PERSONAL RETIREMENT PLANNING

How to use investments and Social Security to protect your retirement

Disclaimer:

I'm not an expert on retirement and I certainly don't have a corner on all the good advice about retiring. But, I have retired and I know how difficult it is to plan retirement and live the good life. I also know what part of retirement planning I would like to do over.

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INTRODUCTION

There's nothing in this e-book that's earth-shattering. There's nothing that's not readily available from a myriad of sources. In fact, the internet and personal experience is where I got most of my information. The only thing I've done is put together in one place, information I could have and should have used half a century ago.

When the economy took a nose dive in 2008 many people their lost homes, cars, stock investments, jobs, etc, it changed the future people were prepared for. But losing stuff doesn't mean you have stop saving or preparing for retirement. It just means you may have to shift gears and make some adjustments in the way you think and plan.

I found out that most of us, and it doesn't matter which country you're from, do a very poor job of planning for retirement and enjoying what is called “our golden years”. The list of reasons for not planning well and saving enough is almost endless. But whatever the reason, we can still enjoy retirement or semi-retirement. It's all a matter of attitude.

Gene Perret once said:

“Retirement: It's nice to get out of the rat race, but you have to learn to get along with less cheese.”

That's one of many humorous quotes from a very good comedy writer and people have been trying to figure out the meaning for years. Look this guy up, he was pretty insightful. My take his quote is that it means you have learn to get along with less when you retire.

It might be an accurate quote, but it doesn’t have to be true when it comes to *your retirement*. Everybody wants to do more than just not work when they retire but when you don’t go to work you don’t get a paycheck either and that usually means that you have less money coming in.

Unfortunately, a large part of our population will have to keep getting that paycheck to make ends meet after they retire. But you may be able to control your destiny and decide how much you want to work.

Retirement means different things to different people. For those in their 20s, it's a distant dream and usually one they're not concerned about. For people in their 30s and 40s, it's a minor concern. For those 50 and beyond, it's a reality that's rapidly approaching and one that must be dealt with.

No matter what your age, you should start to prepare for your retirement and the sooner you start the better the results will be. But, everybody knows that.

Retirement planning is about more than investing and saving money. It’s also about enjoying your life after you decide to retire from your career or job. To fully enjoy yourself after retirement, you need to plan how you'll spend your time and where you'll live.

Two things that will have the greatest affect on your retirement is your health and your wealth. One without the other can make you an unsuccessful retiree. But, no matter what age you start, you can always do something to improve both.

You probably should start now to get in shape so you will enjoy a healthy retirement. What about your family, have you included them into your retirement plans? There's dozens of things to consider and your retirement plans should go well beyond just finances.

Many young people don’t think about planning for retirement. Hey, even after I retired the first time I really didn't think about planning for retirement. All I did was move from one career to another without considering that I was running out of time. But I should have and the reality is that there's no time like the present to start thinking about your future.

Unless you're near retirement age, you'll probably procrastinate about retirement planning. It’s probably not feasible to expect someone in their twenties to make serious retirement plans. Even people with only 15 or 20 years left before retirement might have trouble with making firm financial plans. There's just too much distraction and it's very difficult.

For twenty-somethings, retirement plans will probably consist of a basic savings program. Retirement is many years away and your thoughts are probably more on the present and maybe something like buying a house for your family than on retiring.

When you're in your thirties, your thoughts might be on keeping your head above water and sending your children to college. Thoughts of retirement are not important and you still have lots of time left.

When you reach your forties and the kids are talking about leaving and your head is above water, you begin the wonder where the years went and maybe start to consider some serious planning for when you retire.

Consider is the key word. If you're like most people, you haven't quite gotten around to it yet.

Then when you're in your fifties, realization sets in, you're near retirement age and you're not prepared. You haven't given many thoughts to whether you can afford to quit working and enjoy your retirement years. Sometimes, panic starts at this point, but this is the time for serious assessment and planning to start.

No matter what your age is, there's always hope for your retirement plan. Many employers provide a pension plan or some kind of retirement savings plan and the government provides social security that you've paid into all your life. You net worth might be better than you think and your might have some investments or real estate hadn't thought about. The younger you are when you start planning, the better but with some serious thought, you can pull off a retirement at any age.

Of course, first, you'll need to commit yourself to the planning process in the first place. Then you have to commit yourself to working the plan.

SHOULD YOU RETIRE?

Should you retire in the first place?

Sure you like your job but if you had the chance to retire early, say at age 50, would you? When it comes down to the nitty gritty though, most people have second thoughts about leaving the work force.

Maybe you have an emotional attachment to that office chair. Perhaps you think your work is just too important to leave it behind.

The truth is that there are many reasons to leave a job and just as many not to leave.

For most people, 30 years in a career is quite enough. But is an early retirement realistic for you? Let's take a look.

When you're 50, the government says you've got about another 33 years to live. That 33 year retirement may be longer than your entire working career. With life expectancy increasing by leaps and bounds with advances in medicine and technology, you might want to think in terms of a 40-year retirement.

Besides travel, golf, fishing, and classes in macrame, what else do you have on the agenda? How much will it cost? Will you have enough income to do it all? If you're still saving for retirement, how much has to come out of each paycheck to raise that much stash? Good question! Lets get the answer!

One thing I didn't think about was inflation and how much stuff will cost in 15 or 20 years. After all, looking 20 years into the future you can bet that the $50K that looks like a good annual income now will certainly have to be larger to buy the same things then as it does today.

But what's inflation going to be through the years? Any figure you come up with is probably good enough to get you through the first year of retirement. What impact will it have over the 40 years after that?

Where are you going to live? With luck, the mortgage will be paid off so all you have to worry about for housing is property taxes and maintenance. Maybe you can sell out and downsize into a smaller place in a warmer climate. Sure beats having to shovel snow at age 70, even if it is further away from family and friends. Besides, you don't see the kids that much any more and they can always come for a visit.

You should probably think about insurance, too. You're probably insured under group policies through work for disability, life, and health coverage right now. In fact, your employer probably kicks in all or part of or maybe even the entire premium for that wonderful insurance.

If you retire, you might lose that insurance coverage. Then what happens to your spouse and family if you're inconsiderate enough to die at a young age? How will you pay for a major illness or hospitalization and all of the attendant physician's bills if (heaven forbid) you should become permanently disabled?

You can probably forget about getting government help. You're way too young for either Social Security or Medicare to apply. And even if you do qualify, government assistance may not be enough for a survivor and all the medical bills? If that's the case, what are your alternatives? What about long-term care costs if you need it?

About now you may be thinking: "Hmmm, perhaps I should have a more children to help support me in my old age." Don't worry, you don't need more children. But you can never leave your job.

We're just kidding about that. I'm positive you can retire at any age without having to increase the population or stay chained to a desk. Freedom is gained through careful planning. We're going to take you through a step-by-step retirement planning process.

Retirement planning entails a lot more than just picking an age to retire and a beach to do it on. It requires taking a hard look at your lifestyle, your financial resources, and a bunch of factors that we often take for granted. Most of the concerns we have in retirement, but not all, deal with money. As responsible people, we have to face them head on and get all our ducks in a row.

WHAT IS RETIREMENT PLANNING?

Retirement planning is the thought and commitment that you put into for providing income and a satisfactory lifestyle for all the years after you leave the work force. Most people will spend an average of 25 years in retirement. Careful planning is necessary for this to be a comfortable time and for you to have a successful retirement.

When you reach retirement age, you will probably have income from social security and maybe a pension but you have to ask yourself if that'll be enough? Will you continue to live in your present home or will you relocate? Do you want to travel? These and many more questions will need to be answered in preparation for your retirement years.

Retirement planning should begin as soon as you start your first job but most of us are too busy raising a family to think about something that far away. Besides, we've got lots of time.

It’s hard to think about retirement when you’re wondering where to find the best day care for your baby. But this is the best time to look at your pension plan or 401(K) at work and contribute as much as you are allowed or can afford to every pay period.

As soon as you can, you should start investing a percentage of your pay for your retirement. These investments can be pre-tax dollars or after tax dollars. Use a mix of IRAs, mutual funds, stocks, bonds, money market, or other investment vehicles your financial adviser might suggest. The secret and goal is to make a habit of investing regularly and resist any temptation to use the money for anything other than retirement.

If you're older and just beginning to think about your retirement, there may be some ways you can make up for lost time. Starting at a younger age gives you more time to accumulate money but with good investment strategies, you can sometimes manage to make enough for a comfortable retirement. Find a reputable financial adviser to discuss your needs, make a plan and stick to your plan.

Retirement income will probably dictate where you live, whether or not you can live your retirement dreams and whether or not you have to continue working.

70 might be the new 65. Almost every survey conducted since the great crash of 2008 indicates that more people are considering working longer or after retiring. You might want or need to work well into your retirement years.

The new retirement strategy is to work as long as you can. More and more men and women are starting second careers after retiring from one job.

The choice of when and how you retire may be yours alone. Plan wisely. There are a lot of things you need to consider when beginning your retirement planning.

THINGS TO CONSIDER

When you begin to think about your retirement, you need to set a few goals to begin with. They'll probably be flexible, but the goals dictate the rest of your retirement plan.

How will you spend your time once you're free of the daily trip to work every day? There are lots of options for every retiree. You need to pick the one that fits you best and one(s) that will keep you busy and help fill the void that not working will create.

Maybe you want to travel, start or continue a hobby, garden, play golf, spoil the grand-kids, or maybe climb a mountain. The possibilities are limitless since you'll have a lot of free time.

Retirement doesn’t mean you should resign yourself to sitting around talking about your ailments or feeding the pigeons in some park. It should mean freedom to explore life and and look for some new horizons.

Dream big and then make those dreams come true. You’ve worked hard and you deserve a happy, successful retirement. The real problems will be turning off the work ethic that you've developed over your working lifetime.

Maybe you'll get bored with not going to work every day. If this is the case, you might be happier working or volunteering once you retire. I know several retirees who've re-entered the work force to work their way out of boredom.

There are many places you can volunteer if you don’t relish the idea of working for money. Almost every volunteer organization is begging for help with the many activities and projects. But, a little extra cash might come in handy and many retirees have started a second or even a third career after retirement using their past experience and interests.

What about your health once you retire? This is one of two major concerns every retiree has. You should start planning right now for a healthier lifestyle. If you smoke, maybe you should stop. If you're overweight, take measures to drop a few pounds.

Been putting off those medical check-ups? Now may be the perfect time to get these done. Proactively taking care of your health in your early years might help you get health insurance at a more reasonable rate when you get older.

It's entirely your choice to start getting more exercise and healthy eating so you will be as healthy as possible in your older years. Make a commitment and learn how to become a healthier, more active person and you will reap the benefits now and later.

Another area that you might need to consider is friendships and family. A career sometimes doesn't leave much time for cultivating friendships outside of the work arena and enjoying your family. Once you retire, the people you socialize with now may not be there for you when that time comes?

Try to make time for family and friends outside of work, even if it's just a few hours a week. The older you get, the harder it is to find and make new friends. If you ignore your family, they might not be there for you when you get older and feel you want to spend more time with them.

So, in addition to investing and saving money for your retirement, now you need to make some additional plans. You need to plan how you might want to spend your retirement, where you might want to spend it, how to be healthy enough to enjoy it, and how to keep your family and friends around to help you enjoy it.

This takes retirement planning to a whole new level. Retirement shouldn't be considered an ending, it should just be a continuation of living. Retirement is a commencement to the next phase of your life. It deserves a plan.

Of course, money is important when you're thinking about retirement. Your income may decrease significantly when you don't have a paycheck coming in week to week, but you still have bills to pay and things that you want to do that will require money.

When you begin to plan for your retirement, ask yourself the following questions:

1. Do you have a pension or retirement plan at your place of employment and are you eligible?

   Some companies don't offer retirement or pension plans and some jobs within companies are not eligible for these plans even if they are offered.

2. If you have participated in an employer sponsored savings plan, how much will your pension or retirement plan be worth when you retire?

   This information is necessary so you can decide if you need to make additional savings such as an IRA to supplement your retirement benefits when you decide to retire.

3. If your employer provides a retirement plan, what happens to it if you change jobs?

   Your employer can tell you if your retirement plan can be rolled over into an IRA, cashed in, or left with the company if you should leave the company. You will need to decide which is best for you to do.

4. If you retire early, what happens to your retirement plan with your employer?

   Your employer can tell you when you are vested with the company and what you can expect to receive in the way of retirement benefits when you decide to retire.

5. Will pension benefits be reduced by Social Security?

   In some instances, your retirement benefit could be reduced by the amount of Social Security you draw. Discuss this with your employer to see if this happens with your pension.

6. Look at where your finances are right now. Gather all your financial information into one place and go over it to see what you have and what you need. Look at your benefit plans, social security, veteran’s benefits, and so on. Make a detailed list of

your assets, such as real estate and investments. Next list all your liabilities, such as debts, loans, child support, and alimony.

Retirement planning gives you the opportunity to look into the future and make your best guess about how much money you'll need to live a comfortable and satisfying life.

WHAT WILL RETIREMENT COST

Pundits say you will need 60% to 85% of your gross household income today to sustain the same lifestyle after you retire. I don't know how they arrive at these figures but in theory, the higher your income today, the closer you are to the lower end of that scale.

Sure, we could sit down to a long, drawn-out process in which we look at all our expenses and try to anticipate what they would be in retirement. But why bother? After all, retirement is a long way off, and we have no way of knowing what those expenses will cost then.

You do, though, know that you live comfortably today (we hope). And we do know that it's unlikely you'll be saving money or paying FICA (unless you choose to continue working) after you retire.

There are several ways to calculate your income needs in retirement and there are many retirement calculators available. To get a general idea, maybe you should look at this issue from the simplest way possible.

All you have to do is multiply your income by the pundits 60% to 85% and then subtract those retirement contributions and FICA taxes. You'll come up with an amount that's fairly close to what you'll need to have coming in to sustain your current lifestyle after you retire (assuming you'll be getting social security and some money from from savings).

But you still have to decide what income you'll need to live the way you want when you retire. Some folks can get by on much less than they use now, while others may decide they want more. It's a personal choice for all of us. So, pick a number.

How about inflation? The money you put into savings doesn't adjust for inflation. So, how much does our retirement savings have to be in the year we retire after it has been adjusted for inflation over the years between when you start saving and when you retire? What should that inflation rate be anyway?

Other questions! How many years will you need to draw that income? Will your savings keep pace with inflation throughout those years or will you draw down your starting retirement portfolio to support your income needs? Can you just live off the earnings and never touch the principal?

If you answer those questions, then you can determine the starting portfolio you need at retirement to support you for the rest of your life without working to support your lifestyle.

We're getting into some pretty sophisticated calculations based on assumptions that, if changed, could radically alter our results. A good accountants or actuarial can give us an idea of what we need to do to get started toward retirement and we can save the more esoteric things for later.

So forget about inflation for the moment. Ignore Social Security and any company pension you may get. Pretend your money gets no return now or after retirement. But do count whatever you have saved for retirement right now, as of today.

Let's say your retirement savings amounts to $20,000. Further, let's say you want an annual income of $30,000 in today's dollars after you retire. Assume you want to retire in 25 years, that you will live 20 years after you retire, and that you expect to meet your maker waving your last dollar bill.

How much do you need to amass by the start of your retirement to support yourself in your golden years, and how much do you have to save each year between now and then to get there?

Let's see. You need $30,000 a year for 20 years, so that comes to $600,000 needed in the first year of retirement. You already have $20,000 of that, so that means you're only $580,000 short. Divide the shortage by the 25 years you have to save it up, and you discover you only have to cough up $23,200 annually between now and the time you retire to a life of leisure.

Too much is omitted from this simple approach to provide a meaningful answer to the question at hand. For one thing, it ignores the compounding effect of saving over time. Worse than that, the answer we do get makes the whole idea of saving for retirement seem to be an impossible task, but this may be far from true.

To do things right, we must take a cold, hard, objective look at our desired income, subject it to a rational choice of assumptions, and make some detailed calculations based on some real world situations.

The best way to do the calculations is with one of the readily available software packages available commercially, such as Quicken Financial Planner. There are also many different financial calculators online that can help. You might even want to get the services of a qualified financial planner.

Before you use any of these tools or get any professional help, you need to gather some preliminary information. At a minimum, you want to:

1. Decide on the annual income you want to have in today's dollars.

2. Pick a retirement date.

3. Determine an average inflation rate.

4. Determine the realistic average rate of return you want on your investments before and after retirement.

5. Determine the current market value of all your investments to include regular accounts, IRAs, and company tax-deferred savings plans like 401(k) plans.

6. Obtain an estimate of any company-provided pension benefit.

7. Obtain an estimate of future Social Security benefits

8. Armed with this data, you can determine the annual savings required for you to enjoy the good life. You will also be able to play "what if" games and see the results quickly should you decide to vary things like inflation, rates of return, date of retirement, and desired income.

I'll leave you with one last thought. The earlier you start planning your retirement, the easier it will be for you to amass the wealth you'll need on the day you retire.

Say you put $1,000 per year or $83.33 per month for 25 years into an investment that earns 10% annually, you would end up with $111,486. If you wait five years before starting to save, you would have $63,805. That 5,000 bucks you "saved" by waiting 5 years cost you $47,681 in mojitos.

The point is, almost everybody can find a way to save 85 bucks a month. Whether you're just starting out in the work force, looking to retire in 20 or 25 years or are already retired.

Your employer can be a great place for you to start with to find the money that you need. You might even be able to find some ***"free"*** money.

EMPLOYER PLANS

You've done your homework, made all the calculations and know how much money you need to accumulate to be able to retire and live comfortably. What now? The next step is to take advantage of your employer and get everything you can.

I don't mean that you should confiscate post-its for at-home use or try to create a black market for staplers. I'm talking retirement plans.

Many mid-size and most large employers have a company sponsored retirement plan in place for their employees. Sometimes they'll even have two or three to choose from. They come in a wide variety of flavors, some good and some not so good. But, they can help you achieve your goals if you fully understand them and integrate them into your retirement planning.

Remember that employee handbook you received on the day you were hired. You know, the document you tucked away under some other papers that you took home and buried under some other paper?

Dig it out, dust it off, and read it thoroughly. Buried in those pages you will find a brief description of the retirement plan(s) available to you as an employee.

Those pages will tell you what kind of plan your employer offers, when you become eligible to participate. It'll tell you when you become vested and the ultimate benefit you can expect to receive. It's a boring read? Maybe! But another thing you'll find in those pages is your ***FREE MONEY*** or the matching contribution your employer will make.

What does free retirement money look like? It might be called a "***defined benefit plan***" or a "***company pension***" -- phrases used to describe one type of plan commonly offered by employers. In this vehicle, employers typically do all the funding with no contributions by employees.

Your final benefit is determined by a formula often based on years of service, average wage, and a percent of pay. For instance, the plan could say your final benefit will be a "joint and 50% annuity calculated as 1.5% times your years of credited service times the average of your last three years' base annual wage."

Sounds rather legal, but what does that mean to you? It means that with 30 years of service, at retirement your pension will replace 45% (1.5% times 30 years) of your average annual wage for the last three years of work.

It means it's less money you have to save each year between now and retirement because your employer is relieving you of part of that burden. And that means more of your resources can be devoted to other goals that are also important, like maybe putting the kids through college.

The summary plan description will also tell you what your options are when you retire. You may be able to receive a lump sum payment instead of a lifetime annuity. That way, if the annuity has no automatic cost of living adjustment, you could invest the money to achieve that growth.

Maybe your companies plan offers a spousal benefit. You may be able to take an annuity that will give your surviving spouse more than half your benefit after you die, something like two-thirds or 100% instead. And the summary plan description will tell you how long you have to be on the job until the money is 100% yours (the vesting schedule). it will tell you what happens if you leave your job before retirement, and what happens should you leave this world earlier than you anticipate.

This is all valuable information because it helps refine the assumptions we have to make in the calculation of how much money we'll have to meet our retirement needs.

Lets say your company offers a ***401(k)*** plan. Take out your 401(k) summary plan description and look for answers to these important questions:

- When you may participate

- How much can you contribute to the plan

- The types and perhaps the risks of the investment options you have within the plan

- How often you may switch between those options (usually it's once each year)

- Whether early withdrawals for hardships or personal loans are permitted

- What distribution options are available if you separate from the company or retire

- How much your employer will contribute to the 401(k) on your behalf, and when you will be vested in those contributions? This is the FREE MONEY.

Why is it free? For one, your contributions to a 401(k) plan help reduce your tax burden because they don't count against your taxable income for the year. That means tax-free money towards your retirement savings.

More importantly, though, is your employer's contribution on your behalf. While these contributions will vary from employer to employer, typically employers match your contribution from 50 cents on the dollar up to 6% of your pay. That means if you put in 6% of your paycheck, your employer will match that by contributing 3%. (That's 3% of your paycheck in *free money*.)

You should jump at this opportunity. It's like getting a 50% return on your investment. Rarely, if ever, should you turn it down. We know there's no risk-free, untaxed way to get an immediate 50% return on our money in any other investment we can make.

Sure, most 401(k) plans use high-cost, mediocre performing mutual funds as their investment of choice but you might be able to maximize your return by careful allocation of your savings.

Yet, even there, the immediate return of 50% on our money in every year we contribute would take years to top in anything else. Ignore this offer by an employer to match contributions and you leave money on the table.

When it comes to 401(k) plans, you should follow this path by grabbing all the free money your employer offers. What better way to lessen your savings burden?

You still have to worry about taxes and things of that nature but it'll be years down the road.

UNCLE SAM'S PART

You'll never get away from taxes but you can put off paying them until later. And conventional wisdom holds that it's almost always better to invest in a tax-deferred vehicle like a 401(k) plan or IRA than in an after-tax investment.

This wisdom holds that even if the initial investment itself is made with money that's already been taxed, the earnings accumulate untaxed, and this can add immeasurably to the positive power of compounding.

Because your earnings (and often the contribution) are untaxed until you begin withdrawing money in retirement, the government is in effect providing you more leverage in the investment. This tax deferred boost allows you to save far more money for retirement than you could in a taxable alternative.

Additionally, you control when it gets taxed, and at what rate, by deciding on the amount of the withdrawal and when to take it. By contrast, with conventional investments, you're taxed on all money going in and on all dividends and gains made in the year they're received.

All things being equal, tax deferred investments are best. But all things are not equal. When should you elect to invest in a tax deferred investment as opposed to a taxable alternative? The answer should be easy. Use the company-provided plan at least up to the level where you obtain the maximum matching contribution from your employer. Don't turn down that free money.

Let's say your employer matches any contribution up to 6% of your salary. Most people would contribute that 6%, but beyond that they would compare the returns available in the plan investments to those outside of the plan.

Here's a simple comparison between a tax-deferred investment like a 401(k) plan and an ordinary taxable investment. Let's assume that ultimately you'll withdraw all your money from the tax-deferred account, and you'll be taxed on that amount at today's tax rates.

Of course, it's not quite that simple because, in reality, you'll have to decide how that money is distributed -- maybe all at once, maybe on a monthly basis, leaving the rest to compound.

But for this simplistic analysis, let's just say that all gains in the taxable account will be taxed at ordinary rates, even though we know that at least half could be taxed at the capital gains rate.

For our example:

TR = your marginal tax rate
Ra = the return you expect in the after-tax investment
Rp = the return you expect in the tax-deferred investment

Any earnings in the after-tax account will be taxed. Therefore, the equivalent rates of return in a tax-deferred or after-tax account can be expressed as (1-TR) * Ra = Rp, which can be restated as Ra = Rp / (1-TR).

All right, now uncross those eyes. This formula gives you the rate of return you need in an after-tax account to equal the return you would get in a tax-deferred account after it, too, had been taxed at some point in the future. Let's take an example.

Let's say I'm in a 28% federal tax bracket, that I get no matching contribution from my employer or have already reached the maximum match, and that I deposit $100 into my tax-deferred account. I expect to earn 10% on that deposit. What rate of return do I have to get in an after-tax investment to equal what I'm getting in that plan?

Well, by using the formula, I get:

Ra = Rp / (1 - TR)
Ra = 0.10 / (1 - 0.28)
Ra = 0.10 / 0.72 = 0.138888 = ~13.89%

Therefore, if I deposited $72 in an after-tax investment (the equivalent of $100 deposited in a tax-deferred account) and I earned at least 13.89% on that investment, I would do just as well after taxes as I would in a tax-deferred investment earning a 10% return. If I could get more than 13.89%, I would do better.

Need a little proof? In the tax-deferred account a $100 deposit would earn $10 at a 10% return, giving a total of $110. Withdrawing that $110 and paying taxes at 28% would leave $79.20. $72 in an after-tax account would earn $10 at 13.89% or $7.20 after taxes, leaving $79.20 total in that account after taxes.

Use a 401(k) or similar plan to get the maximum employer matching contribution available. Beyond that level, compare your before-tax and after-tax investment options and select the one that provides the highest after-tax return.

But remember this: If you choose an alternative to the 401(k), then you must be just as dedicated and disciplined within that investment as you would have been within the 401(k). That means you must make your deposits in that investment each and every payday without fail.

It also means your deposit must increase at the same time and at the same rate as your pay does. Fail to adhere to that regimen, and you will neither equal nor beat the 401(k). The 401(k) demands these contributions and increases via automatic payroll deduction, so to keep pace with or to better that vehicle you must apply the same technique in any alternative.

The Taxpayer Relief Act of 1997 provided a unique opportunity to those of us who reached the maximum contribution we wish to make to our employer plans. This opportunity is called a Roth IRA and may be established anytime after January 1, 1998.

With a Roth IRA, you may make a nondeductible deposit of up to $2,000 per year, allow the earnings to accumulate tax-free through the years, and ultimately withdraw all of the proceeds tax-free. This is an excellent vehicle for money to be invested outside of an employer-provided plan.

Many people think the following phrase is true: "Retirees enjoy less of a tax burden than those who work." That may have been true sometime in the distant past, but it certainly isn't true today. The only reason it may be true is that a retiree's income is usually less than it was.

Many retirees end up in exactly the same marginal income tax bracket after retirement as before. That situation will definitely be true for those who don't look at all their options when planning their retirement.

Retirees as a group do tend to fewer taxes in absolute dollars than they did before retirement. Common sense should tell us why: they have less taxable income. The money they live on usually comes from savings (taxable), pensions (taxable), and Social Security (potentially taxable).

A retiree could have exactly the same annual income as she did when she worked, but pay less in taxes because part and in some cases all of the Social Security benefit received is tax-free.

Throw some extra work into the mix and the plot thickens. If you haven't reached full retirement age, money earned above a specific limit will cause a reduction in your social security benefit. Earning an amount above a maximum limit could cause a person to forfeit all their Social Security retirement.

The problem is that these forfeitures are always taken the year after you earn the money when your income may be reduced by not working. If you take social security before your full retirement age, you have to be aware of how the earnings limitations can affect your lifestyle. Kind of makes one wonder why anyone would want to work under that scenario, doesn't it?

If you're looking for a greatly reduced tax burden in retirement, forget it. The best you might be able to achieve is a lower average tax rate on all the money flowing into the household for the year.

You can compute that rate by dividing your total taxes by all of your taxable and nontaxable income. For some retirees, the untaxed Social Security proportion of their income can cause the average tax rate to drop.

When and how does Social Security get taxed, you ask? The federal government and some states may tax all or part of social security and pension benefits depending on your income. The IRS computation is a little complicated. In fact, they have a special worksheet and interactive tax tool just for that purpose.

The math starts with your Adjusted Gross Income. To that you add one-half of all Social Security benefits and all unearned income received during the year. Unearned income can come from a lot of sources. Anything you don't trade your labor for can be considered unearned.

Anyway, if the computed total is larger than $25,000 (single) or $32,000 (married filing jointly), then up to 50% of the Social Security benefit will be taxed. If the amount is larger than $34,000 (single) or $44,000 (married filing jointly), then up to 85% of the Social Security benefit will be taxed.

To determine the exact amount that will be taxed; The IRS provides you with a worksheet specifically for that purpose. After all, the IRS wants to help us as much as possible. Doesn't that sound like fun?

OK! Now we know that retirees have to pay taxes. But, don't they get any breaks at all? What happened to senior citizen discounts? Surely the government isn't that cruel. Hey, I remember Grandma and Grandpa each getting an extra personal exemption because they were older than 65. That's got to be here for today's retirees, too, right?

It's true that an old age exception did exist at one time, but Congress wiped it out in one of their efforts to "simplify" our tax laws. Our leaders left something in return, though.

Currently, those over age 65 who don't itemize deductions on their income tax return can get a higher standard deduction than a similar filer who is younger than 65. The amount varies each year just as the regular standard deduction does.

Hey... it isn’t much, but at least it's something. Provided, that is, you don't itemize on your tax return after you retire. Retirees who itemize their tax returns don't get to use the extra deduction.

There is one more area that retirees may be able to reduce their total tax burden, and that's in the area of real estate taxes. Many states will grant a homestead exemption on real estate taxes to homeowners over a specified age, usually age 60 or older. Many retirees don't take advantage of this exemption. Your state might require that you apply for the exemption every year. That can be a hassle but it might be worth the effort.

Homestead exceptions vary by state and might take the form of a partial exemption, a waiver, a freeze on assessment rates, or a suspension of payment until death. investigation into this exemption is definitely warranted to determine what the state of residence will permit and what you gain from using it.

While it's highly unlikely real estate taxes can be avoided completely, it's equally true that every dollar counts when you're retired. You have a responsibility not to pay any more taxes than the law requires and every dollar not given to the taxman is a dollar earned.

RETIREMENT: JUST SIGN HERE

You're there. Your last day at work has finally arrived. You've cleared your desk and packed up all your personal mementos. You've even received the proverbial gold watch.

All that's left is to do is get with human resources and tie up a few loose ends and then you're out the door forever.

The human resources manager smiles sardonically when you enter his office and says, "We just need to have you fill out a few forms and you'll be on your way. Tell us how you want to take your money, sign this irrevocable option form, and you're out of here.

You've got to make the choice on your own, though. I can't advise you at all. You already know why: liability issues, fiduciary responsibilities, lawyers, etc. But you're a bright guy. You'll figure it out. After all, you managed to last a whole career here, didn't you? Just tell me how you want to handle your retirement distribution in the next five minutes, though, okay? I'm a busy guy and can't spend all day chewing the fat with ex-employees."

Making the choice about how to receive your distribution is a piece of cake isn't it? Just grab the money and run, right? It isn't often that you see six-or-seven figure sums staring you in the face, and it's all yours. Snatch that check, deposit it in your bank, and board that cruise liner to luxury land.

You can put off working out the nitty-gritty with your tax adviser at the end of the year. Right now your better half is waiting with luggage in hand and the camera slung over her shoulder. Get a move on, guy, 'cause time's a-wasting!

Hold on for a second, don't be too hasty. This is a one-time decision. Make the wrong choice now and you may be in for a very rude awakening later on. Make the wrong decision now and you could very well lose about half of the money you've accumulated through your working career. The taxman would steal it away while you weren't looking.

This is a decision is one that can't be ignored or left to the last minute. You need to know all of your options and the tax impact of each choice. Without that information, it's very easy to make a mistake that could haunt you for the rest of your life.

For most of us, the money that becomes available at retirement is the largest amount of money that we'll ever control at one time in our entire lives.

The decision on how we handle that money is one of the most important we'll make. Knowing that, this is one of the times in our lives when it makes sense to consult the experts. Especially the tax experts.

In this situation, about six months before retirement we should see a skilled tax practitioner who's experienced with retirement plan distributions. That expert should run the various scenarios to help us to see the potential results and choose the option that best fits our personal retirement situation.

How much does a tax expert cost? Anywhere from $200 to $750 is a good guess. Maybe even more depending on how complex your retirement situation is. But, measure that cost against a possibly huge tax burden and most people would agree the advice is almost priceless.

Generally, normally, usually, the best choice for a retirement plan distribution is to transfer that money to an Individual Retirement Account. By using an IRA, the tax-deferred status of that retirement money continues and we reduce our current tax burden to the amounts that is withdrawn from the IRA.

An IRA may not always the right choice, and that's another reason to get expert tax advice regarding these distributions. Your money, once it's in the IRA, is subject to IRA rules. If you're older than 59½ that's not a problem. You can withdraw as much money as you want at any time, and pay ordinary income taxes on that amount. But what if you retire before you're 59½?

Retire when you're 55 but younger than 59½, and two factors come into play. At age 55, you may retire and receive ***qualified*** retirement plan proceeds without penalty. You will pay ordinary income taxes on any sum you take out.

Put that money in an personal IRA though and you have to play by those different rules. Take money out of your IRA, and you'll pay ordinary income taxes plus a 10% early withdrawal penalty because you are under the magic age of 59½.

Bummer! You don't want to pay taxes all at once on your retirement plan money. You want the tax deferral of the IRA.

You don't want to pay that lousy 10% early withdrawal penalty but you still need money to live on until you can get at the IRA.

What do you do? I don't know, but that's another reason to see a tax consultant. You have several options, but to choose one of them you need to know all their tax ramifications. The expert can explain them you and help you make the best decision for your retirement.

One possible option is to keep just enough money from your retirement plan to live on until you reach age 59½, and transfer the rest to an IRA. You'd have to pay taxes on the money you keep, though.

There are some exceptions under Section 72(t) of the Internal Revenue Code that allow you to avoid the 10% penalty if you qualify. The most popular provision is one known as a "**series of substantially equal payments**".

Select that option and you have to live with the income the computations produce. You can't change that income level for five years or until you reach age 59½, which ever is the longest. That may not be enough cash to live on if circumstances change. Once it's started, you can't stop or change it at will.

What's the best choice? Ask your tax consultant.

STOCKS AND BONDS

A great way to build up your retirement income is to invest in the stock market.

We start this discussion with a quote from James Bryant Conant, an American diplomat and President of Harvard University:

"Behold the turtle. He makes progress only when he sticks his neck out."

He knew that cracks along the sidewalk would trip up the turtle from time to time. But the one who finds a comfortable pace and keeps his eye on the horizon will go places.

The same could apply to a retirement plan. In an investment strategy, those cracks in the sidewalk could represent market risk. When it comes to your retirement planning, you're going to have to cross those cracks and keep your eye on the horizon in order to get anywhere.

Market risk (the chance you will lose money) and reward (the chance that your investments will head skyward) travel hand-in-hand in the daily marketplace. The greater the risk, the greater the potential reward for taking that risk.

Equally true is the potential for loss, which quite handily explains why taking that risk should pay a greater reward. By and large, however, risk is pretty much a short-term phenomenon. That's particularly true in the stock market, which many regard as a quite risky investment.

Over time, investing in stocks and bonds have the potential for the greatest reward for the risk and the least potential of losing your money. Let's take a look at what some investments have returned over time.

Bonds are one of the safest investments. The rate of return is set by the Fed when the bonds are issued. Bonds are bought at a discount and usually mature in ten years.

Long-term government bonds have returned around 5.3% per year since 1926. The best 10-year holding period for bonds (data from the St. Louis Federal Reserve Bank) since 1960 was that ending on September, 1981, when bonds returned 15.32% annually. One of the worst was that ending on August 31, 2016, when bonds had a return of 1.56% per year.

Stocks have also been very good to investors over time. The Standard & Poor’s 500 composed of 500 international corporations, has returned an average higher than 11% per year since 1926. That's quite a bit higher than bonds. Interestingly, nearly half, over 40%, of the gains made over the years came from dividends.

The worst 10-year holding period was that ending on December 31, 1938 when stocks declined 0.89% per year, including dividends. The best 10-year holding period for stocks since 1926 was that period ending on December 31, 1958, when stocks increased by 20.06% annually. Had you put one dollar into stocks in 1926, you would have seen it rise to $2,682.59 as of December 31, 2000.

The long-term odds are overwhelmingly in the investors favor. We know the stock market shifts everyday, sometimes sharply downward. That can be absolutely gut wrenching when it occurs, but history shows us that the inexorable pressure on the stock market is upward. The biggest bang for your buck, over time, will be found in stocks.

When you're looking for an investment that provides growth over the long-term, stocks are excellent choices. The easiest way for most people to mirror the index's performance is by investing in a S&P 500 Index mutual fund or exchange-traded mutual fund.

Of course, there is always some risk, but there is great reward to be made on the stock market. If you have time before retirement, the rewards can be worth the risk.

Think now about your retirement. When will it occur -- 20 years from now, five years, tomorrow? If you're close to it, or are already retired, how long should your money last? Now think about your retirement investments in relation to time. Is the bulk of your money positioned for long-term growth (ie: stocks) or short-term stability and income (ie: bonds and bills)?

The mix you have in these instruments is something you have to decide for yourself based on how much time you have and the amount of risk you're willing to take.

Realize though, investing for retirement is a long-term goal. You want to get the best return on your investments that you can get. Over a long period of time, that won't be found in bonds or treasury bills. If you elect to keep most of your money there, you may be eating franks and beans for dinner because you have to, not because you want to.

Recognize, too, that you'll probably have many years of good productive life ahead after you finally retire. While bonds and treasury bills are appealing for the fixed growth and safety they provide, half or even more of your portfolio should be invested for growth to ensure you can maintain purchasing power.

Average inflation for the 10-year period ending December 31, 2000, was 2.71% per year. At that rate, the cost of all we buy doubles every 26 years. To a retiree living on a fixed income, that can be nothing short of devastating. If income doesn't keep up with expenses, sooner or later, you'll run out of money. That’s why you need a growth element in your retirement portfolio.

The goal here is to avoid overly conservative investing, both now and after you retire. Too much safety can be costly to your financial future in retirement. If you are a mutual fund investor (and most 401(k) or 403(b) plan participants are), make sure you have a good mix of stocks and bonds for security and growth.

Compare your funds records over time to that of the S&P 500 index and each other. For 5 and 10 year comparisons, most funds will be below the market. Most company provided plans offer a selection of funds to choose from.

If your plan offers a stock index fund, that will probably be your best choice. If you have a choice, use the fund that comes closest to the S&P 500 average or split your investment between a good stock and bond funds. Outside of a company plan, an S & P 500 index fund invariably is better than a managed stock fund for the long haul.

You may have many more options if your company plan allows you to purchase your own securities or if you are investing outside of a plan. Either way, you need to have a good mix of growth and security in your portfolio.

All of us have been paying social security taxes for years. While it may not be enough to retire on, it too, will provide you with some stable income in retirement.

SOCIAL SECURITY

"Social security? ***Forget About It!*** There won't be no Social Security by the time we need it. The system is broke, and it ain't gonna be fixed. It'll be all used up before you and I ever get there."

We've been hearing this horror story for 40 years or longer, but do you really believe it? Many people under 50 do, and the younger people are, the more prevalent that belief. I don't think social security will go away. Only congress can change the social security system.

Our fearless leaders in Washington know who votes and they can count.

We have accept the fact that Social Security is here to stay, but we also have to recognize that the system will very likely give future recipients less than it does today. Therefore, it will continue to play an important part in how we plan for retirement, and we need to watch how it evolves in the future. If we do this, we can plan for retirement with more precision than we could by blissfully ignoring it.

With very few exceptions, everybody that gets a paycheck will see a deduction for a FICA (Federal Insurance Contributions Act) contribution that reduces each paycheck by at least 7.65%. This contribution pays for social security and medicare. Both are very important to all retirees.

Self-employed people see twice that shrinkage from their gross pay. That's because employers have to match the contribution paid by their employees.

These involuntary "contributions" are really a tax that goes toward Social Security (6.2%) and Medicare (1.45%). What does this involuntary "contribution" get you?

Very basically, the social security tax you pay buys three things: 1. income in retirement, 2. income for survivors, and i3. income in case you become disabled before you are eligible to retire. Most people have to work and pay into the system to be eligible to receive these benefits.

How do you qualify?

Generally, to qualify for full benefits you need to work and pay into the system for at least ten years. The size of the benefit is based on your earnings and the number of years you pay into the system.

Everyone is eligible to receive retirement benefits at full retirement age (and that changes depending on when you were born) but you can receive retirement benefits with some limitations on or after age 62. But the longer you wait to apply for benefits, the higher that retirement income will be.

If you die before or after retirement, a survivor's benefit may be available to your spouse and dependent children depending on their age and work status. If you become disabled then you, your spouse, and your dependent children may receive disability income based on your work record up to the time of the disability.

By themselves, these benefits are a valuable asset to us all. They provide income protection to the family during and after our working careers. But do you know how much these benefits are? You'll never know unless you ask. And you should ask at least every three years to make sure the information is correct.

When you ask, you'll receive a Social Security Statement. This is a great tool in helping you determine how much money you need to set aside today to supplement Social Security in retirement. Remember, social security was designed to provide for minimum income needs in retirement, not all. The minimum is seldom enough and your own savings must add to that income so you can retire with the living standard you desire.

If you don't know how much you can expect to get from Social Security, you might devote more or not enough than you need to retirement savings. Put in too much and you decrease the amount available for other areas of your life today. Put in too little and you might have more difficulty later on.

The statement will show you how much you can expect to receive if you elect to retire at age 62, your normal retirement age (65 or older depending on birth date), or 70.

In addition, it'll show you the earnings credited to your Social Security account for each year you have paid into the system; how much you can expect to receive if you become disabled; and what your survivors would receive if you died. All that information is very important data on which to base your plans. If there are any errors on your earnings, you'll have an opportunity to correct them.

How do you get this data? You can call the Social Security Administration at (800) 772-1213 and ask for Form SSA-7004, *Request for Social Security Statement*. When you get it in the mail, fill it out and return it. In about four weeks, you will have your statement for review.

You can also get a statement by visiting The Social Security Administrations website and make your request online. You have to create an account, but you get instant access to your statement.

Either way, just do it. You need that information to effectively plan for your retirement.

When your social security statement arrives, look at it closely. Do you see an error in your reported earnings? It happens occasionally and it could have a significantly affect your benefit.

If there's an error, contact the Social Security Administration immediately to get it corrected. Most often, all that's required is for you to send in a copy of the W-2 Form you received for the year in question. Sometimes it takes a little more effort to fix the mistake. Regardless, you want to ensure all data is correct, and the only way to do so is to take action immediately.

All of us just want to enjoy retirement and not have to worry about working anymore. Still others find that the sedentary lifestyle just isn’t for them and they decide to continue working at something or start a second career.

Working In Retirement

So now you've finally retired from the rat race, and you're enjoying the good life. You're sipping on a mojito and contemplating the mysteries of life. You're on the verge of developing a new theory of evolution.

Working again may be the farthest thing from your mind. Who needs that routine when there's so many other things to do? Suddenly, you realize, you're sitting around more than you're doing things.

That's when you might consider reentering the workforce? But why would you want to? After all, you're retired.

You might want to get back in the work force. Particularly if you retired early before you became eligible for Social Security payments. As you recall, that check can't come until you are at least age 62. There are some government imposed limitations, but you might give working some consideration.

If you're already drawing Social Security and you don't have to worry about limitations, you might decide to go back to work simply because you enjoy the personal contact with other people.

Maybe you want to feel more productive, you want some "mad" money, or you just want to give your life partner a break. Many retirees work because they want to, not because they have to. They just enjoy it. But what does it mean financially when they return to work?

The financial impact of returning to work depends largely on your age when you resume working. One benefit a job gives is to increase the retirement benefit received from Social Security.

In computing that benefit, the system looks at a person's entire working life. The computations are complicated, and use the best 35 of the 40 highest years' earnings. Retire early, and you're might have several of those zero-income years. They will cause your Social Security check to be smaller than it could be. Return to work, and you'll pay into the Social Security system again and offset those zero-income years and increase your benefit.

Is that a good enough reason to go back to work? It might be. Then again, it might not. It's entirely up to you. If you've done a good job in planning for retirement, increasing your ultimate Social Security payment may not be an important factor to you. But you have to be aware that an early retirement might come at a higher cost than you might have thought.

For those who do go back to work, at full retirement age and older there is no worry. Retirees under full retirement age may see a reduction in their Social Security checks, depending on how much is earned in wages during the year.

From ages 62 through full retirement age, if you receive a Social Security check, you will forfeit one dollar of social security for every two dollars you earn above a certain maximum earnings limit.

That limit changes every year. In 2001, the limit was $10,680. Thus, a Social Security recipient who was age 63 and who received $11,680 in wages in 2001 was over the maximum earnings limit by $1,000. That excess caused a $500 reduction in the Social Security benefits that person received in 2001. Current limitations can be gotten from the social security administration website.

If you're under full retirement age and return to work after you start receiving your Social Security benefit, estimate your earnings for the year and compare that amount to the maximum earnings limit. If you will exceed the limit, notify Social Security immediately. The agency will reduce your monthly check accordingly.

If you don't notify Social Security, those earnings will be reported anyway when you file your income tax return for the year. The Social Security Administration will notify you of an over-payment because of excess earnings and it will take that over-payment from the following year's checks. You might not be working that year and may need your full Social Security payment.

What if your estimate was wrong and you didn't earn as much as you thought you would? In that case, the Social Security will restore the previously withheld amount. You won't lose a penny, but you will have avoided an over-payment.

Working after retirement has its good and bad points. Each of us must evaluate both and determine if we want to re-enter the work force. The point is to recognize the impact that working can have on our Social Security benefits. It's possible to increase what we get from the system later and at the same time, reduce the check we get today.

At this point, there are a few other issues that may need to be considered as part of your retirement plan.

YOUR HOME

Your home is more than just a box with four walls and a roof that you live in. (Yes! I did forget the floor!) For home owners, it's much more than just a box. It's a money tree. Live in it for a while, shake it, and the money from equity in your home will just rain down on you. The hard part is in deciding whether, when, and how to tap into that money tree.

Do we tap into that equity early in retirement, later, or maybe even never? Just like most other retirement decisions, that too, is a personal decision. Your home, especially when if it's paid for, can represent a high level of security. A home is also one of the biggest investments we ever make. As an investment, it represents an asset from which capital may obtained needed if and when it's needed.

In retirement, we still have to live somewhere. And, we'll either rent or own our home. Most retirees will own their homes and many of them either have totally paid off or are close to paying off their mortgages.

Some retirees will sell their homes and trade down to a smaller home. Some will sell out, keep the proceeds and rent. Some will stay in their homes and enjoy the benefits of not having to pay a mortgage or rent. And a few will sell and buy a larger, more costly home.

Each of these is a personal decision and any one of them may be fine. But, unless we know how our decision affects our retirement life, each decision may be just as foolish as any other. We need to look at all the issues and plan our retirement accordingly.

Long-time homeowners know that their homes have increased in value since their original purchase. Often, that equity might represent a princely sum that could yield an even greater return if it was invested somewhere elsewhere. One way to get at that cash is to sell.

Another way to tap into equity that has become popular over the years is a reverse mortgage. Each method has it advantages and disadvantages. Another reason to discuss your unique situation with a financial planner.

The Taxpayer Relief Act of 1997, made selling your home an even more attractive option than it once was. Now, we can sell our homes and receive gains of up to $250,000 ($500,000 for a couple) totally tax-free. If you have a lot of equity, that may be a great way to free up some capital that could be put to better use in retirement.

One scenario would be to sell and purchase a new, smaller home by making a minimum down payment on a lower cost 30-year mortgage. Lenders love to carry retiree mortgages because they have a very low default rate.

Then the remaining cash left from the sale could invest be invested. As long as that investment pays the mortgage, we'll be sitting in clover. We've freed up the cash tied up in our present home and made it work much harder for us. Will this work for you? The only way to tell for sure is to run the numbers and see.

Some people don't want the hassle of owning a home again. So, you could plan to sell, invest the cash, and rent. Will that work? It could. It depends on how much rent you're willing pay when you retire.

A home mortgage tends to be relatively stable through the years and makes planning easier. Rent has a nasty habit of increasing every twelve months. If you can invest your money to pay for those ever-increasing rent payments, then maybe a lease is an option worth considering.

Instead of the scenarios outlined above, you could just stay where you are. If you own your home, there's nothing wrong with living in it and enjoying the security of not having to pay rent or a mortgage. You're still responsible for property taxes and maintenance on your home, but that might be less than paying a new mortgage or rent.

Another option, you could sell and pay all cash for a cheaper home. Cash left over from the sale could then be invested to throw off additional retirement income for your use.

In either event though, when you need to, you can still get at the equity tied up in your home through one of two ways in most states. One way is through a home equity loan line of credit, and the other is through a reverse mortgage.

A home equity line of credit is nothing more than a loan secured by using your home as collateral. Because it's a loan, it must be repaid with interest. Repayment usually starts immediately in the form of a monthly payment based on an established amortization schedule.

In an emergency, a home equity line of credit is a good vehicle. As a means to get regular income, it's usually not a good route to take. If you need the loan as income, then chances are you won't be able to repay it. Failure to repay the debt could result in a foreclosure on your home.

For regular income, a reverse mortgage is a way of receiving a regular, ***untaxed*** (as of now) income as a loan against the equity you have in your home. The total loan amount is usually fixed, and may be paid to you as a lump sum or in monthly installments over a fixed period or for life.

Unlike the home equity line of credit, you don't have to repay this loan until sell your home or you die. Then you or your estate repays all loan proceeds with interest. The beauty of this loan is that it doesn't have to be repaid until the house is sold and your legal obligation for repayment is limited to the value of the home at that time.

If the home declines in value, you will never owe more than your equity in the home on its sale. For elderly people living alone who are in need of cash, a reverse mortgage is definitely an option to consider.

Whether you own or rent, sell or stay, recognize that your home is more than a house. It's a place of heartwarming memories, love, dreams, and good feelings. But "home" is also a mental concept, and we can have a home virtually anywhere.

A house is a structure of sticks or bricks, of walls and floors and it has monetary value. That value can and should be used when it's needed. Your retirement task is to determine if and when it is appropriate to do so.

Another real concern for retirees is Health insurance.

HEALTH INSURANCE

Health insurance is a major concern for retired folks. Once a person reaches 65, he or she is eligible for Medicare which can be quite costly. In most cases, Medicare becomes the primary health insurance.

Medicare doesn't pay for everything for most people. In addition to Medicare, one needs medicare supplement insurance plan or Medigap plan, for whatever isn’t covered with Medicare.

Medigap insurance plans are sold by private companies and can be quite costly. But they cover things Medicare doesn't pay for, such as deductibles, coinsurance, copayments, prescription medication and overseas emergency health coverage

Some private companies provide health care insurance to its retirees but this is becoming very rare. If you're under 65 and have no bad habits or health conditions, you may be able to find affordable health insurance but be aware that the premiums rise as you grow older.

If you plan to retire before reaching 65 and know that you will have to provide your own health insurance, you should try to get as healthy as possible. You know the drill. Lose weight, exercise, learn healthy living habits and so forth and so on to try to keep your premiums will be as low as possible in the beginning.

Access to affordable health insurance is crucial for maintaining the retirement income security of many retirees.

Studies have revealed some unsurprising trends in health insurance coverage for different groups of people who are approaching retirement or are retired.

- **People over 55 have more frequent and more severe health problems than younger, healthier people and are disproportionate users of health care.**

  Deteriorating health is often a powerful incentive for older workers to retire. However, in recent decades, health care costs have risen many times faster than inflation. Inadequate health insurance coverage puts working families at risk of going without the health care they need in retirement.

- **Prescription drug coverage is declining for most of the 55-and-over group, and the gap between health insurance and prescription drug coverage increases with age and retirement.**

  Because Medicare does not include some benefits such as prescription drug coverage, many retirees have turn to private Medigap health insurance to get that coverage.

It may be possible to purchase private health insurance through an employer sponsored insurance plan. The more likely option will be through the private insurance market. Medigap insurance may be prohibitively expensive or simply not available.

This leaves retirees to a large degree dependent on their former employers offering retiree health insurance but the share of retirees who had part or all of their prescription drugs covered by insurance declined systematically and substantially from 1996 to 2000. The evidence suggests that it may be necessary for older workers to stay in the work force longer to maintain affordable health insurance and prescription drug coverage.

- **Fewer employers are offering retiree health insurance**.

  The rising cost of health insurance and medical care have caused many companies to reduce or eliminate access to retiree health care insurance. Even if your employer says that it will cover you when you retire, there's no guarantee coverage will be there 10 or 20 years down the road.

Health insurance coverage is out there, you just need to explore all of your options and then decide your best course of action.

When you retire, even before you retire, you should probably think about joining a retirement organization such as AARP. These organizations may provide benefits for their members that include low cost health insurance. They may also offer discounts on dental insurance as well as vision coverage.

There's usually a membership and an annual fee. But it may well be worth the investment. When it comes to health insurance and you can’t get Medicare coverage or you need additional coverage, This may be one of the best ways to go.

Finally, you need to start thinking about a will.

YOUR WILL

It's unfortunate, but accidents do happen and all of us will eventually leave this world. One moment we're enjoying life to the fullest, and the next we're in another world. We never know when that mysterious moment will arrive, but smart people know to prepare for that eventuality.

In your retirement plan, you've seen an experienced estate-planning attorney to ensure that all your affairs are in order. The will is done, necessary trusts have been established and you've planned everything down to the last dot.

You've anticipated and taken care of everything including potential estate and/or inheritance taxes, so the family should have no problem. They get to keep the bulk of what you leave behind and the taxman gets as little as possible. Easy, right?

Let's face it, there are certain things we must do to protect our family and our wealth, if we have any. We don't like thinking about death very often, but think about it we must. We will die.

When we do, unless we have adequately prepared for that inevitable result, we may leave behind needless heartache and loss for those we leave behind. Estate planning is appropriate at any stage of life. It's particularly appropriate as we get older and prepare for retirement. Let's take a quick look at things we must consider.

It's no secret that ***every adult needs a will***. Die without one, and the state decides what happens to your property. The state's probate court mandate will rarely follow what you would do if you had the opportunity for a do over. You have the opportunity to make your wishes known through a will. Use it. See an attorney to complete one.

Wills are not that expensive to prepare and it ensures your property will be distributed in accordance with your wishes. In general, you should see an attorney and not use a preprinted, fill-in-the-blanks form bought from a stationery shop or online. These are often out-of-date forms and may not conform to the laws of your state. That penny saved may cost thousands of dollars after you die.

Do see an attorney. After you complete the will, review it every five years, at a minimum, to verify its validity and conformance with state law.

You have to be aware of what counts as an estate asset for tax purposes when you die. Basically, that's everything you own, including the face value of life insurance policies and the current value of all your retirement plans.

The **right of survivorship** is a very powerful legal right that allows you to pass an estate of unlimited value to your spouse at death with no unfavorable tax consequences. However, when your spouse dies, there may be some heavy tax burdens that could cause your children to receive far less than they should. Know that is possible and prepare for it.

The Estate Tax (or inheritance tax or death tax) is a tax on your right to transfer property at your death. It consists of an accounting of the fair market value of everything you own or have certain interests in at the date of death. The IRS estate tax is a complex system but a good explanation is available on the IRS website.

In 2016, you may leave up to $5.4 million tax-free to heirs who are not your spouse. If you leave those heirs anything above that amount, the excess will be taxed. The maximum federal rate is 40% in 2016. Sounds like a lot, doesn't it?

But count the value of everything you own; your retirement plans, your home, the face value of life insurance you own, and everything else, and that amount is reachable by many people. Even couples should begin to worry about the possibility of estate tax if their combined assets approach this figure.

In today's world, with two workers in the family, this asset level can be reached with some frequency. Is it time to see the lawyer? If you want to protect the kids from a significant tax burden, the answer has to be a resounding YES!

Durable Power of Attorney and Living Will

What if you become incapacitated, either mentally or physically? You might want to look into granting a **durable power of attorney** to someone you trust, such as your spouse or an adult child. You may also want to add a medical power of attorney. Both will allow the person you select to make decisions on your behalf.

Without those documents, your family may be forced to hire an attorney, go to court, and have someone appointed as your conservator or guardian to make decisions and conduct business on your behalf. That's a needless, time-consuming, and costly process that can be avoided with one or two inexpensive documents that an attorney can prepare today.

Lastly, you may want to execute a **living will**. It's a comfortable name for a document that really says you want the right to die a natural death free of costly, extraordinary efforts to maintain your life when it can only be sustained by artificial means. This document is free in virtually every hospital in the nation and hospital staff will always ask if you have one.

He living will makes such decisions easier on the doctor, the hospital, and your family. Used in conjunction with a medical power of attorney, this tool can spare your family a painful, drawn-out, and costly legal process. If you agree with this concept, then visit your local hospital, pick up the form, complete it, and let your loved ones know where it can be found.

Estate planning encompasses much more than just a will. It may be true that you can't live with lawyers, but you certainly can't die without them. You need to use their talents to make sure things work the way you want. It isn't a barrel of fun, but it sure is necessary. And it's a heck of a lot better than a poke in the eye with a sharp stick or leaving your family unprepared.

You can make your own will if you want. There are plenty of pre-made forms on the Internet that can walk you through making a will and how to legally record it. However, if you have a lot of wealth or assets, it might be best to consult an attorney to complete your will and get it done right.

Just as with any type of planning, there are some common mistakes that people make but it's easy to avoid errors by learning from other peoples mistakes. Sometimes knowing what not to do is as important as knowing what to do.

WHAT NOT TO DO

Just because you invest in a retirement plan doesn't mean you'll be financially secure when you decide to retire. If you are making these retirement planning mistakes, you could be in for a sad surprise.

- **Not taking full advantage of your company retirement benefits and free money that's offered**

You should invest as much money into your company retirement plan as you can afford. At the very minimum, you should invest enough to get your company matching funds if they are offered.

- **Withdrawing money from your retirement plan**

By withdrawing money from your retirement plan, you lose valuable interest that is extremely difficult to replace. Some plans allow for hardship withdrawals and/or loans but you must be careful when taking advantage of these withdrawals. Some plans require that the withdrawal or loan is repaid. In addition to losing interest and the power of compounding, you could face IRS penalties or early withdrawal fees.

- **Not actively monitoring your investments**

Many people never look at their 401k or IRA statements. Monitoring your investments makes sense so that you are aware of any discrepancies. Monitoring also alerts you to how well your investments are performing or not performing and make changes that fit your investment style. If you are carefully tracking your investments, you will be better equipped to know when to switch to a different strategy.

- **Relying on Social Security for your retirement income**

While social security might provide a substantial portion of your retirement income, by itself, it's never enough. You should have other means of income to supplement social security. A company pension or retirement plan and personal savings in addition to social security can provide the right mix of income streams when you retire.

- **Relying on your spouse's retirement plan**

If one spouse relies on his/her spouse's retirement plan for his/her retirement, he or she could be in for a very sad surprise come retirement. The spouse with the retirement plan could die leaving the other spouse with no income. There could be a divorce or even illness that could compromise the single spouse retirement plan. Each person must have a separate retirement plan to add security and stability to retirement income.

- **Forgetting to review your plan regularly**

If you forget or ignore reviewing your retirement plan on a regular basis, you might be losing a portion of your retirement income. You need to periodically review your asset allocation, your balances, your goals, and so on to insure you are making the most of your plan.

- **Practicing poor asset allocation**

Poor asset allocation can be financial suicide. What would you do if all your investments are in one stock and the company goes out of business? The secret to success is to diversify your investments so that if one decreases in value, others will hopefully increase.

- **Not checking out your broker/financial advisor**

There are lots of reputable brokers and financial advisors who are knowledgeable about how a portfolio should be set up and maintained. But there are also a few brokers and financial advisors out there who are not so reputable, are simply ill informed or are more interested in their commission. If you are going to trust your retirement savings to someone, you owe it to yourself to check credentials and track records by asking for referrals.

- **Relying too heavily on your company stock**

Your company is a great place to work and stocks are a very good way to save for your retirement especially in your company retirement plan. However, this can be dangerous if your portfolio consists of mostly company stock. All companies have lean times and we have all heard about mismanaged finances and funds that have resulted in bankruptcy. It's best to have a good investment mix in your retirement account to provide security and stability.

- **Not taking retirement planning seriously**

This is probably the worse mistake a person can make about his or her retirement plan and one that most of us have made at one time or other. Even if you are a very young person and starting your working career, your retirement plan should be a serious priority. By starting early, you can grow quite a large nest egg and might just be able to retire early.

A lot of things can cause us to delay retirement planning. Many people feel they'll have plenty of time left to worry about retirement planning after they have their home, put the children through college, buy the new sports car, and so on.

My advice to these people is to think about the life style they might want to keep after they retire and the company paycheck stops.

Bottom line is to take your retirement planning efforts seriously regardless of when you start. Diversify your investments, save regularly, and keep your eye on the goal.

After you develop a plan and put it in place, you’re done, right?

Sorry, but nope. Not quite.

REVIEW YOUR RETIREMENT PLAN

A comprehensive review of your retirement plan every few years is almost as important as having a retirement plan. What you save for retirement is one of the most important financial challenges you might face in your lifetime so make sure you review and monitor it often.

Retirement Goals--Do the goals you originally set still apply? Do you still plan to retire at the age you first decided upon? Has an illness or other life event changed your retirement goals? Are your investments growing in a manner to finance your retirement goals? You might need to reevaluate your goals or set some now ones periodically because changes are constantly being made in our lives.

Personal Finances--Is your income more or less than when you originally set up your retirement plan? Do you have additional income to invest from a second job or your spouse's job?

Have you had a bankruptcy or had to make major purchases in the past few years that might affect your retirement plan? Do you have children in college that might dip into your retirement funds? Have you had to withdraw some of your retirement investments for personal use? Your circumstances at any given time will dictate what you can put back for your retirement.

Spending Habits--Have your spending habits changed significantly since you last reviewed your retirement plan? Maybe you got married or divorced, had a child, changed jobs, bought a home, made a large purchase, went middle-age crazy (yes, it happens to the best of us), or just don't seem to get around to saving regularly for your retirement.

Look at your budget and see if there are ways you can free up some extra money to put aside for your retirement. If you see you are putting too much aside, you might use the extra for a much needed vacation.

Investment Portfolio--Here is where you really need to closely scrutinize how your portfolio is balanced to get the most for your investment dollar. Depending on your age and how close you are to retirement will dictate whether your portfolio will consist of investments for growth, income, or a combination of both. Now is a good time to look at the companies you have invested in to be sure they are performing satisfactorily.

Social Security--If you haven't already done so, you should get a statement of earnings from the Social Security Administration to tell you what you can expect to earn when you retire. This statement is also a good way to make sure there are no mistakes in your account. Look over the figures and if you have questions or find a mistake, call the SSA immediately.

Health and Life Insurance--If you are working, chances are you have both health and life insurance through your companies plan, but will these still be available when you retire? Some companies offer both to retirees but what happens if you leave employment before you decide to retire? Can you obtain personal health and life insurance coverage or at least discuss these with an insurance agent?

Pension Plans--If your company offers a pension plan, do you know what type of plan it is? Does your company offer matching funds? Are you contributing all you can to the plan? Can you choose the investments and do you know how well they are doing? What options are available and what maintenance and withdrawal fees are charged by the plan?

How long does it take to be vested? What happens to your retirement plan if you leave the company? How much is your plan worth right now and how much can you expect it to grow between now and next year?

IRAs--If you have an IRA, would it be more beneficial to roll it over into a Roth IRA? Is your IRA earning you the best possible return? When can you roll it over to another fund?

Your retirement plan should be reviewed periodically. Once every year is not to often to be sure it is performing the way you need it to for your retirement and to make adjustments to your plan. The closer you get to retirement age, the more often you will want to review your plan.

Any changes you make should benefit your end goals and carefully research every facet of your plan to make sure it's feasible. Before you retire, it may be beneficial to run the numbers by a financial planner to be sure you have the best plan for your circumstances and goals.

After you develop and put your retirement plan in place, you should learn a certain amount of money management skills in order to fully maximize the plan. Here are a few basic suggestions on how to manage your money

MONEY MANAGEMENT

It would be nice to say that we've been taught how to manage money since we were small children. Unfortunately, that's not generally the case and a lot of us learn about money management by trial and error.

What's the best way to maximize the money that you have? This becomes especially important when we start to save for the things that we want and need. Especially retirement.

Consider implementing the following tips to help you with your money management skills.

1. Have a financial record-keeping system in place at home to track income and expenses. This can be as simple as a green ledger form or as complicated as money management software. Just so long as you

know where your money is coming from and going. This helps you see where money is wasted and where you might be able to save more.

2. Make a household spending plan or budget, use it and follow it. Sure, some things will come up that you can't control, but keeping within a budget will help you manage your money effectively.

3. Reconcile your checks and ATM withdrawals at least monthly. Online banking is so convenient and many people don't receive a paper bank statement. However, you must be sure that your money is being accurately tracked and debited from your account.

4. Pay your bills on time. When you pay late, the extra fees charged can wreak the best budget systems. And, late payments can damage your credit report. Something that will follow you for a long time and you never want to happen!

5. Compare offers from credit card companies before you apply for credit. There are some cards that charge a small interest rate on purchases with no annual fees. Those are the ones you should be looking for!

6. You should do everything you possibly can to pay off your credit card balance every month. If it's not possible to do that, at the very least, pay more than the minimum each month. Try doubling up on the payment or at least make the minimum payment plus the interest charges.

7. Request and review a free copy of your credit report at least once every year. There are three credit reporting agencies that you can choose from. Take note of the information included in the report and take steps to correct any discrepancies.

8. Identify immediate and long-term savings goals and how you will achieve those goals.

9. Make a habit of saving some money on a regular basis. An easy way to save extra money is to pay for items with cash and at the end of the day, put all your pocket change into a savings jar. It's something small, but it can really add up!

10. It's a good idea to have enough money set aside as an emergency fund that can cover three to six months of living expenses in the event that something happens and you're not able work.

11. Put money into low-risk savings products. These can include savings accounts, money market accounts, or certificates of deposit (CDs). A good suggestion is to make sure the money is liquid enough that you can get to it immediately.

12. When purchasing a vehicle, shop around for the best interest rates. Sometimes there can be as much as half a percent difference in interest. Finance for 24 or 36 months and avoiding the ever popular 60 months if you can make the higher payment.

Try to make additional principal payments. Some vehicles will lose as much as half their value in about three or four years. If you pay off your vehicle early, you won't run the risk of owing more money than the car is worth and you'll save tons of money on interest payments.

13. You get an annual Social Security statement from the Social Security Administration. Read it, pay attention to what it says and make sure the information contained inside it is correct. If you find any errors, make sure to have them corrected before you're ready to retire.

14. Calculate how much money you will need to retire comfortably. This is one of the most important calculations you'll make. Try not to short change your retirement needs, but don't make it unreal either.

15. As we have said before, you should join your employer-funded pension plan as soon as possible. Once you become vested, this is a great savings vehicle and it usually comes with some free money.

16. Contribute regularly to an employer-sponsored retirement savings plan such as a 401 (k).

17. It at all possible, put some money away in a tax-advantaged Individual Retirement Account (IRA). If you can't make the maximum, you'll still have the advantages of compounding interest.

18. Put money in different types of investments to boost returns and reduce risk. Don't put your money in one basket. Take every opportunity to spread the risk and maximize the return on your money.

19. Use mutual funds as your savings vehicle. Historically, they have the greatest return and least risk.

20. DON'T dip into your retirement savings to cover other expenses. Create a separate emergency fund and use it when emergencies arise.

21. Search around to find the lowest interest rates and fees on a home mortgage. Interest rates can vary widely between lenders and you might be able to save a substantial amount on your mortgage payment.

22. Be sure you have a will. Review your will periodically and update it when circumstances change.

23. Invest in disability insurance to cover emergency situations and make sure the coverage meets your specific needs.

24. For piece of mind, be sure to have adequate life insurance. Life insurance will cover not only your final funeral expenses, it can also take care of your dependents financial needs with a little extra money to help after you're gone.

25. Have adequate health insurance. The cost of health care is forever increasing and without adequate insurance, it can be a real burden on your retirement financial situation.

26. Explore the pros and cons of long-term care insurance. Some insurance companies sell this type of insurance policy. Some have caps on benefits or other restrictions and some are very expensive. But if you ever need long term care then it might be well worth the expense.

27. Educate yourself about financial issues and keep learning. You never know what may eventually affect you and your money!

After you retire, it's becomes especially necessary to manage your money wisely. Sometimes people think so much about saving for retirement that they give little to no thought about managing the money that they have saved.

There are a lot of things to think about: health, age, hobbies, etc. when you think about making your money last. While you may not have enough money to do everything you want, you sure can make the most of what you do have and make your money last as long as you do!

To make your money last in retirement requires some thought and planning. There are things you can do to make your dollars stretch.

According to Social Security Life Expectancy Calculator, a 65-year-old man can expect to live to 84.3 years and a 65-year-old woman can expect to live to 86.6 years. That could be a significant amount of time for your retirement savings to last.

A Retirement Confidence Survey conducted by the Employee Benefit Research Institute (EBRI), found that 6% of workers expect their retirement to last ten years or less. Another 25% believe it will last 10 to 19 years.

While a 65-year old man can expect to live to 84 and a to live to 86, in reality, an increasing number of Americans are living celebrate their 100 year birthday.

As we've said throughout this book, you need to figure out how much money you'll need in retirement. Experts say that retirees typically need at least 70 to 80 percent of their pre-retirement income to maintain the same lifestyle.

Another reality is, your money must last as long as you do. There may be several reasons you could outlive your money:

- You didn't save enough
- Your investments don't keep up with inflation
- You withdraw too much
- You don't invest wisely
- You don't have a pension that pays income for life

After you retire, there may not have an opportunity to correct most of mistakes. Financial experts say that you can take out somewhere between 3-6 % (most recommend 4%) of your assets each year in retirement, and not outlast your money. The older you get, the more you have to save to make up for the short fall. Most experts caution that if you withdraw more than 5% per year from your savings, your chances of going broke during retirement increase.

While it makes sense to take less investment risk when you retire, some people go way too far. With people living longer and longer in retirement, having some investments in growth stocks as well as more stable bonds and cash may help make your money last.

How you achieve a good mix is a personal choice you'll have to make with advice from a qualified financial planner.

You should also think about the order in which you withdraw money from different savings and retirement accounts. Generally, a good tip is to start taking money from your regular taxable accounts first and let your tax-deferred accounts grow as long as possible. Dip into your Roth IRA last. This may not work best for everyone, so check with a financial professional to be sure.

Health is an unpredictable factor. Even if you're putting much younger people to shame in the workout room, good health comes with no guarantees. Healthcare expenses can alter the amount you'll need in retirement, and medical problems and expenses can put a damper on all of your retirement dreams. The health of your spouse or life partner can also change the course of your retirement. Consider getting long-term care insurance. See our section on long-term care insurance to help you with your decision.

Social Security provides a strong base for retirement security for most people. It is the largest source of income for most older Americans. But, for most people, Social Security will only replace about 40% of your pre-retirement paycheck. So most people and possibly even you too, will need other sources of income to live the good retirement life.

Deciding when to begin start getting Social Security benefits is important. At 62, you can get a reduced benefit but if you wait until your full retirement age (currently sometime between age 65 and 67), you'll get your full benefit. If you can wait, your benefit will increase each year you delay until you reach 70.

There is no clear cut answer on the best time to apply for retirement benefits. But if you can afford to wait, your benefit amount will be higher. That could decrease the amount of supplemental retirement income that you need to come up with.

Working after retirement is becoming a way of life. More and more people are deciding to continue working in retirement. AARP research has found that about 70% of mid-life and older workers expect to continue to work in retirement. While financial need is a major reason, there are other reasons that may be the primary driver. Many retirees continue working because they like working and enjoy being productive.

Many retiree workers seek a balance in their work and personal life and look for flexibility in the workplace. Options such as part time work, flextime, compressed work schedules, compensatory time off, telecommuting, job sharing and phased retirement are becoming more common.

According to the IRS, you can give away as much as $14,000 to anyone without paying taxes (this goes to $15,000 in 2018). Recipients don't have to be related to you and the gifts are nontaxable as long as you stay below the exclusion amount. Amounts vary from year to year so keep apprised of the rates with the IRS.

Gifts can help you reduce your taxable estate to a level that is free of federal estate taxes. However, don't give away this money if it will leave you short of funds.

How and where you live can greatly impact your financial security in retirement.

Location is everything**.** Would you consider moving to a low tax state? State tax policies can have a significant impact on your retirement income. Are social security and retirement income taxed? Property taxes and tax breaks for seniors can vary wildly from state to state and locale to locale.

Do you want to stay in your present home for as long as possible or would you be happy downsizing to a smaller home? Maybe, it's time for a smaller house. You may get a tax break if you sell your home. A married couple, filing jointly, can earn up to $500,000 on the sale of their primary dwelling and pay no federal income taxes on the gain ($250,000 for individuals).

The great part about this tax break is that you don't have to be 55 or older as was once the case. It's no longer a once-in-a-lifetime tax break and you can take advantage of it every two years.

Other Retirement Considerations

If you're thinking about moving after you retire, consider:

- Cost of living compared to where you're living now
- Property and income taxes (some states are more retiree friendly than others)
- Climate (how much will it cost to heat and cool your home)

- How much family and friend support you need
- Work opportunities if you decide to work in retirement

Start cutting your spending before you retire. People often spend more in retirement than they expected, sometimes a lot more. That's not totally unexpected, because you have:

- More time to spend money and shop;
- More leisure time and may be involved in more activities that cost money;
- More time to travel;
- A greater tendency to splurge.

Watch Your Spending Habits!

If you're even a little worried about running out of money, you may need to pull in the reins a little with steps like these:

- **Luxuries/necessities.** It's a good idea to distinguish between items you must buy and things it would be nice to own. When you think about making a purchase, ask yourself. "Do I need this or do I want it?". If it's a "want" then ask "Do I need this?" before you spend your money.

- **Stop credit cards.** Hig interest rates and balances are a budget killer. Put away your credit cards to help curb impulse spending. Only carry your credit cards for a planned purchase if you can pay the balance in full.

- **Avoid ATM withdrawals.** Decide how much cash you need and don't spend a penny more. You're more likely to avoid impulse spending if you run short of cash.

- **Buy right.** Shop around. With a little planning, you might find most of the things you want at a more reasonable price. Investigating each purchase can help you get the best value or you may decide that the purchase isn't worth the money.

- **Balance spending.** If you make a budget, don't overspend in one area without cutting corners in another. If you make an expensive purchase, you might want to cut some corners by eating out less often or by waiting for that latest movies to come to a bargain theater.

- **Downsize.** Many retirees consider downsizing. Sometimes it makes sense to move to a smaller house or sell that second car if you're really retired.

- **Coordinate everything with your life partner.** Work with your life partner to keep your spending habits in line. Agree on a budget both of you can live with without feeling deprived and stick with it! Above all, communicate with your partner.

- **Prepare for the unexpected.** Leave some room in your budget for unexpected expenses or emergencies without using credit. You never know when the furnace will stop working or your car will need an expensive repair. Being prepared is a great stress reliever.

Finding extra cash

There is always a chance that you'll need extra cash to help make ends meet. It has been said that your home is your bank and there are ways that your home can help you meet your financial needs in retirement. But you have to be very careful You don't want to lose your home in the process.

The equity in your home can be a source of cash that has to be repaid in retirement.

- **Loans.** You might refinance your first mortgage and ask for a larger loan. This is called "taking out cash" and it allows you to have cash for any use you wish. If, however, you have a low mortgage rate and don't want to lose it, you could simply get a home equity loan. This is essentially a second mortgage that gives you a lump sum to use.

- **Line of credit.** You could choose to open a home equity line of credit. This essentially works like a revolving credit card: You borrow when you need the money and repay it on your own schedule, as long as you make the minimum monthly payments.

  Some benefits. Borrowing against your home's value has several advantages:

  - **Tax break.** The interest you pay may be tax deductible. Ask your tax advisor.

    - **Low rates.** Because the loan is secured by your home, the rate is typically lower than other types of loans.
    - **Less risk.** You can use the loan instead of cashing in stocks at the wrong time or withdrawing from an IRA prematurely. Both of those may trigger income tax payments.

- **Reverse mortgages.** An entire business has been developed around reverse mortgages. The advantage is these loans allow you to borrow money and you repay it when you sell the home. You're still responsible for taxes, maintenance and upkeep on your home. It may be woth the research to find out if a reverse mortgage might work for you.

UNDERSTANDING ANNUITIES

Annuities may offer a tax-sheltered way to guarantee an income for life, or, a set amount of income for a specific number of years. It all depends on what you need. Consider annuities only if you plan on investing for the longer term; otherwise, it might not be worth it. Annuities can be complicated and difficult to understand.

Annuities were popular retirement investment many years ago, but the number of insurance companies offering annuities has decreased dramatically over the years. Primarily because people are living longer and they're not as profitable as they once were. But they can still be found and might be an approriate investment.

You first step when looking at an annuity should be to get advice from a trusted financial planner or a lawyer who specializes in annuities. Carefully examine fees before making a purchase. Some people sell misleading or outright fraudulent products to unsuspecting people. Make sure that you ask questions and compare options before buying and if possible, have the contract reviewed before accepting it.

An annuity is a contract between you and an insurance company. Based upon the amount you pay in premiums, the company pays you an income based on an agreed upon schedule. It's a retirement plan and as a general rule, you can't withdraw funds from the account before age 59 1/2. After that, you're only taxed on the earnings withdrawn.

First, decide how to make investments. Do you want to pay one lump sum or installments? Be aware that if you pay a lump sum—a "single premium annuity"—and later wish to invest more, you will have to buy another annuity. A "flexible payment annuity" allows you to invest more at any time.

If you want payments to begin immediately, you can get an immediate annuity. Otherwise, you could buy a deferred annuity, which will begin payments at a later date. Even with deferred annuities, you can buy one that matures in just a few years (although the payouts will likely be smaller).

- **Payment schedule.** You can select from a variety of payout options: monthly, quarterly, or annual payments starting immediately or starting some time in the future. Annuities are tax-deferred, not tax-deductible. Your money earns interest without your having to pay taxes. However, when you do start drawing from the annuity, you will pay taxes on the interest so consider the tax implications of your payout choice. For example if you are under 59 1/2 and make a withdrawal, you may have to pay a 10% penalty to the IRS.

- **Length of time.** You'll need to determine if you want payments for as long as you live, for as long as both you and a survivor live, or for a fixed number of years. You will probably hear these options referred to as a "life annuity," "joint and survivor annuity," or a "period certain annuity." The longer the time the insurance company must make payments, the less each payment will be.

  The two main categories of annuities are fixed and variable.

- **Fixed.** If you want pure predictability, buy a fixed annuity. It lets you set a guaranteed schedule of payments for a fixed period of time. Consider products that include cost of living adjustments (COLAs), as a way to keep up with inflation. Be aware that there may be fees, such as mortality and expense charges, deducted. Study so-called "bonus" offers on fixed annuities that make it look like you're getting a higher than usual interest rate. The bonus rate may only be good for a limited time—like a teaser rate on a credit card, the good terms that attracted you to the annuity may expire and you may end up with worse terms.

- **Variable.** If you're willing to take some risk in exchange for the opportunity to increase your future income, you can buy a variable annuity. You control how the money is invested from among a variety of mutual funds. Your income, therefore, will be variable, subject to the success of the mutual funds that are in your annuity. There may be a guaranteed minimum return you'll earn, with an unlimited upside; but there may be no minimum guarantee at all.

  Variable annuities are generally not a good match for those people already retired or near retirement, because their purpose is to grow retirement savings tax-deferred over an extended period of time. Furthermore, the minimum rate guarantee may be as low or close to as low as what you could earn with a Certificate of Deposit, but you'd be paying much higher fees for the annuity.

Pay attention to fees. Before buying an annuity, be sure you know how much you will be paying for the annuity. Here are some things to look for:

- **Surrender charge.** There's a charge if you want to cash out of the annuity. The amount is clearly stated in the annuity contract and differs from company to company. Usually, the surrender charge goes down each year until it completely disappears. Pay close attention to surrender charges; they can have a big impact on the value of your annuity.

- **Withdrawals.** Annuities have different withdrawal rules. Try to find a contract that allows for partial withdrawals. This could give you a one-time right to take out a portion (maybe up to 10%) of the accumulated cash value without a fee or penalty (imposed by the contract, not the early withdrawal penalty imposed by the government, explained below). This can be useful if you need to tap the annuity during the years the surrender charge is in effect. In addition to the penalties imposed by the contract, taking money from an annuity may result in taxes and other penalties.

As a general rule, if you withdraw money from an annuity prior to age 59 1/2, you'll pay a 10% early withdrawal tax penalty. This applies to earnings, not the amount you deposited. The IRS thinks of your withdrawals as taking your earnings first and the amount you invested last.

So if you withdraw money before you reach the contractual date for receiving income payments, it's likely that the entire amount withdrawn will be taxable. However, once your income stream begins, the IRS will view each payment as a mix of earnings and the amount you invested and only the earnings are taxable.

An annuity is a contract with an insurance company. There are independent rating services that examine the financial health of insurance companies, such as A.M. Best, Weiss Research, and others.

There are many reputable insurance companies selling annuities. But annuities are a fertile area for fraud. One of the most common techniques is the switching, exchange or replacement of one variable annuity for another. A switch to an inappropriate variable annuity can cost you a great deal of money, but gives the salesperson a windfall commission. Be wary if the proposal to replace an annuity comes from the salesperson, not from your own initiative.

Annuities sales people make very high commissions so there's pressure for them to sometimes force a sale. Be sure the agent is focused on your needs and doesn't simply come in and offer you a particular product without getting to know your situation first. Even so, don't trust too easily; sales training in annuities is intense, and the sales approaches can be tricky.

LONG TERM CARE INSURANCE

Long-term care insurance is something that seniors should consider during retirement planning.

This is an insurance product sold through a licensed agent or an insurance broker. It helps provide for the cost of long term care of an individual beyond a pre-determined period and covers care generally not covered by health insurance, Medicare, or Medicaid.

A common misconception about long-term care is that it is just for the elderly. Anyone of any age or occupation may get into a situation where they need long-term care at any time. In fact, government statistics indicate that 8 percent of people between 40 and 50 years of age will require some kind of long term care.

People who require long term care are generally not sick in the traditional sense, but instead, are unable to perform the basic activities of daily living such as dressing, bathing, eating, toileting, getting in and out of a bed or a chair, and walking.

Also, long term care isn't necessarily long term. A person may need care for only a few months to recover from disability, surgery or illness.

As individuals age, there is an increased risk that long term care will be needed. In the United States, Medicare doesn't cover the cost of long term care, but Medicaid will for those who cannot afford to pay.

A long term care insurance policy should be obtained while a person is healthy. Once a health condition occurs, long term care insurance may not be available because the health problem would be considered a preexisting condition.

In the Unites States, Medicaid generally does not cover long term care provided in a home setting and in most cases, does not pay for assisted living. It may, however, pay for medically necessary services for people with low incomes or limited resources who "need nursing home care but can stay at home with special community care services."

People who need long term care traditionally prefer care in their own home or in a private room in an assisted living facility.

If home care coverage is purchased, long term care insurance may pay for home care often from the first day it is needed. It may pay for a live-in caregiver, companion, housekeeper, therapist, or private-duty nurse up to 7 days a week, 24 hours a day.

Assisted living may be paid for with long term care insurance in adult day care, respite care, hospice care and some others. Insurance may also help pay expenses for caring for an individual who suffers from Alzheimer's disease or other forms of dementia.

Other benefits of long-term care insurance include:

- Many older people may feel uncomfortable about relying on children or family members for support and find that long term care insurance could help cover these expenses. Without insurance, the cost of covering these services out of pocket can quickly deplete the saving of the individual and/or their family.

- Premiums paid on a long term care insurance product may be eligible for an income tax deduction. The amount of the deduction depends on the age of the covered person. Benefits paid from a long term care contract may be excluded from income.

- Business deductions of premiums are determined by the type of business. Generally, corporations paying premiums for an employee are 100 percent deductible if the premium is not included in an employee's taxable income.

In the U.S., two types of long term care policies are generally being sold as related to income taxes: Tax Qualified and Non-Tax Qualified.

The Non-Tax Qualified policy was formerly called Traditional Long Term Care insurance. It often includes a "trigger" called a medical necessity trigger.

This means that the patients doctor or the doctor in conjunction with someone from the insurance company can state that the patient needs care for any medical reason and the policy will pay. Usually only require the inability to perform 1 or more activity of daily living to pay. All benefits are usually taxable as ordinary income.

The Tax Qualified long term care insurance policies don't have a medical necessity trigger. In addition, they require that a person be expected to require care for at least 90 days and be unable to perform two or more activities of daily living without substantial assistance and that a doctor provides a Plan of Care.

The other part is that for at least 90 days, the person needs substantial assistance due to a severe cognitive impairment and a doctor provide a Plan of Care. Benefits with this type of policy are usually non-taxable.

Fewer and few non-tax qualified policies are available for sale these days. One reason is because consumers want to be eligible for the tax deductions available when buying a tax-qualified policy.

The tax issues can be more complex than the issue of deductions alone and it is advisable to seek good counsel on all of the prods and cons of a tax-qualified policy versus a non-tax-qualified policy. This is because the benefit triggers on a good non-tax qualified policy are better than a tax qualified plan.

Once a person purchases a policy, the language can't be changed by the insurance company. If the policy is an individual policy, it is guaranteed renewable for life and can never be cancelled by the insurance company except for non-payment of premium.

Most benefits are paid on a reimbursement basis and a few companies offer per-diem benefits at a higher rate. Per-diem based plans pay a specific daily amount of money for a specific period of time. And most policies cover care only in the continental United States.

Group long term care policies may not be guaranteed renewable. Most group policies are non-tax qualified and the benefits are taxable. Many group plans include language to allow the insurance company to replace the policy with a similar policy but usually allow the insurance company to increase the premiums at that time.

Group plans ususally have higher premiums and lower benefits than an individual plan and some group plans can be cancelled by the insurance company. Those types of policies are not usually recommended.

Some retirement systems may offer long-term care insurance similar to a group plan. However, these organizations are not regulated by state insurance departments and can increase rates and make changes to policies without any state scrutiny and approval.

Long term care insurance rates are determined by six main factors:

1. The person’s age
2. The daily or monthly benefit
3. How long the benefits are for
4. The elimination period (if any)
5. Inflation protection (if any)
6. The health rating of the individual (preferred, standard, or sub-standard)

Many companies offer multiple premium modes: annual, semi-annual, quarterly, and monthly with automatic money transfer. Companies add a percentage for more frequent payment than annual.

Most companies will give spousal discounts of ten to twenty-five percent and most plans offer security options such as non-forfeiture, restoration of benefits, and return of premium.

Most policies are written with an elimination period or waiting period similar to a deductible. This is the period of time that you pay for care out of pocket before your benefits are paid. Elimination days may be from 30 to 120 days after a long-term care incident, such as a fall or illness actually happens.

In some cases, the option may be available to select "zero" elimination days when covered services are provided in accordance with a plan of care. Some may even require that the policy for long term care be paid up to one year before you become eligible to collect benefits. The reason to choose a higher deductible period is for a low cost premium.

Long term care insurance, just like any other insurance, is a way to protect yourself in the event of an emergency. And, just like any other insurance policy, you can pay premiums for years and never have to use the policy. It's important to determine how valuable a policy like this will be to you in the future and go from there!

As you review each possible insurance policies, ask yourself these questions (very similar to "Is it a need or a want"):

- Do I need this policy?
- Is the maximum coverage adequate for my situation? A good example is home owner's insurance. Many people never increase the replacement cost coverage on their house, even as the value of the house and replacement costs rise dramatically.
- Am I getting the best value for the premium? For example, would I save money and still keep adequate coverage if I raised my deductible (which will lower your premium)? Should I try to get the same coverage at a lower price from another insurance company?

- Are there gaps in my coverage? In other words, are there situations that could possibly occur that my policy wouldn't cover? It's a good idea to review insurance policies periodically.

- How much of a discount would I get if I bundle all of my policies with the same insurance company?

- Does my current insurance agent understand my needs and provide good service? If I don't have an agent, is the insurer's customer service helpful when I need them?

RETIREMENT RESOURCES

There are some great websites offering lots of information and help with retirement planning. There are so many, they get a chapter of this e-book devoted just to them!

The Social Security Administration has a lot of great information including a life expectancy table to help you determine how much longer you're expected to live and how much longer you could need retirement income. It's at the following address:

http://www.ssa.gov/OACT/STATS/table4c6.html

The SSA's website will also help you learn what your full retirement age is and how to calculate your estimated benefit if you take early retirement or if you wait until full retirement age and beyond.   You can also find out how working during retirement will affect your benefit if you retire before you reach full retirement age.

They can also help you learn when and how to apply for retirement benefits and medicare at:

www.socialsecurity.gov/retire2/near.htm

There are so many commercial retirement calculators available it's hard to list them all. Calculators can help you determine if you're on the right track with your savings plan and how to adjust your budget for retirement accurately.

Use your insurance company's calculator to help you learn if you’re saving enough, what your income might be after you retire and what your expenses are likely to be. You can also find out how long your money might last during retirement.

The following site contains good calculators to help evaluate your retirement savings plan, including how much you need to save, how much you can withdraw and how long your savings will last.

http://www.calculator.net/retirement-calculator.html

Can you cut spending or change your lifestyle during retirement? CNN has several calculators that can show you how your retirement income stacks up in different cities around the country. There's also some real estate, investing and savings and spending calculators. Find that tool here:

http://money.cnn.com/tools/

If you consider buying an annuity, it can be helpful to know what it can provide to you in terms of income. Annuities specific starting balance to provide a fixed monthly income for a specific number of years. They can be very complex retirement instruments. Here’s a calculator that can show you how much you need to get a decent pay out.

http://www.moneychimp.com/calculator/annuity_calculator.htm

And, of course, AARP has an amazing amount of information about all things retirement that’s available and usually current. They can provide a wealth of information for all of your questions when it comes to retirement! Look at the menu items on the left side of the page.

www.aarp.org

CONCLUSION

Most people don’t take retirement planning as seriously as they should. Some think it’s a dream they can never achieve and envision working for the rest of their lives. For some of us, that will be a reality, but working in retirement is not a bad thing, especially if it's our choice.

The truth is that retirement planning, tedious as it may be, is an important and necessary part of your life. As you get older, you'll reach an age when you decide that you want more out of life and you need time and resources to grab that dream.

Retirement isn’t out of reach for anyone – as long as you come up with a solid plan and if at all possible start saving something early. You can’t invest in a company 401(k) plan or an IRA when you're 50 and expect the return from that plan to support you when you retire in the 15 years.

Investments take time to accumulate and compounding will make your investment grow more as time passes. Interest accumulates over a period of time – a long period of time. You won’t be making any really great progress toward saving for retirement unless you start early and invest often and wisely.

The fact is, retirement is just an extension of your life, but it’s just life without having to work. You can and should live your dream, but planning is the first step toward that realization.

Human beings are distinguished from other species by our ability to think ahead and plan our future. We don't operate on instinct alone. While that may be true. It's also true that most of us have a great deal of trouble thinking and preparing for the long term.

We're to busy living our daily and sometimes tension filled lives. It's difficult enough to plan something just six months ahead, like a summer vacation. How are we supposed to be able to think about something in the distant future like college for the kids or our own eventual retirement?

Thinking in advance, planning for the future and acting on those plans, are the keys to being ready for the future when it turns into the present. The younger you are, the time you think you have and retirement is still far away. But, time gives you more power at your fingertips in the form of compound returns over time to plan a great retirement. It's a paradox that you can work to your advantage.

So start today and realize the benefits tomorrow – it'll be well worth it in the long run!

Happy retirement!

The following websites were referenced in researching this book:

www.dol.gov/general/topic/retirement/typesofplans
www.irs.gov/retirement-plans
www.ssa.gov/benefits/retirement/
www.usa.gov/retirement
www.calculator.net/retirement-calculator.html
www.socialsecurity.gov/retire2/near.htm