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The new place to spend retirement: at work

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Despite the enduring image that marketers portray of retirees lounging on the beach, the reality is that a greater number of older workers are in the labor force than ever before.

According to the Employee Benefit Research Institute, 45 percent of people age 55 and older are still in the workforce. Twenty-nine percent of people ages 65–69 are still working as well.

Americans of retirement age opt to stay in the working world for many reasons, including to transition their career to part-time, to make extra money, or to start their own companies. Many of us are also living longer and taking better care of ourselves, and we don't feel like slowing down.

In today's world, retirement can last 20 years or more, so we want something meaningful to do to fill that time.

Some people, however, may not find working into their retirement years a matter of choice. They may need to keep working to add to their savings, keep their insurance coverage, or attain their full retirement age to receive their full Social Security benefits.

Employers may also find it necessary to hang on to their older workers. Nearly 80 million baby boomers are facing retirement, yet there are only about 50 million Gen-Xers to fill those places in the workforce. Companies are discovering that they need to keep their experienced workers as long as possible and are more amenable to part-time, consultative, or job-sharing arrangements to retain skilled workers.

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Regardless of the reasons why you may continue working, there are several financial implications you should consider:

You can make more money.

According to the Congressional Budget Office, each year a person of at least age 62 postpones retirement, he or she reduces the need to increase his or her retirement savings by about 5 percent. It also gives that individual more time to earn interest on assets he or she has already accumulated.

And getting health coverage, even if an employer only partially subsidizes it, can save you hundreds of dollars a month.

Your Social Security benefits may be affected. Depending on your financial situation, you may find it best to wait until you reach your full retirement age to start collecting Social Security. If you start receiving Social Security before you reach full retirement age, your total benefits may be drastically reduced: for every $2 you earn over $13,560, you will reduce your social security benefits by $1.

This applies to work income, not income from investments, pensions, annuities, capital gains, or interest.

If you're married, your spouse may want to delay receiving his or her benefits to reduce your total income for tax purposes and to provide a future income stream.

The good news is that once you reach your full retirement age, you can work as much as you want without reducing your Social Security. Visit www.socialsecurity.gov/retire2/agereduction.htm to find your full retirement age.

Being your own boss may have certain benefits. If you set up your own incorporated business, you may be able to deduct everyday expenses like work-related phone usage, a new computer, office space rentals, and travel expenses. Plus, you can open up a new retirement plan and contribute to it.

Simplified Employee Pensions (SEPs), Savings Incentive Match Plans for Employees (SIMPLEs), and qualified plans such as Keoghs are designed to benefit small businesses and sole proprietorships. They have the same advantages of tax-deferred growth plans, like 401(k)s and 403(b)s, and contributions are tax-deductible. Your own business could match the contributions you, as an employee, might make.

Working might result in certain penalties or income reduction. Take care that your extra income from working doesn't bump you into a higher tax bracket.

Chances are, you're probably paying for your retirement from several sources of income, such as a pension, 401(k), IRA, and Social Security. If you are older than age 70 1/2, you are likely taking the required minimum distribution (RMD) from your retirement plan accounts as well. Add a paycheck to that mix and you might be making more money than you thought. This can also expose more of your Social Security benefits to income tax.

In addition, if you are or were a state or public employee, check with your retirement board to see whether you are subject to income restrictions or whether working will impact how much pension money you receive.

Does all this mean that working in retirement is pointless? Of course not; it just requires forethought and careful planning on your part—and the guidance of your trusted financial advisor to address your particular questions and concerns.

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