



Preparing for and Managing Your Money in Retirement

VCU Pre-retirement Symposium
Presenter: Shelly Reilly
AARP, Economic Security
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Disclaimer: This presentation is not to be construed as financial, legal or tax advice.

Seeking Financial Advice

“Not everyone needs a financial adviser
but everyone needs a financial plan”

Seeking Financial Advice

- **The Financial Planning Association (FPA):**
 - (800) 282-PLAN
 - www.fpanet.org

 - **National Association of Personal Financial Advisers (NAPFA):**
 - (888) FEE-ONLY
 - www.napfa.org

 - **The American Institute of Certified Public Accountants (AICPA)**
 - (202)737-6600
 - www.aicpa.org

 - **The Chartered Financial Analyst Institute (CFA)**
 - (804) 644-9942
 - www.cfainstitute.org

 - **Action Step: Read “What Every Investor Should Know” (See handout) Source: CFA Institute**
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Determining How Much You Will Need In Retirement

Many financial experts indicate that you will need in retirement:

- 70% - 80% of your pre-retirement income

Example:

- If your annual gross income is \$50,000:
$$\$50,000 \times .75 = \$37,500$$



Tracking Your Expenses in Retirement

Keep in mind “70-80%” rule of thumb is based on the assumption that many of your current expenses will go away in retirement.

This is assuming that you will no longer have:

- Work-related expenses (commuting costs, professional wardrobe etc)
- Social Security taxes
- Contributions to retirement plans
- Mortgage payments, if your house will be paid of by the time you retire

*Your overall expenses may **not** go down due to health costs, travel etc.*

Tracking Your Expenses in Retirement

Action Steps:

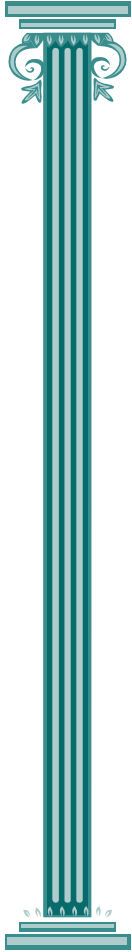
- **Stick to a budget.** *How can you set spending and saving goals if you do not know where your money is going?*
- **Pay off credit card debt.** *Use your savings to pay down debt. It makes no sense to earn 1% to 3% interest on your savings account while paying 12% or 15% interest on your credit card. (See Credit Calculator in the handout)*
- *Review your credit report at least once a year as follows:*
 - *Online: www.annualcreditreport.com*
 - *Phone: 1-877-322-8228*

4 Pillars: Sources of Income

- Social Security
- Pension/Savings
- Earnings
- Health Insurance

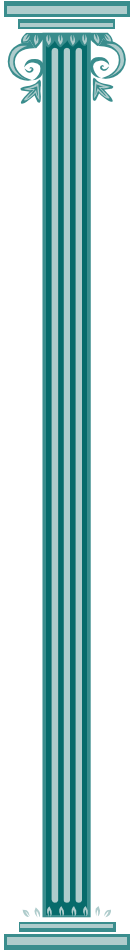


Pillar #1- Social Security



- Amount of your benefit is based on age at retirement, working years and level of earnings.
- Full retirement age depends on your birth year. Example: If you were born in 1938, it's 65 yrs and 2 months.
- Each year that you delay taking Social Security, your benefit amount increases. Let's assume you turned 62 yrs old in 2003 and were eligible for a monthly benefit of \$1,444. If you waited until full retirement age, your benefit would be \$1,931. (Source: Social Security Administration)

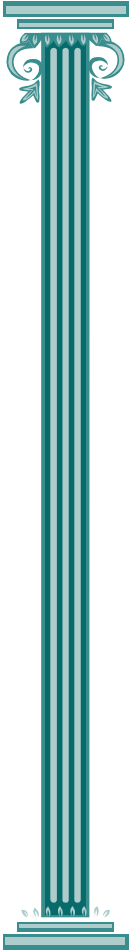
Pillar #1- Social Security



Action Steps:

Visit the Social Security Administration's website at www.ssa.gov or call 1-800-772-1213 to find your full retirement age and to obtain an estimate of your benefit if you retire early or wait until full retirement age. (Also, see Social Security pamphlet handout)

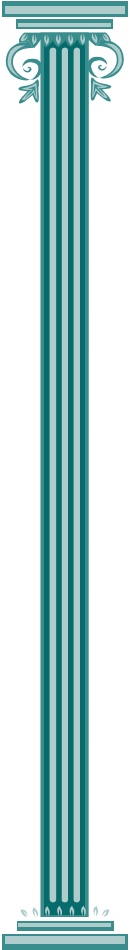
Pillar #2- Pensions and Savings



- **Pension plans** – defined benefit plan, defined contribution plan (401k), Simplified Employee Pension (SEP)
- **IRAs – 2005 Contribution Limits Over 50**

Traditional IRA	\$4,000	\$4,500
Roth IRA	\$4,000	\$4,500
- **Savings-** checking, CDs, money market funds, inheritance

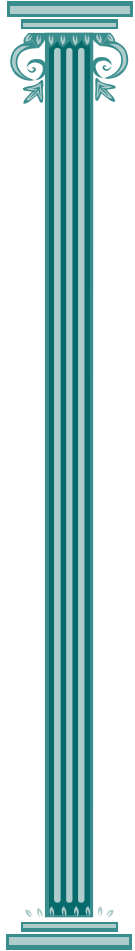
Pillar #2 - Pension and Savings



Action Steps:

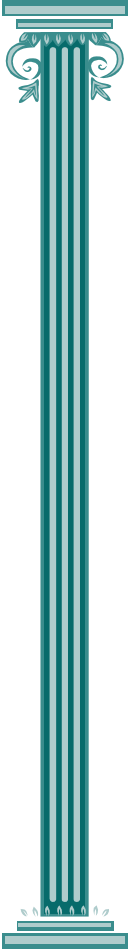
- *Find out how much your pension will be worth at different retirement dates by contacting your Human Resource Group.*
- *To find out which IRA is best for you, go to screen.morningstar.com/IRA/IRACalculator.html*
- *If over 50 and haven't saved enough, play "catch up" by contributing up to \$500 a year to an IRA (\$1000 in 2006) over limit. If you have access to a defined contribution plan, enroll. Money will grow tax free or tax deferred!*
- *Set up an automatic savings plan with a bank or mutual fund. (Go to www.bankrate.com for current bank rates)*

Pillar #3 – Earnings From Work



- **If you are under full retirement age (FRA):** when you start getting your Social Security payments, \$1 in benefits will be deducted for each \$2 you earn above the annual limit. For 2005 that limit is \$12,000. Remember, the earliest age that you can receive Social Security retirement benefits remains 62 even though the FRA is rising.
- **In the year you reach your FRA:** \$1 in benefits will be deducted for each \$3 you earn above a different limit, but only counting earnings before the month you reach FRA. For 2005, this limit is \$31,800.
- **Starting with the month you reach FRA:** you will get your benefits with **NO** limit on your earnings

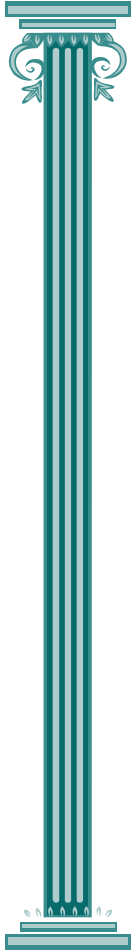
Pillar #3 – Earnings From Work



Action Steps:

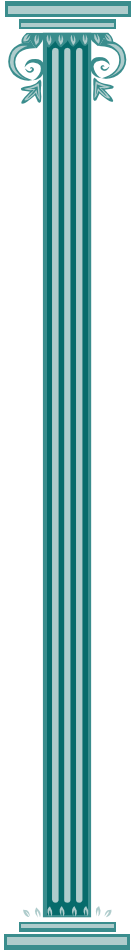
- *Check out tips for finding a job at www.aarp.org/careers or call 1-800- OUR-AARP. Consider part time, job-sharing, or consulting to supplement your income.*
- *To find out how much money you need to save for retirement, check out the savings calculators at:
AARP – www.aarp.org/money
American Savings Education Council - choosetosave.org/calculators/*

Pillar #4 – Health Insurance



- At age 65, you become eligible for Medicare, the nation's health insurance for older Americans and some persons with disabilities.
- Medicare does not cover all health care expenses but you can purchase Medicare Supplemental Insurance to expand your coverage. See www.aarp.org.
- Medicaid is health insurance for low income persons. It can help pay for prescription drugs and long-term care. Find out if eligible at www.benefitscheckup.org.

Pillar #4 – Health Insurance



Action Steps:

- *Check with your Human Resources to find out about continuing your health insurance at retirement.*
- *For information on getting or continuing health insurance if you are losing or changing jobs, moving or divorcing go to <http://www.aarp.org/health/insurance>.*
- *Find out if you are eligible for Medicaid at www.benefitscheckup.org.*

Making Your Money Last Through Retirement

Other ways to consider increasing your income or cutting expenses:

- Take in a renter if you are in the position to do so.
- Consider jobs such as a care giver or pet sitter.
- Identify expenses that you could eliminate such as cable, cell phone, cigarettes, dining out, etc.
- Shop for better auto & home insurance rates. Consider raising your deductible.
- Reverse Mortgage may be an option for some. This is a loan against your home that you do not have to pay back as long as you live there. Typical borrower is 75 yrs old and costs of the loan can be high. Free guide at www.aarp.org.

Making Your Money Last Through Retirement

Think about moving a portion of your retirement savings into a liquid account such as a money market account prior to retirement. This is recommended so that, in the first years of retirement, you do not have to sell equity investments in a down market, or claim Social Security before you really need it to pay for expenses.

Decide when to begin getting Social Security. You may wish to postpone benefits until full retirement age or later to receive larger monthly payments. This decision will involve many factors including your financial and physical health.

Making Your Money Last Through Retirement

Factor in medical costs – Many costs are not covered under Medicare such as deductibles and prescription drugs. Other health coverage options to explore:

- Medicare Savings Programs
- Medicaid
- Retiree Health Insurance (Make sure you know the cost)
- Long Term Care (Medicaid, insurance, life care)
- Prescription Drug Discount Programs
- Medigap Insurance

Several guides on Medicare & Medicare Prescription Drug Benefit can be viewed online at aarp.org or ordered by calling 1-888-OUR-AARP.

Making Your Money Last Through Retirement

For maximum protection, diversify your assets. Consider putting money into a range of investments including stocks, bonds, and cash. Then if one investment loses money, the loss does not affect all of your assets. Discuss with your financial adviser.

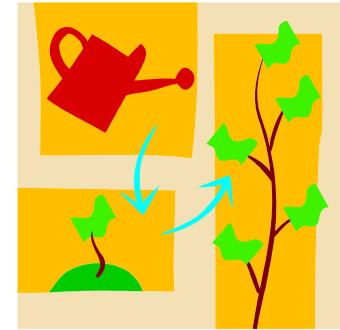
Don't be too conservative in your investments. The key is to strike a balance between making your assets last and making your assets grow. Over time, stocks tend to provide higher returns than bonds or cash and can help you keep up with (or outpace) inflation. Write down what your mix is going to be.

Making Your Money Last Through Retirement

Consider low cost investments.

- The more you pay to invest, the less you'll get back in returns.
- If you invest in mutual funds, look for funds with **no sales charges (commissions), no 12b-1 fees and low management fees such as index funds.**

Go to www.morningstar.com to compare fund expenses.



Making Your Money Last Through Retirement

5 Principals of Investing

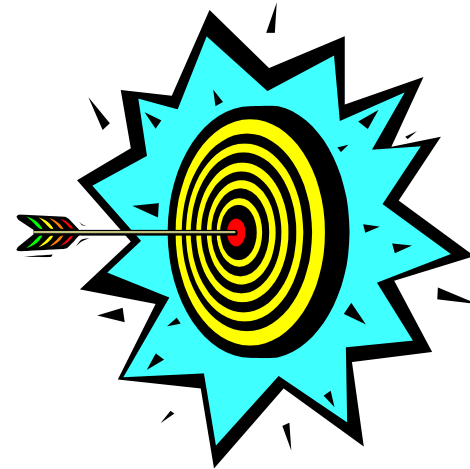
- Low Fees
- Limited Choice
- Indexing
- Diversification
- Rebalancing



Making Your Money Last Through Retirement

Index Fund - a mutual fund that matches its portfolio to that of a specific financial market index, with the objective of duplicating the general performance of the market in which it invests. Example: Vanguard 500 Index Fund.

Don't worry about beating the market. No one has ever proven they can find, or help you find, market-beaters, beyond the number you'd get by throwing darts at the stock or mutual fund pages.



Making Your Money Last Through Retirement

Mutual Funds: The Truth Revealed About Mutual Fund Ads

*Below figures are taken from a local paper (fund not disclosed):

1 year
53%

3 year
20%

5 year
11%

What's the underlying story? Fund had an excellent performance last year at 53%! Simple math shows us that the fund made an average return of 3.5% over those first two years:

$$20\% = (53\% + 3.5\% + 3.5\%)/3.$$

Because that is only an average, it is very possible that the fund lost **money** in one of those years. Source: www.investopedia.com

Past performance is no guarantee of future performance.

Making Your Money Last Through Retirement

It can cost you more money to invest in an actively managed fund as in the example below:

	<u>Index</u>	<u>Managed</u>
Dollar amount invested:	\$100,000	\$100,000
Annual rate of return:	8%	8%
Total annual operating expense:	.5%	1.25%
Total cost + foregone earnings:	\$10,554	\$25,518
Holding period in years:	10	10

Source: www.sec.gov/investor/tools/mfcc/mfcc-calculate.htm

Making Your Money Last Through Retirement

Make adjustments along the way

- If your overall goals have changed, like how long you can invest before cashing in some portions of the assets, you may want to change the mix of stocks and bonds
- Try to avoid chasing market performance - nobody has ever done that well, except by luck
- However, you may want to rebalance back to your initial mix, or even “harvest” losses to save taxes. A tax advisor may be of help.

Making Your Money Last Through Retirement

Set a withdrawal rate and make annual adjustments for inflation and investment performance. To extend the life of your retirement investments, many experts recommend that a withdrawal rate of 3-4% of your investments will last a long time, especially if you tighten your belt in down markets.

Try out retirement calculators at www.asec.org .

Making Your Money Last Through Retirement

Withdrawal strategies:

- You may begin to withdraw from your rollover IRA, traditional IRA, or retirement savings account without penalty when you turn 59 ½ years old.
- You must begin withdrawing by April 1 of the year following the year you turn 70 ½ years old.

Are You Prepared For The Unpredictable/Inevitable?

Do you have a will or trust?

Have you signed an advanced medical directive (living will)? This written document states your wishes regarding life-support or medical treatment in certain circumstances, usually when death is imminent. State-by-state forms, either by mail or by downloading from websites can be obtained:

US Living Will Registry
523 Westfield Ave./P.O. Box 2789
Westfield, NJ 07091
1-800-LIV-WILL (548-9455)
www.uslivingwillregistry.com

Partnership for Caring
1250 Eye St. NW, Suite 202
Washington, DC 20006
202-296-8071
www.partnershipforcaring.org

If you have an elder-care need or special needs situation in your family, seek out a certified elder law attorney. Also check with the AARP Legal Services Network at 1-888-687-2277.

Action Steps

- ❑ Read “What Every Investor Should Know” (See handout) Source: CFA Institute
- ❑ Stick to a budget.
- ❑ Pay off credit card debt.
- ❑ Review your credit report at least once a year.
- ❑ Obtain an estimate of your social security benefit if you retire early or wait until full retirement age.
- ❑ Find out how much your pension will be worth at different retirement dates by contacting your Human Resources.
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- ❑ If over 50 and haven't saved enough, play “catch up” by contributing up to \$500 a year to an IRA (\$1000 in 2006) over limit. ***If you have access to a defined contribution, consider enrolling.***
- ❑ Set up an automatic savings plan with a bank or mutual fund.

Action Steps

- ❑ Check out tips for finding a job at www.aarp.org/careers or call 1-800- OUR-AARP.
- ❑ To find out how much money you need to save for retirement, check out the savings calculators at www.aarp.org/money_or_choosetosave.org/calculators/.
- ❑ Check with your Human Resources to find out about continuing your health insurance at retirement.
- ❑ For information on getting or continuing health insurance if you are losing or changing jobs, moving or divorcing go to www.aarp.org/health/insurance.
- ❑ Find out if you are eligible for Medicaid at www.benefitscheckup.org.
- ❑ Make sure you have an updated will or trust. Name beneficiaries on your assets.

Additional Resources

- Order *AARP's Money Matters: Your Guide for Financial Security* (English: D17732: Spanish: D17733), *Future Focus: Your Guide to Financial Planning for Retirement* (English: D17731: Spanish: D17734) by calling 1-888-687-2277 or sending in the attached card Visit www.aarp.org/money.
- Download “66 Ways to Save Money” from www.csrees.usda.gov/fsl
- Go to the federal government’s site on personal finance, www.mymoney.gov
- Other good sites are <http://money.cnn.com>, www.fool.com and <http://finance.yahoo.com>.