Helping Older Clients After a Job Loss

By **Sandi Weaver, CPA, CFP, CFA**

CPA advisers see people who have been furloughed, downsized, or bankrupted out of a job, especially this year with COVID-19. When someone is near retirement, they often decide to make the leap and retire now, rather than find new employment. But should they? It's tempting to take the easier road, but it's our job, as advisers, to help them realistically analyze options.

Consider this real example from today's environment. A 65-year-old woman wanted to meet regarding her investments. She had been furloughed, then her long-time employer downsized. She had decided to retire, and rely on social security, her 401k, and her brokerage account savings.

First you might discuss her investments, rolling her 401k to her IRA, risk levels, and portfolio returns—the reasons she wanted to meet. Then you could cover when and why one might delay social security benefits to age 70, in light of her situation. In addition, it's important to look at recent tax returns for the salary and other income on Form 1040. Then compare her "spending level" against the retirement income streams (only social security in this case) and the recommended amount to withdraw from the portfolio. The drawdown rate guideline is usually 4 to 6 percent of the portfolio.

In this particular case, the spending level from the tax return, if she was spending all income, looked too high compared to the projected retirement income stream. That shifted the discussion to getting an in-depth retirement projection to verify that she could indeed retire now, or to see if she needed some salary coming in for a few years.

The tax return's income on Form 1040 usually does not include 401k or 403b contributions, just net salary, what can be spent. Nor does the Form 1040 include any new debt created to finance spending. The rest of the tax return can show contributions saved in IRAs, but it doesn't flag income that was saved in a brokerage account. The client can give you that information. You'll need to ask about defined benefit pensions or annuities which can be started. Cost of living adjustments (COLAs) are critical parameters on those streams of retirement income.

How can you or your client gauge if retiring now is an easy "yes" or needs more analysis? A reliable website calculator can be better than the quick rudimentary approach above. But, buyer beware. Some websites seem too optimistic with results, too optimistic with assumptions, or too scarce on important inputs. Some websites use a black box that doesn't square with results from other reliable sources.

Vanguard's retirement income calculator tool is easy to use for simple situations. AICPA's 360 website includes a retirement planner, another solid tool. If your client is analyzing their own situation with a calculator tool, advise them to be careful with assumptions. They may want to have an adviser review inputs and results. Warn clients not to be misled by the balance remaining at end of life on their projection. We all know a large future value is usually a small amount in today's dollars. Cut it in half.

If your client's retirement calculator does not clearly affirm that there are ample retirement funds, it's time to do a comprehensive retirement projection.

If the final analysis indicates retiring now is not feasible, advising your client to work longer is best. Getting back in the labor pool now, while skills are fresh, is easier than delaying. A part-time position may be a new adventure. Full-time employment in a less stressful lower-pay position can be a new horizon and may only be needed for a couple years. Your client benefits in two ways: they don't withdraw as much, if any, from their retirement portfolio in the early phase, and the bulk of their retirement portfolio grows over a longer time.

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