



Good Reasons to Retire Later

Working longer might work out well for you.

Provided by Luke Trosclair

Are you in your fifties and unsure if you have enough retirement savings? Then you have two basic financial choices. You could start saving and investing more of your pay than you currently do, or you could work longer so you have fewer years of retirement to fund.

That second choice might be more manageable, and it may also work out better financially.

Research suggests that working longer might be a good way to address this shortfall. Last month, the National Bureau of Economic Research (NBER) published a paper on this very topic, and its conclusions are significant. The four economists writing the report maintain that when you reach your mid-sixties, staying on the job just one more year could help you greatly. Waiting a little longer to file for Social Security also becomes a plus.¹

What was the most noteworthy finding? By the time you are 66, staying on the job just an additional three to six months will do as much for your standard of living in retirement as if you had contributed 1% more to your retirement plan for 30 years.¹

Here is an example from the report, with an asterisk attached. A 66-year-old who has directed 9% of their earnings into an employee retirement plan during the length of their career retires. Had they simply put 10% of their pay per year into that retirement plan rather than 9%, they would have retired with 11.11% more money in that account.¹

If they work for another year, retire at 67 and file for Social Security benefits at 67, they may put themselves in a better financial position. In this simple example, Social Security benefits would constitute the other 81% of their retirement income. They are just slightly past their Full Retirement Age as defined by Social Security, so by retiring at 67, they receive 108% of the monthly Social Security benefit they would have received at 66.^{1,2}

The asterisk in this scenario is the outlook for Social Security. In the future, will Social Security benefits be reduced? That possibility exists.

Working full time until age 67 may be a tall order for some of us. Right now, only about a third of American workers retire after age 65; about a fifth retire at age 60 or younger. Perhaps the ambitious, energetic baby boom generation will alter those percentages.³

Working one or two more years may be worthwhile for several reasons. Your invested assets have one or two more years to compound before potentially being drawn down – and when assets have grown for decades, even a year of compounding is highly significant. If you have \$350,000 growing at 6% annually in a retirement fund, waiting just a year will enlarge that sum by \$21,000 and waiting five more years will leave it \$118,000 larger – and this is without any inflows.³

Spending another year on the job may help you become fully vested in a pension plan, and it also positions you to receive greater Social Security payments (assuming you are currently 62 or older). Wait until age 65 to retire, and you can leave work without having to worry about buying health insurance – Medicare is right there for you. You also keep your mind active by working longer, and you maintain the friendships you have made through your career or workplace.³

Retire later, and you may do yourself a financial favor. Consider the idea, and be sure to consult with the financial professional you know and trust today regarding your retirement prospects.

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