The Guide to Post-Pandemic Retirement in 2021

The guide to Post-Pandemic Retirement in 2021 is designed to help industry professionals make clear choices in the face of transition whether it's to retirement or another career. Those who seek a career change regardless of the industry can find several of these tips useful.

Currently, workers of all ages are experiencing transitional employment angst where the pandemic has helped them realize what's important long-term for them. Some are trading more salary for more quality time; others are searching for new meaning in their profession or another.

On a regular basis, I speak with young, educated professionals who are taking their skills and rethinking careers especially in the face of a changing landscape due to COVID and the political risks arising for the Oil & Gas industry.

By the way, I'm not picking on the Oil & Gas industry. Again, I believe anybody can use this guide regardless of industry. I also realize the importance of oil and gas to the global economy. However, I am concerned about long-term viability in its present form including shrinkage of the overall industry and the changing views of younger generations over time. Today, the energy sector comprises 2.4% of the S&P 500 vs. roughly 14% in 2009.

This guide may be helpful for those in that industry specifically, through the current period of turbulence.

One: Before the numbers, work through the emotions.

Times are changing however, the majority of people still form a sense of self through their chosen professions. Whether you're planning a work change or taking the road to retirement in 2021, emotionally the change will be uncomfortable. In some cases, the financial stress just adds fuel to the fire.

I recall how lost I felt when I quit my long-term employer to become a fiduciary. I was out of sync and a bit disoriented after working for large corporations for over 30 years. There's some sort of conditioning or 'brainwashing' that goes on when you are a cog in a bureaucracy.

You begin to think or (not think), as a cog. Consequently, it took a couple of years of going through the motions before I discovered my best self. I'm not saying this is the same experience for you. However, the feelings of loss and displacement are definitely relatable.

Leave a job for a new venture or retire, your brain falls into what we call - 'The Black Hole.'

Sally Maitlis for Harvard Business Review wrote a piece last year titled *Making Sense of the Future After Losing a Job You Love,*which outlines several steps. For those taking the leap to a new career or making the decision to take a severance package or retire, I believe her guidance applies:

Regulate Emotions: You can do this by talking with someone supportive, practicing mindfulness, doing some slow breathing, or engaging in physical exercise. Any of these activities can reduce the levels of cortisol and adrenaline in your brain that surge when the body is functioning in ?threat? mode, as it will for many at a time like this.

Personally, I did quite a bit of deep breathing each day. I set time aside for it.

Also, I spent hours talking through my feelings of displacement with a close friend. I worked through it, stayed busy. Even if was something as frivolous as organizing my closet, it kept my mind engaged through a turbulent transition.

Engage in Sense-Making: My research also outlines that when individuals focus on how elements of their prior experiences and identities can be reworked and extended, they create the basis for growth rather than entrapment. In my study, these people made sense in a way that shone a light on the value of their skills and personal attributes for a new job.

Experiment and Integrate: We don?t need a crisis to change our job, career, or lifestyle. Yet for many people, among the greatest challenges of making a change are creating the time and headspace to think about it, and then finding the courage to make the leap. For all that is painful about losing a job, it forces change upon us.

Personally, I began to 'depart' from my corporate life six months ahead of time.

I began to imagine how my life would change, hopefully for the better and I believe it worked to ameliorate negative thoughts. See? You can trick your mind that something is real when it isn't!

Two: Maximize a severance package with 'unemotional' homework.

Severance packages are popular when companies seek to reduce the workforce, especially older workers. According to Lee Hecht Harrison and Compensation Resources Inc. in their 2017-2018 Severance & Separation Benefits Benchmark Study of over 350 senior HR leaders at U.S. companies, 88% of companies pay severance.

However, emotions need to be placed on the backburner until a financial decision is made. In most cases, you?ll have at least 21 days to do your homework. You?ll need the time to thoroughly understand the severance agreement especially if it includes a non-compete clause if planning to return to the workforce in a similar role.

For tips to facilitate your decision-making process, click here.

Three: Your company retirement plan may be your greatest enemy.

Unless it's a Solo 401(k) set up for a business owner with predictable cash flows, most company-defined contribution plans are not designed for those with an entrepreneurial spirit. For example, when I quit and my income dropped off dramatically, I needed to tap my pre-tax accounts to survive which lead to taxes and penalties. Generally, every time you tap a pre-tax account, distributions are taxed as ordinary income, and if under 59 1/2, premature distribution penalties apply.

In my opinion, pre-tax retirement vehicles are acceptable accumulation vehicles for 'forever' employees. However, for those seeking a career change, having significant savings in accounts that can place you in a tax and penalty spiral, is not advisable. Even for retirees, we preach the 'diversification of accounts' whereby an investor maintains greater distribution flexibility and lifetime control over tax liabilities.

For example, let's say you need to withdraw $40,000 to get you through a life event. Imagine if you could withdraw from a pre-tax, Roth conversion IRA and after-tax brokerage account to effectively manage the tax burden? A smart portfolio distribution strategy can provide the flexibility to make a large withdrawal with minimal tax impact!

Four: Don't forget the financial vulnerabilities that can go along with change.

The last thing you need is an unforeseen financial event to compound a life change. In many cases, a career exit plan places financial stress upon a household already. A severance package offer or 'forced' retirement may have you rethinking a retirement lifestyle if say, you were planning to work a couple of more years to build savings. And a couple of additional years of working may not seem like much but it can make a tremendous impact on the longevity of your investment assets through retirement.

People who plan for a career shift create an exit strategy perhaps more than two years prior to re-launch. I've partnered with them to curtail voluntary contributions to pre-tax retirement plans (up to the company match), micro-analyze spending habits to reduce expenditures, sell off unproductive assets, downsize, and examine healthcare options all to bolster after-tax cash coffers to handle at least a couple of years worth of living expenses.

How close are you to retirement in 2021?

For those three to five years closer to retirement, a conservative asset allocation shift should be considered so a correction or bear market doesn't alter the plan.

Unfortunately, valuation metrics such as cyclically adjusted price-earnings ratios are extremely poor at pinpointing turning points in markets. However, they are relevant predictors of the probability of future returns. Hey, it?s math. Math eventually wins.

Rich valuations are always worked off through reversion to averages. Based on current levels, the most likely outcome is stock returns that average low single figures or negative (yes, negative). Three to five years before retirement as well as through the initial phase of a distribution or retirement income cycle (3-5 years), the primary focus should be on risk reduction and how withdrawals affect portfolio longevity.

Five: Cash, cash and more (you got it), cash.

The priority is to start a *Financial Vulnerability Cushion*. As a general rule, we consider a year?s worth of living expenses in cash, an adequate goal. Why? Primarily at RIA, we believe chronic underemployment will be an ongoing concern as business trends change and companies seek to radically reduce the cost of labor due to lessons learned during the pandemic. Also, if you're planning a career change, micro-budgeting at least a year or two beforehand to become intimate with household cash flow can help to rapidly fund an FNV.

Six: The healthcare decision.

How to handle healthcare insurance preparation is possibly the most important decision on the table. Those 65 and older should forgo COBRA coverage and opt for Medicare instead. A common mistake for those who are eligible for Medicare is to sign up for COBRA coverage (which extends group health coverage insurance with higher costs) and postpone taking Part B Medicare insurance.

Keep in mind, COBRA is not considered qualified group health insurance coverage for Medicare purposes. If you do not sign up during the Part B 7-month initial enrollment period, you will be charged a late enrollment penalty of 10% of the Part B premium for every 12 months you go without coverage. This penalty is assessed for as long as you have Part B (the rest of your life!).

For younger folks undergoing a career change, obviously, a new employer should provide healthcare as part of a benefits package. The decision gets complicated for those looking to pursue an entrepreneurial path. An involuntary loss of healthcare coverage is a qualifying event and you may be able to join a spouse's employer healthcare coverage.

A voluntary move such as quitting a job to pursue an independent pursuit is not a qualifying event. In that case, you are cast out to the lonely environs of securing individual coverage. This overall can be an intimidating and confusing process.

First, you must understand your own health and cash needs. For example, can you select a high-deductible 'catastrophic' plan? Is your household eligible for a premium tax credit? Can you look to join an Association Health Plan?

What are Association Health Plans?

Per AssociationHealthPlans.com, an association is a group of employers collaborating together within a formal organization. For an association to be "bona fide" (i.e. qualified to offer an association health plan) under the new regulation, it must satisfy multiple conditions. These conditions relate to a variety of factors ranging from the commonality of interest shared among association members to the control of the association by the members.

Finally, the healthcare investigation requires more sleuthing than Columbo can undertake but it's so important. Make sure to be open to feedback from trusted financial partners to help you create a strategy.

Seven: Meet with your financial and tax advisors.

For me, filing quarterly taxes was a foreign concept. I needed to dust off my taxation hat and also partner with a qualified tax strategist to anticipate my future liabilities as an independent contractor (at the time). Plus, I had book sale royalties and needed to understand the overall tax ramifications. Eventually, I formed an LLC. You want to make sure to understand your new tax road as a business owner.

As a retiree, it's important to partner with a financial advisor well versed in distribution strategies. A tax-efficient retirement income plan could minimize taxation on Social Security benefits. In addition, it's important to avoid Medicare Income-Related Monthly Adjustment Amount charges.

Eight: Take health and wellness seriously.

Stress must be taken seriously. Retirement in 2021 can be stressful. So can a career change no matter how prepared one may be financially.

There exists a level of anxiety for new retirees. Years ago I discounted this discomfort as ?crossover risk.? Interestingly, clients who were excited to ?retire? were back at work a year later. Eventually, crossover risk lessens. However, I never discount the distress a new retiree experiences. Enough to where I call the first year:

?The Black Hole?

It?s a place advisors rarely want to venture because it reaches deep into a new retiree's misgivings and vulnerability. For more on The Black Hole, click here.

Ostensibly, there is 'crossover risk' when switching careers or pursuing entrepreneurial passions. On many occasions, throughout the micro-budgeting process, clients seek to cut discretionary expenses. I'm all for it. What I discourage is the cost-cutting from the health and wellness category. Keep the gym membership. Use the facilities more often. Not taking vitamins? Check out Purity Products and consider a regimen of vitamin D3.

Nine: Manage the risk of concentrated stock positions.

We partner with professionals who own more than 20% of their liquid net worth in company stock. Executives in Oil & Gas are usually loyal investors in the common stock of the organizations that employ them.

Diversification isn't some panacea. However, in retirement, the risk of company stock concentration can place an investor on a volatility rollercoaster that could be detrimental to a portfolio withdrawal strategy. In other words, a concentrated position can mean feast or famine - big growth or great contractions - for a portfolio. Volatility can be a benefit for wealth accumulators who look to purchase equity shares lower. For investors in distribution mode, volatility can lead to an accelerated deterioration of wealth.

At RIA, our advisors partner with these clients to create long-term exit strategies. One that includes tax-effective selling over time and covered calls to not only generate additional income but also manage single stock risk.

Ten: Avoid emotionally-triggered Social Security claiming strategies.

The talk of Social Security going bankrupt is mostly clickbait fodder. The maximization of guaranteed income strategies is important. If we're correct at RIA about lower future returns for stocks, you'll be thankful that you stepped back and made an unemotional Social Security claiming decision.

Older adults believe women will live to 83.7. In actuality, they will live to 89 years old. On average, men will live to be 87. Older adults think men will live to be 81.6. Longer life expectancies warrant serious consideration to postponing Social Security until age 70, especially in the face of dwindling private pensions.

In other words, a guaranteed income is important to the survivability of an investment portfolio. The maximization of guaranteed income options can help retirees to adjust or reduce portfolio withdrawal rates.

If a future Social Security recipient waits until age 70, monthly payments can be 32 percent higher than the benefits earned at full retirement age.

Currently, the full retirement age is 66 and 2 months for those born in 1955; for people born in 1960 or later, FRA is 67.

Many changes and distorted data to go along with them, are going to plague the employment market for years. The pandemic is a game-changer for employees and business owners. Work trends are just beginning. In some ways, it's a period of strong self-discovery and job dissatisfaction awareness.

As the brilliant Nassim Taleb wrote in his amazing book - Antifragile: Things That Gain from Disorder, perhaps many employees are undergoing their own Antifragile moment whereby they are using the chaos of the pandemic to re-emerge stronger and different.

Only time will tell.