Beyond the Basics

Customized Wealth Strategies

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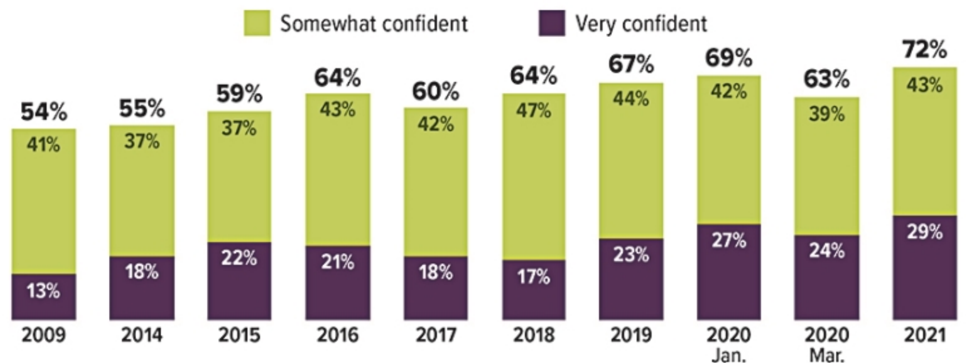
50%

Percentage of workers (or their spouses) who have tried to calculate how much money they will need to save in order to live comfortably in retirement.

Source: Employee Benefit Research Institute, 2021

Can You Fund Your Retirement?

In January 2021, more than seven out of 10 workers were very or somewhat confident that they would have enough money to live comfortably throughout their retirement years. This was the highest confidence level since 2000 and a significant rebound from levels in March 2020 after the pandemic began. Overall, retirement confidence has trended upward since the Great Recession.



Source: Employee Benefit Research Institute, 2021 (two surveys were conducted in 2020)

June 2021

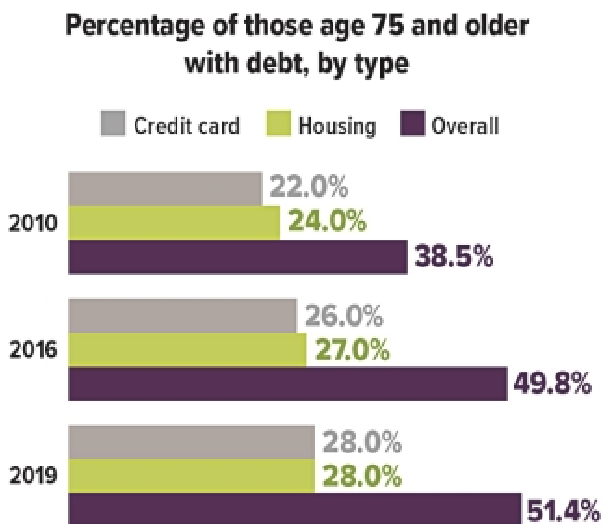
Don't Let Debt Derail Your Retirement

Debt poses a growing threat to the financial security of many Americans — and not just college graduates with exorbitant student loans. Recent studies by the Center for Retirement Research at Boston College (CRR) and the Employee Benefit Research Institute (EBRI) reveal an alarming trend: The percentage of older Americans with debt is at its highest level in almost 30 years, and the amount and types of debt are on the rise.

Debt Profile of Older Americans

In the 20-year period from 1998 to 2019, debt increased steadily for families with household heads age 55 and older; in recent years, however, the increase has largely been driven by families with household heads age 75 and older. From 2010 to 2019, the percentage of this older group who carried debt rose from 38.5% to 51.4%, the highest level since 1992. By contrast, the percentage of younger age groups carrying debt either rose slightly or held steady during that period.

Debt and the Age 75+ Population



Source: Employee Benefit Research Institute, 2020

Mortgages comprise the largest proportion of debt carried by older Americans, representing 80% of the total burden. According to EBRI, the median housing debt held by those age 75 and older jumped from $61,000 in 2010 to $82,000 in 2019. The CRR study reported that baby boomers tend to have bigger debt loads than older generations, largely because of pricey home purchases financed by small down payments. Consequently, economic factors that affect the housing market — such as changes in interest rates, home prices, and tax changes related to mortgages — may have a significant impact on the financial situations of both current and future retirees.

Credit-card debt is the largest form of nonhousing debt among older Americans. In 2019, the incidence of those age 75 and older reporting credit-card debt reached 28%, its highest level ever. The median amount owed rose from $2,100 in 2010 to $2,700 in 2019.

Medical debt is also a problem and often the result of an unexpected emergency. In the CRR study, 21% of baby boomers reported having medical debt, with a median balance of $1,200. Among those coping with a chronic illness, one in six said they carry debt due to the high cost of prescription medications.

Finally and perhaps most surprisingly, student loan obligations are the fastest-growing kind of debt held by older adults. Sadly, it appears that older folks are generally not borrowing to pursue their own academic or professional enrichment, but instead to help children and grandchildren pay for college.

How Debt Might Affect Retirement

Both the CRR and EBRI studies warn that increasing debt levels may be unsustainable for current and future retirees. For example, because the stress endured by those who carry high debt loads often results in negative health consequences, which then result in even more financial need, the effect can be a perpetual downward spiral. Another potential impact is that individuals may find themselves postponing retirement simply to stay current on their debt payments. Yet another is the risk that both workers and retirees may be forced to tap their retirement savings accounts earlier than anticipated to cope with a debt-related crisis.

If you are retired or nearing retirement, one step you can take is to evaluate your debt-to-income and debt-to-assets ratios, with the goal of reducing them over time. If you still have many years ahead of you until retirement, consider making debt reduction as high a priority as building your retirement nest egg.

Sources: Center for Retirement Research at Boston College, 2020; Employee Benefit Research Institute, 2020

Decisions, Decisions: Weighing the Pros and Cons of an IRA Rollover

If you lose a job, switch employers, or step into retirement, you might consider rolling your retirement plan savings into an IRA. But this isn't your only option; it could make more sense to keep the money in your previous employer's plan or move it to your new employer's plan (if allowed by the plan).

You could also cash out, but that's rarely a good idea. Withdrawals from tax-deferred retirement accounts are taxed as ordinary income, and you could be hit with a 10% tax penalty if you are younger than 59½, unless an exception applies.

Some employer plans permit in-service distributions, which allow employees to take a partial distribution from the plan and roll the money into an IRA. When deciding what to do with your retirement assets, be aware that IRAs are subject to different rules and restrictions than employer plans such as 401(k)s.

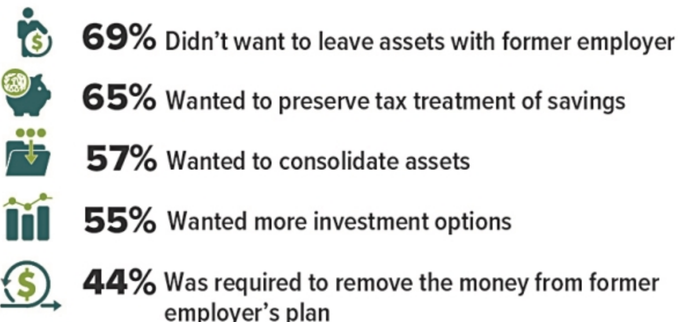
What IRAs Have to Offer

There are many reasons to consider an IRA rollover.

Investment choice. The universe of investment options in an IRA is typically much larger than the selection offered by most employer plans. An IRA can include individual securities and alternative investments as well.

Retirement income. Some employer plans may require you to take a lump-sum distribution when you reach the plan's retirement age, and your distribution options could be limited if you can leave your assets in the plan. With an IRA, it's likely that there will be more possibilities for generating income, and the timing and amount of distributions are generally your decision [until you must start taking required minimum distributions (RMDs) at age 72].

Top Reasons for Most Recent IRA Rollover



Source: Investment Company Institute, 2021 (more than one reason allowed per respondent)

Account consolidation. Consolidating your investments into a single IRA may provide a clearer picture of your portfolio's asset allocation. This could make it easier to adjust your holdings as needed and calculate RMDs.

Different exceptions. There are circumstances when IRA owners may be able to withdraw money penalty-free prior to age 59½, options that are not available to employer plan participants. First-time homebuyers (including those who haven't owned a home in the previous two years) may be able to withdraw up to $10,000 (lifetime limit) toward the purchase of a home. IRA funds can also be withdrawn to pay qualified higher-education expenses for yourself, a spouse, children, or grandchildren. IRA funds can even be used to pay for health insurance premiums if you are unemployed.

When to Think Twice

For some people, there may be advantages to leaving the money in an employer plan.

Specific investment options. Your employer's plan may offer investments that are not available in an IRA, and/or the costs for the investments offered in the plan may be lower than those offered in an IRA.

Stronger creditor protection. Most qualified employer plans receive virtually unlimited protection from creditors under federal law. Your creditors cannot attach your plan funds to satisfy any of your debts and obligations, regardless of whether you've declared bankruptcy. On the other hand, IRAs are generally protected under federal law (up to $1,362,800) only if you declare bankruptcy. Any additional protection will depend on your state's laws.

The opportunity to borrow from yourself. Many employer plans offer loan provisions, but you cannot borrow money from an IRA. The maximum amount that employer plan participants may borrow is 50% of their vested account balance or $50,000, whichever is less.

Penalty exception for separation from service. Distributions from your employer plan won't be subject to the 10% tax penalty if you retire during the year you reach age 55 or later (age 50 for qualified public safety employees). There is no such exception for IRAs.

Postponement of RMDs. If you work past age 72, are still participating in your employer plan, and are not a 5% owner, you can delay your first RMD from that plan until April 1 following the year in which you retire.

Can Creditors Take Your Retirement Savings? It Depends

Given the immense financial hardship inflicted by the COVID-19 pandemic, a rise in personal bankruptcies could be waiting in the wings. For those whose livelihoods have been hit the hardest, it might be important to review the creditor protections that apply to their retirement accounts.

The extent to which assets are protected can vary significantly, depending on the type of account and applicable federal or state law. Being aware of the details can help individuals in financial or legal jeopardy determine whether and/or when they should file for bankruptcy to preserve their retirement funds. It may also help them avoid costly rollover mistakes.

Employer Plans

Most employer-sponsored retirement plans, such as 401(k)s, provide virtually unlimited protection against both bankruptcy and non-bankruptcy general creditor claims under the Employee Retirement Income Security Act of 1974 (ERISA). An example of a general creditor claim is when a person files a lawsuit and wins a judgment in court against the account owner. Thanks to ERISA, creditors cannot attach retirement account funds to satisfy any debts or obligations, regardless of whether bankruptcy has been declared.

Solo 401(k) plans, which are often utilized by self-employed individuals and independent contractors, are not covered by ERISA. This means that solo 401(k) plans — along with other non-ERISA employer plans such as 403(b)s, 457(b) governmental plans, and SEP and SIMPLE IRAs — do not receive non-bankruptcy creditor protection under federal law, though they are fully protected from bankruptcy under the Bankruptcy Code. (Outside of bankruptcy, general creditor protection is based on state law.)

IRAs and Rollovers

Traditional and Roth IRA contributions and earnings are protected from bankruptcy up to $1,362,800 per person until April 1, 2022. This limit is for all accounts combined and is adjusted for inflation every three years. Rollovers from employer plans, including SEP and SIMPLE plans, do not count against this cap. However, the U.S. Supreme Court ruled unanimously that IRA assets inherited by nonspouses are not protected under the Bankruptcy Code.

General creditor protection for traditional and Roth IRAs is based on state law, as it is with SEP and SIMPLE IRAs. So, account owners should carefully consider their own state's general creditor protections before rolling fully protected ERISA plan dollars into an IRA. Those who change jobs should remember they may have two other options: leave savings in the former employer's plan or transfer them to a new employer's plan, if allowed. Unfortunately, retirement account withdrawals and pension benefits paid as income are no longer protected from bankruptcy, so creditors may wait patiently and stake a claim to retirement funds after they are withdrawn.

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