Partial retirement

Money, knowledge and work-life balance

Retirement is traditionally thought of as the finish line of a career. After decades of moving forward, you cross the mark and get to enjoy your years in retirement.

But as the professional world continues to develop, the line has become blurred. An increasing number of people are choosing to pursue "partial retirement," a phase-out period where an individual works reduced hours in the months or years before leaving their jobs entirely.

There are several reasons partial, or "phased," retirements are appealing to those reaching the end of their working years:

Extended income – It is an unfortunate reality that the economy doesn't always cooperate with retirement plans. A severe downturn in one market can undermine a person's expected retirement income or damage the value of a property that was expected to hold wealth for later years. Some people use partial retirement to extend their careers and combat financial shortfalls. Although salaries decrease in partial retirement as fewer hours are worked, the continued income reduces withdrawals from retirement accounts, increasing their potential longevity.

Business continuity – The sudden disappearance of a key individual can rob a company of professional insight and operational expertise. Partial retirement allows businesses to expose younger workers to the full challenges of a position while keeping an expert available to aid the transition. This continuity planning is especially important for small businesses, where retiring executives often have a long history with the company and hold knowledge that cannot be found anywhere else.

Work-life balance – Successful retirement takes a lot of planning. Unfortunately, many people focus so much on securing income that they overlook how to manage their time. Going from full employment to full retirement is a major lifestyle change and many retirees struggle for months (or even years) to find hobbies that can replace full-time work. Partial retirement allows for a slower transition that gives retirees time to find new pursuits while still having the familiar structure of work.

Although the concept of partial retirement barely existed 50 years ago, its popularity is quickly growing throughout the United States. A 2013 study from the University of Michigan found that over 20 percent of workers age 65-67 were partially retired.

Challenges

With all the benefits of partial retirement, it's easy to see why it is growing in popularity. However, partial retirement will not work the same way for everyone, and there may be challenges facing those considering it.

Company agreement – There are few laws governing partial retirement, and private companies are not required to accommodate it. A company can reject decreased employment or change benefits when an employee's workload drops to part-time. If the goal of partial retirement is to increase freedom while still maintaining valuable insurance benefits, a retiree could face a serious conversation with his or her employer and may not get an ideal arrangement.

Organization – The added income or changing benefits of a partial retirement can complicate the efficiency of a retirement plan. Work income can trigger taxes or deductions on distributions from retirement accounts or social security. It will also delay the expected decrease in living expenses that typically comes with retirement, making the net financial gain of continued work lower than expected.

The good news is that partial retirement is on a retiree's terms. If it causes greater inconvenience than either full employment or full retirement, you can ignore it and choose whichever option works best.

Partial retirement can be a great help to those seeking to balance the slowdown of retirement with the momentum of a long career. However, it takes effort to coordinate it with your finances. If you are interested in partial retirement, talk to your financial advisor about how it could affect your future plans and what steps you need to take first.

The market at a glance

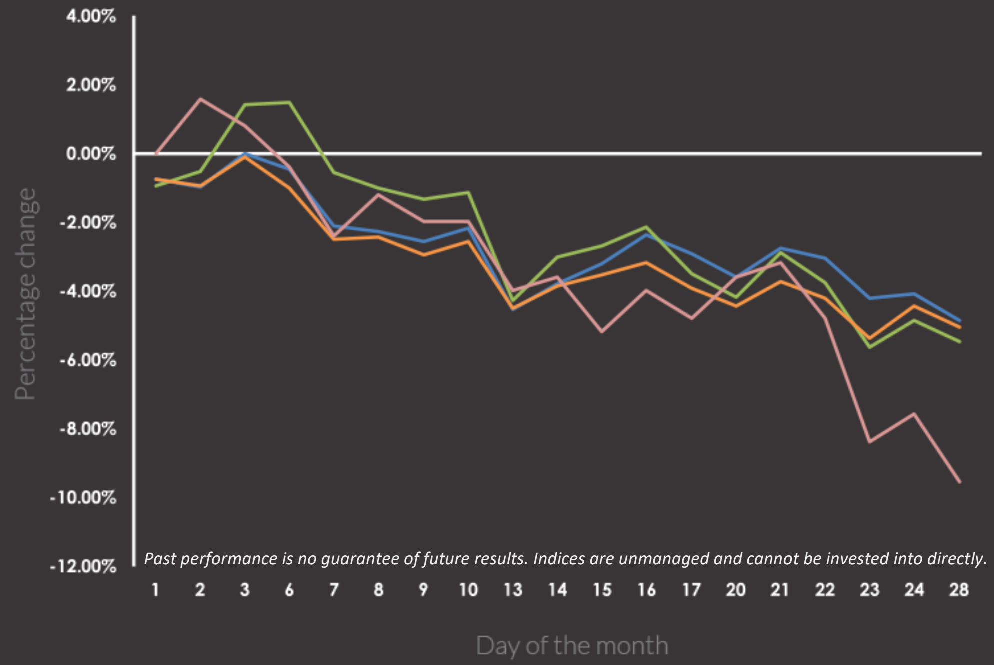
May

U.S. Large Cap
(S&P 500)
2,752.06 (-6.58%)▼

U.S. Mid/Small
(Russell 2000)
1,465.49 (-7.90%)▼

International Large
(NYSE International 100)
5,186.37 (-6.44%)▼

U.S. Treasuries
(U.S. 10-year Treasury yield rate)
2.14 (-14.74%)▼



The market in action

- In its first day as a publicly traded company, transportation service company Uber lost investors $655 million as share prices tumbled from starting at $45 to finish at $41.70. According to Dealogic the company's valuation of $69.7 billion was still large enough to rank third in IPO history behind only Alibaba and Facebook.

- Detroit auto manufacturer Fiat Chrysler proposed a merger with France-based Renault, which would create the world's third largest automaker, jumping past General Motors to only trail Volkswagen and Toyota. Following news of the possibility, shares of both companies jumped more than 10 percent.

- Following escalating trade talks between the U.S. and China, more than $1 trillion was wiped off the global markets in just one day highlighted by the Dow Jones Industrial Average dropping 618 points. In retaliation to the U.S. imposing a 15 percent increase in tariffs on Chinese-made goods, China imposed a 25 percent tariff of its own on American-made goods

- Ford Motor Company announced it will be cutting 7,000 white-collar jobs by the end of August as part of a global corporate restructuring. The cut will represent a 10 percent reduction of salaried staff and will save the company nearly $600 million per year.

The Power of charitable remainder trusts

Do well by doing good

A growing number of individuals and families want to use some of their wealth to support the causes and organizations they care about most. From helping those less fortunate to facilitating scientific breakthroughs, from providing safe habitats for wildlife to sharing the arts, philanthropy is a core value for many.

Of course, it's important to engage in *smart* philanthropy by using certain tools and strategies that can help you have a much bigger charitable impact than you otherwise could—while simultaneously enhancing your own financial flexibility.

In short, philanthropic planning can help you—as the old saying goes—"do well by doing good."

With that in mind, here's a closer look at one philanthropic tool that many charitably minded people and families use: **charitable remainder trusts**. CRTs can be extremely useful and powerful wealth planning tools that allow you to have a major impact on a charity you value while also providing benefits like lower taxes and a regular income stream.

The ABC's of a CRT

Let's start with some CRT basics and benefits.

- **Income stream.** You place money or appreciated assets in a CRT, which then provides an annual income stream. You can designate yourself or other people to receive that income. The income stream can last for your life or the lives of the people you designated. You can also have the income stream last for a term of years (within limits).

- **Tax-deferred growth.** The assets in the CRT grow tax-deferred. You are taxed only on the income you receive from the CRT.

- **Charitable impact.** Once the term of years is up or the last beneficiary dies, the income stream stops and the assets that remain in the trust go to one or more charities you selected.

- **Tax deduction.** When you create and fund the CRT, you get an income tax deduction—the size of which is based on the actuarial value of the remainder that the charity should receive.

- **Capital gains tax avoidance.** You can gift appreciated assets to a CRT without paying capital gains taxes. For example, say you have $1 million worth of stock that you bought 20 years ago for $200,000. You could sell that stock—and pay $160,000 in capital gains taxes (assuming a 20 percent rate)—leaving you with $840,000 to use for your philanthropy. Or you could gift the shares to the CRT and pay no capital gains taxes at all—funding the trust with the full $1 million.

Types of CRT's

- **Charitable remainder annuity trusts.** With a CRAT, you or your designated recipient receive a fixed dollar amount from the trust every year. However, once you set the amount, it cannot be changed. Say, for example, you set the annual amount at $15,000. That is all you can receive every year, even if the assets in the CRAT are growing at a tremendous rate. Additionally, you cannot add assets to a CRAT once it's set up and funded.

- **Charitable remainder unitrusts.** With a CRUT, you (or the person you designate) receive a percentage of the current value of the assets in the CRUT. Example: You specify that you want to receive six percent of the assets in the trust annually. Every year, the assets are reappraised and you get six percent of that amount. Another difference: You can add more assets to a CRUT.

CRAT vs. CRUT

Type	Income distributions	Additional contributions
Charitable remainder annuity trust (CRAT)	A fixed amount each year	Not allowed
Charitable remainder unitrust (CRUT)	A fixed percentage based on the assets in the trust, revalued annually	Allowed, if governing trust instrument permits and unitrust amount takes into account the additional contribution

You can use a wide variety of assets to fund a CRT. Some examples include:

- Cash
- Stocks and bonds
- Some types of closely held stock (such as limited liability corporations, but not S corporations)
- Real estate
- Artwork and collectibles

Case Study

To see the potential power of a CRT, consider this example of funding a CRT with appreciated stock:

> *An investor in her 40s purchased $600,000 of stock in a new company. After a few years, those shares were worth $1.8 million. If she cashed out, she would have to pay capital gains taxes of 23.8 percent on the $1.2 million of appreciation—leaving her with a tax bill just shy of $300,000.*
>
> *Instead, she and her advisors set up a CRUT, which enables her to add more assets in the future. The CRUT will last the shorter of 20 years or her lifetime. She will receive 12 percent of the assets each year—or just over $200,000 the first year. Over the course of 20 years, using assumptions of a return of 8 percent annually, she will receive approximately $2.9 million. She will receive a $180,000 charitable deduction. And at the end of the 20-year term, the charitable organization she chose will receive approximately $700,000.*

Two Caveats

1. **The right intention is crucial.** If you use a CRT, you must have a genuine charitable intent. The reason: A CRT is an irrevocable trust—once you put assets in a CRT, you cannot get them back.

2. **It's not a personal piggy bank.** At least 10 percent of the actuarial value of the CRT *must* go to charity. A CRT that does not meet the 10 percent remainder requirement is not a qualified charitable remainder trust and will lose its tax benefits.

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