A NEW WAY TO THINK ABOUT RETIREMENT

Written by Ben Beshear • Photo Provided by Northwestern Mutual

There is a lot of talk in the news about retiring early, and there is even a whole movement focused on retiring early called FIRE (Financial Independence Retire Early). Before I get into why I think retirement needs to be re-thought, it is worth looking at the history of retirement and how 65 became the established age as a societal norm in the first place.

In the 1800s, Otto Von Bismark, who was the Chancellor of Germany, introduced the first Social Security system. He introduced this system to appeal to the working class and set the retirement age at 65. At the time, it was designed to force the aging worker out of the workforce and would have very little cost because very few people at this time lived to age 65. This political move almost 140 years ago set our current paradigm for the expected retirement age. Ironically, a couple that is 65 today has a 50/50 chance that one of them will live to age 92, which is 27 years after age 65. This means that almost 30% of their life would be spent retired1.

If we were setting a retirement age today, would we set it at age 65?

I have observed 5 basic philosophies from my clients as it relates to retirement. Some of these fall into the traditional category while some may hopefully stretch your mindset (in a healthy way) about the possibilities for retirement.

1. Retire Early, pre-age 65

This segment of the population that wants to retire “early” is typically focused on exiting the work force between ages 45 and 60. Although not universally true, they typically view their work as a means to an end (retirement) rather than as their passion. This goal typically requires a savings rate of 20-50% of gross income (assuming you start early), or it assumes an entrepreneur sells his or her business. I have found this goal to be the goal clients are least happy with if they do not have a plan for their time after retirement. It may sound great to not have to work after age 45, but you may have half of your life left to live. Usually type A people that can achieve a goal like this in the first place are restless without something to fill their day. At first, the ability to rest is rejuvenating, but after 6 months, they are looking for a project, a new job, or a company to buy. (This is true for the majority of early retirees in my experience, but not everyone. I have a few folks that had a very specific plan with how they would spend more time raising kids, with hobbies, or volunteering). What I have learned from clients who achieve early retirement is that work is not the enemy (this will be a theme throughout the article). Most of us need healthy and fulfilling work to live a great life. The enemy, in my opinion, is workaholism and missing time with family and losing perspective on what is important in life. If it is possible to have a healthy relationship with work, time off to recharge, and work we find fulfilling... it may not be necessary to retire so early in the first place. (I think what most people want more than early retirement is enough money saved that they have the flexibility to be financially independent, which means they are working by choice.)

2. Retire Later, ages 65-75

This group can fall into one of two camps. The first camp enjoys their work and wants to work as long as possible because they get a sense of fulfillment from it. The second camp may or may not enjoy their work, but they may not have started saving early enough and thus work as long as they need to in order to retire. This goal typically requires annual savings in the 10-15% of gross income range (assuming you start early). What I have learned from this group is how to work smart… usually for the last 5 years of working, they are older and may be tired of the grind but are wise. They find ways to strip out the parts of their work that aren't important and focus on the 20% that matters. This might mean a salesman drops his/her unprofitable and problematic accounts and solely focuses on the best relationships, or a consultant gets really picky on the kind of projects he/she takes. Usually this wisdom leads to profitability and great work, and we could all learn from them on working smart.

3. Mini-Retirements

This is popular in an ever increasing "gig economy," where more and more people have flexible work. This may involve a year off at possibly age 45 for a trip around the world with the kids and then another year off at age 57 for a year rental in Florida with your spouse and then a year off to spend with grandkids at age 65. These mini-retirements can create rejuvenation and renewed creativity and passion for work, thus allowing a longer career with a targeted retirement around age 75. This can require a savings rate of 15-30% depending on the details (assuming you start early) and just like number 1, you need to make sure not all assets are in a retirement account that you can't touch until age 59 1/2. What I have learned from this group is how to think outside the box and to live life to the fullest. They are creating moments and time with family, rather than stuck in the rat race.

4. Re-frame or Second Act

To be honest, I think I fall into this category. I love my work and find it fulfilling, but I'd eventually like to dial down the pressure I'm under as well as spend more time with my family. In this strategy, people tend to try and save as much as they can in their 20s, 30s, and 40s and pay down debt. Between age 45 and 60, they re-frame and find a way to dial work down to a more sustainable level. A lot of these folks will transition from a 60-70 hour per week schedule to a 35-45 hour a week schedule, and they plan to work for 20 years at this pace. The goal for these folks is to save 25-40% of their income until this transition and then at this transition, they have debt paid off and no longer need to save for retirement; which means they can afford to make less and can transition to a more manageable work schedule. This can mean an entrepreneur hires more help and finds more balance, it could mean an executive downshifts into a more manageable role, or it could mean someone changes careers entirely. This strategy recognizes that for most adults, they are often at their most pressing time of their career while their kids are at home. It can be appealing to dial down work pressure while you are raising kids and you can invest in them. In this strategy, it may even be possible to dial back-up work, once kids are out of the house. What I have learned from this group is to remember we all have options (if we've planned well) on how we work and raise a family.

5. Work Forever

This strategy is perfect for people who enjoy work and never see a need to slow down. This strategy is fairly self-explanatory and there are certain careers that cater to this more than others. There are many people in the consulting, legal, sales, etc. fields that find this appealing. I think too often people retire because they can financially, and they leave passionate and purposeful work without a plan for what they will do with their time. Many of them would have been better off continuing to work. Ironically, there is research that indicates early retirement can have an adverse impact on life expectancy.

The reason is simple, they left work that gave them purpose and kept them vibrant and healthy and are now sitting around the house and aging rapidly. If you love your work, keep working. It is still important to save nevertheless, because health may prevent the ability to work forever. These folks should still consider saving about 10% of their net income. What I have learned from this group is there is no reason to stop just because you've crossed some imaginary age milestone, and in many ways your best work may still be ahead of you. You now have 45 + years of wisdom from your work and have a lot to give.

I hope this article helps you to reflect on which of the 5 life strategies you most align with, and hopefully it will help you re-think your own retirement plan. As you can see, retirement is not necessarily about a 25-40-year period where you "get" to do nothing. Ideally it is a time where you may volunteer, work at a place you love, continue your career, pursue passions or hobbies, become a mentor, reconnect with old friends, babysit grandkids, or travel… but if you've planned well, you get more flexibility to do it on your terms with the people you love. Cheers to finding the right mix of passionate work and time off!! ❖

Want to Live a Long Life? Don't Retire Early, The Health Site 2016

3 Types of Retirement and Their Very Different Savings Strategies, Kitces 2017