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FINANCIAL PLANNING NOTES

CLIENT NEWSLETTER

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THE RETIREMENT DECISION

Whether by choice or not, Americans are retiring at a record pace. The already high rate of retirement that we've seen for about 10 years—since the oldest of the baby boomers started turning 65 in 2011—has been accelerated by the tens of millions of layoffs that occurred last year during the height of the pandemic shutdowns.

While, fortunately, most of those layoffs proved to be short-term, many Americans, particularly older ones, found themselves jobless or even company-less, with few prospects for returning to work in their field at the same wage.

The decision to simply retire rather than continue to pound away at an indifferent job market can be difficult under any circumstances. If you or someone you know is facing that dilemma, here are some important points to ponder:

- **What are my Social Security benefits?** Retirement benefits are available to most Americans starting at age 62. If your original plan was to retire at 65, then beginning benefits three years early will mean your monthly amount will be 24% less for the rest of your life. On the other hand, you'll get a check for the next three years that you would not have gotten if you waited until age 65.
- **What are my company retirement benefits?** Did you contribute to a retirement plan like a 401(k) while you were with your last employer? Or any other employer? That's money available to you for retirement, although you will have to pay income tax on money you withdraw, plus a 10% penalty if you are under age 59½. It may be a good idea to roll that money into an IRA account that you can have professionally managed by a financial advisor.
- **How about pensions?** While old-fashioned pension plans are not common in private companies any longer, you may have accrued some benefits while working for an employer years ago or if you've worked for government employers like public schools or firefighters. You can contact that employer and get a statement of what your benefits will be if you begin taking them now or whether a lump sum is available that will give you your entire lifetime of payments up front, a payout that could be rolled into an IRA.
- **Is there an early retirement option?** If you are still working and your employer is looking to cut their workforce, they may focus their efforts on older, higher-paid workers. They might do this by "sweetening the pot" and offering an incentive if you voluntarily separate, like adding years of service to calculate your retirement benefits. If you were considering retiring in the short term anyway, such an offer can be a windfall, one you should discuss with your financial advisor right away.
- **What about health insurance?** While some retirement benefits are available at age 62 or 59½, Medicare is not available to most people until age 65. As almost all of us get our health insurance through our employers, the retirement decision is greatly

complicated for people under the age of 65 by the high cost of private insurance. When you leave an employer, you will usually have the option to remain on their health care plan (at your cost) for up to 18 months, but after that, you're at the mercy of the private insurance marketplace.

No plan is complete until you've explored other options. The two best alternatives to early retirement are:

1. **Partial retirement.** Most of your retirement benefits are available even if you don't retire! You may find that by beginning to take benefits, you can lower your job-related income needs so that you can work part-time or in a lower-paying job if that is all that is available.

2. **Cost cutting.** Your household finances are a simple matter of income and expenses. If you're upside down (expenses are higher than income), you've got only two options to right yourself: increase income or lower expenses. If the income option is not readily available, then it's time to look at expenses. If you're within a few years of retirement, you're probably an empty nester and may live in more house than you need. Downsizing can accomplish two goals: reduce housing expenses and free up equity that can be added to your retirement portfolio. If cheaper housing options are not available in your area, relocation may be worth considering, but first read our article "Want to Move Out of the State of Florida? Here's What to Consider" in our September newsletter or on our online blog.[1]

Note that most of this article is focused on answering the question "Can I afford to retire?" But retirement is more than just a money question. When health issues or structural job market changes are factored in, you may also ponder the question "Do I need to retire?" And dollars and cents aside, many of us tie our jobs and income to our psychological well-being, prompting the question "Do I want to retire?"

All of those questions are part of a holistic retirement decision and lifelong plan to retire comfortably and stay comfortably retired. And we're here to help you answer them.

—Steve Tepper

[1] https://www.northstarplanners.com/new-blog/want-to-move-out-of-florida-heres-what-to-consider

ALL-TIME-HIGH ANXIETY

Investors are often conflicted about record-high stock prices. They are pleased to see their existing equity holdings gain in value but apprehensive that higher prices somehow foreshadow a dramatic downturn in the future. And they may be reluctant to make new purchases since the traditional "buy low, sell high" mantra suggests that committing funds to stocks at an all-time high is a surefire recipe for disappointment.

Financial journalists periodically stoke investors' record-high anxiety by suggesting the laws of physics

apply to financial markets—that what goes up must come down. "Stocks Head Back to Earth" read a headline in *The Wall Street Journal* in 2012.[1] "Weird Science: Wall Street Repeals Law of Gravity," *Barron's* put it in 2017.[2] And a *Los Angeles Times* reporter had a similar take last year, noting that low interest rates have "helped stock and bond markets defy gravity."[3]

Those who find such observations alarming will likely shy away from purchasing stocks at record highs. But shares are not heavy objects kept aloft through strenuous effort. They are perpetual claim tickets on companies' earnings and dividends. Thousands of business managers go to work every day seeking projects that appear to offer profitable returns on capital while providing goods and services people desire. Although some new ideas and the firms behind them end in failure, history offers abundant evidence that investors around the world can be rewarded for the capital they provide.

Whether at a new high or a new low, today's share price reflects investors' collective judgment of what tomorrow's earnings and dividends are likely to be—and those of all the tomorrows to come. And every day, stocks must be priced to deliver a positive expected return for the buyer. Otherwise, no trade would take place. It's difficult to imagine a scenario where investors freely invest in stocks with the expectation of losing money.

Investors should treat record-high prices with neither excitement nor alarm, but rather indifference. If stocks have a positive expected return, reaching record highs with some frequency is exactly the outcome we would expect. Using month-end data over the 94-year period ending in 2020, the S&P 500 Index produced a new high in ending wealth in more than 30% of those monthly observations. Moreover, purchasing shares at all-time records has, on average, generated similar returns over subsequent one-, three-, and five-year periods to those of a strategy that purchases stocks following a sharp decline, as **Exhibit 1** shows.

EXHIBIT 1. All Rise

Average annualized returns for S&P 500 Index after market highs and declines.

	1 year later	3 years later	5 years later
After new market high	13.9%	10.5%	9.9%
After 20% market decline	11.6%	9.9%	9.6%

Past performance is no guarantee of future results.

For illustrative purposes only. Index is not available for direct investment. Performance does not reflect the expenses associated with the management of an actual portfolio.

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Humans are conditioned to think that after the rise must come the fall, tempting us to fiddle with our portfolios. But the data suggest that such signals exist in only our imagination and that our efforts to improve results will just as likely penalize them. Investors should take comfort knowing that share prices are not fighting the forces of gravity when they move higher and have confidence that record highs tell us the system is working just as we would expect—nothing more.

—Weston Wellington, VP, Dimensional Fund Advisors

[1] Jonathan Cheng and Christian Berthelsen, "Stocks Head Back to Earth," *Wall Street Journal*, February 11, 2012.

[2] Kopin Tan, "Weird Science: Wall Street Repeals Law of Gravity," *Barron's*, August 7, 2017.

[3] Russ Mitchell, "Tesla's Insane Stock Price Makes Sense in a Market Gone Mad," *Los Angeles Times*, July 22, 2020.

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