
# Living Your Retirement Life

*Carrying a Mortgage in Retirement, The 1% Difference & the End of the Golden Age of Bonds*

Retirement is defined as “the time of life when one chooses to permanently leave the workforce behind.”

But is that a definition that everyone can agree on? And what exactly does it mean to “permanently leave the workforce behind? The term “permanently” seems to imply we’re no longer walking the earth. And if you have left the “workforce behind,” does that mean you are a non-contributing member of society then?

Further, is “Retirement” a singular event or do we have “Retirements?” Most of us have had careers versus a single career and jobs versus a single job. Anyway, if you’re in that “Retirements” phase of life, here are a few questions to explore with your family and friends.

## SHOULD YOU CARRY A MORTGAGE?

Carrying a mortgage when you retire may be a great idea. Although the classic advice is to get rid of the loan by then, taking out one now gives great benefits: low rates, freed-up cash and tax breaks as Uncle Sam’s take rises.

Back in the 1950s as many Americans entered homeownership, the one common goal was to eventually pay off the mortgage and own the house outright. When that happened many years later, people had mortgage-burning parties.

They invited friends and relatives to watch them burn the mortgage papers after making their last payment. Reaching this goal was a sign of success and represented a way to a worry-free retirement.

Things started to change as the real estate explosion of the 1980s hit. With housing prices skyrocketing, homeowners often used the equity in their homes to trade up to bigger homes, fund college educations, pay for home renovations, purchase new cars and so on. No longer was a home an investment to one day own free and clear. Instead, it became the family bank.

With over 125 straight months of year-over-year gains in home prices as of August 2022, why wouldn’t you think you could pay off the mortgage and then start again with a smaller retirement home and possibly still be mortgage free? Or use the equity to buy a second retirement home?

But before you rush to pay-off the mortgage as retirement nears, have your financial advisor run the numbers. Using your house as an investment and a bank may not be such a bad idea, as long as you are cautious and realize that, as with most things, what goes up, will more than likely come down.

### What to Do with Your Spare Time?

How many times have you heard this from well-meaning friends and former colleagues: “what will you do now with all your spare time?”

Maybe you expect no problem filling days with grandchildren, hobbies, traveling and volunteer work. But it’s likely that you wind up wondering how you once got everything done while employed.

One frequently unexpected challenge for many in this phase: the emotional space associated with the identity left behind. Men in particular (although both men and women are affected) often align personal identity more with work performed than with financial earnings.

Self-fulfillment comes from being good at what you do, knowing the rules and ropes that come with experience and feeling confident in a day-to-day regimen that offers emotional security. The satisfaction that you derive from other people counting on your work matters more than you might think.

A few challenges that you might find:

- Your spouse is used to having the house alone during the day. Suddenly your presence invades his or her space.
- You spent your days at work making big decisions and thriving on pressure. After that’s gone, things you never noticed before suddenly seem urgent as your brain searches for problems needing the familiar big decisions.
- A favorite hobby that always relaxed you no longer delivers the same sense of relief.
- The grandchildren’s softball, soccer and other sports feel more like a full-time job than treasured moments.

Remember, leaving your latest career marks not just an end but also a beginning. Happy days are ahead if you plan.

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## SHOULD YOU KEEP WORKING IN RETIREMENT?

Some people's retirement dreams consist of having the time to do what they want, unencumbered by the demands of working. For others, staying in the workforce on a part-time basis, either out of necessity or by choice, is a core component of their retirement picture.

Keeping a hand in the workforce is a growing trend and for good reason: Part-time employment in retirement is a way to supplement cash flow, maintain employer benefits and stay mentally and physically engaged.

Part-time work is very healthy from a financial-planning standpoint. For instance, every year you work improves your earnings history, which can increase the amount of Social Security you receive. Further, part-time earnings may allow you to delay taking Social Security benefits.

Earnings from a part-time job may also mean you can delay spending down your retirement accounts, giving them more time to potentially grow. An extra three to five years – especially if it coincides with a rising market – can have a tremendously powerful impact on the sustainability of your portfolio.

Finally, part-time work may offer access to employer benefits, such as health insurance and contributing to tax-efficient employer sponsored plans like 401(k)s – not to mention getting the employer match, which is literally free money.

Part-time work can help you stay mentally sharp, socially engaged and physically fit. And there's the benefit of putting a lifetime of skills to work, or finally turning your attention to a lifelong passion.

Still, it's a slippery slope. Part-time work can easily morph into full-time work, especially if you're prone to workaholism. And for those who put their years of experience to work in consulting may find running a business, even a tiny one-person proprietorship, more expensive and onerous than imagined.

Finally: Remember that part-time work doesn't just impact your financial bottom line; it also affects your mind, body, family and friends. Be thoughtful of how you spend your time.

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## THE DIFFERENCE 1% MAKES

Cut a pie into 100 slices and what do you have? Barely a nibble. Seemingly an inconsequential share of anything, 1% can actually make a tremendous difference to your financial security. Even fractions of a percent added to investment returns over time can redefine your life in retirement or your net worth.


For instance, if you can increase your average annual investment return from 5% to 6%, that bump represents a fifth better return – and a substantial increase in your options for living.

Let’s assume that you saved well over your career. You’re 65 now and, in addition to your Social Security benefits, you have $500,000 that may need to last 30 years. A 5% average annual return – reduced 2.5 percentage points for projected inflation (yes inflation is much higher today, but let’s use a more historical rate for inflation) – allows you to withdraw $1,750 pre-tax each month and enjoy, considering average longevity, an excellent probability of not running out of money for the rest of your life.

Increase your average annual return to 6% (make it 3.5% after inflation) and you can increase monthly withdrawals to $2,000 while maintaining significant probability of stretching your nest egg to age 95.

Sounds great – except that adding a percentage point to your expected returns without accounting for more fluctuation in your investment outcomes is hard given today’s low yields for bonds.

For the past 30 years, many people lived well in retirement off bond-heavy portfolios. As interest rates trended down for a generation, bond returns were adequate to exceptional.

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## THE GOLDEN AGE OF BONDS

We have probably left the golden age of bonds. Now global interest rates are near all-time lows and investors find bond returns inadequate to generate enough retirement income.

Bonds saw multiple decades of weak returns years ago, but most retirees then had both shorter life expectancies and company pensions instead of an investment account. Retirees saw far less reason to squeeze a little more return out of money.

With low bond income, many investors feel compelled to seek more investment return via more money in the stock market or high-yield junk bonds that may deliver better returns and higher income only in exchange for more uncertainly and volatility. Risk of bond issuers’ default, aka credit risk, is tame right up until it isn’t – sometimes also the moment that some investors ignore issuers’ questionable credit quality while scrambling for that extra point.


So how can you walk that narrow cliff trail between risk and earning slightly more? First, focus on what you can control. Though this task obviously doesn’t include investment outcomes, you can learn much more about your exposure to risk, reasonably expected returns and how both match your goals.

A written investment policy (aka an investment policy statement) tied to your financial plan can add a guardrail to that cliff edge, minimizing your emotional and knee-jerk decisions when the market turns temporarily sour.

Another avenue of risk-free return: Lower your investing expenses. Understand the management fees of funds you own – and your alternatives. In some cases, you might realize a full point through cost savings if you roll your money over into a less-expensive individual retirement account.

You can also just save more before you need to start living off your savings.

Working an extra year before you retire can reduce a lot of your reliance on investment outcomes. Not only will an extra 12 months of savings (and one fewer year of retirement income withdrawals) help, you also pad your imminent Social Security income – the best risk-free investment you can make.

And as always, find ways to reduce spending without reducing your quality of life. You might be surprised at how easily you can spare just a hundredth of your money.

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## Your Financial Advisor

If you remember anything, please remember this: when you planned for retirement, you modeled out your financial expenses and lifestyle choices. But just because you're retired, it doesn't mean that your planning stops.

You hear it all the time: 70 is the new 60 or 80 is the new 70 or whatever age you are is the new age minus a decade. Because the reality is we are living longer. And as you know, things are getting more expensive too.

Your financial plan should be designed so you can enjoy retirement and sleep better at night. Well into your mid-90s.

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