

Cruisin' into Retirement?



This is the Guide you
need to avoid the
bumps in the road.

Retirement Information at a Glance

Montana State University
Association of Retired Faculty

HANDBOOK ON RETIREMENT AT MSU

*Pre and Post Retirement Policies, Benefits, and Information
Produced by the MSU Association of Retired Faculty*

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"The past is but the beginning of a beginning, and all that is and has been is but the twilight of the dawn." **H.G. Wells**

The information contained in this Guide is for educational purposes only; it is not intended to be professional retirement, tax or legal advice. We encourage you, the reader, to consult with your personal financial advisor and the appropriate retirement program if you have any questions about the information in this Guide and how it relates to your own personal financial situation.

INTRODUCTION

A number of faculty who have retired from MSU feel that it would have been beneficial for them to have had more information available to them when they were considering retirement, as well as information re rights and benefits available to them after retirement. The purpose of this Handbook is to meet these needs.

As a general concept, "Retirement" should be viewed as a process, and not an event. To that end, the Association of Retired Faculty (ARF) was formed at MSU. The purpose of ARF is to foster the benefit, interests and well being of retired and retiring faculty through social, educational and promotional activities, as well as to encourage continuing retiree contact and involvement with the University. Over the past few years, new models of retirement are being considered at universities, and a national organization, the **Association of Retirement Organizations in Higher Education**, was formed in 2002 to carry out various educational activities, including forums for the development and sharing of ideas to assist retiree organizations in achieving their goals in developing new models of retirement.

Retirement should be viewed as an ongoing process or transition, not a specific event or date. It should be a period of time tailored to the needs, desires, abilities, and wishes of the individual, as well as the university. The retirement process should be flexible to recognize that not one size fits all, to recognize the many academic life style choices and needs.

There are several important aspects of the transition to retirement. Unfortunately, many retirees do not adequately consider all of them before they leave the university. It is essential to plan carefully ones financial affairs, the area most considered. It is equally important to plan for the quality of life, defining some of the things about which to be passionate with a sense of purpose and accomplishment. Generally faculty are passionate and enthusiastic about their teaching and creative activities and academic life in general. These must be transferred to other activities of retirement. Some faculty can make this transition quickly, and for others considerable time is required. The retirement process needs to be flexible enough to accommodate this variability.

Getting Ready for the *Rest* of your Life

A Guide for MUS Pre-Retirees by Susan Schmitt MUS Benefits Office

The contents of this booklet are current as of September 2007, but are subject to change at regular intervals. Please verify all information at the time you begin to plan your retirement. Thank you!

Introduction

Retirement used to be considered the end of a person's life. Nowadays, it should be looked at as the *rest* of that life. Our hope is that you have worked hard to take good care of yourself, using our health plans and wellness programs along the way, so as to enjoy another twenty or thirty years once you've retired.

When potential retirees ask me what they need to do to retire, I tell them just two things: know what you are going to do with your time and know how you are going to pay for it. These two simple things are intimately intertwined. Without one, the other becomes futile. You can have all the money in the world (lucky you), but without purpose, what will you do with it? And all those glorious plans for your future are meaningless without enough financial backing to cover the costs.

I cannot tell you how to spend your time, though I have high hopes that you have dreams, goals, activities, travel, hobbies, grandkids, vacations, volunteer work, and just plain fun planned like there's no tomorrow. I can help you with planning the more practical side of things, and that is the purpose for this booklet. The subject matter may be a little dry, but I'll try to make it as interesting as I can. The

information is presented in no particular order, as each individual will have a different set of circumstances surrounding his or her decision to retire. With a little guidance and a whole lot of planning, you can get on with the *rest* of your life!

Is it time to retire? Only you can know if it is time. Physically, mentally, and emotionally, you are looking at one of the most consequential decisions of your life. This is no longer an age-driven mandate, but a desire-directed option; *you* get to choose when to take the proverbial gold watch. One good thing to keep in mind is that retiring is neither irreversible nor permanently binding, although some of the related choices you must make are. Take as much time as you can in making wise selections of things you have to live with "forever". The information that follows will assist our MUS employees in making informed choices that will help make your retirement everything you have planned for.

Pensions and Related Issues

All active MUS employees are covered by either the Montana Teachers Retirement System (TRS) or the Montana Public Employees Retirement System (Administration) (PERS) or the Optional Retirement Plan (ORP) through TIAACREF (T-C). A few individuals may also have a combination of an inactive TRS, PERS, or T-C account(s) and an active account of another type. PERS now has a Defined Benefit (-DB) Plan (most members) and a Defined Contribution (-DC) Plan (a few members). Just to complicate things, T-C offers a 403(b) voluntary contribution plan and the State of Montana has a 457(b) voluntary contribution plan available to MUS employees. MUS also has 403(b) plans with AIG-Valic, MetLife, T. Rowe Price, Aetna, and Scudder.

You should know what retirement plan(s) you have (active and inactive), plus any private annuity or similar investment plans you have, and know what your withdrawal options are, long before you tell your supervisor that you are retiring. Planning in this case is not just essential; it is critical. If you think you can retire on Social Security alone (see below), think again!

Your TRS, PERS, or ORP account, whether active or inactive, has its own rules (governed in part by the IRS) pertaining to age and employment longevity that determine eligibility, amount, and duration of pension benefit. Those rules are strictly adhered to by each pension plan. Each pension system works separately, with little influence or bearing on decisions made by another system, unless you return to work on a post-retirement contract. (See Working after Retirement in this booklet.)

You can contact your pension system months, even a year or two, in advance and ask for an estimate of your expected benefit. PERS-DB and TRS will give you fairly close approximations under a variety of possible scenarios, depending on your preferences and needs. T-C and PERS-DC, as well as any other annuities and qualified plans you might have, can give you a range of withdrawal options, but may not be able to offer much in the way of concrete dollar figures since their investments and benefits vary with stock market fluctuations. Once you have a firm retirement date, you will be required to make an **irrevocable** decision as to how your pension fund(s) will be distributed. Think long and hard, discuss budget ideas with affected family members, and don't forget to talk to your tax advisor.

Your choices will affect your income levels for literally the rest of your life. When you have a reasonable idea of what your

pension and other benefits will be, you can outline a budget to use for long- and short term financial planning. Remember: more and more people are living to be 80, 90, even 100. Plan accordingly!

Contact information for professional pension advice is:

TRS: 406-444-3134

*write to: PO Box 200139

Helena, MT 59620-0139

*go to: 1500 6th Ave., Helena

PERS (MPERA): 406-444-3154

*write to: PO Box 200131

Helena, MT 59620-0113

*go to: 100 N. Park, Ste. 200, Helena

TIAA-CREF: 1-800-842-2776 participant call center

*web access: www.tiaa-cref.org/montana (dedicated website with email inquiry)

*Schedule consultation: 1-800-732-8353

*UM campuses – Mark Vossler

1-800-842-2776 (leave a message)

*MSU campuses – Anne Anderson

1-800-842-2776 (leave a message)

*write/go to: 370 17th St., Suite 1800
Denver, CO 80202

This is important: Keep a written account of all conversations, including the time, date, and person spoken with. Keep copies of all mail, both incoming and outgoing. "Proof" is everything if you find yourself in a disagreement with your pension plan.

Social Security Benefits (SSA)

Filing for Social Security benefits requires making many personal choices, just like obtaining your pension benefits. However, I can actually give guidance for SSA as the federal government has a lot more binding rules and a lot fewer choices.

You can get up-to-the-minute information from either www.socialsecurity.gov or www.ssa.gov or by contacting your nearest Social Security office. The Q & A section on the website is its best feature. Do not be intimidated by the home screen, which is a bit crowded and hard to follow. Also useful are the many publications that SSA keeps relatively updated, especially now with the Baby-Boomer influx. Most publications are downloadable from the websites, or you can get a copy of the more popular booklets at your local SSA office.

You must apply for Social Security benefits, either online or in person. In all cases, you receive no benefits unless you apply, regardless of your circumstances. You may begin receiving your SSA benefit as early as 62, although with a permanent percentage penalty in most cases for taking an early benefit. Persons who are survivors, divorced, disabled, or with other special circumstances may have different rules for eligibility. For people born between 1943-1954, the full penalty is 25%, diminishing with each month you postpone your SSA benefits until you turn 66. People born before 1943 are penalized on a prorated scale if younger than a specific age between 65-66. People born after 1954 may be penalized for taking early SSA benefits prior to reaching age 67. To learn when to begin drawing SSA with no penalty, see the Full Retirement Age chart at:

www.ssa.gov/retire2/agereduction.htm.

Pre-retirees often ask if they will lose money by taking their SSA benefits early. The best answer to that question is the solution to a simple algebra problem, although I'll leave the actual math problem out. Mathematically speaking, if you expect to be long-lived (78 or older), you will receive more total SSA benefits (cumulative) if you wait to collect until your

Full Retirement Age or later. If you expect to die "young" (before age 78), due to current illness, lifestyle, or family history, you should start taking your SSA benefit as soon as you can to collect as much as you can. Of course, no one can predict the future, so retirees have to take their best guess on this issue. (People born before 1943 or after 1954 will have a slightly different age projection, depending upon year of birth.)

Normally, you don't want to draw your SSA while you're working and still under your Full Retirement Age (FRA), unless you are working part-time. Income limits for semi-retired persons drawing SSA benefits are \$12,960 (2007). If you make more than that and are younger than your FRA, your SSA benefit will be penalized substantially during that calendar year. Once you have reached your FRA, you are (currently) allowed to work as much (or as little) as you care to, without penalty for earnings. However, you will have regular payroll taxes withheld, including SSA and MCR. Obviously, you have to make the decision to work after retiring based upon your own budgetary needs, but the longer you wait to draw SSA, the higher your benefit will be and the less chance of any penalties.

Some general comments about SSA: You can probably expect to get a benefit in the range of 20-30% of your current income assuming that your final position was your highest paid and that you worked in a similar position for several years. Your annual SSA report, received about three months before each birthday, lists reliable benefit estimates. In most cases, you must have worked at least 40 quarters (10 years total, but not necessarily consecutively) while contributing to SSA to draw a benefit. There are special rules for divorced, widowed, and disabled individuals that are

too involved to go into here, but you can go to www.ssa.gov to find out more. Spouses have several options, the most common being (1) a spouse receives an SSA benefit based upon his/her own earnings history, or (2) a spouse receives one-half of the benefit that his/her spouse is receiving. The latter option is especially important for nonworking spouses who stayed at home to care for children, etc. When a spouse dies, the surviving spouse usually receives the higher of the two benefits from that time forward. If you work after beginning to receive your SSA benefits, Social Security and Medicare withholding (as well as income taxes) will still come out of your paychecks, unless you are employed by a special government program like Foster Grandparents or Senior Companions. Your SSA benefit amount will be adjusted accordingly, usually on an annual basis.

Medicare (MCR)

The best information you can get about Medicare is at www.medicare.gov. Go to either Medicare and You 2007 or *Frequently Asked Questions* at the bottom of the MCR home page where you can type in your questions. MCR has set up an excellent Q & A system that most people can successfully navigate. Another good resource is your state Aging Hotline (1-800-332-2272 in Montana). The MCR hotline, 1-800-MEDICARE (1-800-633-4227) frequently has very long wait times, sometimes more than an hour, and should be used only when no other option is available.

Medicare is a health insurance entitlement program for US citizens 65-and older who have been employed for at least 40 quarters (usually), as well as for the disabled and those with certain specific diseases. If you are or will be eligible for Social Security benefits, you will most likely

be eligible for MCR. If you live or travel outside the United States, you will have limited or no access to MCR coverage unless you return to this country for services.

Enrolling in Medicare

As you approach your 65th birthday, MCR will send you forms by mail to complete and submit for MCR coverage. If you have not received the forms a month prior to your 65th birthday, you should go to your local SSA/MCR office and apply in person. *Do not neglect your MCR application!* There are deadlines that must be met or you will incur penalties that could last your lifetime. In general, Part A covers hospitalization costs while Part B covers physician and other related medical costs. Both pay about 80% of the MCR allowable charge after deductibles are met. MUS will continue to cover your prescription costs as we currently do, as well as providing secondary coverage to MCR Parts A and B (assuming you enroll as a retiree with MUS).

MUS Requirements for Medicare Coverage

If you are actively working and covered by MUS employee insurance, you should sign up for Part A at age 65 (it's free). As long as you are an active employee, MCR is secondary to MUS Insurance, but Part A can still be a financial help especially if you are hospitalized. If covered by an active MUS employee policy, you do not have to sign up for Part B unless you want the added coverage. There is no penalty for waiting to sign up for Part B enrollment, as long as you sign up when you actually retire and move to MUS retiree health coverage. Note that there is an income based premium for Part B. When you are within 2-3 months of actually retiring and changing to MUS retiree coverage, you should contact SSA/MCR and sign up for

MCR Part B effective the first of the month prior to your retirement date. Don't sign up for a Part D (prescription drugs) plan if you intend to stay on the MUS Health Plan.

If you are an MUS retiree, surviving spouse, or retiree spouse who is approaching age 65, you must be enrolled in both Medicare Part A and Medicare Part B to continue coverage with the MUS Health Plan. You may not enroll in Medicare Part D and stay on the MUS Plan. You will be contacted about six weeks prior to your birthday and asked to verify your MCR enrollment, then directed to contact your campus benefits office for MUS enrollment rate and plan changes. MUS rates for retirees covered by MCR are substantially lower, since MCR covers a significant portion of their medical bills. In most cases, the premium difference more than makes up for the Part B premium you will have to pay.

Retirees should show their providers both their MCR cards and their MUS cards and tell the providers that MCR is their primary coverage. Currently (2007-08), the MUS plan is a true secondary plan, meaning that we pick up many medically-necessary services that MCR doesn't pay for. MCR doesn't pay for everything, despite common misconceptions. Other than deductible amounts, with both MCR coverage and MUS coverage, most retirees pay little out-of-pocket for their medical expenses. MCR deductibles (yes, they exist and are increasing) are usually also credited toward MUS deductibles, so retirees effectively get double credit for their deductible amounts. It is advisable to use MCR participating providers whenever possible; this will cut down your residual out-of-pocket expenses considerably. If you are covered by an MUS managed care plan, be certain to use in-network providers as well.

Alternative Insurance Coverage: When you approach age 65, you will receive literally and figuratively a ton of mail offering Medicare supplemental coverage, MediGap plans, Part D plans, Medicare Advantage (Part C) plans, and many derivations of these. It is truly overwhelming and quite amazing that insurance companies will spend so much marketing to our senior population. Your question, of course, is, "What should I do with all this mail?" Here are my suggestions: if you don't recognize the company's name, throw it out. If you do decide to change insurance carriers, you want to be covered by a well-known company with a good reputation that you can depend on. If you are offered "the best/cheapest/most popular policy in America," toss that as well. Good companies do not need to exaggerate in their advertising. If you are offered policies that will "never change/raise rates or be cancelled," they are not being truthful, so shred those, too. If it sounds too good to be true, it probably is, and you should be very skeptical. You will have about 10% of your pile left.

Look at those with a critical eye. It is possible that there is a really good, reasonable policy in your pile that you might want to consider. If you decide to consider something besides the MUS Plan, be certain you are comparing all the variables – premium cost, claim coverage, location of facilities, Rx plan, stability of the plan, deductibles and other out-of-pocket expenses, available providers, types of covered services, coordination with MCR, spousal coverage, customer assistance – the list is nearly endless. Be sure that you are comparing apples to apples, not apples to oranges, or even worse, apples to lemons. You do not want to have a lemon of a policy at this stage of your life. And

most importantly, remember: *If you decide to drop your MUS retiree health coverage, you cannot get it back!!!*

Retirement Benefits: Health Insurance, Dental Insurance, Vision Care Insurance

If you retire from MUS and are eligible for a TRS or PERS pension benefit (even if you delay taking it); or have worked 25 years or more and are in the ORP; or are 50+ and have worked 5+ years and are in the ORP; you are probably eligible for our MUS retiree insurance coverage. You will be offered this coverage at the time of your retirement and have 63 days to accept, or forever forfeit your eligibility. You must select a medical plan and may select either dental coverage (beginning July 1, 2007) or vision care coverage. Dental coverage is a one-time election in most cases; vision coverage can currently be added or deleted each year at annual enrollment. To avoid confusion, I will mention here that vision care covers eye examinations, glasses, contacts, and other services related to visual acuity. Cataracts, macular degeneration, and similar medical conditions are covered by MCR if applicable and then by your MUS medical plan. Most retirees are allowed to change their plan choices and covered dependents prior to July 1 each year, with certain limitations.

If you give up your and/or your family's rights to MUS plan coverage, it is an irrevocable decision. This includes loss of coverage for failing to pay premiums on a timely basis and failing to make proper enrollment changes during annual enrollment or when qualifying events occur. Your retiree medical insurance policy is closely linked to your MCR coverage. If you have retired early (before turning 65), pay close attention to any mail you receive from MCR and MUS in the months prior to your

65th birthday, and follow instructions, noting due dates carefully. This rule-of-thumb goes for your spouse or adult dependent, too. If you are 65+ (or covered by MCR due to disability) when you decide to retire, your MCR Part A and Part B enrollments must be in place at the time you sign up for MUS retiree insurance.

Refer to the MCR section in this booklet for more information. The medical premium rates you will pay are directly tied to your MCR coverage. Younger retirees will pay *considerably* more each month than MCR-covered retirees do, for the simple reason that the latter group's claims are submitted to and paid by MCR first. MUS's liability is significantly reduced by both actual dollars paid and the allowable charges as determined by the MCR claims processing system. Again, note that MCR Plan B does require payment of an income-based premium, but the savings in your MUS premium will offset that cost. Dental and vision care insurance coverage and rates are not affected by MCR but instead by the claims experience that the MUS plan has with those coverages.

Each year in mid-spring, you should receive materials from MUS concerning annual enrollment changes and options. Please look at both the information and the enrollment form closely, to decide what changes you are eligible for, which ones you want to take, and especially, when the form is due back to your campus human resources office. If you miss application deadlines, you may miss out on one-time enrollment options or cost-saving changes. The Benefits Office staff and the Inter Unit Benefits Committee are always looking for ways to provide better, more affordable coverage for both active and retired staff. Annual enrollment is your opportunity to take advantage of these plan changes. A

few weeks prior to your retirement, you will spend some time working with a campus benefits representative at your human resources office. I strongly urge you to go to HR at least twice: once for information to consider and then a second time to fill out forms. You will complete a retiree enrollment form for any health insurance plans you want to continue, and you may also be able to convert your group life insurance coverage and/or your long term care coverage to personal pay policies (see below).

If you have a substantial amount of termination pay coming, you should seriously consider prepaying premiums for your health coverage until the end of the current benefit year (July- June) with pretax dollars. If your job is covered by a VEBA Plan (Voluntary Employee Beneficiary Association), any termination pay will be directed to your VEBA account, and you can be reimbursed from the VEBA with tax-free dollars whether you pay your premiums a year at a time or month by month, for as long as your VEBA funds last. As you allocate that last check, be reminded that your pension benefits generally do not begin until the end of your first full month of retirement. You need to keep enough of that last check in cold, hard cash to make ends meet until your first pension checks, regardless of source, start coming in.

Finally, I will add a note about the taxability of the money you use to pay your retiree premiums. As an active employee, your premiums were most likely taken from your paychecks as pre-taxed dollars – no federal, no state, no SSA, no MCR. Retiree premiums, regardless of how you pay them, are paid with taxable money, unless prepaid through your final check or reimbursed by a VEBA. You might qualify for a deduction on your Form 1040

Schedule A form, but few people actually hit the over-7.5%-of gross that it takes to qualify for the deduction. If you itemize deductions on your Montana state tax return, you may be able to deduct your premiums near the top of Form 2M or similar itemized deduction form. (Deductibility in other states will vary.) Because they are group-rated premiums, retiree premiums do not qualify as self-employment premiums; even if you are working part-time for yourself after retiring from MUS, you can't deduct your premiums with that method.

I mention this tax issue because you and your family need to understand that the effective dollar-for-dollar cost of your insurance will be 10-35% higher than the cost was when you were an active employee, and that's not even considering the loss of your State Share contributions (amount paid on your behalf by your employer). If this seems unfair, it is – and many learned and powerful people have been trying for years to get Congress to address this issue.

Converting Life & Long Term Care Policies

When you retire, you are no longer eligible for many of the group benefits active employees have, such as group life, disability, accidental death & dismemberment, and long term care insurance. However, at retirement you may have a one-time opportunity to change your group life to a personal term life policy, and, if you are lucky enough to be enrolled in the MUS long term care plan, you can convert that coverage to a personal pay plan and keep the low rates that you receive through MUS. You have a maximum of 31 days following the termination of your group life coverage to convert to a personal policy or to buy a portability policy,

assuming you are eligible. Group life coverage terminates automatically at the end of the day that you retire from your job. Qualifying factors vary, depending upon the amount of coverage you have, your age, and your current health status. You must complete and submit the correct forms and pay required premiums before the 31 days expire. If you are interested in pursuing these options, remember to ask for the appropriate forms and contact numbers when you visit your campus HR office prior to retiring.

Long term care coverage is becoming increasingly popular as our MUS staff ages. If you enrolled in long term care coverage through MUS as an active employee, you may keep that coverage after you retire by converting it to a personal pay policy. The election to convert must be made within 31 days of the date of termination of group coverage, that is, 31 days from the date you retire. Your coverage level will remain the same and your premium rate is protected as long as our group rates remain the same. If there is a group rate change, your rates will probably change as well. However, for most employees, the MUS rates are far lower than any rates available to the public, so your retirement rates will continue to be at a significant savings for this type of coverage. You will need to complete a single page form and have your HR department sign it in order to change from group to personal pay status. Be sure to ask for this form when discussing your retirement with your campus representative.

Working after Retirement

This section almost sounds silly, doesn't it? But more and more retirement aged people are continuing or returning to work, after they officially retire. Many do so because they find they need the money*; a few do

so because they end up feeling bored*; some find that they don't feel like they are done contributing to the world; and there are those who just miss their jobs. (*Remember at the beginning of this booklet, where I discussed having enough money and enough activities planned?) Whatever the reason, if you decide that working is going to be part of your life after retirement, you need to know that there are *rules* for post-retirement employment.

If you return to work on a part-time basis at a unit of MUS, your employer and you will set up a specific, post-retirement contract or hiring arrangement, assuring both parties that all the rules, especially the ones that allow you to work while receiving a pension, are upheld. You may work for any company **not** covered by TRS, PERS, or ORP, or become self-employed, without any strings attached, except for limitations on your income if you are drawing Social Security benefits, as described in the SSA section above. If you are drawing a benefit from TRS or PERS, there are very specific rules as to how many hours you can work and/or how much you can earn, without taking a penalty or even temporarily losing your pension. These rules are subject to change by TRS and PERS, so I won't list them here, but you can contact the agency in question at the same numbers listed earlier in the Pensions section of this booklet to find out the particulars. All State agencies, MUS campuses, and public schools are required to report your hours and earnings to TRS and PERS, so you can't try to sneak past the post-retirement employment limitation rules.

Additionally, if you take a postretirement position that is subject to ORP withholding, you will not be able to draw from either TRS or PERS as a general rule. Also, if you are drawing from your ORP annuity, in

most cases you cannot work in a position subject to ORP withholding. Once the annuity(s) start, unless a very specific arrangement has been *prearranged* with TIAA-CREF, additions to your ORP account are not allowed.

There are benefits to working after retirement besides the obvious paycheck. If you come back to an MUS unit while paying for MUS retiree insurance premiums, you can arrange for your premiums to be reimbursed with pre-tax dollars. You may have done this for out-of-pocket medical expenses using a Flex Account during your active employee years. You can also be reimbursed for your out-of-pocket medical expenses and for many other individual insurance policy premiums as well. (Group policy premiums, including Medicare Part B costs, do not qualify for reimbursement, except through a VEBA.) This will save you many tax dollars that you would otherwise owe on the money used for various premiums. If you really don't need the money that you earn, you can set it aside tax-deferred in a 403(b) or 457(b) account. This will help to augment your available income when you finally fully retire.

Working after retiring helps to maintain your social contacts and keeps your mind active. One proven way to keep your body "young" is to stimulate your mental abilities regularly. Even if your new job is not as demanding as your former job, it's still more brain food than watching television all day. If you take a position outside of your former field, you may find that you have hidden talents that you can draw on when you totally retire. Example: a former history professor might start working as a museum tour guide, only to discover a latent talent in the creative arts. Voila! The next Grandma Moses!

Conclusion

There are many more topics that could be addressed for pending retirees, but those covered in this booklet are the things that MUS has a direct connection with and they're the first questions that we are asked by our employees. We hope that you have been given the information that you need to make the right choices for the "rest of your life." If you have questions or need to focus on other areas, please feel free to contact your campus human resources office, or call or email Sue Schmitt at 406-444-0614 or sschmitt@montana.edu. Now, go have some fun planning for your retirement!

Quick Reference for Planning Ahead

Contact your pension or annuity plan for estimates, planning, and forms – 3 to 12 months (or more) before retiring. Register for Social Security Benefits – at least 3 months before wanting benefits. Enroll in Medicare Part A – 2 to 3 months before 65th birthday, usually by mail. Enroll in Medicare Part B – 2 months before converting to MUS retiree insurance coverage (or when enrolling in Part A). Enroll in Medicare Part D – NEVER if you are staying on the MUS Insurance Plan. Enroll in MUS retiree benefits – inquire at least 3 months before retiring. Complete the transition during the last month of work. Convert group life and/or group long term care coverage – within 31 days of retiring. Plan for your retirement – We recommend starting the day you begin your first real job!

LINKS--resources which may be useful to Retirees:

www.ssa.gov Social Security Online

www.hcfa.gov Centers for Medicare and Medicaid

www.medicare.gov Official site for Medicare

www.ncoa.org National Council on Aging

www.tiaa-cref.org Teachers Insurance and Annuity Association College Retirement Equities Fund

www.aarp.org American Association of Retired Persons

www.softcom.net/users/cybertronix/hicap.html Health Insurance Counseling and Advocacy Program

www.aoa.dhhs.gov/aoa/resource.htm Resource Directory for Older People

<http://www.arohe.org/> Association of Retirement Organizations in Higher Education (AROHE)

www.ccal.org Consumer Consortium on Assisted Living

Investing for Retirement

Contributions to your retirement accounts will yield peace of mind and financial security during your retirement years. The IRS allows several categories of qualified pre-tax (tax deferred) retirement savings vehicles. These are generally referred to as TDAs (tax-deferred Retirement investing should begin the first day on the job. Many years of consistent annuities) and are administered by insurance companies and/or investment firms (vendors).

Examples are the traditional IRA, Roth IRA, 403b, 401k, and 457b deferred compensation plans. Funds are withdrawn each month from the account holder's wages on a pre-tax basis and deposited into their account according to a contract between the employee and the employer. The employee normally directs how the funds are distributed among stocks, bonds and fixed income investment alternatives. These funds are then allowed to grow and compound on a tax-deferred basis during the employee's wage earning years. Quarterly and annual statements documenting account value and performance are provided to the account owner by the vendor.

Currently, the MSU employee retirement plan (referred to as the ORP) is a 403b TDA managed by TIAA-CREF. Each month, both the employer and the employee deposit funds into the account that are subsequently allocated among the different investment choices, as directed by the employee. Also, an employee, at their choosing, may make additional pre-tax contributions into a supplementary 403b plan (SRA) or a 457b deferred compensation plan up to a maximum dollar amount set by the IRS. Vendors currently operating at MSU are TIAA-CREF, T. Rowe Price, Aetna, MetLife, Valic and Great Western (457b). In addition to limits on contribution amounts, there are IRS regulations on how and when funds may be withdrawn from the account(s). For specific information, contact the HR/PP office, phone 994-3651 or www.montana.edu/wwwpn/ or the vendors themselves whose contacts are listed at the HR/PP website and in the Choices newsletter.

ARF HANDBOOK INFO ON RETIREMENT UNDER TIAA-CREF

In the mid-80's MSU shifted from a defined benefit retirement scheme (TRS) to a defined contribution retirement plan called the Optional Retirement Program (ORP) through TIAA-CREF. Since that time, all new tenure track faculty have been required to enroll in the TIAA plan. Faculty hired prior to that time were given the option to switch from TRS to TIAA. Under TIAA-CREF, retirees are responsible for organizing access to and withdrawal of their retirement funds, arranging for medical insurance, and making a decision regarding the disposition of their unused sick leave benefit. Retirees and soon-to-retire faculty work directly with TIAA to manage and access to their retirement funds. Prior to retirement, faculty must contact MSU Payroll to arrange health insurance and sick leave options.

YOUR RETIREMENT FUNDS

Under the defined contribution plan, an amount equal to 12% of the employee's income (7% from employee, 5% from MSU) is contributed to a TIAA-CREF retirement annuity. Various investment options are available: guaranteed return, equity funds, bond funds, real estate trust, etc. While you are employed, you can transfer funds among the TIAA-CREF annuity funds and change how your monthly deposit is allocated.

Upon retirement with TIAA-CREF, you have complete control over your retirement funds. This is a major difference from retiring under TRS or PERS. You may choose to annuitize all or part of your savings, withdraw savings, roll all or part of your savings to an IRA, or simply leave it alone. TRS, PERA, MSU, or MUS do not have any say in how your investments are managed or dispersed. It is important to

familiarize yourself with the various TIAA-CREF options that are available for managing your funds. The MSU rep for TIAA and the TIAA website are good starting places for gathering the information (www.tiaa-cref.org).

Note: All contributions made to the TIAA Traditional Retirement Annuity can only be annuitized or withdrawn in installments over a period of 10 years. Contributions to CREF equity funds or the REIT can be withdrawn, rolled over, or managed in place.

Regardless of what you intend to do with your TIAA-CREF investments; you must notify TIAA of your retirement. The forms are available on the web or by fax or mail from TIAA. A signature from MSU Payroll is required on the form to verify your retirement date.

MEDICAL INSURANCE

Retirees have the option to purchase medical insurance through the MSU self insurance plan. Medical insurance for retirees and their spouses/dependents is not as broad as that for employees. MSU Payroll will advise you of your options and the coverage provided. If you choose to NOT purchase the MSU retiree medical insurance, your decision is irrevocable. Retirees over 65 must enroll in Medicare parts A and B in order to have supplemental insurance through MSU. As of 2006, prescription drug coverage with the MSU medical insurance plan is equal to or better than that provided by Medicare part D.

Retirees under TIAA-CREF who purchase MSU medical insurance are responsible for making monthly, quarterly, or annual payments to MSU. MSU does not have automatic billing or automatic bank account

or credit card payment capability. You must remember to make these payments. Most financial institutions can set up automatic payments to MSU. However, since the monthly insurance premiums usually change in July, you must check with MSU Payroll for the new rates and adjust your manual or automatic payments accordingly. (*ARF can really help here...working with MSU Payroll to find an auto-pay scheme for TIAA retirees.*) For TRS retirees, medical insurance payments are deducted from their TRS pension.

SICK LEAVE BENEFIT

Upon retirement, faculty receive 25% of their unused sick leave hours paid at their current hourly salary rate. In 2004, the soon-to-retire TIAA faculty, voted to have retirees one-time unused sick leave benefit deposited in a tax free retirement health reimbursement plan (VEBA). Details of the VEBA plan are available at www.montana.edu/wwwcepac/veba%20faq.s.html. This is a pre-tax benefit and the funds are deposited without withholding in a tax-free account to be used for medical and medically-related expenses. Funds can be used to pay for qualified retirement medical, dental or vision out-of-pocket expenses (deductibles, co-payments, etc), premiums for retirement medical, dental or vision insurance, Medicare Part B, Medicare supplement plans and tax-qualified long term care insurance premiums. The VEBA administrator can set up automatic payments for your health insurance premiums. Furthermore, your VEBA funds can be invested in a variety of mutual and index funds. All investment income is tax free and your VEBA account has no expiration date. You can only make a one-time contribution to VEBA at retirement the contribution can only be your unused sick leave benefit. You do not report Montana VEBA contributions, earnings, or benefit

payment on your individual 1040 federal income tax form.

Retirement for Extension Employees on the Federal Retirement System

Contact Mary Fran San Souci at maryfran@montana.edu (994-6648)

Long Term Care Insurance

It Ain't Necessarily So: Planning for Long Term Care

The Problem

Let us assume that you have planned carefully for retirement and have been diligent in squirreling away money in your 457 or 403(b) retirement plan. You have followed the standard advice of the experts and done all of the right things. Those supplemental funds together with your regular retirement and Social Security will, you assume, guarantee a financially secure retirement for you, your spouse, and dependents despite any conceivable future events. But in the words of Gershwin's famous song - *it ain't necessarily so*.

If you or your spouse were to get so feeble and infirm at the end of your life that you required years of long term care, you and your dependents might well end up impoverished despite all of your careful planning. The average income of an elderly couple is about \$3000 a month, well above the poverty level and usually sufficient for a reasonably comfortable retirement. However, the average cost of a nursing home is \$4000 a month per individual and obviously, it would not take very long to spend down a retirement nest-egg completely if one or both were to require long term care.

At age 65 one can expect to live an additional 20 years and as one ages, the odds of requiring long term care are

considerable. Half of all of today's 65 year old women and a third of the men will spend the last years of their lives in a nursing home and the cost in today's dollars will average \$40,000 a year per individual. Few retirement funds can meet those demands and the result is impoverishment for most people needing long term care.

Medicare and the MUS medical insurance plan cover hospitalization, drugs, and provider costs, but offer essentially no long term care benefits (only 100 days of nursing care after a three-day hospital stay). Medicaid is a joint federal-state plan designed to cover the medical and long term care costs of the poor. You must spend down nearly all of your assets before you are eligible for Medicaid. To use Medicaid to meet your long term care needs, you must, in effect, impoverish yourself and give up your financial independence at the end of your life, a terrify prospect for most elderly people. The reality is that Medicaid currently pays for the costs of two-thirds of the nation's nursing home residents and the vast majority of these individuals spend their final days in legal if not real poverty and have few assets to pass on to their heirs.

The MUS Long Term Care Insurance Program

To attempt to address the problems of managing and paying for the long term care needs of our employees and their dependents, the MUS added an optional long term care insurance program. A special sub-committee of the Interunits Benefits Committee developed guidelines and solicited bids from various insurance companies. After reviewing the proposals, the sub-committee selected UNUM to administer the program. UNUM is a pioneer

in long term care insurance and one of the first companies to provide this form of disability-based insurance. The competitiveness of their rates played a large role in their selection.

The decision to purchase long term care insurance, the type of coverage selected, and the age at which you initiate coverage are among the most complex issues in all of financial planning. Just because a long term care insurance program is available, does not necessarily mean that you should sign up. Before making any decisions, you should educate yourself on the nature of this type of insurance and do some serious long term financial planning. For many people Medicaid and self-insurance may be better options than long term care insurance. We will examine each of these alternatives in turn. You may also wish to study the complexities of estate planning beforehand. The special feature "How Will You Pay for Your Old Age" in the October 1997 issue of *Consumer Reports* reviews the issues clearly and provides objective evaluations of programs and ratings of the insurance plans. A follow-up article "Do You Need Long Care Insurance?" (November 2003) updates Consumer Union's recommendations. Reprints are available.

The Medicaid Option

For many individuals, relying on Medicaid might be the best choice. If you have a small estate, no obligations to dependants, and feel no need pass on a large inheritance to your heirs, relying on Medicaid makes some sense. All long term care insurance does is preserve your assets from the spend-down required by Medicaid. If you have few assets to begin with, you have little to protect and long term care insurance might not be necessary. With few assets other than your pensions, you will

likely spend down your nest-egg in a short period of time and Medicaid will then pick up the balance between your retirement income and the cost of the nursing home regardless of how long you are required to be there.

There are many negative aspects to relying on Medicaid, however. You lose most of your financial freedom, you will be required to sign over your Social Security and pension income to the state, and if you have a spouse, his or her income and life style could decline significantly. The Medicaid qualification requirements are stringent and there will likely be very little left of your assets to pass on to children or grandchildren.

Medicaid Requirements - To become Medicaid eligible in Montana, you must spend down your assets almost completely. You are allowed to keep a house in which your spouse or dependents live, your car and household furnishings, \$2000 per individual or \$3,000 per couple in total assets, a burial plot, and \$500 for funeral expenses. Your spouse is allowed to maintain certain assets (2008 minimum is \$20,880 and maximum is \$104,400) and may be granted a maximum monthly income allowance of \$2610. Aside from \$50 a month for spending money, health insurance premiums, alimony and the spousal allowance, you must assign all of all of the rest of your income from Social Security, pensions, and dividends over to the State. Medicaid will then pay the difference between your monthly income and the cost of your long term care. Furthermore, upon your death and/or the death of your spouse, the State will be allowed to attach your estate to recover the monies spent on your long term care. The qualification standards in Montana are fairly typical for most states, but if you presently

reside in another state, be sure to check their specific requirements.

You should be forewarned that it is no longer easy to engage in "legal impoverishment" by transferring assets to heirs or to a trust fund as a means of meeting the strict eligibility standards. If you apply for Medicaid within five years of giving away assets or establishing a trust fund, the State will assume that you did so to avoid paying for your own care and impose a waiting period before you are eligible. The rules for legally transferring assets are extremely complex and you should certainly consult an estate attorney or a financial planner before divesting yourself of any of your retirement nest-egg. Otherwise, you may find yourself without assets and still ineligible for Medicaid.

In summary, if you rely on the Medicaid option for your long term care needs, you will likely be impoverished at the end of your days and have no estate to pass on to your children or grandchildren. While your spouse will not necessarily be forced into poverty, his or her living standards will probably drop significantly if you were to require that Medicaid pay for your long term care. If all of this seems too grim to contemplate, you may wish to consider one of your insurance options.

The Self-Insurance Options

A. Home Care - There are a number of ways to "insure" yourself for required care at the end of your life. It was only a few generations ago that most families took care of their elderly during their final years. Times have changed, of course. Our elderly live much longer and families are so dispersed that they may no longer be able to help out. Nonetheless, family care may still be a good option for some individuals.

If your spouse is able to maintain his or her health, he or she may be able to provide for your care at home. If children are close by, they may be able to help. Yet all of us understand that this can place tremendous physical, financial, and psychological burdens on our spouse and/or children were our health to deteriorate significantly at the end and were we to become almost totally dependent on our care-givers.

There are many home-care options that range all the way from meals-on-wheels programs and weekly home-care visits up to full time housekeepers and round-the-clock nursing care. The latter options tend to be far more expensive than nursing home care and few people can afford this type of home care for very long.

B. Self-Insurance - To self-insure oneself financially requires some realistic planning and cold, hard calculations. The average stay in a nursing home is a little over two years. Over 90% of individuals die within four years of entering a nursing home. Since it is impossible to insure oneself fully, most planners suggest that guaranteeing four years or the 90th percentile is sufficient in most cases. Since the average nursing home in Montana costs \$48,000 a year, an individual would have to set aside four times \$48,000 or \$192,000 to protect their spouse and heirs from the loss of their assets. The funds would have to be fully invested to offset the ravages of inflation and the money must not be needed for day-to-day retirement expenses.

To fully self-insure a couple would logically require twice the amount or \$320,000 in today's dollars. That may be overkill, however. If the primary purpose of the \$192,000 long term care fund is to protect the spouse from a loss of life style if one were required to enter a nursing home and

there is no need to pass assets on to heirs, then only one \$192,000 fund is required. The surviving spouse can then spend down assets as needed to provide for his or her own care. Even if the couple wishes to leave an estate to the benefactors no matter what happens, the surviving spouse need only replenish the long term care fund to the \$192,000 level as it is spent down in order to insure that their heirs inherit the assets.

The self-insurance option is great for those that can manage it. The funds will always be there if needed. But should you and/or your spouse be so lucky as to never require nursing home care, those funds and the rest of your estate can be passed on to your children, grandchildren and other benefactors. It is obvious, however, that only those with considerable resources can afford the self-insurance option. Most people would find it difficult or impossible to set aside sufficient funds over and above the monies need for their living expenses in retirement. These individuals might then consider long term care insurance.

The Long Term Care Insurance Option

Long term care insurance should be considered seriously by those in the middle: those with insufficient resources to self-insure but with assets large enough that they wish to preserve them for their spouse and heirs. I suspect that many if not most of us fit into this middle category.

Long term care insurance is not really so much "care" insurance as it is "asset protection" insurance. If you run out of resources, Medicaid will ultimately provide for your care. What you are doing with long term care insurance is protecting yourself, your dependents, and heirs from the

spend-down required to become Medicaid eligible.

Long term care insurance is one of the most complicated forms of insurance that you can buy and you should study any policies provisions very carefully before making a decision. The following are features essential for any policy worth the investment and you should understand and weigh these provisions carefully:

- *The Long Term Care Facility Benefit* - How much will the policy actually pay? You will require, at a minimum, the difference between your monthly retirement income and the \$4000 a month average cost of a nursing home.
- *The Elimination Period* - This is the waiting period, the amount of time you must be in a long term care facility before the insurance begins to pay. Be wary of policies that have an elimination period greater than 90 days.
- *The Lifetime Maximum Benefit* - To insure for your lifetime is very expensive and the premiums are unaffordable for most individuals. A four year period or \$160,000 lifetime benefit (with inflation protection) is a reasonable gamble since only 10% survive in a rest home beyond this period.
- *Home Care Coverage* - Most policies offer home care coverage at 50% of the facility benefit rate and at twice the duration of facility coverage. Be sure to study carefully the types of home care benefits actually covered.
- *Inflation Protection* - A policy with no inflation protection costs much less but offers little value. The \$1000 a month benefit may be sufficient at today's prices, but with medical inflation running around

10% annually, that \$1000 might be a trivial amount when you actual need the coverage some twenty years from now. Avoid policies that offer no inflation protection. However, total inflation protection is very costly and unaffordable for most individuals. A policy that offers 5% inflation protection with no lifetime caps is a reasonable compromise between sufficient protection and affordability.

- *Tax-deductibility* - Only if you select a "qualified" plan that meets certain IRS standards are you allowed to deduct the premium. This has little real value for most people, however. Only 29 % of filers itemize their deductions to begin with and medical deductions must exceed 7.5 % of your adjusted gross income before they are allowed. Needless to say, few have actual medical deductions in any given tax year. Therefore, do not pick a plan on the basis of whether or not it is "qualified" or not.
- *Qualifying for Coverage* - Many plans will exclude you from coverage if you have certain pre-existing medical conditions. Typically, insurance companies will deny coverage to those with diabetes, Parkinson's disease, dementia or any other sign of mental impairment, and a whole host of cardiovascular disorders that predispose one to strokes. In group plans, however, there are often open enrollment periods where all eligible members will be insured regardless of pre-existing conditions.
- *Qualifying for Benefits* - Companies vary greatly in how they determine if you are eligible for long term care. Most list six daily living activities - eating, walking, bathing, dressing, using a toilet, remaining continent - and qualify you if you are unable to perform two or three of them. Most qualify you if you have certain mental

impairments such as dementia or Alzheimer's disease. Others include any illness that requires long term care out of "medical necessity." Included in this last category are such things as congestive heart failure and seriously impaired lung function, illnesses that might prevent you from taking care of yourself. The more ways that you can qualify for coverage, the better the policy from the purchaser's standpoint.

- *Premiums* - The issue of premiums is a critical one. No matter how well designed a plan might be, if it is too costly, it will not be utilized.. The power of "bulk purchasing" usually results in lower premiums for group plans. The rates are determined by your age at the time you take out the insurance: the younger you are, the lower the premium. Premiums are not age rated; that is to say, the insurance company cannot raise your rates as you get older. This does not mean that your rates will never increase, however. If the company raises the overall rates 10%, for example, that 10% rate increase will be applied to all policyholders. Few companies are willing to guarantee premiums or cap increases long into the future. It would, therefore, be prudent to assume an overall 50% increase in premiums over the life of the policy and budget accordingly. If you were to drop coverage because it became unaffordable, you will have essentially wasted the money you spent on premiums. Consider the decision to take out long term care insurance irrevocable; that you will be paying the premiums the rest of your life.

Recommendations

There are few choices more complicated than the long term care decisions. There are four factors that you need to evaluate honestly before you can make a wise

decision concerning long term care insurance: your age, your health status, your financial status, and your projected income during retirement.

A. Age - Most people in good health need not consider LTC insurance until they reach their 50's. It is difficult before that age to project accurately enough their assets at retirement and income from pensions in order to decide which options might be best. For younger employees, a better strategy might be to take the money and invest it in a 403(b) or 457 plan. If these investments were to grow sufficiently, you may well be in a position to insure yourself at the end and never need LTC coverage.

B. Health Status - If you are in poor health or have a family history of debilitating diseases such as Alzheimer's or dementia, you might consider LTC insurance at any age. If you have medical problems that might prevent you from qualifying for coverage, by all means sign up during an open enrollment period. Otherwise, you may never be able to meet the strict underwriting standards. If there is a strong likelihood that you will require long term care eventually, insurance might be your best bet. If, on the other hand, your family members have a history of living long and vigorous lives and then dying quickly, going without insurance may be a reasonable gamble.

C. Financial Status - In order to make an informed decision, you should first calculate your net-worth, the amount of assets that you would be required to spend down in order to qualify for Medicaid, and your projected retirement income. Your net-worth is all of your assets - house, car, bank accounts, household goods, investments, retirement funds, etc. less your outstanding debts. In order to

calculate your "spend-down" you total the total up the Medicaid exempt assets held by you and your spouse - home, household goods, burial plot and fund, car, and the Medicaid asset allowance (2008 figures: \$2,000 for you and \$20,880 to \$104,400 for your spouse), and subtract that amount from your net-worth. This figure is the amount you would be required to spend-down before qualifying for Medicaid and the amount of money that you are actually protecting when you take out long term care insurance.

D. Retirement Income - In order to determine how much LTC insurance you will require, you need to estimate your retirement income and expenses. Include in your total monthly income estimate your projected Social Security benefits and all pension and annuity income. Now add to that figure the \$4800 a month average nursing care cost and subtract from that total the amount your spouse would require for his or her expenses after you entered a nursing home. This amount represents your shortfall, the amount of LTC insurance you require.

The larger question: should you take the Medicaid option, the self-insurance option or the LTC insurance option? Remember that the following recommendations are only guidelines and everyone's individual circumstances differ:

- If you have a spend-down amount of well under \$100,000 and have no need to pass assets on to heirs or dependents, reliance on Medicaid might be your best option. Remember that your spouse will be required, in that case, to live on the Montana monthly allowance.
- If you have a higher than average retirement income but few assets and wish

to protect your spouse's lifestyle, consider LTC insurance in any case.

- If your spend-down amount is between \$100,000 and \$300,000, you should consider LTC insurance. Base your decision on your health status and family history, the financial needs of your spouse were you require long term care, and your need or desire to pass on assets to heirs.
- If your spend-down amount is well over \$300,000, you may have sufficient assets to consider self-insurance. Set aside an investment of \$192,000 for your future long term care and live on the rest of your assets and income. If you never have to tap into those funds to pay for nursing home care, both you and your benefactors would be very lucky indeed.

There are few things more grim to ponder than spending your final days living impoverished in a nursing home. Yet this is not inevitable. With proper planning, the intelligent management of your assets, and the appropriate use of long term care insurance, you may be both financial secure and well provided for up until the end. Remember that about 60% of all elderly will never spend even a day in a nursing home So while everyone's nightmare is ending your life in a dingy rest home feeble, penniless and dependent, *it ain't necessarily so.*

TAX PLANNING

How Retirement Income is Taxed

Retirees often receive income from a variety of sources, including Social Security benefits, and distributions from pensions, annuities, IRAs and other retirement plans. We'll take a quick look at how income from various retirement plans is taxed, and then look at basic tax strategies.

Social Security Benefits

Your Social Security benefits may be completely tax-free or partially tax-free, depending on your total income. For planning purposes, you should have an idea of whether your retirement income will cause some of your Social Security benefits to be taxed. Contact the local Social Security office to get the details.

One of the most important concerns for those contemplating retirement is when to begin drawing Social Security. This is a decision that will control your future income significantly and is, to a large extent, irrevocable. Since you most likely live with this decision for the rest of your (and your spouse's) life, you want to be sure to make the best possible decision. While everyone situation is different and there is no absolute right answer, there are a number of factors you should consider in making a choice as to when to begin receiving benefits.

As you approach retirement age the Social Security Administration sends you an annual "Statement" of estimated benefits. This personal document includes a lifetime employment record, the date when you will be eligible for "full" benefits, and an estimate of the monthly benefits you would receive under various programs and ages of retirement. If you are unable to locate your statement, call your local office for a copy or you may download a copy from

www.ssa.gov/mystatement . Review this statement carefully to be sure that your employment record is accurate and take note of your "Full Retirement Age."

Your full retirement age is dependent upon your year of birth. If you were born in 1937 or earlier, your full retirement age is 65. Between year of birth 1938 and 1959, the full retirement age goes up incrementally. From 1960 and beyond you must be age 67 to receive "full" benefits. You may begin benefits anytime after age 62, but your benefits will be permanently reduced if you have not reached full retirement age.

Pension and Annuity Income

Your pension or annuity may be fully or partially taxable. If all contributions to the pension were tax-deferred, then your distribution will be fully taxable. If you contributed some after-tax dollars to fund your plan, then you have some cost basis in the plan contract. Part of your distributions will be a tax-free recovery of your cost basis, and the remainder will be taxable income. Publication 575, Pension and Annuity Income, provides comprehensive information about figuring the taxable amount.

Pension and annuity income is reported to you using Form 1099-R. TRS will calculate the taxable portion of your pension distribution. For planning purposes, you will want to contact TRS to find out what your pension payments will be, and what part of the payments will be considered taxable income.

401(k) Distributions

Distributions from your employer's 401(k) plan are fully taxable since the contributions were excluded from your taxable income. Distributions from Roth

401(k) accounts are treated the same as Roth IRA distributions.

IRA Distributions

Distributions from your individual retirement account may be fully taxable, partially taxable, or completely tax-free depending on the type of IRA you have. If you have a deductible Traditional IRA, your distributions will be fully taxable. You contributed funds using tax-deductible dollars, and tax is deferred on both the contributions and the earnings until they are withdrawn. If you have any basis in a non-deductible Traditional IRA, your distributions will be partially taxable. A portion of your distribution represents a return of your non-deductible investment, and that portion is recovered tax-free. Distributions from Roth IRAs are completely tax free as long as you meet two basic requirements. Your first Roth IRA contribution was made at least five years prior to any distribution, and the funds are distributed after you reach age 59 and a half. (For more information, see [Are Roth Distributions Taxable?](#) In IRS Publication 590.

Required Minimum Distributions

Taxpayers must begin withdrawing funds from their 401(k) and Traditional IRA plans once the taxpayer reaches age 70 and a half. Distributions must start "by April 1 of the year following the year in which you reach age 70½," which is called the required beginning date. For more information, see [When Must You Withdraw Assets?](#) in Publication 590.

Roth IRAs and designated Roth 401(k) accounts are not subject to the minimum required distribution rules. The minimum amount that must be distributed is your account balance divided by the life expectancy figures published by the IRS in

Publication 590. You can use Web-based calculators to estimate your minimum distribution, such as this [RMD calculator](#) from accounting publisher CCH. Plan to withdraw at least the minimum amount required from your IRA and 401(k) accounts.

Tax Strategies

Retirees have more control over their tax situation, since they can decide how much they need to withdraw from various retirement plans. Retirees can keep their taxes as low as possible by using these time-tested strategies. [*Taking full advantage of the standard deduction or itemized deductions and personal exemptions.*](#) Together, your [standard deduction](#) or [itemized deductions](#) and your [personal exemptions](#) represents how much income will be tax-free. Retirees can coordinate taxable distributions with their mortgage payments, real estate taxes, and medical expenses.

[*Accelerate retirement distributions when you have excess deductions.*](#) If your standard deduction will exceed your taxable income, consider withdrawing more retirement funds than you need. By accelerating income when you have a zero or low tax rates, you'll avoid potentially paying more taxes in a future year.

[*Plan to take the Credit for the Elderly.*](#) There's a special tax credit for taxpayers age 65 or older. But qualifying for the credit takes careful planning. Your adjusted gross income must fall beneath certain limits.

Maximize tax-free income. Taxpayers can exclude up to \$250,000 in capital gains from [*selling a main home*](#) (up to \$500,000 if married). Also, interest earned from municipal bonds is exempt from tax.

Defer retirement plan distributions until needed. Keeping your taxable distributions to a minimum will push more income to future tax years.

Retirement Savings Tax Planning Tips

Given a constantly changing tax environment, what's the most effective way to save for retirement? *In the next few years, Congress will decide the fate of several tax laws that are set to expire, such as the lower tax rate on investment capital gains and dividends held one year or more (ranges from 28% to 5%, depending on your income tax bracket). No one can definitively know what tax laws will be in effect in years to come. But you should not let tax law uncertainty disrupt your long-term planning – try to focus on those tax benefits that support your long-term retirement goals.*

The following product tips will help you save for the long haul.

Consider Making Supplemental Retirement Plan Contributions

Making automatic pretax contributions to a 403(b), 457(b) or 401(k) supplemental retirement plan involves a trade-off. (All your supplemental plan contributions, and any earnings, will grow tax-deferred until you withdraw them. Withdrawals are generally restricted until retirement or after age 59½, when you'll pay ordinary income taxes on the money. Distributions before age 59½ may be subject to an additional 10% tax penalty.)

Unquestionably, these plans offer an excellent, disciplined, tax-deferred savings approach – a major advantage if it's difficult for you to put money aside for retirement. The only drawback is that retirement distributions from these plans (and from pre-tax traditional IRAs) are

taxed as ordinary income, which could be higher than taxes on nonretirement products. (Roth supplemental plans and Roth IRAs are the exceptions, since they're completely income tax free if you meet their holding period requirements. You therefore may fare better by investing outside your retirement plan. For example, income from an individual stock or mutual fund outside a retirement plan can currently be taxed at a 5%, 15% or 28% rate – depending on your tax bracket – if the investment is held for one year or more. This could be lower than your ordinary income taxes during retirement. The difference between the income taxes you'll pay on withdrawals from pretax retirement plans and your capital gains and dividends taxes from mutual fund or individual stocks or bonds, could be significant.

But "could" is a tough word to negotiate. Aside from saving enough to get an employer matching contribution, which you should always do, should you dismiss these pretax retirement plans, if you believe you'll be in a lower income tax bracket at retirement? Not necessarily. It's impossible to truly know what tax rates will be in the years ahead. Before very long, in fact, we may all be paying higher income taxes because of the growing national deficit. What is certain, however, is that you can choose to make pretax contributions to your available supplemental 403(b), 401(k), or 457(b) retirement plan today, and, if you're eligible, to a tax-deductible IRA. It's also undeniable that you can make larger contributions to these plans (and therefore save more money today) because you don't pay income taxes on what you're saving now.

Consider the Roth Alternative

But if you feel strongly that saving money on an after-tax basis is the better way to go, consider the new Roth supplemental 403(b) and 401(k) plans, if available to you. With these plans, your savings can potentially grow for years. Then, as long as you don't withdraw your savings before meeting the specified time requirements, your money will be available to you completely tax-free at retirement. You can also make after-tax contributions to a Roth IRA, generally, if you're adjusted gross income is less than \$95,000 (for single filers) and \$150,000 (for married filers). In addition, you may convert some or all of your taxable IRA assets to a Roth IRA if you meet two requirements:

- Your modified adjusted gross income does not exceed \$100,000, and
- If you're married, you're not filing a separate tax return.

Make sure, however, that you have enough money outside your IRA to pay the income taxes that will be due upon conversion. A Roth IRA conversion can also be part of an overall retirement asset consolidation plan.

Consider Saving Outside Your Retirement Plan

It may sound like a contradiction, but you don't have to use only retirement plan products to save for retirement. After you've maximized contributions to retirement plans and IRAs, consider mutual funds and after-tax annuities. To figure out which product is better for you, or if you need both, ask yourself what financial goal you want to fulfill. For example, when you retire, do you plan to use these additional retirement savings for estate planning purposes, to purchase a second home, to buy a boat, to keep a reserve for a personal

emergency or to create a stream of additional income?

The Case for Mutual Funds

If your goal is to pass on money to a beneficiary, mutual funds are without a doubt the best choice, with or without tax law changes. That's because a mutual fund outside of a retirement plan can take advantage of the "stepped-up basis" rule, which says that if you die while owning a fund that's gone up in value, that increase (unrealized capital gain) is not subject to income taxes. Your beneficiary will pay the capital gains tax only on the increase from the time he or she inherits the fund. However, don't confuse the estate tax and income tax requirements: The inherited money may still be subject to estate taxes, regardless of the "stepped-up basis" rule. If your goal is to save money for an emergency or for another retirement need, there are three reasons why you might still want to invest in mutual funds: First, with mutual funds, there is no 10% penalty tax for withdrawing your money before age 59½, while there generally is a penalty if you receive retirement income before 59½ other than in the form of an annuity, or in substantially equal payments over your life expectancy. (An annuity provides an income stream over your life, however long it is.) But if you do annuitize your savings, or if you take pre-59½ distributions at least annually in "substantially equal payments" over your life expectancy, or over the joint life expectancy of you and your designated beneficiary, the 10% penalty will not apply. Just make sure you clearly understand how this penalty tax may or may not apply to you if you're thinking about retiring early, or semi-retiring before age 59½. Second, your breakeven point – the time needed for a tax-deferred annuity to surpass a mutual fund as an investment – is roughly 15 to 20 years. You will also have to pay ordinary

income taxes on any annuity earnings you withdraw in retirement, whereas mutual fund dividends and capital gains will be taxed at a lower rate – at least according to current tax laws.

It therefore seems that if you'll need the money in less than 15 or 20 years, you might be better off with mutual funds. However, to be fair, you should understand that this is a general time estimate, since many factors, including costs and expenses, as well as investment returns, are seldom the same for both products during their accumulation periods. There's also an implicit assumption for both products that today's tax laws will be similar during retirement, which is nearly impossible to ensure.

When Annuities Make Sense

Generally, if your goal is to create additional retirement income for life, annuities may make the most sense, even if the capital gains tax rate doesn't change. Unlike a mutual fund, an annuity has its investments wrapped in an insurance contract. As a result, you can convert your accumulations into an annuity income payment contract for as long as you live. The idea behind an annuity is actually simple: It allows many participating annuity owners to pool their income-generating assets with an insurance company. Annuitants receive lifelong payments from this pool, while the insurance company makes sure the payments can be supported. The annuity assets of those annuitants who die before their life expectancies are used to support the income payments of those annuitants who live longer. *(Please note that all annuities are not the same. Some have charges such as surrender fees, and almost all have early withdrawal penalties and mortality risk expenses. And, depending on the financial*

company you choose, product features and availability may vary by state. So always read the prospectus carefully before investing.)

An annuity can also provide lifetime income for a couple, not just one person. If desired, annuitants can select guaranteed payments for a minimum period (such as 10, 15 or 20 years), subject to the person's life expectancy. This feature protects the annuitant's financial interests in the event of an early death.

For example, if you die before starting to receive your annuity income, your beneficiary may receive a guaranteed minimum death benefit equal to the contract value or to the original investment, less any adjusted withdrawals. A conservative, risk-averse person may prefer annuities because of these guarantees.

There are, of course, variable and fixed annuities. A variable annuity is a security (just like a mutual fund) whose investment performance is driven by the performance of its underlying securities. A "fixed" or traditional annuity offers an account that guarantees your contributions and a minimum interest rate. These guarantees are backed by the claims-paying ability of the insurance company offering the annuity.

If you contribute to a variable annuity, you can transfer your money among its allocation options without paying taxes on the transaction. This is unlike mutual funds, where any transfers are potentially taxable. Thus, if you expect your needs and risk tolerance to change over time, the ability to rebalance your portfolio without paying any transfer-related taxes may make a variable after-tax annuity a worthy savings product to consider.

Who's Behind the Annuity Payments?

The income payments for a guaranteed account within an annuity are backed by the claims-paying ability of the insurance company that issues the annuity. Income payments from stock and bond accounts within an annuity are based on the variable performance of the underlying portfolios.

Put Everything into Perspective

In the end, don't focus just on whether one product has a better tax advantage than another for now. Rather, try to understand your retirement and investment goals and then decide which products' benefits – tax advantages being one of them – will help you get to where you want to go. To learn more about which products make the most sense for your retirement, contact us at **800 842-2776**, or visit **www.tiaa-cref.org**.

This article is meant for informational purposes only. Please speak with your tax advisor about your tax circumstances.

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The next page has the POTENTIAL RETIREMENT LETTER FOR POST-RETIREMENT CONTRACT.

POTENTIAL RETIREMENT LETTER FOR POST-RETIREMENT CONTRACT

Dear _____ Dean and Department Head

This letter is to confirm with you my desires for a _____ year post-retirement contract (no more than 1/3 time if on TRS, or _____ time if on TIAA-CREF) beginning after my retirement on _____ (date) with the following provisos:

1. I would have access to office space (and lab space if desired) during the duration of my post-retirement contract, including access to a phone, a computer, printer, etc.
2. I would teach the following class (MSU 3xx) during fall semester, while during spring semester I would teach the seminar (MSU 4xx).
3. I would like to retain involvement with graduate students and would be willing to serve on graduate student committees.
4. I would like to remain active on my NSF grant (# XXX) during my post-retirement contract and supervise any technicians and students associated with this grant.
5. I would like to have access to the normal office supplies provided to active faculty as currently provided by the department.
6. I would like to be invited to attend faculty meetings even though I would not have any voting rights.
7. I would not be required to serve on any departmental committees with the proviso that I could serve on committees if asked and I agreed.

Agreed to:

Dean Date

Department Head Date

**Consumer and
Family Sciences**

Department of
Consumer Sciences
and Retailing

CFS-685-W

Financial Planning for Retirement Workbook

Purdue Extension

Knowledge to Go

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Financial Planning for Retirement Workbook

Revised and updated by Janet C. Bechman, Purdue Extension specialist, and Barbara R. Rowe, Utah State University Cooperative Extension specialist, based on North Central Regional Extension publication 264 by Irene Hathaway, Michigan State University

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Introduction

Are you looking forward to the day you retire? To having more time to travel, spend with family and friends, enjoy new hobbies, or increase your volunteer work? Or does the thought of retirement make you slightly uneasy; unsure if you will have enough money to stop working, but not knowing how much you need to save? Being able to retire when you want and living comfortably is a dream for many Americans, and the goal of this workbook is to help you reach it.

The biggest question is, when the time comes to stop working, will you have enough income to continue the lifestyle you had before retirement? That depends on the lifestyle you want to maintain and the types of income you will have. Social Security payments alone will not be enough for most of us. In 2006 the *maximum* Social Security monthly benefit payable to a worker retiring at age 65 was \$2,053, (age 65 plus eight months) while the *average* monthly benefit was \$1,002 (www.ssa.gov/cola/facts2006.htm).

As you plan, keep in mind that the average American life expectancy is 74.8 years for men and 80.1 years for women.¹ The “average” person who retires at age 65 looks forward to another 14 to 18 years of life. Many of us will have even more years. It is never too early to begin planning how you want to spend those years.

When you think ahead to retirement, here are some questions to answer:

1. What lifestyle will you want during retirement?
2. What is your current financial situation?
3. How will your financial situation change at retirement?
4. How can you control your financial future to be able to retire with the resources needed to achieve your desired lifestyle?

See how your retirement picture might look by following the steps in this workbook, filling in the worksheets, and doing the calculations. No one can predict the future exactly. However, projecting from what you know now will give you an estimate of what to expect in the future.

¹ Source: National Vital Statistics Reports, Vol. 54, No. 14, April 19, 2006 Retrieved from www.cdc.gov/nchs/data/nvsr/nvsr54/nvsr54_14.pdf

Your Retirement Lifestyle

As you think about your retirement days, how will you want to live? What type of lifestyle do you hope for? Will you have enough money to support that lifestyle? What will be important to you and what won't be? How will your life and expenses change after retirement? Here are some items to consider:

- **Your home** —Where will you live? Changing your housing or moving to a different part of the state or country, or to another country, can increase or decrease your expenses. Even if you plan to “stay put” in the same house, some of your costs will still change. For example, your heating and light bills may increase if you spend more hours at home. Or they may decrease if you spend more time traveling away from home. As your home ages, it will need more repairs and maintenance.
- **Transportation** — What does it cost you now? How much of your transportation costs (gas, car maintenance, bus or train fares) are for travel to and from work? Will you keep your own car, rely on public transportation exclusively, or use some combination of the two?
- **Food** — Will you eat out more often in retirement, or entertain friends and family more often? How much do you pay a year for lunches or other meals eaten at work?
- **Clothing and personal care** — How much of your present clothing costs are for special clothing for your job? How much is for more expensive clothing than you will need after retirement?
- **Health and medical expenses** — Will you buy insurance to supplement Medicare gaps, or will you be paying for all your health care insurance until you are age 65? Will you buy exercise equipment, or join a health club, or cancel a health club membership?
- **Entertainment** — Will you spend more or less on movies, books, theater, clubs, shopping?
- **Hobbies** — Will you spend more money on hobbies, such as woodworking and gardening?
- **Recreation** — Will you spend more money on leisure activities, such as golfing and fishing?
- **Travel** — Will you increase your travel during retirement?

After you retire, you may spend more in certain categories such as health care and health insurance.

You also may spend more on travel, entertainment, and leisure activities, because you have more time to enjoy them.

Use Worksheet 1, “Your Retirement Lifestyle” (page 5), to describe the lifestyle you desire during retirement. As you dream about your retirement days, will you be able to afford the lifestyle you find desirable?

Your Current Financial Situation

As you plan for your retirement years, it is helpful to look at what you are spending now to live. Use Worksheet 2, “Estimated Annual Cost of Living” (page 6), to record what you spend annually in each category. If you only have monthly expense figures, turn to the “Monthly Costs of Living,” Worksheet 9 (page 24). Record your monthly expenses and

multiply by 12 to get the annual figures to put on Worksheet 2.

Note: The sample “Estimated Annual Cost of Living” worksheet on this page is meant to serve as a guide as you fill in your Worksheet 2. It is based on this scenario:

- a) Mr. and Mrs. Jones would like to retire at age 62, 11 years from now.
- b) They guess that the inflation rate will rise slowly and will average about 5 percent a year.
- c) 11 years at 5 percent = 1.71 inflation factor (from table on page 7).
- d) Their estimated current annual expenses of \$32,277, multiplied by the inflation factor of 1.71, shows they will need \$55,194 in their first year of retirement to maintain their current lifestyle.

Example: Estimated Annual Cost of Living

	Totals You Spend Now	Inflation Factor	Future Budget at Time of Retirement in 11 years
Housing	\$9,956	1.71	\$17,025
Household operation and maintenance	\$2,230	1.71	\$3,813
Automobile and transportation	\$6,016	1.71	\$10,287
Food	\$4,518	1.71	\$7,726
Clothing	\$1,782	1.71	\$3,047
Personal	\$1,521	1.71	\$2,601
Medical and health	\$1,665	1.71	\$2,847
Recreation, education	\$1,659	1.71	\$2,837
Contributions	\$738	1.71	\$1,262
Taxes and insurance	\$1,112	1.71	\$1,902
Savings, investments	\$780	1.71	\$1,333
Irregular expenses (ex. gifts, license plates, holiday spending, etc.)	\$300	1.71	\$513
ANNUAL TOTAL	\$32,277	1.71	\$55,194

Adapted from *Planning a Retirement Budget*, a CEH Topic, Hogarth, Cornell University, 1984.

Worksheet 1 – Your Retirement Lifestyle

What will your lifestyle be like during retirement? Beside each item listed below, describe what you really want in retirement.

1. Your home: _____

2. Transportation: _____

3. Food: _____

4. Clothing and personal care: _____

5. Health and health care: _____

6. Entertainment: _____

7. Hobbies: _____

8. Recreation: _____

9. Travel: _____

From *Retirement Planning*, DP-CFR-051, Maddux, University of Georgia CES, 5/96.

Worksheet 2 – Estimated Annual Cost of Living

Fill in the first column with what you are now spending annually to live. Then figure the Inflation Factor by following the steps listed above the Inflation Factor table on [page 7](#). Fill in the inflation factor in the second column. (You may do this only for the total, or for each category of costs.) Multiply column 1 by column 2 to get an idea of the income you will need during your first year of retirement.

	Totals You Spend Now	Inflation Factor	Future Budget at Time of Retirement in ____ years
Housing	\$		\$
Household operation and maintenance	\$		\$
Automobile and transportation	\$		\$
Food	\$		\$
Clothing	\$		\$
Personal	\$		\$
Medical and health	\$		\$
Recreation, education	\$		\$
Contributions	\$		\$
Taxes and Insurance	\$		\$
Savings, investments	\$		\$
Irregular expenses (ex. gifts, license plates, holiday spending, etc.)	\$		\$
ANNUAL TOTAL	\$		\$

Adapted from *Planning a Retirement Budget*, a CEH Topic, Hogarth, Cornell University, 1984.

The Inflation Factor

Inflation is a widespread and sustained increase in the general price level of goods and services. Economists say that when prices go up 3 percent or more a year, the country is in a state of inflation. While just about everyone gets hurt by inflation, people who live on fixed incomes may feel the crunch more than others because prices rise but their income doesn't. Increases in inflation rates have been extremely modest in recent years – between 2 percent and 4 percent. But even a 2 percent increase every year will have a cumulative effect, and prices will be higher in the future than they are now. That's why it makes sense to build inflation into your retirement plans.

On Worksheet 2, "Estimated Annual Cost of Living," you filled in the first column with the cost you calculated for each of the expense categories listed. To fill in the second column, use Table 1, "The Inflation Factor" (on this page).

(1) Choose the number of years until your retirement starts from the "Years to Retirement" column on the left of Table 1.

(2) Then select an estimated annual inflation rate from the row across the top. Inflation cannot be predicted from year to year. In 1980, it was 12.4 percent. In 2001, it was 1.6 percent. In 2005, it was 3.4 percent. You have to make an educated guess.

(3) Read across and down to find the appropriate inflation factor corresponding to your predicted rate of inflation. For example, 10 years at 6 percent inflation gives a factor of 1.79.

(4) Multiply your estimated annual cost of living expenses from the first column of Worksheet 2 by the inflation factor to get an idea of the amount of income you will need for your first year of retirement, if you want to maintain your current lifestyle. (Example: $\$14,000 \times 1.79 = \$25,060$.)

Table 1. The Inflation Factor

Years to Retirement	Annual Inflation Rate									
	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%
1	1.02	1.03	1.04	1.05	1.06	1.07	1.08	1.09	1.10	1.11
2	1.04	1.06	1.08	1.10	1.12	1.15	1.17	1.19	1.21	1.23
3	1.06	1.09	1.13	1.16	1.19	1.23	1.26	1.30	1.33	1.37
4	1.08	1.13	1.17	1.22	1.26	1.31	1.36	1.41	1.46	1.52
5	1.10	1.16	1.22	1.28	1.34	1.40	1.47	1.54	1.61	1.69
6	1.13	1.19	1.27	1.34	1.42	1.50	1.59	1.68	1.77	1.87
7	1.15	1.23	1.32	1.41	1.50	1.61	1.71	1.83	1.95	2.08
8	1.17	1.27	1.37	1.48	1.59	1.72	1.85	1.99	2.14	2.30
9	1.20	1.31	1.42	1.55	1.69	1.84	2.00	2.17	2.36	2.56
10	1.22	1.34	1.48	1.63	1.79	1.97	2.16	2.37	2.59	2.84
11	1.24	1.38	1.54	1.71	1.90	2.11	2.33	2.58	2.85	3.15
12	1.27	1.43	1.60	1.80	2.01	2.25	2.52	2.81	3.14	3.50
13	1.29	1.47	1.67	1.89	2.13	2.41	2.72	3.07	3.45	3.88
14	1.32	1.51	1.73	1.98	2.26	2.58	2.94	3.34	3.80	4.31
15	1.35	1.56	1.80	2.08	2.40	2.76	3.17	3.64	4.18	4.78
16	1.37	1.61	1.87	2.18	2.54	2.95	3.43	3.97	4.60	5.31
17	1.40	1.65	1.95	2.29	2.69	3.16	3.70	4.33	5.05	5.90
18	1.43	1.70	2.03	2.41	2.85	3.38	4.00	4.72	5.56	6.54
19	1.46	1.75	2.11	2.53	3.03	3.62	4.32	5.14	6.12	7.26
20	1.49	1.81	2.19	2.65	3.21	3.87	4.66	5.60	6.73	8.06

From *Financial Planning for Retirement*, NCR-264, Field and Hathaway, Michigan State University CES, 5/87.

Changes in Spending Patterns After Retirement

After you retire, you may spend less on certain categories, such as taxes (income taxes are usually lower, and you may not pay Social Security taxes, although some retirees do) and savings and investments (you probably won't contribute to a pension fund, although you still will need a savings plan).

Income tax

How much did you pay last year? Compare that amount with the taxes for your estimated retirement income. Use the table in last year's 1040 form. About 20 percent of people who get Social Security have to pay taxes on their benefits. This provision affects only people with substantial income in addition to their Social Security benefits. Pension or annuity payments from an employer's retirement plan may be subject to income taxes.

Social Security taxes

If you continue to work after you begin drawing your Social Security benefits, you will have to pay Social Security and Medicare taxes on your earnings. In 2006, the combined tax rate was 7.65 percent for an employee and 15.3 percent for a self-employed person. You do not have to pay Social Security or Medicare taxes on your Social Security income.

Check your paycheck stub for the amount you paid into Social Security last year. Compare it with the expected amount of your post-retirement income. That will tell you whether you will need to pay Social Security taxes after retirement and how much they will be.

Saving and investing in retirement

Check your paycheck stub for contributions to a pension plan. How much are you investing for retirement in other ways, including mutual funds, stock market accounts, and IRAs?

For each expense category, figure the difference between what you're spending now and what you expect to spend after retirement. Enter those amounts onto Worksheet 3, "Estimated Changes in Spending After Retirement" (page 9). If your retirement expense will be lower, put the difference in the "less" column. If the expense will be higher, put the difference in the "more" column. Then compare the totals.

Planning for Future Inflation

On Worksheet 2, "Estimated Annual Cost of Living," you calculated the effects of inflation on your living expenses until you retire. But inflation will continue, at some rate, after you retire. A man retiring today at age 65 can expect to live 16.8 more years; a woman, 19.8 more years (See Table 2, "Expectations of Life by Age and Sex" (page 10)). How will your expenses be affected by inflation then?

To see how inflation will affect your budget into the future, turn to Worksheet 2 (page 6). Copy the totals from the right-hand column, "Your Future Budget at Time of Retirement in ____ Years" into Column 1 on Worksheet 4, "Estimated Annual Cost of Living 10 Years After Retirement" (page 12). Then go back to Table 1, "The Inflation Factor" (page 7). Choose an inflation rate and find the factor for 10 years. Multiply that factor by the figures in column one on Worksheet 4. Record your answers on column three of Worksheet 4.

How much will inflation increase your living costs? Even a moderate rate of inflation will push up those costs over time. This shows that it will be necessary to plan for retirement income that will keep pace with inflation as much as possible. The example on page 11 assumes an annual average inflation rate of 5 percent.

Planning for Large Future Irregular Expenses

Some expenses do not occur every month, or even every year. These are the ones you are most likely to not plan for (a new roof, an appliance that dies, another car). These expenses are most likely to interfere with your retirement budget.

Use Worksheet 5, "Large Future Irregular Expenses" (page 13), to help you plan ahead for some of these large expenses. This worksheet will help you answer some basic questions as you plan ahead for your large expenses. Think about when you expect the expense to occur and the estimated cost. Do some years have more expenses than others? Can you shift some of those costs to other years? Or, can you set aside savings in less expensive years to pay for them? Can good maintenance and/or repairs lengthen the life of some items so they won't have to be replaced so soon? Can you live with certain items after they are no longer in tip-top shape? Are there some items you won't replace as they wear out? What can you replace before you retire when you may have more money to pay for them? (Note: The average life expectancy

Worksheet 3 – Estimated Changes in Spending After Retirement

Use this worksheet to calculate possible changes in your expenses. For each expense category, figure the difference between what you are spending now and what you expect to spend after retirement. If the retirement expense will be lower, put the difference in the “less” column; if it will be higher, put the difference in the “more” column. Add the figures in both columns and compare the totals. Which total is larger? What does that suggest about your future spending? Will you need to make some changes in what you expect to spend?

Expense	Now Spend About How Much?	Expect to Spend After Retirement	Less After Retirement	More After Retirement
Work related:				
Transportation	\$	\$	\$	\$
Clothing	\$	\$	\$	\$
Dues	\$	\$	\$	\$
Meals	\$	\$	\$	\$
Other	\$	\$	\$	\$
Social Security taxes (taken out of check)	\$	\$	\$	\$
Income taxes	\$	\$	\$	\$
Pension plan contributions	\$	\$	\$	\$
Contributions to other retirement accounts (IRA, etc.)	\$	\$	\$	\$
Savings, investments for retirement	\$	\$	\$	\$
Travel	\$	\$	\$	\$
Entertainment, leisure activities	\$	\$	\$	\$
Health insurance	\$	\$	\$	\$
Other health care costs	\$	\$	\$	\$
TOTALS			\$ Less	\$ More

Adapted from *Financial Planning for Retirement*, NCR-265, Field and Hathaway, Michigan State University CES, 5/87.

Table 2. Expectation of life by age and sex

All Races			
Age	Total	Male	Female
0	77.5	74.8	80.1
1	77.0	74.3	79.6
5	73.1	70.4	75.7
10	68.2	65.5	70.7
15	63.2	60.6	65.8
20	58.4	55.8	60.9
25	53.7	51.2	56.0
30	48.9	46.5	51.2
35	44.2	41.9	46.4
40	39.5	37.3	41.6
45	35.0	32.8	37.0
50	30.6	28.5	32.4
55	26.3	24.4	28.0
60	22.2	20.4	23.8
65	18.4	16.8	19.8
70	14.9	13.5	16.0
75	11.8	10.5	12.6
80	9.0	8.0	9.6
85	6.8	6.0	7.2
90	5.0	4.4	5.2
95	3.6	3.2	3.7
100	2.6	2.3	2.6

Source: National Vital Statistics Reports, Vol. 54, No. 14, April 19, 2006
Retrieved Sept. 15, 2006

www.cdc.gov/nchs/data/nvsr/nvsr54/nvsr54_14.pdf

Example: Estimated Annual Cost of Living 10 Years After Retirement

	Your Budget at Retirement	Inflation Factor	Your Budget 10 Years After Retirement
Housing	\$17,025	1.63	\$27,751
Household operation and maintenance	\$3,813	1.63	\$6,215
Automobile and transportation	\$10,287	1.63	\$16,768
Food	\$7,726	1.63	\$12,593
Clothing	\$3,047	1.63	\$4,967
Personal	\$2,601	1.63	\$4,240
Medical and health	\$2,847	1.63	\$4,641
Recreation, education	\$2,837	1.63	\$4,624
Contributions	\$1,262	1.63	\$2,057
Taxes and insurance	\$1,902	1.63	\$3,100
Savings, investments	\$1,333	1.63	\$2,173
Irregular expenses (ex. gifts, license plates, holiday spending, etc.)	\$513	1.63	\$836
ANNUAL TOTAL	\$55,194	1.63	\$89,966

From *Financial Planning for Retirement*, NCR-264, Field and Hathaway, Michigan State University CES 5/87.

estimates listed on Worksheet 5 are just a guide. Your items may last longer or may need to be replaced sooner.)

How Much Are You Worth?

As you develop your financial plans for retirement, you need to know the resources you already have. A net worth statement gives you that information. On Worksheet 6, "How Much Are You Worth?" (page 14), list your current assets and liabilities. Your assets include everything you own that is of any value (like cash on hand, your checking and savings account balances, the current market value of bonds, stocks, and other investments). Your liabilities include the outstanding balance due on the debts you owe (such as your home mortgage or car loan, and other unpaid bills). Subtracting your liabilities from your assets will show your net worth.

You may be able to get a fairly accurate estimate of your home's value from a real estate firm, or you can pay a professional appraiser to do this. Other appraisers can estimate the value of antiques, jewelry, or other unique valuables (such appraisals should also be recorded for insurance purposes).

Every year, perhaps at the first of each year, review your net worth statement and update your figures for any changes in your financial situation over the year.

Estimating Retirement Income

Where will your retirement income come from? The primary sources of income for most retirees are Social Security, public and private pensions, personal savings and investments, and earnings. In 2004, Social Security provided 39 percent, earnings 26 percent, pensions 20 percent, and personal savings and investments, 15 percent of the income of people 65 or older.¹

¹ Source: Income of the population 55 or older in 2004, SSA. Retrieved from www.ssa.gov/policy September 2006.

Sources of Retirement Income

1. Social Security

Social Security provides a base level of income for most retired people, although it was never designed to replace all lost earnings. Knowing the amount you will receive from Social Security will help you plan your total retirement package. Your eligibility for

Worksheet 4 – Estimated Annual Cost of Living 10 Years After Retirement

	Your Budget at Retirement	Inflation Factor	Your Budget 10 Years After Retirement
Housing	\$		\$
Household operation and maintenance	\$		\$
Automobile and transportation	\$		\$
Food	\$		\$
Clothing	\$		\$
Personal	\$		\$
Medical and health	\$		\$
Recreation, education	\$		\$
Contributions	\$		\$
Taxes and insurance	\$		\$
Savings, investments	\$		\$
Irregular expenses (ex. gifts, license plates, holiday spending, etc.)	\$		\$
ANNUAL TOTAL	\$		\$

From *Financial Planning for Retirement*, NCR-264, Field and Hathaway, Michigan State University CES 5/87.

Worksheet 5 - Large Future Irregular Expenses

	Year Bought	Average Expected Years of Life	Year to Replace	Present Replacement Price	*Estimated Price in Replacement Year
Vehicles:					
Car	_____	?	_____	\$ _____	\$ _____
Other vehicles	_____	?	_____	\$ _____	\$ _____
Appliances:					
Range	_____	12-13	_____	\$ _____	\$ _____
Refrigerator	_____	15	_____	\$ _____	\$ _____
Dishwasher	_____	11	_____	\$ _____	\$ _____
Washer	_____	11	_____	\$ _____	\$ _____
Dryer	_____	13-14	_____	\$ _____	\$ _____
Freezer	_____	20	_____	\$ _____	\$ _____
Furnace	_____	25-30	_____	\$ _____	\$ _____
Water heater	_____	12	_____	\$ _____	\$ _____
Other	_____	_____	_____	\$ _____	\$ _____
House:					
Roof (varies with type)	_____	15-30	_____	\$ _____	\$ _____
Fencing	_____	20-30	_____	\$ _____	\$ _____
Other	_____	_____	_____	\$ _____	\$ _____
Furnishings:					
Carpet	_____	8-15	_____	\$ _____	\$ _____
Drapes, window treatments	_____	10	_____	\$ _____	\$ _____
Flooring, hard surface	_____	15	_____	\$ _____	\$ _____
Furniture	_____	will vary	_____	\$ _____	\$ _____
Other	_____	_____	_____	\$ _____	\$ _____

* Calculate by counting the number of years until the replacement year. Then, choose an inflation factor from the chart on [page 7](#) and multiply by the “present replacement price.”

Adapted from *Financial Planning for Retirement*, NCR-264, Field and Hathaway, Michigan State University CES, 5/87.

Worksheet 6 – How Much Are You Worth?

Name _____ Date _____

Assets		Liabilities	
Cash and cash equivalents:		Past due bills for services, rent, etc.	\$
Cash on hand	\$	Credit cards/charge accounts:	
Checking account(s)	\$		\$
Savings account(s)	\$		\$
Certificate of deposit (CD)	\$		\$
Savings bonds	\$		\$
Treasury securities	\$		\$
Money market funds/Money market deposit accounts	\$		\$
Investment assets:		Consumer installment debt:	
Stocks	\$	Automobile	\$
Bonds	\$	Other	\$
Mutual funds	\$	Real estate debt:	\$
Real estate:	\$	Home	\$
Home	\$	Other	\$
Other	\$	Taxes	\$
Cash value of life insurance/annuities	\$	Pledges: charities, churches, etc.	\$
Partnership and business interest	\$	Other:	
Retirement assets:			\$
IRA/Keogh account	\$		\$
Employee retirement fund	\$		\$
Other	\$		\$
Consumption assets:			
Home furnishings/appliances	\$	Total liabilities	\$
Sports and hobby equipment	\$		
Antiques, art, collections	\$		
Jewelry, furs, etc.	\$		
Automobiles/vehicles	\$		
Other:			
	\$	TOTAL ASSETS	\$
	\$	LESS TOTAL LIABILITIES	\$
	\$		
Total assets	\$	NET WORTH	\$

From *Family Financial Planning: Preparing and Using Financial Statements*, Morrow, Oregon State University CES, 1992

Social Security is generally based on your lifetime earnings record (or your spouse's earnings record) and your age.

To receive a Social Security retirement check, you (or your spouse) must have received credit for a certain amount of earnings under Social Security. Generally, you must have worked 40 quarters, or 10 years. Special rules apply to the employees of nonprofit organizations, state and local government employees, and all federal employees hired before January 1984.

You can begin receiving benefits as early as age 62 if you (or your spouse) have covered earnings for enough years. However, if you elect to take early retirement, the benefit amount you receive will be less than your full retirement benefit. This is a permanent reduction in the amount of the monthly check you will get; your benefit check will not increase when you become 65.

The decision about when to start drawing benefits isn't the same for everybody, and which option will provide you with the most benefits over your lifetime depends on how long you live. People can get a rough estimate of their personal break-even point by using the Quick Calculator on the Social Security Web site at www.ssa.gov/

According to the Social Security Administration Web site: "For most people the total amount of lifetime benefits you receive is about the same if you begin receiving your retirement benefits as early as 62 at a permanently reduced rate, at your full retirement

age without reduction, or as late as age 70 with special delayed retirement credits added on."

Sometimes, poor health forces people to retire early. If you are unable to continue working because of poor health, consider applying for Social Security disability benefits. The amount of the disability benefit is the same as a full, unreduced retirement benefit.

If you were born before 1938, you were eligible for your full Social Security benefits at the age of 65. However, beginning in the year 2000, the age at which full benefits are paid began to increase in gradual steps from age 65 to age 67 (see Table 3 below).

You may choose to keep working even beyond your full retirement age. If you do, you can increase your future Social Security benefits in two ways. Each additional year you work adds another year of earnings to your Social Security record. Higher lifetime earnings may mean higher benefits when you retire.

Also, your benefit will increase automatically by a certain percentage from the time you reach your full retirement age until you start receiving your benefits or until you reach age 70. The percentage varies depending on your year of birth. For example, if you were born in 1943 or later, Social Security will add 8 percent per year to your benefit for each year that you delay signing up for Social Security beyond your full retirement age. (See Table 4, p. 16)

Even if you delay retirement, be sure to sign up for Medicare at age 65. In some cases, medical insurance costs more if you delay applying for it.

Table 3. Age to Receive Full Social Security Benefits

Year of Birth	Full Retirement Age	Age 62 Reduction in Months	Monthly % Reduction	Total % Reduction
1937 or earlier	65	36	.555	20.00
1938	65 and 2 months	38	.548	20.83
1939	65 and 4 months	40	.541	21.67
1940	65 and 6 months	42	.535	22.50
1941	65 and 8 months	44	.530	23.33
1942	65 and 10 months	46	.525	24.17
1943-1954	66	48	.520	25.00
1955	66 and 2 months	50	.516	25.84
1956	66 and 4 months	52	.512	26.66
1957	66 and 6 months	54	.509	27.50
1958	66 and 8 months	56	.505	28.33
1959	66 and 10 months	58	.502	29.17
1960 and later	67	60	.500	30.00

Source: www.ssa.gov/retiredchartred.htm

As a spouse, you can receive benefits based on your working spouse’s benefit. Generally, this is one half of his or her benefit at age 65. But the amount of your benefit will be reduced if you claim it before you are age 65. If you are eligible for Social Security benefits under your own work record, you have the option of choosing that benefit instead.

If you are divorced (even if you have remarried), you can be eligible for benefits on your ex-spouse’s record if you were married for at least 10 years and are age 62 or older. You must be unmarried at the time you apply and not eligible for an equal or higher benefit amount on your own or someone else’s Social Security record.

To estimate how much your benefit might be, ask your local Social Security office or send for a copy of the free booklet *How Your Retirement Benefit is Figured* (ask for the booklet that corresponds to your birth year). This information is also available on the Internet at www.ssa.gov/pubs/#retirement. Ask your Social Security office for help if you don’t understand any part of the information.

You should also check the record of your earnings kept by Social Security to be sure it is accurate. Every year the Social Security Administration sends “Your Social Security Statement,” Form SSA-7005-5M-S1(1-2002), which shows your earnings record and your potential benefits. Compare the statement of earnings printout sent back to you with the earnings reported on your W-2 forms for the same years. If you find any errors, either in your employer’s reporting or in the Social Security records, report them at once to the Social Security Administration and be sure they are corrected so your benefit will be correct when you retire.

Apply for benefits at least three months before you plan to retire. Take with you your Social Security card

(or a record of your number); your birth certificate; your marriage certificate (if signing up on a spouse’s record); your divorce papers if you were married for 10 years or more; and your W-2 forms for the past two years or tax returns if you are self-employed. Call ahead and ask your Social Security office if you need to bring other documents. Look under United States Government in your phone book for your local Social Security office number. It’s a good idea to ask for the least busy times to come in, so that you will not have to wait long when you do go.

Laws governing eligibility, as well as how benefits are calculated, have been changed several times in the past and will undoubtedly be changed again, so you need to keep track of changes and how they affect you.

2. Retirement Plans and Other Benefits

Retirement plans are important benefits provided by private and public employers, unions, and the military. If you have rights to a retirement benefit, you are fortunate. Many people work in jobs where no pensions are provided or they have not worked long enough in any one job to earn vested rights to a pension. (“Vesting” refers to the date when you are entitled to the money you and your employer have contributed to your account, even if you leave the job before you retire. If your pension rights are not vested, you will get back only your own contributions.) Many women over age 65 do not have survivor’s rights to their husbands’ pensions, either because their husband has not chosen a survivor annuity from his employer’s pension plan, or because divorce or early death of the husband gave no rights to his widow.

If you do have rights to a pension, what kind is it? Defined-benefit plans use a specific formula to determine how much you will get, usually based on your years of service and salary level. Defined-contribution plans are ones where you and/or your employer contribute a specific amount to your account, but the amount of your pension is determined by the investment performance of the total dollars contributed.

If you have a retirement plan, you will need to ask several questions to fully understand your benefits. Some of these questions are:

- How will your pension be calculated?
- How much will your pension be?
- How does your pension plan define “a year of service”?

Table 4. Benefit Increases for Delayed Retirement

Year of Birth	Yearly Percentage Increase
1933-1934	5.5%
1935-1936	6.0%
1937-1938	6.5%
1939-1940	7.0%
1941-1942	7.5%
1943 or later	8.0%

Source: U.S. Department of Health and Human Services, Washington, D.C.: Retirement Benefits. Retrieved August 2006 from www.ssa.gov/retire2/delayret.htm

- Will your pension be integrated with Social Security? This means a certain percentage of your Social Security benefit will be subtracted from your pension, thus reducing your pension income.
- What pension payment options will you have?
- Will your pension be a fixed number of dollars?
- Will your pension be indexed to inflation?
- Are options offered for lump sum payments that you then invest, or for regular monthly or annual checks?
- What are the rules for figuring the income tax you will have on your pension income?
- Does your pension plan provide for early retirement benefits if you quit work before age 65?
- Does your pension plan provide disability benefits for fully vested participants?
- At your death, what type of benefit will your beneficiary receive — your contributions plus interest, monthly benefit checks, or a lump sum?
- Does your beneficiary collect all or part of your accumulated benefits if you die before retirement?
- If you die after you retire, does your beneficiary continue to receive benefits? If so, how much and for how long?

For details about your pension rights and pension plan, talk to someone in your employer's benefits or human resources office. If you worked at other jobs long enough to earn a vested pension, inquire there, too, about what pension income you can expect.

Spouses should talk over this information before making irrevocable decisions. The 1974 Employee Retirement Income Security Act (ERISA) requires pension plans to contain an option that pays a surviving spouse at least half the pension of the retired married worker; but this usually reduces the basic worker's pension in what is called a "joint-and-survivor annuity." To protect dependent, non-employed spouses, ERISA requires the signature of both the worker and the dependent spouse before waiving survivor's pension rights.

When you retire, will you be eligible to continue other employee benefits? Can you continue your health and life insurance coverage? Can you continue other job benefits, such as employee discounts, profit sharing and stock purchase plans, union membership, or dental and vision insurance? Military veterans have rights to certain benefits that they can inquire about through the Veterans Administration office. Find out

exactly what you have rights to and can count on for income or savings in retirement.

3. Savings and Investments

There are tax-deferred financial products that you can invest in to save for retirement. These include Individual Retirement Accounts (IRAs or Roth IRAs), 403(b) plans (if you work for certain nonprofits such as schools, hospitals or churches); 401(k) plans, deferred compensation, thrift or personal savings plans, simplified employee pension plans (SEPs), or a Keogh Plan if you are self-employed.

Will you use all the earnings from these investments for annual income? Or will you continue to put at least part of these earnings back into investments and savings accounts to further build up your capital?

Consider changes you might make in your current savings/investment plan to yield more income for retirement, if needed. Can you save more out of current income? Can you shift your funds to higher yielding or better growth investments? Consider safety of the principal, liquidity and flexibility, and the investment's ability to keep ahead of inflation; and don't "put all your eggs in one basket."

4. Earnings

If you haven't reached your full retirement age when you apply for benefits, and you are still working, you will lose \$1 in benefits for every \$2 in income you earn over \$12,480 (in 2006) until you reach full retirement age. The amount goes up every year. Check with your Social Security office for the amount you are allowed to earn without a penalty in the years after 2006. Once you reach your full retirement age, there is no limit on the amount of money you may earn and still receive your full Social Security retirement benefit.

Consider additional expenses you might have if you go back to work, such as the costs of special clothing, transportation to and from the job, meals out, union fees or dues, and income and Social Security taxes. Balance your net income against the psychological benefits of working before deciding whether or not to work and how much to work after you retire.

5. Assets That Could Be Liquidated

Do you have assets that you could turn into extra income if you needed it? Could you sell an asset and invest the proceeds to yield regular interest or dividend income?

Home equity is the most important asset for many elderly people. Seventy-five percent of households

headed by elderly persons are owner-occupied, and of these, 80 percent own their homes free and clear. Many homeowners could benefit from converting some or all of their home equity into income. There are reverse mortgages, sale/leaseback arrangements, and other methods for tapping into home equity while continuing to live in the home. Look at your net worth statement. Assets such as coin or stamp collections, china, silver, and crystal could be converted into cash that can then be invested to create additional retirement income.

Total Income

On Worksheet 7, “Estimated Annual Income After Retirement” (page 19), enter all the sources of income you can count on, and add up the amounts. This will give you an estimate of your total gross income. You may have to pay income tax on at least part of that income, and Social Security taxes as well. In the bottom section of Worksheet 7, enter your best estimate of the amounts of income and Social Security taxes you might owe under present tax law. Subtract these estimates from your gross income to get an estimate of the net annual income you can expect in retirement. Major changes in the tax law were made in 1997 and 2001. Expect future changes in tax law that will change your tax liability estimates.

Where to Go for Information

Social Security: Get information and an estimate of your future Social Security income from your local Social Security office. If you have access to the Internet, the address is www.ssa.gov/

Pension: Get information from your employer’s benefits or human resources office. If you earned vested rights to a pension from an earlier job, check with that benefit office, also.

Savings and investments: There are a number of financially oriented newspapers, magazines, books, and Internet sites that will give you information. You also can consult your financial advisor or financial institution.

Earnings: Check what income you might earn in a job after you retire.

Assets: Talk to an appropriate appraiser and/or financial advisor on what income might be obtained from liquidating assets and reinvesting the proceeds.

Balancing Income with Expenses

Compare the total net income you estimated you would have when you retire (see Worksheet 7,

“Estimated Annual Income After Retirement”) with the total expenses you estimated you would have the year you retire (column one on Worksheet 4). Will you have enough income to cover all your expenses? You may be fortunate to have more than enough income to take that big trip or tackle that desired special project. Or, your income may not even cover your basic estimated expenses. If that is the case, start planning now how to either increase your retirement income or cut your expenses, or both.

And take inflation into account! Look at the third column on Worksheet 4, your estimated expenses 10 years into retirement, and the rate of inflation you selected. Will your income at that time be enough to cover your expenses? Use Worksheet 8, “Estimated Annual Income 10 Years After Retirement” (page 20) to identify your expected sources of income then, and consider how each source might be affected by inflation. How much will your income grow with inflation? Your Social Security payments are currently indexed to inflation. But is your pension? Will your savings/investment plans provide income that keeps up with inflation, grows faster, or falls behind?

Increasing Income

The farther away retirement is, the more opportunity you have to increase your retirement income. But you need to start now. Your Social Security pension formulas are fixed. But your employer may provide options for you to make additional contributions to your pension plan. Or your job may allow you to purchase a Supplement Retirement Annuity (SRA) with before-tax dollars, or make contributions to a 401(k) plan.

Do you already have a traditional Individual Retirement Account (IRA) or Roth IRA? Have you contributed the maximum allowable amount each year? Is it earning and growing fast enough? Should you transfer it to another financial institution, or open this year’s IRA somewhere else? Is a Roth IRA, which allows you to accumulate all earnings tax-free, more compatible with your savings goals?

It has always been a good idea to save for retirement by utilizing tax-advantaged investment vehicles such as the traditional IRA or Roth IRA, or an employer-sponsored plan such as a 401(k) or 403(b). It is hard to match the benefits that come with tax-deferred investing, multiplied over time by compounding interest.

Worksheet 7 – Estimated Annual Income After Retirement

Enter all the sources of income you can count on and add up the amounts. Add up the estimates of income taxes you may have to pay and subtract them from your gross income to get an estimate of the net annual income you can expect in retirement.

	Yearly Income
1. Social Security:	
Man's at age _____	_____
Woman's at age _____	_____
2. Pensions and Employer Benefits:	
Company	_____
State or federal government	_____
Veteran's	_____
Union or other	_____
Profit sharing	_____
Deferred pay	_____
Other	_____
3. Savings and Investments:	
IRA/Roth IRA	_____
Keogh or SEP	_____
Savings account (interest)	_____
Money market (interest)	_____
Treasury securities (interest)	_____
Mutual funds (dividends, capital gains)	_____
Stocks (dividends)	_____
Bonds (dividends)	_____
Real estate	_____
Farm/business rent or installment payments	_____
Home equity conversion	_____
Annuities	_____
Other	_____
4. Earnings:	
Salary, wages	_____
Commissions, royalties, fees	_____
Partnership income	_____
5. Income from Assets That Could Be Liquidated	
Real estate	_____
Mutual funds	_____
Stocks	_____
Bonds	_____
Antiques, collectibles	_____
Farm/business	_____
Anticipated gifts or inheritance	_____
ESTIMATED TOTAL GROSS INCOME	_____
6. Possible Deductions from Income	
Federal income tax	_____
State/county tax	_____
Social Security tax	_____
ESTIMATED TOTAL DEDUCTIONS	_____
(Subtract total tax deductions from total gross income to estimate your total net income.)	
TOTAL ESTIMATED NET INCOME	_____

Adapted from *Financial Planning for Retirement*, NCR-264, Field and Hathaway, Michigan State University CES, 5/87.

Worksheet 8 – Estimated Annual Income 10 Years After Retirement

Look 10 years into retirement and see how your estimated income will keep up with inflation. In the first column, copy your figures from Worksheet 7, “Estimated Annual Income After Retirement.” Then, for each source of income, estimate how it will grow over the next 10 years. Some sources, like a pension or fixed annuity, will not change. For those sources that could change, use the same inflation rate from the table on page 7 that was used for completing Worksheet 4. Compare your estimated income 10 years after retirement with your estimated expenses 10 years after retirement.

Inflation Rate = _____% (same as on Worksheet 4)

	Yearly Income at Retirement	Inflation Factor	Yearly Income 10 Years After Retirement
1. Social Security:			
Man's at age _____	_____	_____	_____
Woman's at age _____	_____	_____	_____
2. Pensions and Employer Benefits:			
Company	_____	_____	_____
State or federal government	_____	_____	_____
Veteran's	_____	_____	_____
Union or other	_____	_____	_____
Profit sharing	_____	_____	_____
Deferred pay	_____	_____	_____
Other	_____	_____	_____
3. Savings and Investments:			
IRA/Roth IRA	_____	_____	_____
Keogh or SEP	_____	_____	_____
Savings account (interest)	_____	_____	_____
Money market (interest)	_____	_____	_____
Treasury securities (interest)	_____	_____	_____
Mutual funds (dividends, capital gains)	_____	_____	_____
Stocks (dividends)	_____	_____	_____
Bonds (dividends)	_____	_____	_____
Real estate	_____	_____	_____
Farm/business rent or installment payments	_____	_____	_____
Home equity conversion	_____	_____	_____
Annuities	_____	_____	_____
Other	_____	_____	_____
4. Earnings:			
Salary, wages	_____	_____	_____
Commissions, royalties, fees	_____	_____	_____
Partnership income	_____	_____	_____

Continued on next page

Worksheet 8 – continued from previous page

5. Income from Assets That Could Be Liquidated			
Real estate	_____	_____	_____
Mutual funds	_____	_____	_____
Stocks	_____	_____	_____
Bonds	_____	_____	_____
Antiques, collectibles	_____	_____	_____
Farm/business	_____	_____	_____
Anticipated gifts or inheritance	_____	_____	_____
ESTIMATED TOTAL GROSS INCOME	_____	_____	_____
6. Possible Deductions from Income			
Federal income tax	_____	_____	_____
State/county tax	_____	_____	_____
Social Security tax	_____	_____	_____
ESTIMATED TOTAL DEDUCTIONS	_____	_____	_____
(Subtract total tax deductions from total gross income to estimate your total net income.)			
TOTAL ESTIMATED NET INCOME	_____	_____	_____
Compare estimated income 10 years after retirement			\$ _____
to estimated expenses 10 years after retirement (Worksheet 4) (calculated			
at inflation rate _____% with inflation factor of _____).			\$ _____
Will you have a positive balance of \$ _____ extra income?			
OR			
A negative balance of \$ _____ less income than expenses?			

Adapted from *Financial Planning for Retirement*, NCR-264, Field and Hathaway, Michigan State University CES, 5/87.

The 2001 tax act dramatically increased the contribution limits for Americans investing for retirement. The law gradually raises the maximum annual IRA contribution limits for both traditional and Roth IRAs. The 2001 tax act also dramatically increased the “catch-up” amounts that older workers can contribute to their IRAs. For 2006 and 2007, you can contribute \$4,000/year, \$6,000 for a couple. If you are over age 50, each partner can contribute an additional \$1,000. In 2008, the contribution limit is \$5,000 for each individual and \$1,000 additional if you are over 50. After 2008, contribution limits will be adjusted for inflation.

IRAs are not the only retirement savings vehicles to benefit from increased contribution limits. The limits on 401(k) contributions are increased from \$15,000 in 2006 to \$15,500 in 2008. The tax act also allows individuals age 50 and over to make additional “catch up” annual contributions of \$5,000 to 401(k) plans and 403(b) and 457(b) plans.

The IRS has also instituted a uniform distribution table for IRA withdrawals (traditional and Roth). This table is used unless the beneficiary of your IRA is your spouse who is more than 10 years younger than you. In that case, you would use the actual joint life expectancy of you and your spouse based on a different life expectancy table.

Recent changes in the laws governing retirement plans provide opportunities to more efficiently save and manage your retirement funds. You may want to check with your financial advisers to see how these changes affect you.

Are your other savings/investments doing as well as they might? Could you earn more by making a change? Check with the people who are handling your savings and investments to see if there are any better alternatives. Are you setting aside enough for saving/investment now to assure a comfortable retirement? That may mean cutting down on current spending so you can invest the difference toward a happier retirement.

If you're hoping to start a new job in retirement for more income, what ideas do you have for this now? What can you do now to prepare for this new job, or find it? If you've built up net worth in such assets as real estate or antiques that you hope to sell later, start thinking how you could most profitably turn them into income.

Reducing Expenses

You may feel you've estimated your retirement budget realistically, but if you don't have enough income, you'll have to cut down. What could you do now to prune future expenses? While you're still working, could you pay for needed maintenance on your house to get it into better shape? Build up a bigger fund to cover replacement of home appliances, your car, or other big items? Examine insurance to be sure you are buying only what you will need? What skills can you learn that will enable you to do some of your own home or car repairs or other jobs around the house? Check Cooperative Extension Service bulletins and other sources for ways to cut the costs of food, energy, etc.

If you're carrying a large debt load now, reduce it before retirement. Credit is a handy tool, but it can cost money that you may not be able to afford once you retire.

Medicare and Other Health Insurance

Medicare is a federal health insurance program for people 65 and older (and some disabled persons). Medicare has three parts: Part A is hospital insurance, which someone eligible for benefits can get without charge at age 65; Part B helps cover your doctor's services and outpatient care, which eligible persons can get at age 65, but there is a monthly premium for it; and Part D, which is the prescription drug coverage.

Health care costs may be a big budget item for some older persons, so know when you are eligible for Medicare and the coverage it gives you. Get basic booklets on Medicare including *Medicare and You* from your local Social Security office or call toll-free 1-800-633-4227. Check the Medicare Web site for information (www.medicare.gov). Ask questions about anything you don't understand.

Apply for Medicare at least three months before you turn 65 to be sure you get enrolled in time. Apply even if you plan to keep working after age 65. If you wait

before applying, your premiums for Part B generally will be higher unless you are covered by your employer or union. Your premium for Part B is \$88.50 per month in 2006.

Medicare was never intended to cover everything. It does not pay anything toward certain items, such as routine dental care, long-term care, such as custodial care in a nursing home, routine eye care and most eyeglasses and hearing aids. See a complete list of noncovered items in the *Medicare and You* workbook available from your local Social Security office.

You pay a deductible before Medicare coverage takes over; and you must co-pay a certain part of charges above that deductible. The amounts have been adjusted frequently, so be sure to check with your Social Security office to be sure you have the most recent figures.

Even after you are enrolled in Medicare, it will be important to buy a supplementary health insurance policy, sometimes called "Medigap" insurance. These policies pay some or all of your Medicare co-payments and deductibles, and include benefits for services that Medicare doesn't cover at all. Since 1992, insurers in most states are limited to selling 10 standardized Medigap policies (labeled "A" through "J"), which provide varying levels of benefits. However, the price of premiums for the same policy can vary widely depending on the insurer. Shop carefully, comparing rates from at least three insurers. "H," "I," and "J" plans all include coverage for prescription drugs, so you would need to drop the drug benefit from your policy before enrolling in Medicare Plan D (see below). For assistance in comparing Medigap policies, call your local Agency on Aging or your state insurance department to find the nearest senior health insurance counseling service.

Beginning Jan. 1, 2006, Medicare started providing insurance for prescription drugs (Part D). Part D plans will cover the cost of your medications only after you have completed enrollment in the plan and your Medicare Part A or Part B coverage has begun. Private insurance companies administer each Part D plan using their own enrollment forms and procedures. Some plans will allow you to enroll online, while others may require written forms. You must contact the plan directly to find out the details of their coverage and costs and to enroll in their plan. A list of the plans that are eligible to provide coverage in your state is available at www.medicare.gov. Medicare

Part D rules impose a penalty on people who wait to enroll in a plan after they are first eligible for Part D coverage (May 15, 2006, for many). However, if you are still covered by your employer's or union's health care plan, and it is at least as good as coverage under Part B, you may wait to enroll until you are no longer covered by your employer or union. If you have a Medigap plan that includes payment for prescription drugs, you will need to drop that part of your coverage before you can enroll in Medicare Part D. You may switch Part D providers once a year. Under the standard Part D option, you would pay a premium of about \$32 a month (in addition to the Part B premium) and a \$250 annual deductible before coverage begins. Once your drug costs reach \$2,250 (both your own money and your plan's) your plan pays nothing until you reach a total of \$5,100 in drug costs (the so-called "doughnut hole") when coverage begins again. Some plans fully cover the gap, but they are more expensive. Additional benefits are available to low-income seniors with few assets.

If you retire early, you cannot get Medicare benefits before you reach 65 unless you are disabled. Before you plan retirement, see if your employer's group health insurance coverage can be continued to cover you and your spouse until age 65, even if you have to pay for coverage. An important issue if you retire before 65 is to determine if you can afford to pay for your portion of group coverage or for private coverage health insurance. If you are not allowed to continue your group coverage, see if it can be converted to a private policy that you can carry until you are covered by Medicare. Otherwise, you will need to shop around for private health insurance.

Never drop your private or employer's group health care insurance until you know you have Medicare coverage in place.

Housing Expenses

If you own your house, your net worth statement may show that the house is the most valuable asset you have. Over the years, your house has likely appreciated in value, you have made improvements, and your equity has increased as you paid off the mortgage.

Do you want to stay in the same house after you retire? Move to another home in your community (possibly one smaller, easier and cheaper to maintain)? Or do you plan to move to another community? If you want to move, investigate carefully the pros and cons

of all options. Be sure to consider the financial aspects as well as personal preferences. If you plan to stay in your same house, review Worksheet 5, "Large Future Irregular Expenses," and plan for large replacement and repair expenses that may come up in retirement. Also look at ways you can make your house and yard easier to maintain, and your house more efficient to heat and cool.

Looking Ahead

If you find that you have fixed assets that don't change with inflation, or that you don't have enough savings and other assets that could yield income, now is the time to make changes in your retirement plans. It's never too soon to start planning and saving for retirement, because time will work for you. It's never too late to make some changes, but the longer you wait, the fewer options you may have. Can you delay retirement? Can you increase income now for a higher pension and/or more savings? Can you spend less now and save more? Can you change your savings and investments to more productive ones that would yield more income after retirement? Can you prepare for new work after retirement? Begin planning now how you want to live in retirement and how to provide enough income and other resources to do it!

Worksheet 9 – Monthly Cost of Living Worksheet

Shelter		Medical and Health	
Rent or mortgage payments	\$ _____	Medications	\$ _____
Real estate taxes	\$ _____	Physician, dentist, hospital	\$ _____
Home insurance	\$ _____	Eyeglasses, hearing aids	\$ _____
		Health insurance	\$ _____
Household Operation and Maintenance		Recreation, Education, and Other	
Home repair, yard care	\$ _____	Books, newspapers, magazines	\$ _____
Water	\$ _____	Club memberships, dues	\$ _____
Telephone, TV dish/cable	\$ _____	Movies, sports events, concerts	\$ _____
Waste disposal	\$ _____	Sport and hobby equipment, supplies	\$ _____
Cleaning and laundry supplies	\$ _____	Vacations, celebrations, weekend trips	\$ _____
Electric	\$ _____	Adult continuing education	\$ _____
Gas, fuel oil	\$ _____	Pets: care, food, license	\$ _____
Furniture, fixtures	\$ _____	Other	\$ _____
Garden, yard equipment, supplies	\$ _____		
Other	\$ _____		
Food, Beverages		Contributions	
Food at home	\$ _____	Church	\$ _____
Food away from home	\$ _____	Charities	\$ _____
Entertaining expenses	\$ _____	Gifts	\$ _____
Automobile and Transportation		Taxes and Insurance	
Car payment	\$ _____	U.S. taxes	\$ _____
Repairs	\$ _____	State taxes	\$ _____
Gasoline and oil	\$ _____	Local taxes	\$ _____
License, registration	\$ _____	Life insurance	\$ _____
Insurance	\$ _____	Property insurance (not homeowners)	\$ _____
Other transportation	\$ _____		
Clothing		Savings, Investments	
New clothing	\$ _____	Banks, savings and loan, credit union	\$ _____
Laundry not done at home	\$ _____	Company pension, profit-sharing plan	\$ _____
Dry cleaning	\$ _____	Stocks, bonds, real estate	\$ _____
Shoe repair	\$ _____	Retirement: Keogh, IRA	\$ _____
Personal		Irregular Expenses	
Cosmetics and toiletries	\$ _____		\$ _____
Barber and beauty shops	\$ _____		\$ _____
Smoking supplies, alcohol	\$ _____		\$ _____
Stationery, postage	\$ _____		\$ _____
TOTAL MONTHLY EXPENSES			\$ _____

Adapted from *Ready, Set, Retire: Financial Planning*, PM-1167a. Danes, Dippold, Schuchardt, Iowa State University CES, 11/85 (based on information from the original *Financial Planning for Retirement*, NCR-264 by Anne Field and Irene Hathaway.

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For more information, there are many books and other materials covering various aspects of retirement planning, including financial planning. One good source of useful books and booklets is the American Association of Retired Persons (AARP). Anyone age 50 or over can join this organization; non-members may buy their materials, but members get discounted prices. The national headquarters is at 601 E Street, N.W., Washington, D.C. 20049. The URL for their home page is www.aarp.org.

Credits

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