Investor'sEdge

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Rewriting retirement: Today's retirement has become anything but traditional

Baby boomers have redefined every life phase, and retirement is no different. As 10,000 baby boomers step into retirement daily, the landscape is quickly shifting away from the expected stereotype of the past to an exciting new life phase characterized by new perspectives—and new attitudes—around retirement and aging.

Simply put, it's not your parent's retirement. Rather than viewing retirement as the final chapter in an active life, today's boomers optimistically perceive retirement as an extended encore—a chance to reinvent themselves, pursue lifelong passions, volunteer, work a part-time gig or even embark on a new business venture.

Yet this transformational shift in the mindset of today's retirees will require assessing your expectations and concerns and redefining your goals—regardless of your age. *Rewriting Retirement*—a new Wealth Insights report from RBC Wealth Management—explores both the opportunities and challenges of today's retirement and conveys proven planning strategies to help you write your personal story and navigate this important milestone with clarity and confidence.

Changing viewpoints

According to the survey, many people find that their goals and concerns evolve as they move into retirement. The top fear for Americans regardless of their age is the risk of running out of money. But those who have moved into retirement tend to find that their focus shifts. Fully one-third of retirees surveyed say they are spending their time in retirement differently than they anticipated.

Prior to retiring, more than half of respondents said their top goal in retirement would be travel. But for those already retired, the top priorities according to the survey were related to more holistic goals, such as spending time with family (53 percent), maintaining an active lifestyle (35 percent) and volunteering (25 percent).

Rewriting Retirement also identifies key trends that can help people adapt and thrive in retirement. For example, longer life expectancies coupled with healthier lifestyles has enabled many boomers to stay at work well beyond age 65 to remain connected with their colleagues and supplement their retirement savings.

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Rewriting retirement: Today's retirement has become anything but traditional, continued

RBC Wealth Management recently commissioned a survey designed to help gain a better understanding of expectations, concerns and goals related to retirement. To compare the perspective on both sides of retirement, 700 pre-retirees and 700 people who have moved into retirement were interviewed. The survey identified a distinct contrast between the expectations of retirement and the realities experienced by those already in their encore phase. Key findings of the survey were recently published in *Rewriting Retirement*, a new Wealth Insights report from RBC Wealth Management. To help you prepare for your personal retirement journey please consider your expectations, potential disrupters and personal goals.

Then again, many boomers increasingly seek to retire earlier and reinvent themselves by launching new careers or working side gigs. And as the average age of Americans continues to rise, we're witnessing the rise of a "longevity economy" as new sectors sprout up to meet the changing needs of the age 50+ population. This has implications for virtually every sector ranging from healthcare to housing and beyond.

Your retirement rewrite starts with good planning

Most who are still in the workforce are confident about the future, especially those who have a retirement plan in place and are executing that plan. While you can't prepare for every unanticipated twist-and-turn that could impact your retirement, a good plan gives you added flexibility to adapt to changing circumstances.

Baby boomers may be subject to more uncertainty about retirement than prior generations. One contributing factor is that households are less traditional. You may be caring for aging parents or have adult children still living at home. Another concern is that the safety net may not be as secure as it once was, resulting in higher health care costs and/or reduced benefits.

One of the lessons we can take from this survey is that those who are still working toward retirement should take a close look at the plans they make. Here are three important steps to consider as you start, or re-start, the retirement planning process.

1. Set appropriate expectations

Based on how the survey showed a gap between the expectations of workers and the experiences of retirees, you may want to re-visit expectations of how you will spend your time in retirement. Try to be as realistic as possible. Don't anticipate that your approach to life will change drastically in retirement compared to what it is today. Your goals should accurately reflect who you are.

2. Assess potential "disrupters"

The best retirement plan is one that goes into the process with "eyes wide open." You are likely to encounter detours along your retirement path, such as health care issues. Anticipating what those may be is an important part of the planning process. To the extent possible, have contingency plans in place to protect your retirement goals if unexpected events threaten to alter the course of your life.

3. Prioritize your goals

You likely have multiple financial goals you hope to achieve in retirement. It is important to put them in priority order. A good framework to use is to categorize each goal as either a "need," a "want," or a "wish." Your needs include making sure you've taken care of essential living expenses. It makes sense to separate health care essentials as a separate item under this heading. Other goals may include "wants" and "wishes" like home improvements, a second home and travel plans.

A goals-based wealth plan can help you navigate your financial life. It allows you to lay out a path for your retirement, determine specific milestones, track your progress toward your goals and make adjustments due to changing circumstances or unplanned events.

Your financial advisor can work with you to help put your wealth plan in place and prepare for this important transition stage in life.

Changes that impact retirement planning in 2019

A key financial fact is that many aspects of retirement planning are impacted by yearly changes that primarily reflect the reality of inflation in our everyday lives. It's important to be aware of what could impact your retirement savings and income planning as you look ahead.

Here's a rundown of some of the most prominent changes that may impact decisions you make around your own retirement in the coming year.

Higher contribution limits

Whether you make contributions to a savings plan through your employer, to a plan you established if you are self-employed, or to your own IRA, you'll be able to put more money aside in those accounts in 2019. Here's a comparison of 2018 limits to what's ahead in 2019:

401(k)/403(b)/457 plan*

Age of participant	2018 contribution limit	2019 contribution limit
Under 50	$18,500	$19,000
50+	$24,500	$25,000

Note that this limit is combined if you participate in separate 401(k) and/or 403(b) plans. However, distinct limits apply if you also participate in a 457 plan.

SIMPLE 401(k) and SIMPLE IRA

Age of participant	2018 contribution limit	2019 contribution limit
Under 50	$12,500	$13,000
50+	$15,500	$16,000

IRAs (Traditional and Roth)

Age of participant	2018 contribution limit	2019 contribution limit
Under 50	$5,500	$6,000
50+	$6,500	$7,000

You can make contributions to a workplace retirement plan or SIMPLE plan as well as to a traditional or Roth IRA. Your IRA contributions can be split between traditional and Roth IRAs, but the total contribution can't exceed these limits.

Changes to income limits affecting your retirement strategies

Traditional IRA contributions

If you (and your spouse, if married) participate in a workplace retirement savings plan, it limits your ability to make tax-deductible contributions to an IRA (you can still make non-deductible contributions). For people in these circumstances, the following income thresholds apply in 2019 to determine your ability to make tax-deductible IRA contributions:

Tax-deductible IRA income qualification requirements in 2019

Tax filing status	Qualify for total deduction of IRA contributions	Ability to deduct any IRA contributions is completely phased out
Single	$64,000	$74,000
Married, filing jointly	$103,000	$123,000

If you (and if married, your spouse) do not participate in a retirement savings plan through an employer, there is no income limit on your ability to make tax-deductible contributions to an IRA. If you aren't covered by a workplace plan but your spouse is, you can fully deduct contributions to an IRA from your taxes in 2019 if your income is $193,000 or less for a married couple filing a joint return. The ability to deduct a portion of those contributions completely phases out when income reaches $203,000.

Changes that impact retirement planning in 2019, continued

Roth IRA contributions

The ability to contribute to a Roth IRA can be valuable. While all contributions are made with after-tax dollars, earnings grow tax-deferred and qualified withdrawals can be made on a tax-free basis. However, not everyone is able to contribute to a Roth IRA. There are limitations based on income.

Income limits to qualify for Roth IRA contributions in 2019

Tax filing status	Qualify for full Roth IRA contributions	Ability to make Roth IRA contributions fully phased out
Single	$122,000	$137,000
Married, filing jointly	$193,000	$203,000

Social Security earnings limit for

A key milestone when it comes to receiving Social Security is determining what is defined as your full retirement age. For those considering first receiving Social Security benefits in 2019, full retirement age falls somewhere between age 66 and age 66 and 6 months.

If you choose to claim benefits prior to reaching that age but while you are still earning an income for work, your benefits may be reduced. If your income exceeds specified threshold amounts (see table below), your Social Security benefits will be reduced by $1 for every $2 your earned income exceeds that threshold. In the year you reach your full retirement age, the earnings limit increases and in that period, your benefits are reduced by $1 for every $3 you earn above that limit. Once you reach full retirement age, the earnings limit no longer applies and you retain all Social Security benefits even as you continue to work. Here are the earnings limits for 2019.

Social Security earnings limit for 2019

Age	Earnings Limit	Reduction in Social Security benefits
Prior to year reaching full retirement age	$17,640	$1 in benefits deducted for every $2 in income above this threshold amount
The year you reach full retirement age	$46,920	$1 in benefits deducted for every $3 in income above this threshold amount
When you reach full retirement age	None	N/A

Social Security wage limits

If you work for an employer, 6.2% of each paycheck is directed toward Social Security, and 1.45% is directed toward Medicare, with employers matching those contributions. However, there is a cap on income earned that is subject to the Social Security tax. In 2019, earnings, above $132,900 will not be subject to the 6.2% Social Security tax. That is an increase of $4,500 from the applicable income cap in 2018. The 1.45% deduction for Medicare continues regardless of your income level.

Medicare premiums

Most Medicare recipients who participate in Medicare Part B (medical insurance that pays for services such as doctor's visits, medical equipment and outpatient procedures), pay a monthly premium. Those are increasing at a modest level in 2019, based on your income level. Note that the amount of your premium will be based on income as reported on your 2017 federal income tax return.

Medicare Part B premiums

Individual tax filer	Married filing jointly	Married filing separately	2018 monthly premium	2019 monthly premium
Up to $85,000	Up to $170,000	N/A	$134	$135.50
$85,001 to $107,000	$170,001 to $214,000	N/A	$187.50	$189.60
$107,001 to $133,500	$214,001 to $267,000	N/A	$267.90	$270.90
$133,501 to $160,000	$267,001 to $320,000	N/A	$348.30	$352.20
$160,001 to $499,999	$320,001 to $749,999	$85,001- $414,999	$428.60	$433.40
$500,000+	$750,000+	$415,000+	$428.60	$460.50

Note that the Part B annual deductible is also increasing in 2019 from $183 to $185.

It may be time to update your plan

Annual changes to contributions limits and other rules related to your retirement savings and benefit programs are a good reason to frequently revisit your wealth plan.

Talk to your financial advisor to make sure you fully understand the changes outlined here and how they might impact your retirement strategy going forward.

When should you start taking Social Security?

Social Security can be an important component of your retirement income. But at what age should you start collecting payments? There is no one "right" answer, because everyone's situation is different, but one thing is certain: Timing is everything.

You can begin accepting Social Security benefits as early as 62, but your monthly checks will be 25 to 30 percent smaller than if you wait until your "full retirement age," which is 66 to 67. And once you reach your full retirement age, your monthly payments will increase 8 percent each year until they "max out" when you turn 70. The chart below illustrates just how much your benefit may vary, depending on when you begin taking it.

In deciding when to take Social Security, you will need to consider a variety of factors, including your life expectancy and your other sources of revenue, such as income from employment and withdrawals from your IRA, 401(k) or other retirement accounts. Please see accompanying article, "Changes that impact retirement planning in 2019" for more information.

It is important to make an informed decision regarding how much income you may forfeit over your lifetime(s) based on when you claim benefits and the strategies you employ. From there you can determine which strategy best fits your retirement income plan.

To learn more about maximizing your Social Security benefits, please call your financial advisor.

Effect of early or delayed retirement

Social Security benefit payable based on age

			Benefit percentage, beginning at age						
Year of birth	Full retirement age for full benefit	Credit (percent) for each year delay	62	63	64	65	66	67	70
1943-54	66	8	75%	80%	862/3%	931/3%	100%	108%	132%
1955	66 & 2 mo.	8	741/6%	791/6%	855/9%	922/9%	988/9%	1062/3%	1302/3%
1956	66 & 4 mo.	8	731/3%	781/3%	844/9%	911/9%	977/9%	1051/3%	1291/3%
1957	66 & 6 mo.	8	721/2%	771/2%	831/3%	90%	962/3%	104%	128%
1958	66 & 8 mo.	8	712/3%	762/3%	822/9%	888/9%	955/9%	1022/3%	1262/3%
1959	66 & 10 mo.	8	705/8%	755/6%	891/9%	877/9%	944/9%	1011/3%	1251/3%
1960 and later	67	8	70%	75%	80%	862/3%	931/3%	100%	124%

People born in 1942 or earlier have already reached full retirement age and surpassed the age 70 limit on annual increase for delaying retirement benefits

Note: Persons born on January 1 of any year should refer to the previous year of birth

Source: Social Security Administration, Office of the Chief Actuary