

THE POWER OF WORKING LONGER

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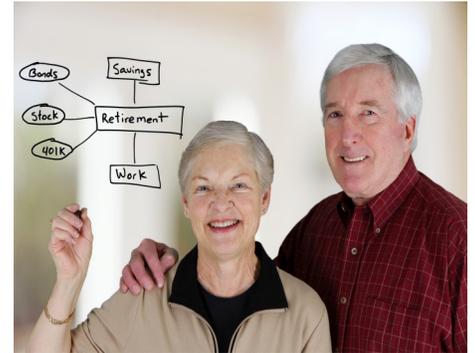
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“This article highlights the powerful financial benefit of working longer.”

McCarthy Asset Management, Inc. is an independent, fee-only investment advisory firm that has been helping people invest wisely for over fifteen years. Our mission is to help you better understand and improve your financial situation. We specialize in Retirement Planning, Portfolio Management and Tax Planning.



Studies have shown that more than 50% of Americans have not saved enough for a financially-comfortable retirement. In many cases, they either started saving too late or have not been saving enough. For those still working who find themselves in this situation, which option do you believe would be more beneficial:



- Increasing your savings rate?
- Delaying the start of retirement?

While both of these actions would help, a recent working paper from the National Bureau of Economic Research examined the trade-off between working longer and saving more. The paper titled [“The Power of Working Longer”](#) was written by John B. Shoven, a Stanford economist, and three of his former students: Gila Bronshtein, an associate at Cornerstone Research, Jason Scott, a retirement expert at Financial Engines; and Sita N. Slavov, a professor at George Mason University.

Say you are 56 and realize that you will need more retirement income when you stop working in 10 years. According to the working paper, you can save 1% more every year from age 56 until age 66, or achieve the same result by working just one extra month.

In an [article](#) they wrote for the July 2018 issue of the American Association of Individual Investors Journal, they provided these other findings

- Postponing retirement by one year, from age 66 to age 67, increases the inflation-adjusted sustainable standard of living by approximately 8%. A larger Social Security benefit and 401(k) balance contribute to this significant increase in standard of living.

Our Services

Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.

Tax Services:

- Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:
 - Tax Return Preparation
 - Income Tax Projections
 - Tax Minimization Ideas
 - Tax Authority Representation

Other Services:

- MAM has retained several outside experts, whose services are available at no cost to our clients:
 - Medicare Planning— Eileen Hamm of Superior LTC Planning Services, Inc.
 - Long Term Care Planning— Allen Hamm of Superior LTC Planning Services, Inc.

- Even in a low rate of return environment, working three or four years longer can increase sustainable retirement resources by approximately 24% to 33%.
- Once the average earner reaches his/her 50s, substantially increasing sustainable retirement resources by saving more has a significantly smaller impact than working longer does.

A major reason why working longer has such a positive impact is that Social Security payments increase 8% for every year you delay collecting Social Security benefits until age 70. In an interview, Professor Shoven said that "some affluent people might not need to worry about these issues. Social Security is unlikely to account for a major part of retirement income for very high-income people—those who earn, say, \$500,000 a year." But, Professor Shoven emphasized, "Social Security is a very important, and often the most important, source of retirement income for 85% of the people in the United States, and that's a conservative estimate."

Shoven explained that increasing the monthly Social Security check can have an outsize impact for the majority of Americans. And because Social Security is progressive—replacing a higher proportion of income for lower-income people—the impact of working longer is greater for those with less money.

MAM Comments: The Shoven working paper provides some interesting insights into how to better prepare for a more financially-comfortable retirement. We have the following two comments:

- While working longer can have a tremendous financial benefit, we don't want to provide a disincentive for clients to aggressively save for retirement. Even though someone may have the right intentions to delay retirement, circumstances could dictate otherwise (layoffs, health issues, etc.).
- Recent research has shown there can also be cognitive and emotional benefits for delaying retirement. Work often gives people a sense of purpose in life, a boon to well-being and mental health. Work may even help stave off dementia. A large [study](#) of nearly half a million self-employed workers in France suggests that delaying retirement may put a person at less risk of developing dementia, including Alzheimer's disease.