

SEVEN DAYS

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Life After Work

Financial planners offer advice for growing a retirement nest egg without getting scrambled

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Retirement is the one time in life when it's socially acceptable to boast about being unemployed. The problem is, many people assume they'll never get there, either because they won't live long enough or because they'll never be able to afford *not* to work.

Those assumptions could be faulty. Despite a slight dip in life expectancies during the pandemic, Americans generally are living longer than ever. Someone born in 1950 had a life expectancy at birth of 68 years; for someone born in 2000, it's 77, according to the National Center for Health Statistics.

While none of us knows exactly when we'll die, that shouldn't prevent us from planning for a life after work. *Seven Days* asked two independent certified financial planners — Marc Fragola of NFP in South Burlington and Christine Moriarty of MoneyPeace in Bristol — to outline the advice they'd give to three hypothetical clients planning for retirement: a single person in their twenties, a couple in their mid-thirties and an individual in their fifties looking to retire in the next 10 to 15 years. Some of the recommendations they offered are age-specific, while others are prudent for any age.

Younger people these days seem especially pessimistic about their retirement prospects. Roughly a quarter of members of Gen Z — born between 1997 and 2012 — believe they'll never retire, according to the 2022 American Opportunity Survey of 25,000 people ages 18 to 24, suggesting that they doubt they'll ever save enough to forgo a paycheck.

Debt is a prime driver of that fear. Many young people, especially Gen Zers and millennials (born between 1981 and 1996), can't fathom paying off their student loans, buying houses, financing future kids' college educations and still having money left over for their golden years.

That concern extends to many Gen Xers (born between 1965 and 1980), who currently carry the highest debt load of any generation. As the ones nearest retirement without being there yet, many Gen Xers have the added burden of caring for elderly parents, some of whom may outlive their own retirement savings.

Each age group has unique financial challenges and competing demands. A couple in their thirties are likely to have a higher household income than a single person in their twenties — but also bigger expenses, such as a mortgage, childcare and life insurance payments.

Similarly, a person in their fifties hoping to retire at 65 probably earns more than someone in the two younger age groups. But the near-retiree also has far less time for their retirement investments to recover from losses in value due to inflation, economic downturns or dramatic drops in the stock market.

Some of Fragola's and Moriarty's advice applies to people at any age or income level who are planning for retirement. They recommended taking a holistic approach to your finances and adopting smart money habits early.

For instance, manage your debt responsibly by paying down high-interest loans first, such as credit cards. Whenever possible, don't spend beyond your means. Keep an emergency cash fund on hand — ideally, one to three months' worth of essential living expenses — to cover unforeseen events such as a job loss or totaled vehicle.

Moriarty, who's been a certified financial adviser for 30 years, stressed the role of mindset in finances.

"Get clear on your emotions around money," she said, explaining how people's childhood experiences may affect their lifelong attitudes. Some push money away because they saw how it ruined someone's life or damaged their relationships. Others, especially those who grew up poor or working-class, may have a scarcity mindset



and be risk-averse, especially with investing. Couples should communicate their sometimes-conflicting attitudes toward money so the discrepancy doesn't affect their finances down the road — or their relationship.

"We can get stuck in these emotions," Moriarty added, "and then it's hard to look at money as a tool that serves us."

GET CLEAR ON YOUR EMOTIONS AROUND MONEY.

CHRISTINE MORIARTY

For twentysomethings just starting their careers, retirement planning is often a low priority, especially when they don't earn much, said Fragola, who's been a professional financial adviser for 27 years. Yet young people are often in the best position to maximize their investment returns.

"Retirement is still a long ways off, so they have the benefit of time and compounding," he said.

Many employers offer retirement plans such as pensions or 401ks, often with matching contributions. Whenever possible, an employee should maximize their allowable retirement contribution

each year so they don't "leave money on the table," Fragola said. But even a modest deduction from each paycheck adds up.

People whose employers don't offer retirement benefits should consider opening an individual retirement account, or IRA. Contributions to traditional IRAs are tax-deductible, meaning you don't get taxed on that money until it's withdrawn, beginning at age 59.5.

With a Roth IRA, contributions are made after taxes, so the money isn't taxed later. A Roth IRA has the added benefit of allowing you to access the principal tax-free and without penalty in an emergency, Fragola said.

The laws around retirement savings change often. The SECURE 2.0 Act, which took effect in January, allows employers to make matching contributions to an employee's Roth IRA for the employee's payments toward their student loan debt. So, if your employer does a dollar-for-dollar match and you pay \$6,000 a year toward your student loan, your employer would contribute \$6,000 to your Roth IRA.

"Isn't that great?" Moriarty said. "How many young people know to ask about that?"

How should a twentysomething invest their retirement money?

"The younger you are, the more aggressive you can afford to be," Fragola said, referring to the level of financial risk. Bonds are typically safer and more

conservative investments, while stocks tend to grow more quickly while also being more volatile. Nevertheless, a person in their twenties has decades to grow their retirement nest egg and recover from the occasional market downturn. As Fragola put it, "The longer you have to invest, the greater the odds you're not going to lose money."

Moriarty offered a helpful formula for allocating retirement investments at any age: 110 minus your age equals the percentage of assets you should consider putting into the stock market. So a 25-year-old should invest 85 percent of their retirement assets in the market, whereas a 50-year-old should invest 60 percent. To reduce your exposure to loss, those investments should be diversified among various holdings.

"I'm surprised by the kids who tell me they know so much about investing because they bought Apple stock and watch it every day," Moriarty said. "It's OK to be risky in your twenties, as long as you're diversified."

Saving for retirement can get more challenging for people in their thirties, especially those with competing demands on their income. Which expenses should the couple prioritize — saving for a house or the kids' college funds? Paying down student loan debt or squirreling away money for retirement?

For the thirtysomething couple, both advisers recommended a balanced approach, rather than following one course to the exclusion of all others.

"Funding your kids' college is important," Moriarty said, "but don't make that your whole priority, because no one is going to fund your retirement for you."

She suggested that couples with young children consider opening a state-offered



529 college savings plan account, to which they can make tax-deductible contributions.

To thirtysomethings looking to purchase a house, Moriarty offered this tip: "Don't overbuy." A banker may say a couple qualify for a mortgage on a \$500,000 house, for instance, but that could be too heavy a burden for a family with four kids and a stay-at-home parent.

For couples with steady incomes, the thirties are a good time to start working with a financial planner. If possible, choose one who is legally obligated to act in your financial best interest — what's known in the industry as a fiduciary — and not someone who's just trying to sell you financial instruments or earn commissions.

What about someone in their fifties who is looking to retire within 15 years?

Ideally, this individual has already done some retirement planning. But Fragola and Moriarty offered helpful advice that can apply even to those who haven't.

First, anyone who's 50 or older can claim a larger tax deduction for their retirement contributions. This year, someone 50 or older can put up to \$7,500 into an IRA, versus \$7,000 for younger investors.

One question that Moriarty and Fragola often hear is "At what age should I retire to maximize my Social Security benefits?" Though everyone is eligible to start drawing Social Security at 62, the benefits paid at that age are 30 percent lower than at full retirement, which is 67 for those born after 1960. And, as Fragola pointed out, for every year you wait past age 62, you'll collect 8 percent more, up to age 70.

MONEY & RETIREMENT

Moriarty suggested that there are other factors to consider when choosing your retirement age.

"Social Security [payments] should not be the trigger for whether you retire or not," she said. "Assess your other needs and wants and priorities."

A better question to ask yourself, she suggested, is "How much will I need to retire?" How many of your essential expenses — food, housing, transportation, health insurance — will be covered by Social Security versus other income sources such as 401ks, IRAs, inheritances and other investments?

Moriarty's advice: Explore what you want to do in retirement *before* you retire, be it travel, volunteer work or relocating south. Figure out not just what the options will cost but whether you'll actually enjoy them. Then crunch the numbers to assess your resources and set realistic goals. Perhaps consider living for a year at a lower income level before retiring.

Finally, because some of the biggest expenses in retirement are health care and housing, people in their fifties and beyond should focus on maintaining two critical assets: their health and their homes.

"But don't let today escape you because you're too busy planning for the future," Moriarty added. "Do what makes you happy. That's the best retirement." ☺

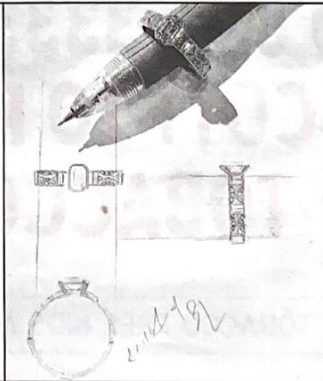
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