November 2019

Retirement Planning Insights

In This Issue

Up Front

- The next chapter

Retirement Planning News

- 403(b) investigations

Practical Retirement Planning

- Social Security spousal benefits

Up Front

Turning the page

On November 1, I officially left a 19-year career on Wall Street working in institutional banking and capital markets to go full steam into my new profession…Tenon Financial. I'm super excited and energized about this next chapter of my personal and professional life, but I'd be lying if I said I wasn't nervous. Although I've been financially and emotionally preparing for this for more than three years, I know it will still be a major adjustment for my family and me.

Some of the changes will be very welcomed, others will be challenging. My work will be much more personally fulfilling and satisfying, and I'll be able to make meaningful impacts on peoples' lives. My commute will go from about two and a half hours a day to only a handful of minutes. After years of being firmly planted at a desk from 8:00AM to 6:00PM Monday through Friday, my workday will become a dynamic mosaic of days, nights and weekends. My time will be spent meeting and talking with clients, building a new professional network and carrying out the actual nitty gritty of retirement planning and investment management. And as much as I like to think my wife and kids will appreciate me being around more often, what if the opposite happens and they want me - and my type A personality - out of their hair? My life will now be very different, but I'm ready!

Planning for my big change is sort of like planning for retirement. It's impossible to know exactly what the future will hold as life will inevitably throw unexpected things your way. However, so long as you plan properly, have realistic expectations and are willing to adapt as life happens, the fear of the unknown shouldn't prevent you from pursuing your dreams.

Let's turn the page and see what the next chapter holds…

-Andy

Andy Panko, CFP®, RICP®, EA
Owner of Tenon Financial

Contact Us

www.tenonfinancial.com

hello@tenonfinancial.com

T: 732-902-0066

Tenon Financial LLC
33 Wood Ave South, Suite 600
Iselin, NJ 08830

Retirement Planning News

Investigations into 403(b) sales practices

Regulators recently began conducting broad investigations into insurance companies' sales practices of 403(b) plans. The scrutiny is long overdue.

A 403(b) plan is a retirement savings vehicle offered by public employers; most commonly school districts for the benefit of their employees (i.e. teachers). It allows employees to save for retirement on a tax-deferred basis. In that sense, a 403(b) is very similar to a 401(k), which is the most common type of retirement savings plan offered by non-public employers. Unfortunately, the similarities end there.

The biggest difference between the two plans is that 401(k)'s are covered by the Employee Retirement Income Security Act of 1974 ("ERISA") whereas 403(b)'s are not. ERISA sets minimum governance standards that help to regulate 1) the level of fees and 2) the overall appropriateness of the products offered in the plan.

Given the lax regulation and oversight of 403(b) plans, insurance companies have come to dominate the marketplace and generally fill the plans with annuities that typically have high fees and often place restrictions on employees' ability to sell out of their holdings. Conversely, 401(k) plans normally only offer mutual funds. Compared to annuities, mutual funds generally have much lower fees and rarely place restrictions on the ability to sell out of positions.

In a 401(k) plan, there is a lot of responsibility and liability bestowed upon the employer who approves the plan and its administrator. Ultimately, the employer needs to ensure the plan and its offerings are in the best interests of the employees. On the other hand, in a 403(b) plan, the school district has no such requirement. A 403(b) is instead an individual plan agreed upon between the employee and the issuing insurance company. Therefore, there is unfortunately no one looking out for the employees' best interests when it comes to their 403(b) plans. Insurance companies know this and have taken advantage of it for a long time. To be fair, not all 403(b) plans are bad. But when compared to their 401(k) brethren, they are rarely good.

I don't know where these regulatory investigations will lead, if anywhere. However, they should at least help bring more awareness to the wild west that is the 403(b) industry. Insurance companies should no longer be allowed to take advantage of public employees by peddling high-cost, complicated and restrictive annuity products inside 403(b) plans.

Practical Retirement Planning

Receiving Social Security spousal benefits while letting your own benefits grow

The window is closing. I'm referring to the window of opportunity to potentially take advantage of a valuable Social Security claiming strategy. If you've never been married, this strategy unfortunately does not apply to you. But if you're currently married or were previously married, pay close attention!

Many of you already know the longer you wait to file for your Social Security retirement benefits, the larger the benefit amount will be when you do eventually file. You're able to delay your benefit up until age 70, after which there is no longer any increase or upside to further delaying.

Additionally, many of you also know Social Security provides “spousal benefits,” which are benefits paid to the spouse of a person who is entitled to Social Security retirement benefits.

What you may not know is there are certain circumstances where you can receive spousal benefits while delaying your own benefit to allow it to grow. This is called filing a “restricted application.” When you file for benefits, you *restrict* your application to receive only one benefit (i.e. the spousal benefit) while leaving other benefits (i.e. your own benefit) untouched.

In order to take advantage of the restricted application strategy, you need to be:

1. at least as old as your Social Security “full retirement age” which, for anyone reading this, is somewhere between 66 and 67, and
2. entitled to a Social Security retirement benefit based on your own earnings history, and
3. entitled to a Social Security spousal benefit from a current spouse, an ex-spouse or a deceased spouse (including a deceased ex-spouse)

If you’re entitled to spousal benefits from a *deceased* spouse or *deceased* ex-spouse, the window to file a restricted application is staying open for the foreseeable future, as there are no current legislative plans to close it. However, the window is closing for those of you who are entitled to spousal benefits from a *living* current spouse or *living* ex-spouse.

As part of the Bipartisan Budget Act of 2015, Congress changed Social Security rules such that you can only file a restricted application for spousal benefits from a *living* spouse or *living* ex-spouse if you were born BEFORE January 2 1954. Furthermore, recall there is no upside to delaying your own retirement benefit beyond age 70, since your benefit amount will no longer grow after that. Therefore, this restricted application strategy is potentially relevant only for those of you whose birthday is BEFORE January 2 1954 but who are not yet 70. As of the date of this newsletter, it encompasses a group of people who are at least 65 years and 10 months old, but not yet 70.

As each day passes, that minimum age will keep increasing while the maximum age will continue to stay 70. Therefore, in approximately four years from now, the window will shut. If you’re within the window of eligibility, it’s definitely worth looking in to whether or not you can take advantage of this strategy.

We can help determine if you are eligible to take advantage of the restricted application strategy. If you’d like to learn more, feel free to contact us at **hello@tenonfinancial.com**.