of your life holds for you.

## References

Bain, D. A. (2006). Indicators and associated intentions to retire for four-year institution faculty. Unpublished doctoral dissertation, University of Missouri, St. Louis, MO.

Colson, S. C. (2007, February 20). He said…she said. *Executive Financial Services Newsletter*, 2.