Equestrian Member Life Services Educational Initiative:

Retirement Planning

Through this initiative, the USHJA seeks to provide educational resources to members on important topics such as long-term contingency planning, insurance, retirement planning and employer resources.

By Tricia Booker

As the Baby Boom generation ages and more people reach retirement, they're realizing that the days of generous and reliable employer pensions and guaranteed health insurance that their parents received are long gone. Today's workers—and those of the future—must rely on themselves to fund their retirements, and because we're living longer and more active lives, those "golden years" may be quite costly.

In this second installment of the Equestrian Member Life Services Initiative, horsemen and financial experts Cheryl Rubenstein and William Craig Dobbs highlight some of the most important financial planning steps you can take to secure your future and forge a smooth path to retirement.

This initiative was prompted by USHJA members Otis "Brownie" Brown and Fran Dotoli, who reflected on the recent loss of friends in the industry. They realized that while some were well prepared for the inevitable, others hadn't taken action, and their families were left scrambling without wills or resuscitation contracts, for example. They were faced with difficult decisions while trying to also cope with emotions and financial burdens.

Brown reached out to the USHJA staff with an idea to put together a series of articles addressing the importance of being properly prepared for your life, wherever it might lead. Because none of us know exactly how long we'll live, it's vitally important to have a will as well as a retirement plan. Because we can't predict if and when an accident might occur, medical and liability insurance and workman's compensation should be on everyone's radar, as well.

We hope you'll consider this article a shortcut or "app" that you can save for future reference. The same information will be provided on the USHJA website (www.ushja.org) in a new "Best Practices" section that you can access on the front page. If you missed the first installment in the July 2015 issue, which addressed long-term contingency planning, you'll find it there as well.

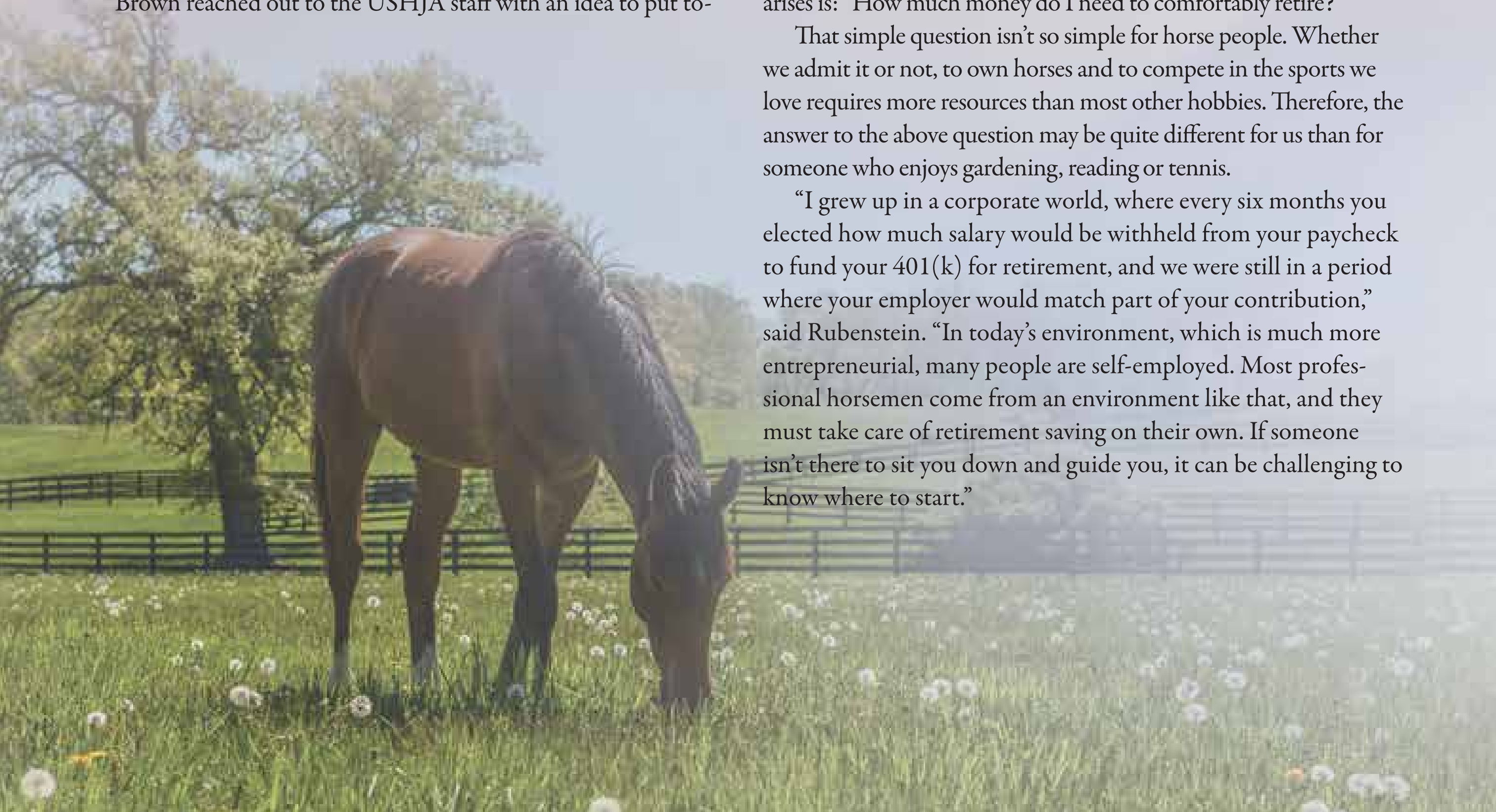
This information is offered solely as an educational service to the USHJA community and the general public. This content is not intended to provide, nor does it constitute, legal advice or legal opinions, and should not be relied upon as legal advice or opinion.

How Much?

The first question many people ask when the topic of retirement arises is: "How much money do I need to comfortably retire?"

That simple question isn't so simple for horse people. Whether we admit it or not, to own horses and to compete in the sports we love requires more resources than most other hobbies. Therefore, the answer to the above question may be quite different for us than for someone who enjoys gardening, reading or tennis.

"I grew up in a corporate world, where every six months you elected how much salary would be withheld from your paycheck to fund your 401(k) for retirement, and we were still in a period where your employer would match part of your contribution," said Rubenstein. "In today's environment, which is much more entrepreneurial, many people are self-employed. Most professional horsemen come from an environment like that, and they must take care of retirement saving on their own. If someone isn't there to sit you down and guide you, it can be challenging to know where to start."



Conventional retirement wisdom from the AARP and other sources has been that in order to retire, you should have amassed $1 million to $1.5 million or that your savings should amount to 10 to 12 times your current income.

But before you stress out or give a sigh of relief, remember that each person is different. Personal finance is, well, personal. The amount of money you will ultimately need will be determined by where you choose to live, your life expectancy and your health, just to name a few important variables.

Whatever your reaction to the above statement, you should know that it's never too early to begin saving for retirement (or too late!).

In fact, statistics show that a person who begins even a modest retirement savings plan in their 20s stands a much greater chance of having a significant nest egg than someone who begins in their 30s. Those 10 years or so make a huge difference due to the impact of compound interest on your money over the course of decades.

"Another important factor to consider is peer pressure," said Rubenstein. "In our sport, we are constantly exposed to people with significant means. Particularly for younger people, it's challengng not to want the same things and want to keep up. I think it's important to look forward into the future and think, 'It's better to keep up with the Joneses in your retirement years than in your 20s and 30s.' But that's not the mindset of most young people."

If you're skimming this article because you think it's too early for you to consider retirement savings, stop! Even setting aside just a small amount annually will bring huge dividends, and your older self in 40 years will thank your younger self hundreds of thousands of times.

For example, according to Market Watch, if you were to save $2,000 every year and averaged 8 percent growth from the age of 25 until 65, roughly four decades, you would have around $459,000 at the start of your retirement. Whereas, if you were to begin only a decade later, at age 35, you would have about $214,000. That's a big difference—and buys a lot of hay and grain.

Budgeting Now and Beyond

So where do you start? Have you ever figured out where your money goes each month and year on various living expenses? That's a first step in determining how much you'll need in retirement.

"It's important to know how much you spend on food, shelter, car payments, student loans and set aside for savings, for example," said Rubenstein. "Then, if you have a family, you'll have to think about life insurance and 529 plans for college savings.

"What's really vital, too, is disability insurance," she added. "What frightens me are the young riders who decided not to complete their educations. Maybe an education was never a goal or priority because they had riding talent, but without marketable skills it's going to be hard to support their horse addiction if something [goes] wrong. Disability insurance becomes paramount, especially if they have a family, but it's not inexpensive."

It used to be suggested that retirees should budget 80 to 90 percent of their current spending for their retirement, but many financial planners now suggest 100 percent, at least for the first 10 years.

Because each person has different needs and wants, knowing where your money goes and why is vitally important to figuring out your long-term savings plan. Do you have a household full of pets? Do you like to travel? Do you always want to own a horse? These are important questions to consider because how much you choose to save now impacts your life later.

Outline how much money you'll need for basic necessities—housing, healthcare, food, utilities, insurance, etc.—as well as the life-enriching items that you personally must have. Remember, in retirement every day is like a Saturday! You might spend more than you expect on day-to-day activities, especially if horses are in your life.

"While it's never too early to begin saving for retirement, it's also never too late."

—Cheryl Rubenstein

Next, outline your current savings plan—401(k), stocks, IRA, savings accounts, etc.—and calculate if you're on target. There are helpful charts and graphs online that allow you to project where you are and where you need to be (*see box*). Most of these calculators are general estimates, but by inputting different amounts and ages for retirement, you can get a feel for where you want to be and the amount you need to save.

Inflation also must be figured into the equation. The longer you live, the more things are likely to cost. Estimates now will most likely be much lower than 20 or 30 years down the road. Cost-of-living increases should be factored into your savings plan and projected expenses, as well.

"If I could send out one message, I'd say: Planning for the future never goes out of style. It's not a fad or trend as is your current desire for something you might want at this moment. It's natural that young people want to have the current clothes and they notice what's in style, but as people grow up they need to think more about long-term investing. That expensive motorhome might be great right now, but is it a good investment for your future?"

While it's never too early to begin saving for retirement, it's also never too late. Even those approaching the magic numbers of 50 and 60 still have the opportunity to realize some serious gains in 10-15 years.

"When you're 50 and haven't started saving, it is a real challenge," said Rubenstein. "A person in this position really needs to realign their spending and prioritize saving. He should take a good hard look at where he is in life. What is his medical condition? How long is he able to be productive in the work force? Then, he needs to crunch some numbers."

This is the time that Rubenstein advises calling in a financial planner. "Your options become increasingly limited as you get older," she said. "I hate how scary that is, but it's the truth. If you're 50-something [years old] and without any retirement savings yet, you need an expert to advise you."

TRICIA BOOKER

Retirement by the Numbers

2 in 10 Number of Americans who feel "very confident" in their retirement security

50% Number of Americans in their 40s who have used a retirement calculator to determine their retirement needs

40 million Number of working-age households that do not own any retirement account assets

50 Age you can make catch-up contributions to your retirement accounts

65 Age you are eligible for Medicare

66/67 Age you are eligible for full Social Security benefits

70½ Age you must start taking minimum withdrawals from most retirement accounts or face heavy tax penalties

Retirement Glossary

401K

The 401(k) is a retirement savings plan sponsored by an employer. When you invest in a 401(k), you're using pretax income, and the taxes aren't taken out until the money is withdrawn from the account.

Like many people, you might wonder why it's called a 401(k). It turns out that in 1978, when the federal law creating these accounts was passed, the 401(k) was the section of the U.S. tax code that governed them. The name stuck.

In the old days, most employers offered defined benefit pension accounts, where the employer would pay a steady income to the employee over the course of the person's retirement. As the cost of funding pensions began to rise, employers switched to 401(k) accounts to save money and to give employees more control over how their money was invested. Initially, 401(k) accounts were developed to supplement pension income; now, however, they've basically replaced them.

Today, employer pensions are a rarity, and therefore the investment risk and most all of the contribution burden for your retirement savings falls on you, the worker.

In 2015, the maximum amount you can contribute to your 401(k) is $18,000 plus an extra $6,000 if you're over 50. Make it your goal to save this amount, or as much as possible.

If your employer matches your 401(k) contributions, make sure that you are contributing enough to qualify for the maximum match. Otherwise, it's like turning down part of your salary.

If you're not maxing out your contributions, consider increasing your 401(k) contributions 1 percent each year and earmark any raises you receive to your 401(k) automatically. That's an easy (and mostly painless) way to save more money each year.

Don't borrow money from your 401(k). Many plans allow participants to take a loan from their account, but there are serious downsides. The loan must be paid back, and while the money is out of your account you're losing the interest compounding and often the opportunity to fund your account for a set amount of time.

Rollovers

If you leave a job that had a 401(k), you can move that money to an Individual Retirement Account (IRA). In doing so, you'll have more flexibility to choose your investments.

IRA

An Individual Retirement Account (IRA) is basically a savings account that provides tax advantages for retirement savings.

IRA TYPES INCLUDE:

- Traditional (contributions made with pretax income)
- Roth IRA (contributions made with post-tax income)
- SEP IRA (self-employed plan for business owners)
- Simple IRA (Savings Incentive Match Plan for Employees that requires the employer to match contributions)
- Rollover IRA (funds come from a qualified plan, such as a 401(k))

Although funds from IRAs can be withdrawn at any time, there are penalties if you do so before age 59½. Early withdrawal would be subject to ordinary income tax plus a 10 percent early withdrawal penalty tax. There are certain exceptions, but basically once you fund an IRA, that money should be considered for retirement purposes only.

Social Security

Many Americans over a certain age have long considered Social Security as a big part of their retirement planning picture because they've been paying into the system their entire working lives. The amount of your benefit does depend on how much you've contributed, but another key factor is timing. If you wait to draw Social Security until a later age, 70 for example, you'll receive a larger benefit.

WHAT YOU SHOULD KNOW:

- You can begin to claim Social Security Benefits from age 62-70
- For each year you wait, your benefits rise
- It may be better to spend your savings and delay your claim depending on your life expectancy

Deciding when to claim Social Security benefits will have a permanent impact on the benefits you receive. Claiming before full retirement age can significantly reduce your benefit while delaying increases it.

For example, waiting to claim until you're age 70 results in 32 percent more in a benefit check than taking benefits at full retirement age, which is 66/67. If you choose to take benefits at age 62, you'll receive only 75 percent of what you would receive if you waited until age 66.

You can find charts online that explain how to maximize your Social Security benefits. These charts show the trade-offs for taking benefits at different ages depending on your probability of living to certain ages.

The bottom line, though, is that there's no one-size-fits-all plan. You should make sure to research and understand the pros and cons of when to take Social Security benefits and work that information into your overall retirement plan.

Conclusion

Even though Rubenstein was immersed in finances throughout her college years and for several decades of her professional life, she still sees areas she could have improved upon.

"I wish I'd been a lot smarter," she reflected. "I wish I'd done more to create a nest egg at an earlier age. Had I understood what the payoff would have been in years to come, even at a fairly low rate of interest, when that money doubles in what amounts to a blink of an eye, I would have done things differently.

"If I could provide advice to young people today, I'd tell them to take advantage of the years and set money aside now," she added. "If you have a desire to purchase a house or a new horse, think about the ramifications for your future. I wish at the time I'd thought more about that new pair of jeans or that trip and that they really weren't very important. Having a savings discipline in place would have been so much smarter."

William Craig Dobbs, of Indianapolis, Indiana, is head of The Dobbs Group. He has more than 25 years of experience as an institutional investment consultant with Graystone Consulting and Merrill Lynch, with specialties in defined benefit, defined contribution, and health and welfare funds. He earned a degree in finance from Ball State University (Indiana) and attended the University of Notre Dame's executive MBA program. Dobbs is also the chairman and treasurer of the USHJA Foundation.

Cheryl Rubenstein, of Memphis, Tennessee, is an amateur hunter rider and was a managing director at JP Morgan Chase for 19 years. She earned degrees in economics and sociology, as well as an MBA in finance and marketing, from Vanderbilt University and Tulane University. Rubenstein is the secretary of the USHJA Foundation and a member of the USHJA Board of Directors.

William Craig Dobbs' Retirement Planning Challenges

- Longevity: Planning for a longer-than-expected life
- Market Volatility: Planning for market risk or uncertainly
- Inflation: Preserving purchasing power over time
- Taxation: Paying your fair share, but no more
- Legacy: Minimizing liability to loved ones

How Much Money Should a 30-Year-Old Have Saved?

- Assuming you've been working since you were 22 or 23 years old, by your 30th birthday you should have amassed a year's salary in your 401(k) or IRA.
- According to Fidelity, by age 45 you should have 3x your salary, and by 55 5x. By the time you reach retirement age, you should have amassed 8x your salary at minimum.

Retirement Planning Check List

- ☐ Define your Lifestyle
  - Budget
- ☐ Analyze your income sources
  - Social Security
  - 401(k) and IRA accounts
  - Pensions
  - Savings
  - Annuities
  - Investments
  - Home equity
- ☐ Analyze your living expenses
  - Housing
  - Healthcare
  - Long-term Care
  - Taxes
  - Debt
  - Insurance
  - Inflation
- ☐ Estimate Your Retirement Age and Longevity
  - Recalculate your savings goals

Government and Non-Profit Resources to Remember

- Personal Finances, Estate Planning, Financial Security, Wills, Trusts, Insurance, Disability and Survivor Planner, and much more: www.usa.gov
- Finding a Lawyer, Estate Planning FAQs, Law Issues for Consumers: www.americanbar.org
- Health Care Coverage: www.healthcare.gov
- Health Care Coverage Information and Research: www.familiesusa.org
- Social Security Administration: www.ssa.gov
- Health, Work and Retirement and Money: www.aarp.org
- Taking The Mystery Out of Retirement Planning: www.dol.gov/ebsa/publications/nearretirement