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Friday, March 26, 2010

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Retirement pickle: Too young to retire, too old to hire

By J. GRAYDON COGHLAN, Coghlan Financial Group Inc. Thursday, March 18, 2010

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Advisors working in the retirement arena have long dealt with gaps in clients' expectations...

In October, a study by MetLife delivered some good news: Current workers ages 55-70 expected to work until age 70...

Of course, the current recession forced some retirees to consider at least a part-time job to supplement their portfolio drawdown...

The labor market, however, has put a monkey wrench into those admirable plans. Seniors hoping for even part-time work may have difficulty finding a job...

Over three-quarters of employers responding to a 2009 survey from Families and Work Institute said they had cut costs in response to revenue declines over the past year...

Employers that choose to lay off workers or offer early retirement packages often select employees with more years of service, as wages and benefits are typically less expensive for workers with less tenure...

With life expectancies reaching into the 80s, those who choose retirement at this point could potentially face another 30 years or more of life -- nearly as long as they spent working.

The Social Security Administration said applications for retired worker benefits grew 21 percent during the fiscal year ended Sept. 30, 2009, although the agency had expected an increase of only 15 percent...

Even those who accept an early retirement package and plan to find another job will have a tough time. According to the Labor Department, it takes older job seekers an average of 7.5 months to find a new position...

The Wall Street Journal reported on Dec. 8, 2009, that the number of jobless workers ages 55-64 had almost tripled since the beginning of the recession, based on Labor Department figures...

On the surface, declining an early retirement offer and staying on the job may seem a like a safer idea than leaving and hoping to find another job. Depending on the employer's pension plan, however, they may actually be reducing their pension amount...

Severance and early retirement offers come quickly and end quickly, often with a window of just 15 to 45 days. Ideally, employees faced with those offers would already have an in-depth analysis of their retirement cash flow needs and income resources to help them make that decision...

In 2009, Wells Fargo conducted a survey of pre-retirees ages 50-59 and retirees ages 55-77. Of the more than 2,100 responses, nearly two-thirds had no formal plans for retirement saving or spending...

Clearly, many older workers are finding themselves in a pickle -- too old to avoid the layoff boom and too young to retire. They need a solid investment plan that helps them avoid eating into the principle they've accumulated but at the same time has the potential to grow enough to cover inflation...

Those discussions should go hand in hand with an income analysis showing cash flow projections for the rest of their life.

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Seeing the amount of principle needed to generate a specific cash flow and mitigate taxes can be an eye-opener for those who thought they had another five to 10 working years left before retirement.

*Coghlan founded Coghlan Financial Group Inc. 2002 and extended financial planning and risk management services to California retirees. Natalie Hadley, of Securities America, co-wrote this article.*

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